PRUDENTIAL

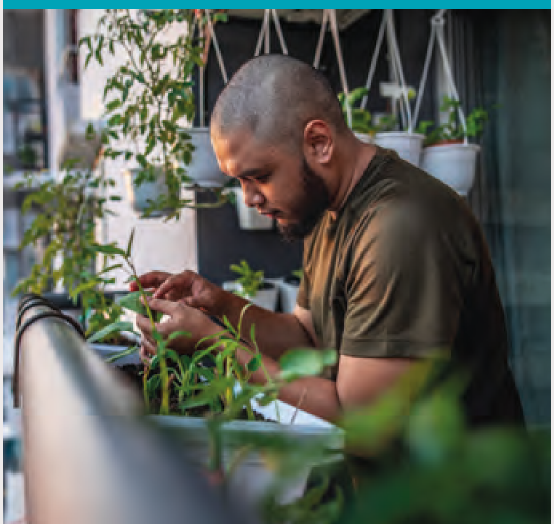
We do life

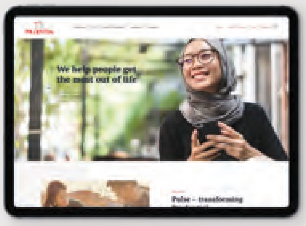
HK stock code: 2378

Prudential plc Annual Report 2020

Prudential helps people get the most out of life.

Contents





Visit www.prudentialplc.com to find out more about Prudential plc

A

The UK Corporate Governance Code requires that we demonstrate how we have applied the Principles of the Code. Throughout the Annual Report we have inserted red-circled letters, as shown above, to indicate which section, page or paragraph demonstrates our compliance. Please see page 127 for more details.

The Directors' Report of Prudential plc for the year ended 31 December 2020 is set out on pages 02 to 09, 120 to 169 and 354 to 399, and includes the sections of the Annual Report referred to in these pages.

We make healthcare affordable and accessible, we protect people's wealth and grow their assets and we empower our customers to save for their goals.

Total full-year ordinary dividend

16.10 cents

Our year in numbers

Summary financials	**2020** $m	2019 $m	Change on actual exchange rate basis[7]	Change on constant exchange rate basis[7]
Life new business profit from continuing operations[2] **$2,802m**	2,802	4,405	(36)%	(37)%
Operating free surplus generated from continuing operations[3] **$2,886m**	2,886	2,861	1%	1%
Adjusted operating profit from continuing operations[1,4] **$5,507m**	5,507	5,310	4%	4%
IFRS profit after tax from continuing operations[1,5] **$2,185m**	2,185	1,953	12%	12%

31 December 2020 Total	Per share	31 December 2019 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[6] **$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 New business profit, on a post-tax basis, on business sold in the year, calculated in accordance with EEV principles.

3 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.

4 '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.

5 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.

6 Shareholder surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum capital 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.

7 Further information on actual and constant exchange rate bases is set out in note A1 of the IFRS financial statements.

"The long-term drivers of demand for the products and services we provide are clear and strong."

Shriti Vadera Chair of the Board

I took over as Chair of Prudential in January 2021, having joined the Board in May 2020 in the midst of a year dominated by Covid-19 and its effects on financial markets, economies, and people's health and wellbeing.

While the pandemic continues to have an impact, many of our markets are starting to ease social distancing restrictions, demand for our services remains strong, and the long-term opportunities for growth remain as compelling as ever.

Our people have responded to the challenges of Covid-19 with purpose, dedication and innovation. Often under great pressure, they have found creative new ways of meeting the needs of customers and wider stakeholders. I would like to thank the Group's management led by Mike Wells, and our employees, agents, partners and suppliers for their efforts and achievements.

As Mike sets out in his report, these efforts translated into a resilient financial performance and, guided by Prudential's new dividend policy announced in August 2020, the Board has approved a 2020 second interim ordinary dividend of 10.73 cents per share.

Accelerating structural transformation

Our business is at a pivotal moment. Prudential has already gone through significant structural change with the 2019 demerger of our UK and European operations, M&G plc. In January 2021, the Board announced its intention to separate Jackson, our US business, through a demerger in the second quarter of 2021 and we continue to make good progress towards the completion of this transaction. As a standalone business, we expect Jackson to pursue a focused strategy which prioritises optimisation and stability of capital resources while protecting franchise value.

Jackson's separation will complete Prudential's transformation from a diversified, global group into a focused business exclusively targeting the fast-growing health, protection and savings opportunities of 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.

A

Strategy

Prudential benefits from a rare combination of rising unmet consumer need for its services, hard-to-replicate capabilities, and a strong sense of purpose and business strategy that flow organically from each other.

In Asia, people are growing more prosperous and populations are ageing. By 2040, the region is expected to account for over half of global GDP[1], with the number of people over 65 years old reaching 750 million[2]. These structural trends are increasing the need for financial protection and long-term savings. However, people remain under-insured, with four out of every 10 US dollars spent on health still settled out of pocket. While people need to save more in order to be able to live well throughout their longer lives, the investment industry in much of Asia is in its early stages of development. Mutual fund penetration – the ratio of total funds invested versus GDP – is more than 100 per cent in the United States, but below a third of that level in South-east Asia, and significantly lower in some markets in the region.

Prudential has built top-three positions in nine Asian life insurance markets, with significant upside potential in the region's two largest markets, China and India, where we operate in conjunction with local partners. Our distribution network is deep and broad, with around 600,000 agents[3], access to around 20,000 bank branches, and innovative new digital partnerships. We create products to serve the needs of everyone from those seeking low-cost policies for specific purposes to the emerging middle class and affluent families requiring more holistic financial planning advice. We are also East Asia's leading Islamic life insurer and have a growing business serving small and medium-sized enterprises, the backbone of Asia's economic success. These capabilities have helped our Asia embedded value to more than double in the past five years to $44 billion.

Prudential has invested and innovated to adapt to evolving consumer needs. Eastspring, our Asia asset manager, which has top-10 positions in seven markets, serves the needs both of Asian savers and of global investors seeking access to Asian opportunities. Pulse, our new digital platform, is an end-to-end tool for agent management and client fulfilment, being rolled out[4] in 15 markets in Asia and Africa in 11 languages. Our investment in Africa gives us exposure to a growing, under-served continent whose population is expected to double to more than two billion people by 2050.

E

Our people

Our people, and their ability to work with agility and innovation, are another important source of competitive advantage. Over 2020, we launched 175 new products[5]. This pace of progress requires the collaboration of people with varied experiences and skills, and the promotion of a culture of inclusion has become an increasing area of attention for the management and Board.

We recognise that the efforts made by our people, while adapting to virtual working and the broader pressures of the pandemic, can place a strain on their wellbeing. This was a focus of the Board and its employee engagement directors, Kai Nargolwala for Asia and Africa and Tom Watjen for the US and UK, whose activities in this area are summarised on page 79. To understand better both the anxieties and the ambitions of our people, a series of listening exercises were conducted, including our largest-ever employee survey and an online 'Collaboration Jam' that saw more than 5,000 people make contributions. Informed by this feedback, practical initiatives were put in place to support people's mental health and work-life balance. In 2021, with Covid-19 continuing to impact lives and working patterns in many markets, these themes will continue to be a key area for Board consideration.

A B

Purpose and ESG

Prudential's ability to generate shareholder returns is inextricably linked to our creation of social value. Our stated purpose is to help people get the most out of life, by enabling them to become healthier and wealthier. We provide important social benefits by improving access to healthcare and financial protection. By providing services that customers value, we build long-term loyalty and recurring income, which translates into high-quality earnings for shareholders. Furthermore, as an owner and manager of assets, focused on delivering strong returns over the long term, we understand the importance of playing an active role in the transition to a lower-carbon future.

Over the past year, to reinforce this linkage between our business model and our purpose, we have refreshed our environmental, social and governance (ESG) strategy. This will now focus on three priorities: making health and financial security accessible; stewarding the human impacts of climate change; and building social capital through developing a culture of inclusion, and digital responsibility. The Board is committed to working with management to ensure that these priorities are placed at the heart of how we do business.

In January 2021, the Board established for the period up to the 2022 Annual Meeting a Responsibility & Sustainability Working Group, to be chaired by Alice Schroeder. This will oversee the embedding of the new ESG framework and progress on diversity and inclusion initiatives and will take on employee engagement activities. You can find more information in the ESG section of this report starting on page 70 and on our website: prudentialplc.com.

A

The Board

My predecessor, Paul Manduca, stepped down on 31 December 2020 after eight years as Chairman. I would like to thank him for the way he skilfully helped navigate the Group through this period of substantial change and for the generous way in which he supported me personally during the period of transition. Also during 2020 we saw the departure of Sir Howard Davies from the Board after almost ten years as a Non-executive Director and Chair of the Risk Committee, with Jeremy Anderson succeeding him as Chair of that committee. At the 2021 annual general meeting, Kai Nargolwala will step down as a Non-executive Director after nine years on the Board. Sir Howard and Kai made significant contributions to the work of the Board and they leave with our gratitude.

The Board needs to evolve to keep pace with the Group's future as an exclusively Asian and African business and its increasing focus on digital capabilities. To this end, in February 2021 we announced the appointments of Chua Sock Koong and Ming Lu, who will both join the Board as Non-executive Directors on 1 May 2021. They bring extensive experience of successfully investing in, growing and leading businesses across Asia.

Outlook

While the macroeconomic environment remains uncertain as the world continues to manage through the pandemic, the underlying, long-term drivers of the demand for the products and services we can provide remain clear and strong. Technologies such as machine learning, combined with growing digital connectivity, are enabling substantial leaps in the development of financial services, while consumer preferences are evolving rapidly, in some areas spurred on by the pandemic. The pace at which Prudential adapted to the operational challenges created by the Covid-19 pandemic gives me confidence in our ability to harness these changes, and to continue to grow in Asia and Africa, addressing unmet health, protection and savings needs.

I very much look forward to playing my part in this transformation and working with all of you to realise our ambitions.

Shriti Vadera
Chair of the Board

Notes

1 Source: McKinsey – Asia's future is now, July 2019.
2 Source: Euromonitor International – Three Out of The World's Top Five Oldest Populations Will Be in Asia by 2040, November 2020. Data for 2040 are forecasts.
3 Including India.
4 As of 22 February 2021.
5 Including 37 bite-sized digital products.

"We are well placed to continue to deliver value for our shareholders and all our stakeholders."

Mike Wells Group Chief Executive

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.

D E

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.

A

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 focused 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 two 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.

A

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.

A C

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.

Mike Wells
Group Chief Executive

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.

A

Strategic report

Contents

Prudential plc is an Asia-led group providing health, protection and savings solutions to more than 20 million customers

Our differentiated product portfolio in Asia and Africa is well positioned to meet the health, protection and savings needs of the region, where insurance penetration is low and demand for savings solutions is rapidly developing. Our trusted brands, digitally enabled multi-channel distribution and efficient and agile infrastructure enable us to meet the growing needs of our customers for long-term savings and financial security.

Africa opportunity

Rapidly growing multi-product, multi-distribution business in Africa with operations across the continent

51%

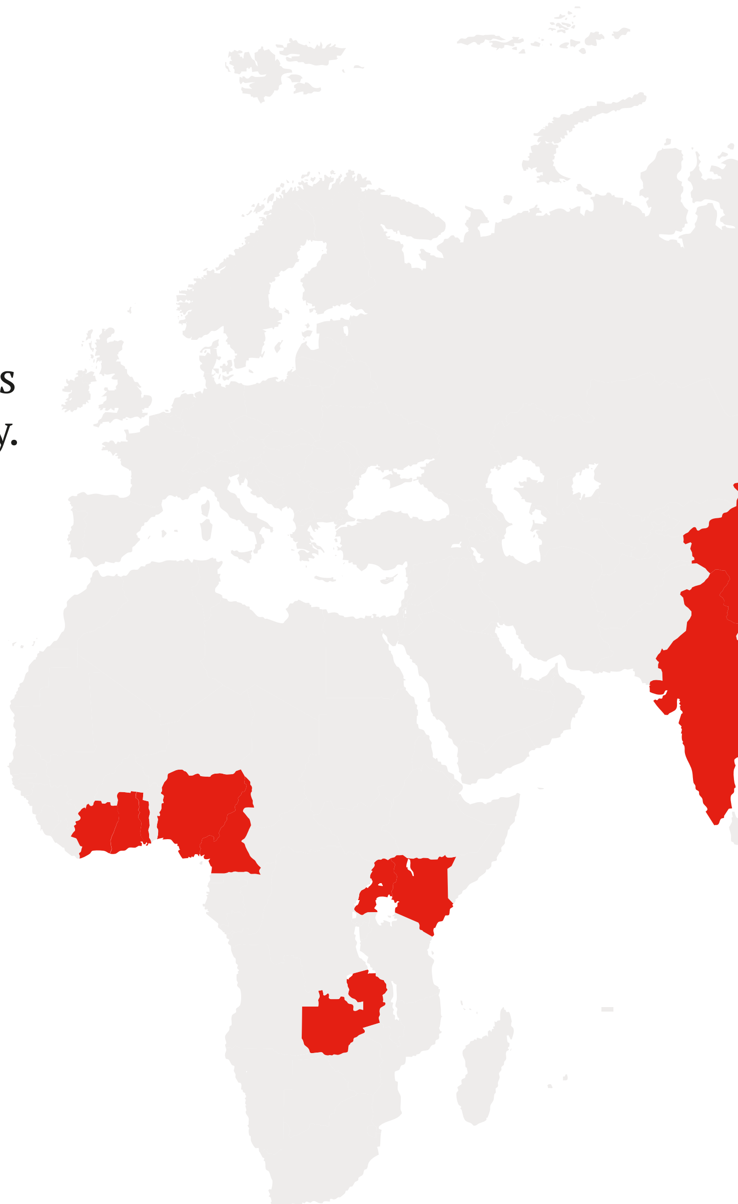
growth in APE sales

We are operating in

8

African markets with a combined population of over

400m



Top 3 position in **9 out of 13** life markets in which we operate

Downloads of our health and wealth super-app, Pulse by Prudential

c.20m

as of February 2021[2]

$211m

APE sales[1] from Pulse by Prudential

Distribution

28%

of agency sales made virtually between April-December

Customers

16m

total number of life customers

Eastspring is the **largest pan-Asian retail asset manager** excluding Japan

$248bn

assets under management

US separation

In January 2021 the Board announced 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.

The success of Jackson's variable annuity offerings reflects:

- The attractiveness of Jackson's product and the investment freedom and optional guaranteed benefits they offer; and
- The breadth of Jackson's distribution across multiple channels, and the productivity of Jackson's wholesaler field force.

10,000

Americans to reach retirement age every day for the next 40 years

3m

customers

13%

growth in variable annuity APE sales

B

Our purpose

Prudential helps people get the most out of life. We make healthcare affordable and accessible, we protect people's wealth and grow their assets, and we empower our customers to save for their goals.

Our values

Ambitious
Our business is competitive. We push ourselves and each other to greatness, but not at all costs. Being a team player and doing the right thing come first.

Curious
The world is changing rapidly. No one person has all the answers. We are humble and seek to listen, learn, and see things differently so we can innovate.

Empathetic
There is an age-old wisdom in walking a mile in another's shoes. We do that every day, whether it's with customers or colleagues.

Courageous
Prudential's success and culture belongs to all of us – it's our shared legacy. We build it together, bring our full selves to work, and speak truth to power.

Nimble
We approach our work iteratively, with carefully-designed experiments that help us fail fast and fail forward.

Our strategy

We create shareholder value by focusing on the opportunities available to the Group's high-growth businesses in Asia and Africa.

Read more about our Group strategy and operations on page 18 ›

Notes
1 APE sales substantially from full-premium products sold through referrals to agents and a small amount of revenue from 37 new digital products.
2 As of 22 February 2021.

Our business model

Where we operate

We choose to operate in markets that offer the largest structural growth potential; and tailor products and solutions to meet the needs of these populations. We focus on areas with low insurance penetration in Asia and Africa, and where demand for savings is rapidly increasing.

Asia

In Asia, there is a growing demand for savings and protection across the region, as markets are challenged by low life insurance penetration and a large pension funding gap.

Read more on page 19 ›

Africa

In Africa, we are building businesses in one of the world's most under-penetrated markets, with the population expected to double to more than two billion people by 2050.

Read more on page 19 ›

US

In the US, we intend to effect a full separation of Jackson to enable the Group to focus exclusively on its high-growth Asia and Africa businesses.

Read more on page 26 ›

Operating model

Propositions to meet customer needs

Markets

We select markets with low insurance penetration with a growing need for health, protection and savings products, and demonstrate opportunities for growth.

We invest in these markets to address the social requirements for insurance and asset management solutions, as the needs of the population develop alongside economic growth.

We work with governments and regulators to understand their objectives, priorities and concerns, and how they affect or shape our business.

Reinvestment to meet social needs and address opportunities

Value creation

We generate value through insurance profits from the protection given to policyholders, and managing customers' savings.

The Group uses the value it creates to reinvest in the Asia business, which will lead to further returns for shareholders.

Value for investors and other stakeholders

Integrated asset management

Our asset management business is fully embedded within our insurance operations. We leverage Eastspring's expertise in equity, bonds and multi-asset management to underpin our insurance products, as well as offering products direct to third-party institutions and retail clients.

Customer service and loyalty

Our excellent customer service is a key factor in building our strong reputation and leading pan-Asia franchise.

- High customer loyalty, with a retention ratio consistently in excess of 90 per cent.
- The satisfaction and trust our customers have in our business translates into a high proportion of repeat sales.

Operating with discipline

Risk management and disciplined allocation of capital underpin our activities, while our governance, processes and controls enable us to deal effectively with uncertainty.

Read more in the Group Chief Risk and Compliance Officer's report on page 45 ›

Building sustainable business

We build sustainable businesses and invest responsibly, seeking to integrate environmental, social and governance considerations into our investment processes and stewardship activities.

Read more in the ESG report on page 70 ›

Products and brands

We provide health, protection and long-term savings products that meet the needs of our customers.

We focus on long-term recurring revenue that compounds over time.

We invest in and develop our brands, to build trust, drive awareness and attract and retain customers.

Innovation and broad capabilities

Distribution and customer engagement

Our extensive distribution channels enable us to better understand and service customers' financial needs.

Our health, savings and protection products are distributed through our extensive agent network, banks and digital partnerships.

Our asset management products are distributed to third-party institutions and retail clients.

Pulse by Prudential is our health and wealth super-app. Pulse is a free digital mobile application that offers holistic management, artificial intelligence (AI)-powered self-help tools, and real time information to serve users 24/7 and promotes health and wellbeing through a range of value-added services.

Delivering for customers

The value we create for our stakeholders

Customers

We aim to provide accessible healthcare solutions as well as empowering our customers to save for their goals.

During the year we paid out over

$27.5bn

to our customers in respect of the long-term insurance products they hold with us[2]

Investors

Our Asia-focused strategy will support long-term delivery of future shareholder returns through value appreciation and dividends.

EEV Group excluding Jackson[1]

$41.9bn

Our people

We provide an inclusive working environment where we develop talent, reward performance, protect our people and value our differences.

18,687

employees

Government and wider society

We regard governments and legislatures in the markets in which we operate as important stakeholders. In addition, we support communities where we operate, through investment in business and infrastructure, paying tax revenues and community support activity. In 2020, the Prudential Covid-19 Relief Fund provided financial support for communities and for the volunteering efforts of our people.

$33.2m

community support investment

Regulators

We work with regulators to understand their objectives, priorities and concerns, and how they affect the shape of our business.

$11.0bn

LCSM shareholder surplus

Suppliers

We treat our suppliers fairly so we both mutually benefit from our relationship.

Notes

1 Excludes Jackson EEV basis shareholders' equity of $12.1 billion. See note II of the Additional unaudited financial information for reconciliation to IFRS shareholder's equity.

2 Comprising $20.3 billion in claims paid in the US and $7.2 billion claims paid in Asia, both gross of reinsurance. Included within total charge for benefits and claims in the IFRS income statement, see note C3.1(iii)(c) to the IFRS financial statements for more details.

Engaging our stakeholders

We engage with our stakeholder groups closely and take account of their concerns in our decision making.

Read more in our Section 172 statement on page 78 ›

Living by our principles

We put customers first.
We act with integrity.
We embrace a growth mindset.
We invest in all our communities.
We take the long view.

These principles are underpinned by our values which are set out on page 13 ›

Measuring our financial performance

To create sustainable economic value for our shareholders we focus on delivering sustainable compounding growth while generating cash and capital to reinvest in the Asia and Africa businesses and meet our financing needs. We focus on the following metrics when looking at our financial performance[1].

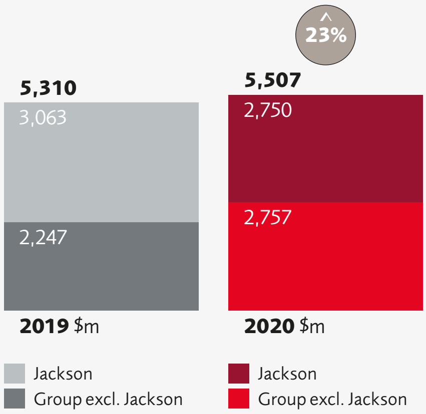
Adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit)[2] $m

The Group's business involves entering into long-term contracts with customers, and hence the Group manages its associated assets and liabilities over a longer-term time horizon. This enables the Group to manage a degree of short-term market volatility. Therefore, adjusted operating profit based on longer-term investment returns is management's preferred measure when evaluating the performance of the business. Other distorting items are excluded from adjusted operating profit to allow more relevant period-on-period comparisons of the trading operations of the Group, eg the effects of corporate transactions are excluded.

Group adjusted operating profit in 2020 is 4 per cent higher on a constant and actual exchange rate basis compared with 2019.

Adjusted operating profit for the Group excluding Jackson Financial Inc. and its subsidiaries (Jackson) was $2,757 million up 24 per cent on a constant exchange rate basis (23 per cent on an actual exchange rate basis), reflecting higher adjusted operating profit from Asia life and asset management operations, up 13 per cent on a constant exchange rate basis to $3,667 million (12 per cent on an actual exchange rate basis) and lower central and restructuring costs (excluding Jackson), down 12 per cent to $(910) million (2019: $(1,029) million) on an actual exchange rate basis.

Jackson adjusted operating profit before restructuring costs was $2,796 million, down (9) per cent largely reflecting the impact of DAC adjustments in the current year and the expected reduction in spread-related earnings following the Athene reinsurance agreement. Jackson adjusted operating profit after restructuring costs was $2,750 million.



Note
Amounts stated after restructuring and IFRS 17 implementation costs attributable to each block.

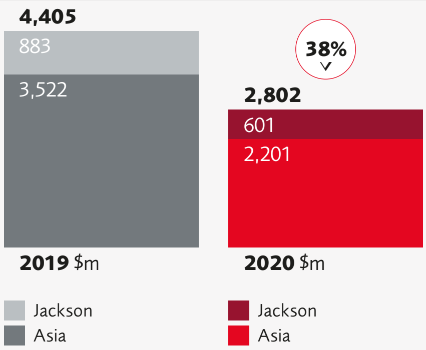
EEV new business profit[3] $m

Life insurance products are, by their nature, long term and generate profit over a number of years. Embedded value reporting provides investors with a measure of the future profit streams of the Group. EEV new business profit reflects the value of future profit streams which are not fully captured in the year of sale under IFRS reporting.

EEV new business profit in 2020 decreased by (37) per cent on a constant exchange rate basis and (36) per cent actual exchange rate basis compared with 2019.

EEV new business profit for Asia declined by (38) per cent on a constant and actual exchange rate basis to $2,201 million, driven by declines in new business sales as a result of Covid-19 related disruption.

Jackson EEV new business profit declined by (32) per cent, largely reflecting a decline in sales and the reduction in interest rates during 2020, partly mitigated by the higher proportion of variable annuity sales in the year.



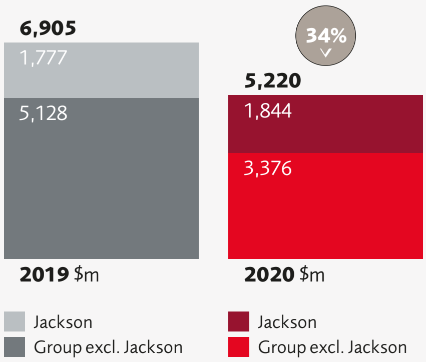
EEV operating profit[6] $m

EEV operating profit is provided as an additional measure of profitability. This measure includes EEV new business profit, the change in the value of the Group's long-term in-force business, and profit from our asset management and other businesses on an IFRS basis. As with IFRS, EEV operating profit reflects the underlying results based on longer-term investment returns.

Group EEV operating profit in 2020 decreased by (24) per cent on an actual exchange rate basis compared with 2019.

EEV operating profit for the Group excluding Jackson fell by (34) per cent on an actual exchange rate basis, largely reflecting the decline in new business profit, described above and the effect of lower interest rates on the in-force operating profits.

Jackson EEV operating profit increased 4 per cent to $1,844 million.



Note
Amounts stated after restructuring and IFRS 17 implementation costs attributable to each block.

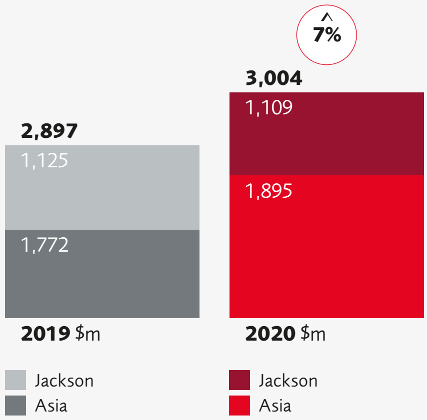
Growth rate on Group excluding Jackson on an actual exchange rate basis. Group excluding Jackson comprises Asia, Africa and central operations.
Growth rate on Asia operations on an actual exchange rate basis.

Free surplus generation from insurance and asset management businesses[4] $m
Free surplus generation from insurance and asset management businesses is used to measure the internal cash generation of our business units. For insurance operations, it represents amounts maturing from the in-force business during the period, less investment in new business and excludes other non-operating items. For asset management, it equates to post-tax operating profit for the year.

Group operating free surplus generation from continuing insurance and asset management operations before restructuring costs was $3,004 million in the year (2019: $2,897 million on an actual exchange rate basis). Group operating free surplus generation from continuing insurance and asset management operations after restructuring costs was $2,886 million in the year (2019: $2,861 million on an actual exchange rate basis).

Operating free surplus generation before restructuring costs for Asia operations increased 8 per cent on a constant exchange rate basis (7 per cent on an actual exchange rate basis) to $1,895 million, following the growth of the in-force portfolio and lower levels of new business, partially offset by the effect of lower interest rates compared with the prior year.

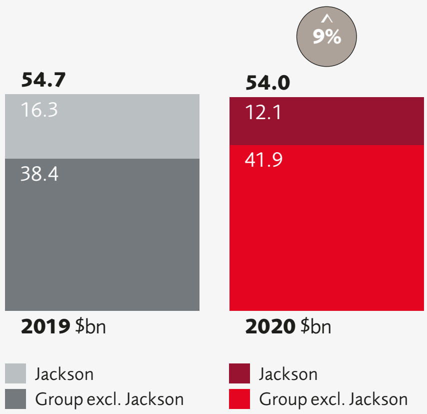
Jackson operating free surplus generated before restructuring costs fell (1) per cent compared with 2019, which included a $355 million benefit following the integration of the John Hancock business acquired in 2018.



EEV basis shareholders' equity[6] $bn
EEV represents 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. Asset management and other non-insurance subsidiaries, joint ventures and associates are included in EEV at the Group's proportionate share of IFRS basis shareholders' equity, with central Group debt shown on a market value basis.

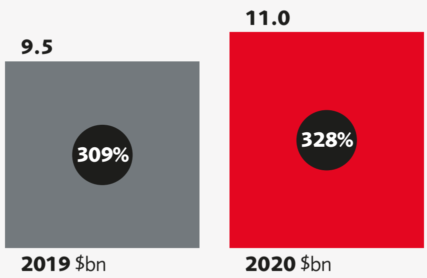
Group total EEV basis shareholders' equity decreased (1) per cent during 2020 to $54.0 billion.

EEV shareholders' equity for the Group excluding Jackson increased 9 per cent to $41.9 billion, largely reflecting Asia new business sales and operating returns on its growing in-force book.



Group local capital summation method shareholder basis surplus[5] $bn
The Hong Kong Insurance Authority (IA) is the Group-wide supervisor for the Prudential Group. In agreement with the Hong Kong IA, the Group currently applies the local capital summation method (LCSM) to determine Group regulatory capital requirements (both minimum and prescribed levels) until the Group-wide Supervision (GWS) Framework is effective, which for Prudential is expected in the second quarter of 2021 upon designation by the Hong Kong IA. See the Group capital position section of the Group Chief Financial Officer and Chief Operating Officer's report for further information.

The Group's available capital, as recorded on a LCSM shareholder basis, covers the Group's minimum capital requirement over three times. In 2020, capital generation from the in-force business has been used to invest in new business, pay the external dividend and invest in new partnerships. After these investment and distributions, and the impact of market movements, LCSM shareholder surplus increased from $9.5 billion, with an LCSM shareholder ratio of 309 per cent, at 31 December 2019 to $11.0 billion, with an LCSM ratio of 328 per cent, at 31 December 2020.



Notes

1 The comparative results shown above have been prepared using an actual exchange rate (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown in financial tables in the Group Chief Financial Officer and Chief Operating Officer's report on our 2020 financial performance. Growth rates for 2019 to 2020 are on an AER basis.

2 Adjusted operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. This alternative performance measure is reconciled to IFRS profit for the year in note B1.1 of the IFRS financial statements.

3 New business profit, on a post-tax basis, on business sold in the year, calculated in accordance with EEV principles.

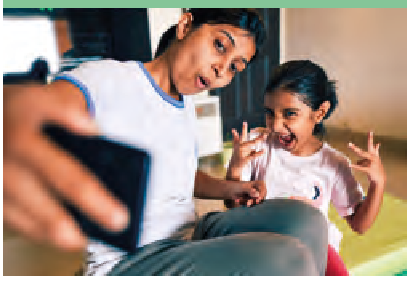
4 Operating free surplus generated from insurance and asset management operations. For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the year less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the year. Restructuring costs are presented separately from the business unit amount. Further information is set out in 'movement in Group free surplus' of the EEV basis results.

5 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum capital 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.

6 The EEV basis results have been prepared in accordance with EEV principles discussed in 'basis of preparation' of the EEV basis results. See note II of Additional unaudited financial information for definition and reconciliation to IFRS balances.

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.



B

Group overview

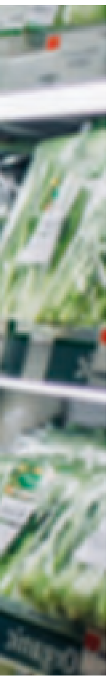
Our purpose is to help people get the most out of life. We make healthcare affordable and accessible and promote financial inclusion across our markets. We protect people's wealth and help them grow their assets, and we empower our customers to save for their goals. This purpose is served through implementing our business strategy, set out in this section and our environmental, social and governance (ESG) strategy set out in our ESG report on page 70.

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.

Cambodia

Life insurance

Market ranking[1]	1st
Population[4]	17m
Penetration[5]	0.5%

China

Life insurance

Market ranking[1,8]	4th
Population[4]	1.4bn
Penetration[5]	2.3%
Average health protection gap per household[6]	$1,724

Eastspring

Funds under management[7]	$9.6bn

Hong Kong

Life insurance

Market ranking[1]	2nd
Population[4]	7m
Penetration[5]	18.3%
Average health protection gap per household[6]	$9,156

Eastspring

Funds under management[7]	$5.6bn

India

Life insurance

Market ranking[1,9]	3rd
Population[4]	1.4bn
Penetration[5]	2.8%
Average health protection gap per household[6]	$1,382

Eastspring

Funds under management[7]	$26.9bn

Indonesia

Life insurance

Market ranking[1,10]	1st
Population[4]	274m
Penetration[5]	1.4%
Average health protection gap per household[6]	$1,230

Eastspring

Funds under management[7]	$5.3bn

Japan

Eastspring

Funds under management[7]	$4.1bn

Korea

Eastspring

Funds under management[7]	$14.7bn

Laos

Life insurance

Market ranking[1]	Top 3
Population[4]	7m
Penetration[5]	0.0%

Malaysia

Life insurance

Market ranking[1,11]	2nd
Population[4]	32m
Penetration[5]	3.3%
Average health protection gap per household[6]	$6,864

Eastspring

Funds under management[7]	$14.0bn

Philippines

Life insurance

Market ranking[1]	1st
Population[4]	110m
Penetration[5]	1.2%
Average health protection gap per household[6]	$1,406

Singapore

Life insurance

Market ranking[1,12]	2nd
Population[4]	6m
Penetration[5]	6.0%
Average health protection gap per household[6]	$13,776

Eastspring

Funds under management[7]	$137.6bn

Taiwan

Life insurance

Market ranking[1]	10th
Population[4]	24m
Penetration[5]	16.5%
Average health protection gap per household[6]	$4,823

Eastspring

Funds under management[7]	$9.1bn

Thailand

Life insurance

Market ranking[1]	8th
Population[4]	70m
Penetration[5]	3.3%
Average health protection gap per household[6]	$287

Eastspring

Funds under management[7]	$14.3bn

Vietnam

Life insurance

Market ranking[1]	3rd
Population[4]	97m
Penetration[5]	1.4%
Average health protection gap per household[6]	$1,251

Eastspring

Funds under management[7]	$5.7bn

Myanmar

Life insurance

Population[4]	54m
Penetration[5]	0.0%

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.

Adjusted operating profit by market
% vs 2019 CER

$3,667m

+13% (+12% AER)

	Adjusted operating profit	Share of total Asia	Growth (CER)
Hong Kong	$891m	24%	20%
Singapore	$574m	16%	18%
Indonesia	$519m	14%	(1)%
Malaysia	$309m	8%	14%
Eastspring Investments	$283m	8%	2%
Vietnam	$270m	7%	14%
China JV	$251m	7%	15%
Thailand	$210m	6%	24%
Philippines	$95m	3%	25%
Taiwan	$85m	2%	10%
Other	$180m	5%	3%

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.

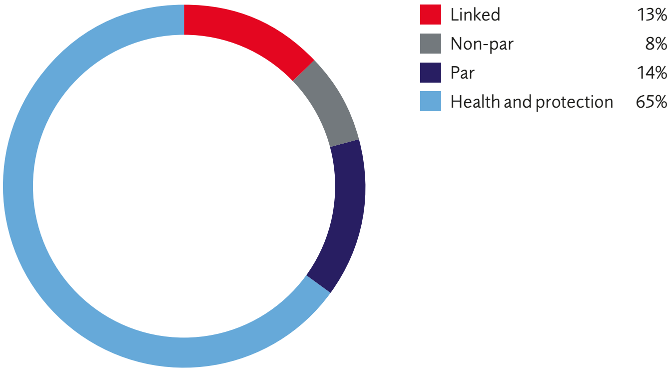
Since 2014 we have also built a rapidly growing multi-product business in Africa, with operations now in eight countries across the continent. Despite the Covid-19 pandemic, APE sales at Prudential Africa have grown by 51 per cent[21] to $112 million during 2020, with the number of active agents significantly 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 nine 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.

New business profit by product, 2020 $m



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 seven 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.

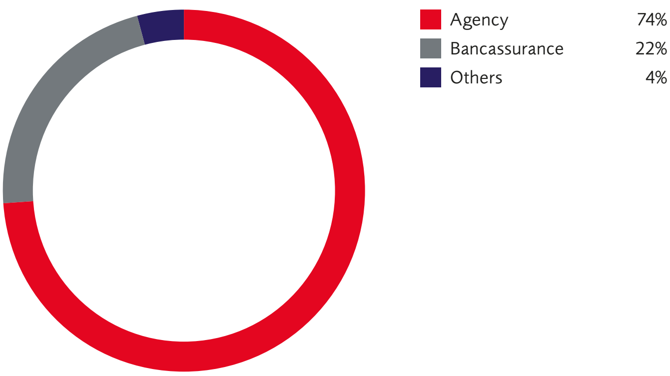
In Indonesia, we retain leadership in the sharia-compliant market, with 35 per cent share, accounting for 37 per cent of agency sales in Indonesia. Our PRUCinta product, the first traditional sharia product with specific cash value, accounts for 14 per cent of Indonesia agency sales. More widely, we 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).

New business profit by channel, 2020 $m



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.

Personal health insights with Pulse

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 and 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 programme 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.

C

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

Mark FitzPatrick
Group Chief Financial Officer
and Chief Operating Officer

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 one 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.

Estimated Group LCSM capital position[10]

	31 Dec 2020		31 Dec 2019	
	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 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 include 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 nine 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 three 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†

* Further analysis of Adjusted operating profit for Asia is set out in note I(v) in the Additional unaudited financial information.
† Includes amounts relating to Africa.
‡ 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.

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

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 rate basis Eastspring's 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.

C O

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

James Turner FCA FCSI FRM
Group Chief Risk
and Compliance Officer

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. Introduction

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, benefiting 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 be 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 was 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

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 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.

Q2 2020

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 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.

Key
- Prudential
- Regulatory
- (Geo)political
- Markets/economies

Q3 2020

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 year-on-year 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 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.

Q4 2020

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 by the outbreak of nationwide demonstrations against police brutality that leaves a reported 56 people dead.

On 23 October, 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.

A B C O

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.

B C I O

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.

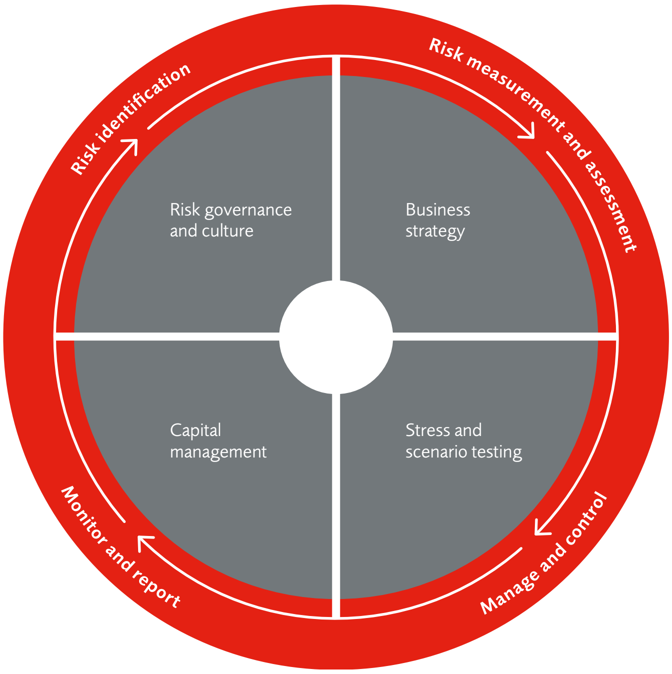
Material risks are retained selectively when it is considered that there is value in doing so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking. The Group Risk Framework, which is owned by the Board, details Prudential's risk governance, risk management processes 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.

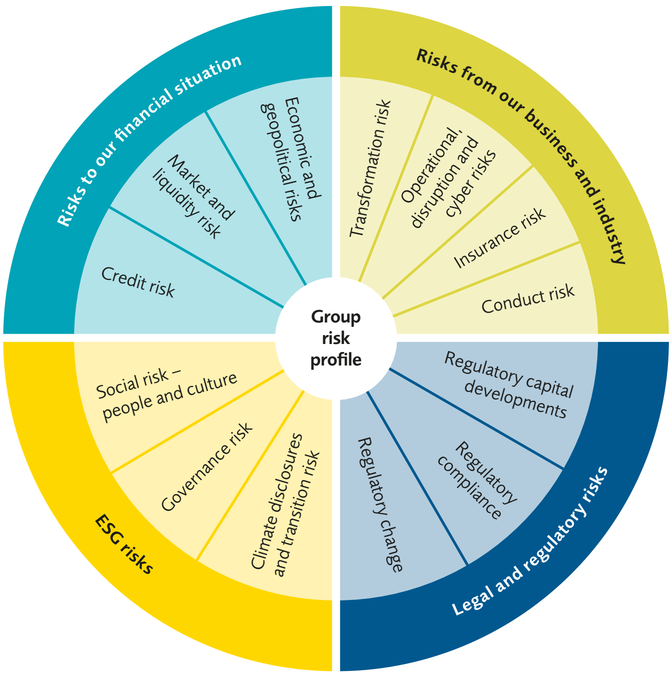
During 2020, the Group has continued to review and update its policies and processes for alignment with the requirements of its Group-wide supervisor. The Group has also focused on development of its Group-wide customer conduct risk framework and policy; its AI ethics principles; and enhancements to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

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

Risk management



Identified major risk categories



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 on pages 74 to 76.

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.

Risk management

Risk identification

Risk identification covers Group-wide:

- Top-down risk identification
- Bottom-up risk identification
- Emerging risk identification

Risk measurement and assessment

Risks are assessed in terms of materiality.

Material risks which are modelled are included in appropriately validated capital models.

Manage and control

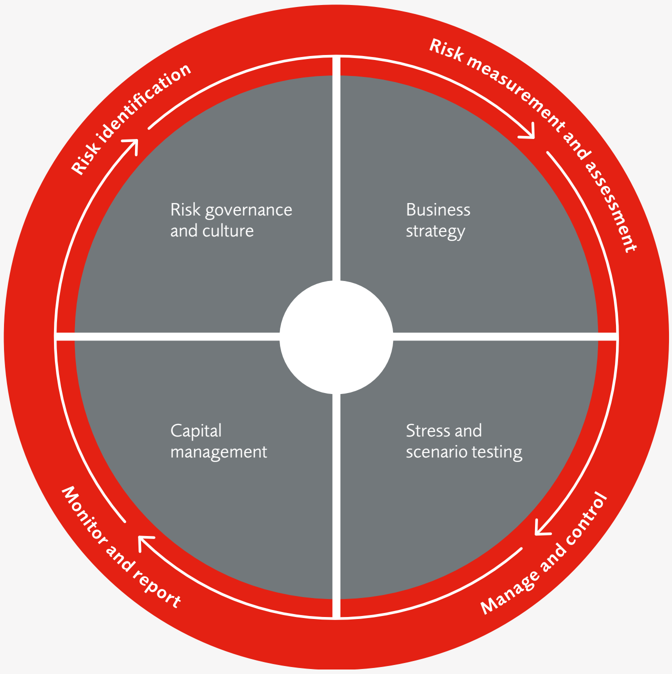
Risk appetite and limits allow for the controlled growth of our business, in line with business strategy and plan.

Processes that support the oversight and control of risks include:

- The Risk and Control Assessment process.
- The Own Risk and Solvency Assessment (ORSA).
- Group approved limits and early warning triggers.
- Large risk approval process.
- Global counterparty limit framework.
- Financial incidents procedures.
- Stress and scenario testing, including reverse stress testing.

Monitor and report

Escalation requirements in the event of a breach are clearly defined. Risk reporting provides regular updates to the Group's Board and risk committees on exposures against Board-approved appetite statements and limits. Reporting also covers the Group's key risks.



Risk governance and culture

Risk governance comprises the Board, organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies. The Group-wide culture framework includes principles and values that define how business is conducted in order to achieve its strategic objectives, inform expectations of leadership and guide ESG activities.

Business strategy

Business strategy and the business plan provide direction on future growth and inform the level of limits on solvency, liquidity and earnings and for our key risks. The Risk, Compliance and Security function provides input and opinion on key aspects of business strategy.

Capital management

Capital adequacy is monitored to ensure that internal and regulatory capital requirements are met, and that solvency buffers are appropriate, over the business planning horizon and under stress.

Stress and scenario testing

Stress and scenario testing is performed to assess the robustness of capital adequacy and liquidity, and the appropriateness of risk limits. Recovery planning assesses the effectiveness of the Group's recovery measures and the appropriateness of activation points.

C O

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 wellbeing	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
(Audited)

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.

Market risks to our investments continued
(Audited)

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.

Risks to the Group's financial situation (including those from the external macroeconomic and geopolitical environment) continued

Liquidity risk
(Audited)

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
(Audited)

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.

Credit risk continued
(Audited)

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.

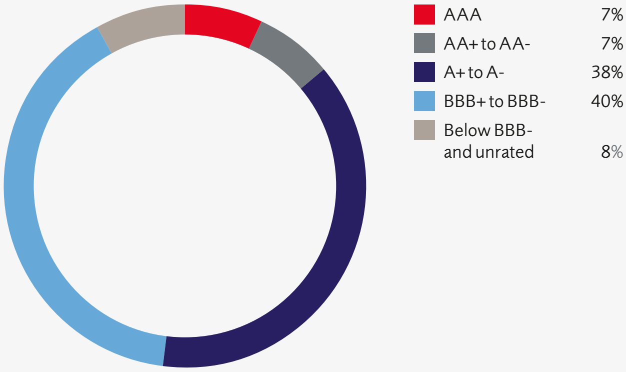
Corporate debt portfolio. In the Asia shareholder business, corporate debt exposures totalled $13.9 billion of which $12.4 billion or 89 per cent were investment grade rated. In the US general account, corporate debt exposures amounted to $26.6 billion following the Athene transaction, and the portfolio 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.

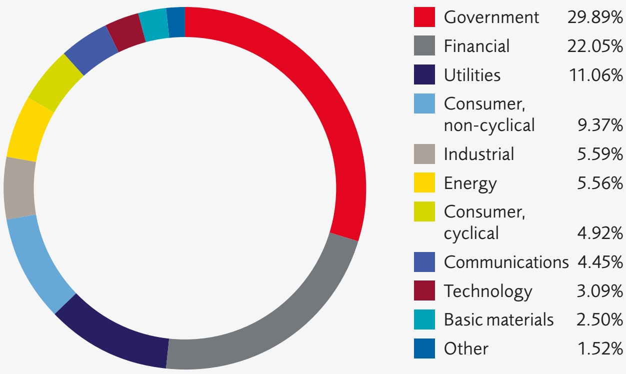
At 31 December 2020:

- 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.

Shareholder exposure by rating



Shareholder exposure by sector



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 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.

Non-financial risks continued

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.

Risks from the nature of our business and our industry continued

Non-financial risks continued

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.

Risks from the nature of our business and our industry continued

Non-financial risks continued

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
(Audited)

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.

Risks from the nature of our business and our industry continued

Insurance risks continued
(Audited)

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.

Risks related to regulatory and legal compliance continued

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.

D

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, see pages 87 to 92.

(b) Social risks

Social risks that could impact Prudential may arise from a failure to consider the rights, diversity, wellbeing, 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, see pages 70 to 117.

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.

A

Viability statement prepared in accordance with Provision 31 of the UK Corporate Governance Code

The Group's longer-term prospects

Prudential aims to make healthcare affordable and accessible, protect people's wealth and empower customers to save for their goals, which can often be over a time frame of many years. As such, Prudential considers that its purpose aligns closely with important societal needs, including making health and financial security more accessible, improving financial inclusion and education and transitioning to a low carbon economy. Prudential is focused on addressing these increasing needs, reflecting population demographics in our chosen markets. The drivers for this structural growth, such as the low penetration rates across the Asian region, are discussed on pages 19 to 25 alongside the activities we undertook during 2020 to expand our Asian and African footprint and enhance our capabilities, particularly through increased digitalisation. To enable the Group to focus exclusively on its high-growth Asia and Africa businesses, the Group intends to pursue the demerger of its US business allowing Jackson to focus on the distinct opportunities within the US retirement market. Further information on the progress of this demerger is set out on pages 06 to 07. In undertaking these activities, we aim to both meet the evolving needs of our customers and provide sustainable growth for our shareholders, which will ultimately lead to the viability of our business over the longer term.

In 2020, the Covid-19 pandemic has impacted the global economy and the related restrictions have applied to the Group's individual markets to varying degrees and at different periods. Our focus during this time has been on supporting our communities, customers and staff through the challenges created. The business has seen a short-term impact on sales but we believe the Covid-19 disruptions have also acted to intensify the structural opportunities in Asia and Africa over the longer term with a clear and increasing need for the broad-based products we deliver. During the pandemic, the Group has continued to innovate, as demonstrated by the continued rollout of Pulse by Prudential, to ensure we can capture these opportunities post Covid-19. The long-term macro-economic impacts of the pandemic remain uncertain but all of the Group's activities are underpinned by ongoing risk management, implemented via the Group Risk Framework and risk appetite limits described on pages 51 to 54.

The Group as a whole and each of its life assurance operations are subject to extensive regulation and supervision, which are designed primarily to reinforce the Group's management of its long-term solvency, liquidity and viability to ensure that it can continue to meet obligations to policyholders. Further details on the current capital strength of the Group are provided on pages 31 to 32.

The Group's management of wider environmental, social and governance issues that could pose a risk in the future to the Group is set out in the Environmental, Social and Governance report on pages 70 to 117.

This risk and regulatory focus supports the sustainability of our business over the longer term.

Period of viability assessment

The Directors have assessed the viability of the Group for a period longer than the 12 months required by the going concern statement.

The Directors performed the assessment by reference to the three-year plan period to 31 December 2023. Three years is considered an appropriate period as it represents the period covered by the detailed business plan that is prepared annually on a rolling three-year basis. In approving the business plan, the Directors reviewed the Group's projected performance with regards to profitability, cash generation and capital position, together with the parent company's liquidity over this three-year period. This projection involves setting a number of economic and other assumptions that are inherently volatile over a much longer reporting period. Such assumptions include foreign exchange rates, interest rates, economic growth rates, the impact on the business environment arising from the impact of Covid-19, geopolitical events and continued level of changes in regulation and supervision. The Directors are satisfied that this period is sufficient to enable a reasonable assessment of viability to be made.

The intended demerger of Jackson from the Group is expected to occur within the period covered by the viability statement. The Directors have therefore considered the ability of the Group to continue in its current form (ie the scenario in which the demerger does not proceed) for the three-year period ending 31 December 2023 as well as the viability of the Group in the more likely scenario that the demerger proceeds.

Assessment of principal risks over the period

The Group's business plan implements the Group's strategic objectives through the business model and activities discussed on pages 14 to 15. Matters considered as part of that planning process included the effect of current Covid-19 restrictions on people movement and face-to-face business activity and the continued rollout of Pulse by Prudential. Assessment of the risks to achieving the projected performance remains an integral part of the planning process. The Group's approach to risk management and a summary of the key risks facing the Group are set out on pages 45 to 69.

For the purposes of assessing the Group's viability, the Directors considered those risks where the impact of possible adverse external developments could be of such speed and severity to present a shock to the Group's financial position. The risks considered, from those detailed on pages 55 to 67 are: market risk, credit risk, liquidity risk and regulatory risk. The Directors considered the macroeconomic environment and geopolitical risks in the markets which the Group operates.

Stress and scenario testing

As noted above, underpinning the projections in the business plan are a number of economic and other assumptions. To evaluate the Group's resilience to significant deteriorations in market and credit conditions and other shock events, these risks are grouped together into scenarios which are then applied to the assumptions underlying the business plans considered. Scenarios considered include those reflecting the possible impacts of Covid-19 on new business, including the uncertainty as to the duration of restrictions in individual markets and the length of time for sales to recover to previous levels and different timings of expected regulatory changes. Separately stresses have been applied to the economic and non-economic assumptions underlying the base case business plan. These stresses assess 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). In addition, the adequacy of liquid resources of the Group's parent company across the plan period has been assessed by considering a stress scenario assuming the closure of short-term debt markets, as well as additional calls on central liquidity by the business units. In this liquidity stress scenario, the Group would have access to sufficient resources to meet the funding requirements of the business, after taking into account the Group's undrawn committed liquidity facilities of $2.6 billion, on top of central cash and short-term investment balances, which as at 31 December 2020 were $1.5 billion.

The scenarios tested showed that the Group would be able to maintain viability over the three-year period under assessment, after taking account of the actions available to management to mitigate the impacts on capital and liquidity in such scenarios. In addition, the Group conducts an annual reverse stress test which gives the Directors an understanding of the maximum resilience of the Group to extremely severe adverse scenarios. The projections in the business plan, and in the scenarios considered, do not assume that the Group accesses or relies upon the proceeds from any potential equity raise in the three-year period under assessment. This analysis assists in identifying management actions that could be implemented to restore the Group's capital and liquidity resources from extreme positions. This analysis also informs the Group's recovery plan and liquidity risk management plan.

The impact on the business of known areas of regulatory change whose financial implications can be reasonably quantified is also considered as part of the plan, for example the introduction of the Hong Kong Insurance Authority's Group-wide Supervision regime and the implementation of RBC regimes in Hong Kong and other markets. As well as known areas of regulatory change, the Group is exposed to the risk of sudden and unexpected changes in regulatory requirements at the Group and local levels. While unexpected changes cannot be fully anticipated and hence modelled, the risk of regulatory change is mitigated by capital held by the Group and its subsidiaries in excess of Group and local regulatory requirements, the Group and its subsidiaries' ability to generate significant capital annually through operational delivery and the availability of compensating actions designed to restore key capital metrics.

Conclusion on viability

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year plan period to December 2023.

Purpose and responsibility

A D

Introduction

In 2020 we reviewed our Environment, Social and Governance (ESG) strategy to evaluate how we use our capabilities to maximise our positive social and environmental impact.

This strategic review reflected the changes to Prudential set out in this Annual Report: our strategic focus on Asia and Africa, our continued evolution into a digitally enabled business, and how the Covid-19 pandemic has highlighted the global need for access to healthcare. This review was informed by work done in parallel to refresh the Company's purpose which is to help people get the most out of life. We deliver on that purpose by making healthcare affordable and accessible, helping people accumulate wealth through growing their assets, and empowering our customers to save for their goals. In this way, we ensure alignment of our creation of shareholder returns with our creation of societal value given the nature of our business and the markets in which we operate.

Our new ESG strategy distils the many ways in which we help our stakeholders into three core themes, all of which are closely linked to our strategy and business model:

Making health and financial security accessible: Working at scale, we give people greater access to good health and financial security. Covid-19, the rise in non-communicable conditions such as heart disease and diabetes, and ageing populations threaten to widen further the existing health, protection and savings gaps. Behind these megatrends lie countless individual stories of people who are anxious and struggling because of a lack of access to health and finance. We are committed to enabling as many individuals as possible in the markets in which we operate to make the most of their lives. In particular, we are increasing our focus on underserved communities and moving beyond our traditional role of financial protection to provide services that also prevent and postpone ill-health. Pulse, our health and wealth super-app now in live in 15 markets, is a key tool for us in meeting that ambition. Essential, too, are the tireless efforts of our colleagues, agents and other partners in developing product offerings that meet the needs of our diverse customer base. Our community investment programmes, focusing on education and financial literacy, also have an important role to play in building understanding of the benefits of financial products, and in building financial capabilities to ensure people can make informed financial decisions.

Stewarding the human impacts of climate change: We are a responsible steward in managing the human impact of climate change. We are a signatory to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), and as a significant asset manager and asset owner in regions forecast to be severely impacted by global warming, Prudential has a distinctive role to play in the transition to a low-carbon economy. We are decarbonising our investment portfolio and actively engaging with policymakers and investee businesses to encourage sustainable development. The economies of East Asia, where our businesses are concentrated, have a greater reliance on manufacturing and primary industries than more developed markets, where services account for a higher proportion of GDP. This means that the energy transition across the region is starting from a higher carbon intensity level and is likely to proceed at a slower pace than for more advanced economies. Recognising this, as we support the move to a lower-carbon economy in these emerging markets, we strive to ensure that the transition is an inclusive one for all of society – one that supports sustainable growth and economic health within our local markets and communities. We also recognise the importance of reducing the direct impact of our own operations on the environment and we continue to increase our level of ambition in relation to our own emissions footprint. This year we have set new and stretching targets for our Scope 1 and Scope 2 greenhouse gas emissions, with the aim of becoming net carbon neutral across these two scopes by the end of 2030. We are in the process of assessing similar suitable targets in respect of the carbon emissions from our investments. We also seek to apply ESG considerations more broadly in our investment process and our fiduciary and stewardship duties, to ensure that our investment decisions are aligned with our values and support our primary focus on healthy lives.

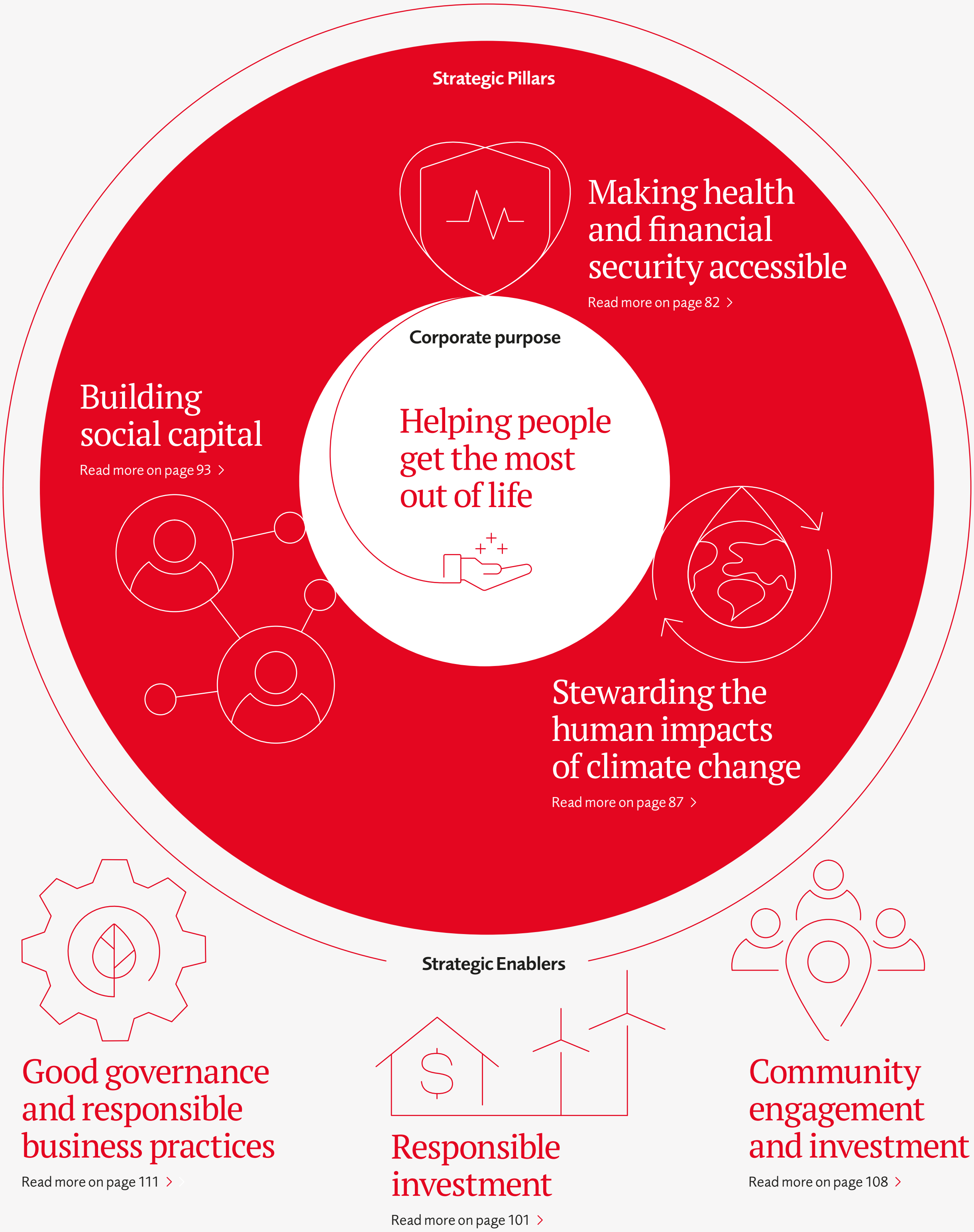
Building social capital: We are committed to building both our own human capital and our social capital with our broader stakeholders. We seek to empower people and unlock their potential. We do this by promoting diversity in representation and thought, and fostering a culture of inclusion and a sense of belonging within our organisation. Just as Prudential depends on the trust of our people, it also needs the trust of the external world. As we develop our digital capabilities, we need also to prioritise digital responsibility throughout our organisation. We must always keep in mind that our purpose to help people get the most out of life is the reason why we are investing purposefully in artificial intelligence, big data and other technologies, and that focus on the needs and interests of our users has to guide us in how we interact with them and handle their personal data as our capabilities develop.

This report covers the Group's ESG strategy and activities. It also presents the non-financial information statement and Section 172 Statement required by the UK Companies Act.

Our ESG Strategic Framework

Following our ESG review, we have developed a new ESG Strategic Framework (the 'framework'). This framework is fully aligned to our business strategy and our purpose of helping people to get the most out of life by making healthcare accessible and affordable, helping people accumulate wealth through growing their assets, and empowering our customers to save for their goals.

The key features of our ESG framework are its three strategic pillars which have clear alignment with our business strategy. Within each of these, specific differentiating focus areas have been identified where it is believed there is an opportunity for Prudential to make a meaningful impact, and as such greater focus will be placed on these differentiators.



The pillars and differentiators are:

1 Making health and financial security accessible
— Digital health innovation
— Inclusive offerings
— Digitally enabled financial literacy

2 Stewarding the human impacts of climate change
— Decarbonising our investment portfolio
— Supporting an inclusive transition

3 Building social capital
— Digital responsibility
— Diversity, inclusion and belonging

Our 2020 ESG report is structured in line with this framework and provides an update on our progress in the year across each of the pillars and enablers.

The following strategic enablers support these pillars:

— Good governance and responsible business practices

— Responsible investment

— Community engagement and investment

The United Nations Sustainable Development Goals (SDGs) were adopted by all UN Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure all people enjoy peace and prosperity by 2030. They are universally recognised and have been globally adopted by corporates as a means of articulating and measuring impact. They therefore provide a transparent and standardised mechanism of illustrating our intended outcomes. The focus areas of the strategic framework have been aligned to the SDGs. The alignment process focused on those SDGs where the Group can seek, over time, to make a meaningful impact because of the close relationship with our purpose and business strategy.

We have aligned with the SDGs at a target-level for the following goals and intended outcomes

SDG	SDG target	Intended outcome
1 No poverty	1.4, 1.5	Increased access to quality healthcare services, and financial services for the poor and the underserved, including microfinance. Improved resilience of the poor and reduction in their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.
3 Good health and wellbeing	3.8, 3.d	Strengthened capacity of our local (and developing) markets, for early warning, risk reduction and management of national and global health risks. Increased access to quality healthcare and financial risk protection for all across Asia.
8 Decent work and economic growth	8.3	Promoted development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, including through access to financial services.
13 Climate action	13.1, 13.3	Strengthened societal adaptive capacity for early warning, and risk reduction for climate-induced health impacts. Improved education, awareness and human capacity on climate change mitigation, adaptation, impact reduction and early warning.

Development of the ESG Strategic Framework

In line with good practice, the framework was developed following a rigorous analysis process, which identified key ESG stakeholder expectations from investors, rating agencies, government and regulators, stock exchanges, NGOs, industry and independent organisations, media and employees. This approach was taken to ensure that the framework ascertained the most material issues, considered as broad a spectrum of stakeholders as possible, and was tested robustly from their perspectives. The process also considered upcoming regulation to shape a view of expectations, emerging policy and peer themes to direction of travel, noting that this is a rapidly evolving area. This comprehensive internal and external stakeholder engagement informed the materiality assessment for the purposes of our 2020 ESG reporting. The Section 172 Statement below provides information on stakeholder engagement throughout the year, which was considered within the development of the ESG Strategic Framework where relevant.

Through this analysis, the three strategic pillars, plus the differentiators and enablers, were identified and defined at a high level. These proposals were discussed with a number of stakeholders across the Group in order to ensure our ESG strategy was fully integrated into the business, and to test and validate the proposed framework. This stakeholder group included those responsible for ESG and responsible investment-related activities within the business units, along with function leads (eg HR, Digital, Risk), business unit CEOs, the Group Executive Committee, and Board members.

The Strategic Framework was formally reviewed by the Group ESG Committee and then considered by the Group Nomination & Governance Committee, which recommended it to the Group Board, which formally approved it in December 2020.

Oversight of ESG

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, superseding the previous ESG Executive Committee. The Committee is chaired by the Group Chief Financial Officer and Chief Operating Officer, in his role as ESG sponsor. Membership of the Committee includes the Group Chief Risk and Compliance Officer, the Group HR Director, and senior representatives from the Group's asset owner and asset management business units, including, from 1 January 2021, the Chief Executives of Eastspring and PACS (Prudential's Singapore business). One of the Group ESG Committee's responsibilities is to oversee the Group's progress towards fulfilling our commitment to report against the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

In 2020, the Group ESG Committee reported to the Board through the Group Nomination & Governance Committee. The Board recognises that the next 12 to 18 months will be critical for the embedding of the ESG Strategic Framework within the Group, as well as for the progress of related matters such as the development and embedding of the Group's purpose and values, progressing diversity and inclusion (D&I) priorities, and building upon employee engagement activities. Therefore, in early 2021 the Board established a Responsibility & Sustainability Working Group, to be chaired by Alice Schroeder and comprising four Non-executive Directors, in order to ensure an appropriate level of Board engagement in, and oversight of, these matters during this critical period.

Our Group Governance Manual (GGM) sets out the policies and procedures by which the Group operates. It establishes standards for managing possible ESG issues across the Group. The GGM is subject to a formal content review each year, taking into consideration both internal and external factors.

As part of the Governance, Risk Management & Internal Control – Annual Statement of Compliance certification, all businesses across the Group assess their compliance position against each of the requirements set out in the Group Code of Business Conduct, Policies and Delegated Authorities. Any instances of GGM non-compliance identified by the businesses through their annual attestation are assessed by the Group policy owners and reported to the Group Audit Committee.

Our Group-wide policies relating to our ESG Strategic Framework, which are applicable to all entities, include:

ESG strategic pillar	Our Group-wide policies	Owner and date of last review
Making health and financial security accessible	To ensure we treat our customers fairly, management of conduct risks is key. Prudential mitigates conduct risk with robust controls, which are identified and assessed through the Group's conduct risk assessment framework, and regularly tested within its monitoring programmes. The Group Customer Conduct Risk Policy provides this framework and includes our Customer Conduct Standards, which set out the core values and standards that the Group expects all employees and persons acting on behalf of it to observe, and which further support our ESG strategy. These values and standards include specific requirements regarding customers. In particular, the Group has committed to: — Treat customers fairly; — Provide and promote products and services that meet customer needs, are clearly explained and deliver real value; — Maintain the confidentiality of our customer information; — Provide and promote high standards of customer service; and — Act fairly and in a timely way to address customer complaints and any errors we find.	Group Chief Executive December 2020
Stewarding the human impacts of climate change	Asset management businesses and insurance businesses (as asset owners) have distinct risks, including investing in different markets and asset classes; therefore, each business manages ESG-related matters through the pursuit of business-specific responsible investment policies. This is supported by our Group Code of Business Conduct and is underpinned by our Group-wide Responsible Investment Standards.	Business unit responsible executives
	Our Environment Policy outlines our approach to understanding and managing the direct environmental impact of the Group. This covers our measurement, monitoring, review and reporting of issues associated with our environmental performance.	Group Chief Financial Officer and Chief Operating Officer July 2020
Building social capital	Our Diversity and Inclusion Policy reflects our aspiration and aims to promote employee diversity and provide equal opportunities to all who apply for and those who perform work at every level of our organisation. The policy promotes diversity irrespective of sex, race, age, ethnic origin, social and cultural background, marital or civil partnership status, pregnancy, maternity and paternity, any gender reassignment, religion or belief, sexual orientation, disability, or part-time/fixed-term working arrangements, and seeks to ensure appropriate diversity of experience, skill sets and professional backgrounds. Further information on the diversity of our Board, our policy in respect of this, how this is implemented and the associated results in 2020 can be found in our Governance Statement on pages 120 to 169.	Group HR Director July 2020
	Our Employee Relations Policy outlines the way we engage with our employees and motivate them to achieve success for the Group: promoting positive relationships with employees, representative organisations and trade unions.	Group HR Director July 2020
	Our Performance and Learning Policy sets out the importance of our people and frames how we invest in their development to deliver against our strategy and the future success of the organisation. This includes our Performance Management Framework.	Group HR Director July 2020
	Our Remuneration Policy outlines our effective approach to appropriately rewarding our employees in a way that aligns incentives to business objectives and performance, and enables the recruitment, retention and incentivisation of high-calibre employees in line with our risk appetite and Group Reward Principles.	Group HR Director December 2020
	Our Talent Policy demonstrates how we attract, select and develop the best people for roles that will ensure high performance in the short term and future-proof leadership capability through building business-relevant longer-term succession and talent pipelines. It sets out our fair and effective approach to pursuing this.	Group HR Director July 2020
	Our Privacy Policy governs the protection of data and complies with the General Data Protection Regulation. Our Global Information Security Policy supports our global approach to security and our commitment to protecting the data entrusted to us by customers.	Group Chief Digital Officer July 2020

ESG strategic enabler	Our Group-wide policies	Owner and date of last review
Responsible investment	Asset management businesses and insurance businesses (as asset owners) have distinct risks, including investing in different markets and asset classes; therefore, each business manages ESG-related matters through the pursuit of business-specific responsible investment policies. This is supported by our Group Code of Business Conduct and is underpinned by our Group-wide Responsible Investment Standards.	Business unit responsible executives
Good governance and responsible business practices	The Group Code of Business Conduct sits at the heart of our Group Governance Manual, and highlights the ethical standards that the Board expects of itself, our employees, our agents and others working on behalf of the Group. The Code is supported by a set of Group-wide principles and values that define how the Group expects business to be conducted in order to achieve its strategic objectives.	Group Chief Executive December 2020
	Our Anti-Bribery and Corruption Policy covers our values for reputation, ethical behaviour and reliability. As an organisation we are focused on financial practices that align to those values and we prohibit corruption or bribery within our working practices.	Group Chief Risk and Compliance Officer July 2020
	Our Anti-Money Laundering and Sanctions Policy outlines how we prohibit money laundering or terrorist financing in our working practices, setting out how we establish parameters to prevent this taking place across the organisation and the commitment we have to comply with sanctions, laws and regulations by screening, prohibiting or restricting business activity, and following up through investigation.	Group Chief Risk and Compliance Officer July 2020
	Our Security Policy outlines our commitment to ensuring that security aligns to industry-recommended practice for managing our regulatory and legal obligations. This includes how we manage incidents under the Speak Out programme, our whistleblowing process.	Group Chief Risk and Compliance Officer July 2020
	Our Tax Risk Policy includes our processes to manage tax-related risk, by identifying, measuring, controlling and reporting on issues considered an operational, reputational or regulatory risk.	Group Chief Financial Officer and Chief Operating Officer July 2020
	Our Political Donations Policy outlines our position that as an organisation we do not donate to political parties. This is defined as covering any political party or candidate or any other organisation that attempts to affect support for any political party. It is defined as covering any payment or gift or contribution, direct or indirect, as defined by the UK's Political Parties, Elections and Referendums Act 2000. The policy covers expenditure on engagement activity on public policy discussions and applies across the Group.	Group Chief Financial Officer and Chief Operating Officer July 2020
	Our Third-Party Supply Policy covers how we manage and oversee our third-party arrangements, through due diligence/selection criteria, contractual requirements, the ongoing monitoring of such relationships, and reporting and escalation. Additionally, the policy considers the requirements of the UK Modern Slavery Act and the principles of the UN's Universal Declaration of Human Rights.	Group Chief Financial Officer and Chief Operating Officer July 2020
	Our Health and Safety Policy covers our employees, business partners, customers and others that may be affected by our operations. This details our health and safety core principles, our commitments and the measuring and reporting on our health and safety performance.	Group Chief Financial Officer and Chief Operating Officer July 2020
Community engagement and investment	Our Community Investment Policy covers how we are committed to working with the communities in which we operate as active and supportive members. It also outlines our strategy for investing in the community and how we make investments and report against them.	Group Chief Financial Officer and Chief Operating Officer and Group HR Director July 2020

Non-financial information statement

We recognise that to help our customers get the most out of life, we need to take a long-term view on a wide range of issues that affect our business and the communities in which we operate. To do this, we maintain a proactive dialogue with our stakeholders to ensure that we are managing these issues sustainably and delivering long-term value. Further information on our engagement with our stakeholders can be found in our Section 172 Statement below.

The Group's Strategic Report, including this ESG report and the Section 172 Statement, includes information required by the non-financial reporting provisions contained in sections 414CA and 414CB of the Companies Act 2006. These reporting requirements are met in a number of sections of our Annual Report. The diagram below illustrates where the relevant material is presented.

Section 172 Statement:
Our people
Read more on pages 79 to 80 ›

ESG Strategic Pillar:
Building social capital
Read more on pages 93 to 100 ›

ESG Strategic Enabler:
Good governance and responsible business practices
Read more on page 113 ›

ESG Strategic Enabler:
Good governance and responsible business practices
Read more on page 111 ›

ESG Strategic Pillar:
Making health and financial security accessible
Read more on pages 82 to 86 ›

ESG Strategic Pillar:
Stewarding the human impacts of climate change
Read more on pages 87 to 92 ›

ESG Strategic Pillar:
Building social capital
Read more on pages 93 to 100 ›

A D

UK Companies Act, Section 172 Statement

Section 172 of the UK Companies Act requires each Director to act in a way that he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing this, Section 172 requires a Director to have regard (among other matters) to the needs of employees, suppliers, customers and other wider stakeholder interests. During 2020 we engaged with our various stakeholder groups closely and we took account of their concerns in our decision-making. Below we have outlined how we have engaged with our stakeholders and the outcome of that engagement.

We ensure that our Board meets its duty under Section 172 of the UK Companies Act in a number of ways. A briefing note is circulated in advance of each Board meeting reminding Directors of their statutory duties under Section 172 and reiterating who the Group's key stakeholders are. The annual Board evaluation process takes into account how the operation of the Board affects the consideration of stakeholder issues and seeks to identify improvements in this area. We ensure that our Section 172 obligations are taken into account in our Board succession planning and training, stakeholder engagement is addressed in the Board's Terms of Reference, and there is guidance for individuals who prepare Board papers that references Section 172 duties and our key stakeholders. We ensure that we take account of any conflicts between different stakeholder concerns, and resolve such conflicts as smoothly as possible at the highest level necessary.

Good governance and responsible business practices are key strategic enablers to building a sustainable long-term business, as discussed further in our ESG Report on page 111. Through our Group Code of Business Conduct, we ensure that we maintain the highest standards of behaviour throughout our business. Our Group Code of Business Conduct sets out the standards the Board expects in relation to employee behaviour, and our business units run mandatory training programmes to highlight the personal obligations applicable to each individual. The Board reviews both the content of the Group Code of Business Conduct and business unit compliance each year. Meanwhile, our Group-wide whistleblowing programme, Speak Out, enables all stakeholders to raise concerns, helping to maintain the highest standards of behaviour. Whistleblowing reporting is overseen by the Group Audit Committee and business unit audit committees through quarterly reporting and through frequent discussion with the Group Resilience Director, with any material issues reported to the Board. On an annual basis, emerging trends and an assessment of the effectiveness of our whistleblowing approach are reported to the Group Audit Committee.

Key stakeholder engagement

During 2020 we engaged with our various stakeholder groups closely and we took account of their concerns in our decision-making. Three key areas of focus for the Board in 2020 were: the decision to pursue the separation of Jackson in order to focus on the Asia and Africa businesses; the impact of the restrictions imposed by governments across the world as a result of the Covid-19 pandemic; and the articulation of our ESG strategy for our business. We describe below how the Board considered the impact on its stakeholders across each of these.

Looking more widely, pages 14 to 15 of this report describes our business model and the outcomes we believe it delivers for each of our key stakeholder groups. The discussion below sets out how the Group has engaged with these key groups during 2020.

Consideration of stakeholders in key matters addressed by the Board

Decision to pursue the separation of Jackson and focus on the Asian and African businesses

The Group announced in March 2020 the Board's decision to pursue the proposed separation of Jackson to enable the Group to focus on its Asia and Africa businesses. The Group Chief Executive's report on page 06 sets out the Board's decision and progress on the separation of Jackson. In arriving at this strategic decision the Board took into account the needs of key stakeholders, including investors, colleagues and customers. The Board believes that the Group, and Jackson after the proposed separation, should benefit from improved alignment of management and employees to their businesses, customers and shareholders, and simplified, more efficient, operating and reporting structures. Jackson's separation will complete Prudential's transformation from a diversified, global group into a focused business exclusively targeting the long-term structural opportunities of Asia and Africa. Accordingly, the Prudential Board believes that the proposed demerger will lead to an improvement in strategic, operational and financial execution for both the Group and Jackson after the proposed separation, which will enhance their speed and agility to adapt to their customers' evolving needs and manage stakeholder relationships, and improve financial outcomes for shareholders. The Board has regularly consulted with significant investors as it determined this strategy. As set out below, Board members met with significant investors during the year and discussed the Group strategy proposals.

In addition, the Board has received regular briefings and engaged in regular communications to employees on the impact of changes arising from the proposed strategy on colleagues prioritising the fair treatment of all employees.

In determining the strategy of the proposed separation of Jackson, the Board considered that this will enable the Group to focus on meeting the protection and financial security needs of customers in growing markets in Asia and Africa through its differentiated product and geographic portfolio and developing digital platform.

Impacts arising from the Covid-19 pandemic

The Group Chief Executive's report on page 06 sets out the ways the Board and Group have supported our stakeholders during the Covid-19 pandemic.

ESG Strategic Framework

A key factor in determining how the Group builds a sustainable business that addresses the wider concerns and needs of the communities in which it operates is the execution of its ESG strategy. In 2020, following the completion of the demerger of M&G plc, the Board took the view that it was appropriate to consider the future ESG strategy for the Group, aligned with its business strategy as an Asia-focused Group. It was important that this ESG strategy addressed the needs of all stakeholders, and the importance of the global challenges of climate change and the Covid-19 pandemic, as the business evolves to have a greater digital focus.

The Board, facilitated by the Nomination & Governance Committee, oversaw the process for the development of the ESG strategy, including the consultation of stakeholder groups to consider their ESG expectations of the Group. These stakeholder groups included investors, regulators, NGOs, governments, employees and rating agencies. A number of common themes emerged from these consultations, including climate change, closing the protection gap and human capital management. These helped inform the direction and areas of emphasis within the strategic framework, and specifically the three pillars as set out on page 72. The proposals were discussed with a number of stakeholders across the Group in order to ensure our ESG strategy was fully integrated into the business, and to test and validate the proposed framework. All Board members were invited to provide their input at the start of the strategy development process to shape the suggested areas of focus. They were invited, again, to comment on the strategic framework as it developed. Following management approval by the Group ESG Committee, the framework was then considered by the Nomination & Governance Committee and the Board formally approved it in December 2020. Further details of the strategy and framework are set out on pages 72 to 74.

The Board recognises that the next 12 to 18 months will be critical for the embedding of the framework within the Group, as well as for the progress of related matters, such as the development and embedding of the Group's purpose and values, progressing D&I priorities, and building upon employee engagement activities in 2020. Therefore, in early 2021, the Board established a Responsibility & Sustainability Working Group in order to ensure an appropriate level of Board engagement in, and oversight of, these matters during this critical period.

Other significant engagement with stakeholder groups

Customers

The Group's purpose is to help people get the most out of life. We do this by making health and financial security accessible and affordable, protecting people's wealth and growing their assets. The needs of our customers are therefore central to what we do.

We engage directly with our customers through contact centres, dedicated account managers, sales support units, business processing and servicing, face-to-face advice (where possible), mobile phone apps and telephone technical support teams. The development of our digital proposition, specifically our digital health app, Pulse by Prudential, has enabled us to give our customers a greater range of services, including through partnerships with others. This is described in more detail in our Strategic report on page 24. We are attracting a younger demographic and are able to respond quickly to emerging needs. For example, we responded to the pandemic by providing free, limited-time Covid-19 cover for new or existing customers or Pulse users in a number of markets. The Board has actively discussed and supported the evolution of the digital strategy throughout 2020.

The outcome of our engagements with customers is transmitted through the business and used to shape the design of our products and how and where we distribute those products, and ultimately to inform strategic decisions made at Board level. Decisions about which markets to access, what kind of products to offer and how to develop our agency force, our bank partnerships and our digital capabilities, are all driven by an understanding of what customers want, based on engagement with those customers.

Investors

The Group has continued to maintain an open dialogue with investors to ensure that investors' perspectives and concerns are considered in the Board's decision-making. During 2020, Executive Directors attended over 150 meetings, conferences and events with investors, discussing topics including the Group's strategy, financial performance and future development. In addition, the former Chair, Paul Manduca, carried out 10 meetings with investors. The current Chair, in her then capacity as Chair-elect and Non-executive Director, has attended over 25 meetings with international and UK-based investors both during her introduction to the business and as part of ongoing investor engagement. These investors included large current investors as well as previous holders, but also included smaller institutional groups with specific matters to discuss, such as the Group's engagement with ESG and technology. The Board receives regular updates from the Group Investor Relations team on the Group's continuing wider engagement with investors.

The scope of discussions focused on the Group's strategy, in particular shareholder views on the question of whether and when to pursue the separation of Jackson and focus on the Asian and African businesses, and Board succession. The perspectives gained from these meetings, and the need for broad investor support, were considered by the Board when making key strategic decisions and communicating those decisions to the market.

The Chairman of the Remuneration Committee, Anthony Nightingale, and the senior Non-executive Director, Philip Remnant, have met with a number of senior investors throughout the year, and the results of these meetings and extensive written communications were considered when determining the Group's Remuneration Policy.

Our people

Ongoing employee engagement is one of the critical factors to ensure successful delivery of the Group's strategic objectives and the Board is keen to increase its focus in this important area. In 2019, the Board expanded the role of two Non-executive Directors to include responsibility for employee engagement: Kai Nargolwala covers our businesses in Asia and Africa, and Tom Watjen is responsible for our UK and US workforce. Following Kai Nargolwala's retirement as a Non-executive Director at the conclusion of the 2021 Annual General Meeting and the planned separation of the Jackson business, the Board intends to transfer responsibility for workforce engagement activities to its newly established Responsibility & Sustainability Working Group, which is expected to operate until the 2022 Annual General Meeting. The Working Group has a broad remit as described on page 137. As part of this, it will also consider the best method for employee engagement in the longer term, to ensure this is tailored to the culture and strategic priorities of the refocused Group following the planned separation of the Jackson business, and make a recommendation to the Board for implementation following the 2022 Annual General Meeting.

Kai Nargolwala and Tom Watjen discharged their duties through a range of interactions with staff during 2020 including:

- **Site visits**
  Our Non-executive Directors had the opportunity to visit Prudential sites and to interact with our people face-to-face in small groups and through formal meetings where physical meetings were compatible with safe working practices.
- **Virtual events**
  Particularly during the Covid-19 period, our Non-executive Directors met colleagues through an array of remote events, including the Asia Virtual Regional Conference, staff town halls and meetings of the Jackson D&I Council and the Global D&I Council.
- **Employee survey**
  95 per cent of staff participated in a Group-wide employee engagement survey carried out in May 2020. This level of participation substantially exceeded our expectations and the market benchmark. The headline level of employee engagement is encouraging and at par with all industries globally, as well as with the insurance and financial services industries. The table below includes a number of insights from the survey. The survey will be repeated in order to assess our progress over time.
- **Collaboration Jam**
  During September 2020, all staff in Asia, Africa and our London head office were invited to join a Collaboration Jam, a 72-hour conversation facilitated online that focused on how the Group can best live its purpose and culture. Over three days, more than 5,400 colleagues participated in the Jam, making a total of 14,000 visits and posting nearly 30,000 observations.

The table below describes the key themes that interested our people during the year:

Theme	
Culture	— During 2020, the Group reaffirmed our culture and articulated a renewed purpose, which is to help people get the most out of life. We aspire to a culture that is purpose-led, customer-focused and digitally-savvy. Living the culture around this purpose contributes to our success, sustainable growth, and ability to do the right thing for all stakeholders, including customers, colleagues, shareholders, regulators and society at large. The Board discussed progress in this area in February, April and July 2020. — Our people bring our culture to life by living the Company's values. The May 2020 employee survey found that employees are strongly positive about these values, with 83 per cent of respondents identifying favourably with being empathetic, nimble, courageous, curious and ambitious. In September 2020, we hosted a three-day virtual Collaboration Jam that saw our people come together to define the mindsets and behaviours that embody each value. The values will serve as the basis for peer feedback, which will be incorporated into annual appraisals. — It is important for our stakeholders that people are able to raise a concern should they see something within the organisation that conflicts with their personal or professional ethical standards. To this end, in 2020 we strengthened our Speak Out platform, a secure, externally hosted channel where concerns can be reported confidentially and, if preferred, anonymously so that concerns can be investigated impartially and independently. — The Board will receive further updates on the development of our purpose-led culture during 2021.
Covid-19 and wellbeing	— While the Covid-19 pandemic unfolded at different times and with varying levels of impact across the footprint of the Group, all parts of the business were devoted to ensuring the physical, emotional and social health and safety of our people, taking into account employee preferences during this time. Our response to the pandemic and the ways in which we have protected our people have been a theme across the Board's discussions during 2020. The Remuneration Committee also received an update on this topic in September 2020. — Almost all employees have spent at least part of 2020 working remotely, in line with local restrictions and guidance. — No employees were furloughed or made redundant as a result of the pandemic. Our remuneration programmes operated as usual during the pandemic period with medical insurance coverage extended to offer free Covid-19 testing where necessary. Employees received their regular remuneration during any periods of shielding or self-isolation. — Asia has established a mental health strategy, emphasising virtual connections and community engagement as part of our commitment to D&I. — All of our businesses have run regular sessions to support the physical, mental, emotional and social wellbeing of our people. Mental health provision has been strengthened in a number of our insurer benefit arrangements. — The Collaboration Jam and employee survey earlier in the year highlighted the challenges of remote working and work-life balance during the Covid-19 pandemic. To coincide with World Mental Health Day, we held our first global wellbeing day in October. This consisted of a series of online sessions across all time-zones, including a session in which our leaders shared their own stories about the mental health challenges that they have faced. Jackson and our London office have offered regular sessions on different aspects of wellbeing and stress management. — The Board has received regular updates from management on how our people have been supported. — Beyond this, it is essential that the Group reacts to the trends in workforce expectations that have been intensified and accelerated by the pandemic, particularly around new and more flexible ways of working. Each business is exploring how we can meet the expectations of existing and future staff about flexibility around schedules and location.
Organisational change	— The last 12 months have seen tremendous external challenges and significant changes within the organisation. — Board members have received regular briefings about the planned changes and what they mean for our people. — While this has naturally been a time of some uncertainty and strain for our people, the Group has supported employees through both the pandemic and the restructuring activity taking place in Jackson and London head office, communicating regularly and clearly and prioritising the fair treatment of all our employees.
Diversity and inclusion	— In February 2020, the Remuneration Committee approved the 2019 UK Gender Pay Gap report, which was published in March 2020. This showed a general closing of gender pay gaps in our UK workforce. — In July and December 2020, the Nomination & Governance Committee discussed the steps that the Group is taking to leverage everyone's potential, strength and diversity of thought, to create an open, transparent, supportive and inclusive environment and culture of belonging. — In July, we established the Global D&I Council to empower employees and create a sense of belonging by respecting and appreciating differences. Kai Nargolwala and Tom Watjen joined the Council's meeting in November, when the agenda included an update on the Collaboration Jam and sponsorship and mentorship for key talent. — Several Board members joined a Jackson session on D&I initiatives and their response to the Black Lives Matter movement. This was discussed by the Board in July 2020. — During 2020, Jackson doubled the period of paid parental leave available to all new parents and quadrupled the benefit to cover adoption expenses. During 2020, parental leave arrangements in Asia were also reviewed. Changes included an increase in the period of paid leave by a third and the introduction of paid leave when an employee becomes a parent through adoption or surrogacy. — In September 2020, we established the new role of Group Diversity and Inclusion Director, responsible for leading our progress in building a workforce which reflects our communities and in creating a sense of belonging which respects and values differences. — We have been included in the 2021 Bloomberg Gender-Equality Index, recognising our progress in this area.

Regulators

Since the demerger of M&G plc, the Group has been subject to the consolidated supervision of the Hong Kong Insurance Authority (IA) as Prudential's Group-wide supervisor. We have engaged with the Hong Kong IA on a regular basis, with the Directors meeting with the regulator on a periodic basis and sharing an agreed range of management information. In September 2020 Mike Wells, Mark FitzPatrick, James Turner and Nic Nicandrou presented to the Regulatory College of Supervisors on the Group's strategy and key business initiatives. The Board also considered and responded to feedback received from the College following its conclusion.

The Board receives regular updates on our engagement with the Hong Kong IA regarding the shape of its legislative and regulatory framework. We, along with other large insurers in the region, have engaged directly with the supervisor on the development of the proposed Group-wide Supervision (GWS) 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. Discussions covered areas such as capital, risk management and governance issues impacting Prudential and the industry.

The Hong Kong IA applies principles and standards to the Group through existing requirements to ensure that we are a fit and proper controller of regulated insurance companies. The Hong Kong IA's principles include financial integrity, effective corporate governance and sound risk management. We undertook a gap analysis of the Group's policies and processes against Hong Kong IA requirements for the proposed GWS framework.

Governments and wider society

During 2020, a number of key points emerged from our engagements with governments and legislatures, but the most pressing concern has been how we cooperate with our governmental stakeholders in response to the global health crisis. Covid-19 has underlined the importance of working together with governments and our communities to increase life and health insurance penetration to protect individuals and families. We continue to work with governments, regulators and politicians on ways to close this gap. With the roll-out of Pulse, we have increased our engagement with policymakers on health systems, health financing and the role of technology across our markets. In Hong Kong, we have been actively advocating for a digital health strategy framework to the city's top policymaker in collaboration with the local business community. Our vision is to establish a digital health ecosystem for the city and the Guangdong-Hong Kong-Macao Greater Bay Area. During 2020, we have also engaged with policy, regulatory and political stakeholders on COP26 and related themes such as inclusion, the need for a just and inclusive energy transition and the role of private finance in improving responsible investment frameworks.

We respond to ad hoc requests from NGOs and hold meetings with them throughout the year. During 2020, many of our stakeholders were concerned with the impact of Covid-19 on the communities in which we operate. In response to the pandemic, we launched a $2.5 million Covid-19 relief fund to help support vulnerable communities and provide medical equipment to hospitals and clinics in Asia. The Prudence Foundation partnered with the IFRC and NatGeo to rapidly develop a Safe Steps Covid-19 campaign in response to the pandemic earlier this year. The campaign was distributed across networks in Asia and Africa. More details of our community investment are set out on page 108.

Suppliers

Each of our critical suppliers has a nominated contact within Prudential, and we meet those suppliers on a regular basis to address concerns on both sides. We wish to treat our suppliers fairly so we both mutually benefit from our relationship. As an example, at the Group's head office in London, to support our supply chain through the difficult trading circumstances triggered by the global pandemic, we provided payment assistance from March 2020. We immediately switched to 10-day payment terms for all our London head office small suppliers with under 100 employees. This has so far benefited 136 suppliers with a total of £6 million of accelerated payments made to assist their cash flow.

On an annual basis, the Board reviews our approach to addressing Modern Slavery in our supply chain.

About this report

This report provides a summary of Prudential plc's ESG performance. The contents meet the ESG 'comply or explain' requirements under the Rules Governing Listing of Securities on the Stock Exchange of Hong Kong Limited.

More information on key topics, such as our tax strategy, can be found in our regular financial reports and standalone reports, available on our website. We aim to disclose our ESG management and performance as transparently as possible. The Board of Prudential plc has approved this report.

Scope of the ESG report

Information included in this report covers our activities in the 2020 calendar year, both at Group level and within our various operations globally, including Jackson. It does not include our joint venture partnerships, unless otherwise stated.

Content of the ESG report

We have continued to evaluate which ESG matters are most material to the Group, with a focus on those that matter most to our stakeholders. In 2020, as part of our ESG strategic review exercise, we considered and refreshed the material ESG issues. This included identifying emerging ESG trends, risks and opportunities directly applicable to the Group and our stakeholders. This informed the development of the ESG Strategic Framework. Our 2020 ESG report is structured in line with this framework and provides an update on our progress in the year across each of the pillars and enablers.

This report includes all mandatory ESG reporting requirements outlined within the Hong Kong Stock Exchange Listing Rules and all ESG general disclosures and KPIs in the guidance determined to be material, with the exception of A1.3 (Total hazardous waste produced and intensity) and A2.5 (Total packaging materials used for finished products produced), which are not relevant to Prudential plc given the nature of the business.

Where there are laws and regulations in respect of matters deemed as material which may have a significant impact on Prudential, these are noted within the relevant section of this report. For example, regulatory and legislative developments are increasingly including references to climate-related risks and incorporating reporting recommendations such as those outlined in the Task Force on Climate-related Financial Disclosures (TCFD) framework. The Group's governance processes require all businesses and functions to demonstrate compliance with Group-wide and local regulatory and legal requirements as part of the annual controls attestation. Further detail on the supervision and regulation of the Group is set out in Prudential plc's Form 20-F report for 2020 which will be published on Prudential plc's website.

Selected indicators are assured by Deloitte LLP and Deloitte's assurance statement can be found on the Prudential plc website.

1. Strategic Pillar: Making health and financial security accessible

We pursue with ambition the closure of the health, protection and savings gaps in Asia and Africa. We see this as core to our purpose to help people to get the most out of life – by making people healthier and wealthier. We are committed to closing these gaps by improving the health and financial wellbeing of those who interact with us, generating positive behavioural change towards healthier lives, and increasing access to healthcare for all.

To do this we focus on: digital health innovation – to promote inclusion through affordability and accessibility, and healthier outcomes for those we interact with; inclusive offerings – to increase penetration in underserved populations, and bring diversity to our product offering, reflective of our customer base; and digitally enabled financial literacy – to build trust and understanding of protection benefits and options, and wider savings and digital capabilities. In doing this we support our customers to prevent, postpone and protect against ill-health.

Digital health innovation

As a leading health insurer in Asia, we are evolving from providing protection to playing a role in the prevention and postponement of ill-health. To make this happen, we believe that the adoption of digital technology at scale is vital.

Pulse by Prudential, our health and wealth super-app, is a core part of our strategy to make health and wellness accessible and affordable. Using AI-powered tools and personalised services, Pulse, which is free to download, empowers people to take control of their personal health, anytime and anywhere. The app has been downloaded around 20 million times in Asia and Africa, as of February 2021.

Initially launched in Malaysia in 2019, Pulse is now available across 15 markets in Asia and Africa, with relevant services available in local languages. Across our markets, the Pulse offering continues to evolve as we grow our local health and technology partners. Covid-19 has accelerated the impact of Pulse by Prudential, increasing the demand for digital health tools and for healthcare services that can be accessed remotely. More information on the roll-out of Pulse and our digital health response to Covid-19 is available on pages 85 to 86.

We are committed to developing Pulse into an end-to-end health and wellness platform integrating primary care, wellness and chronic disease management. We work collaboratively with a range of partners to provide value-added services and subscription plans across the health and wellness spectrum to all users. To date, Pulse has integrated 32 local and regional partners. Our partnership with Halodoc in Indonesia enables us to provide a range of telemedicine services through Pulse, including consulting with doctors online and purchasing and arranging the delivery of prescriptions. We are also partnering with Naluri, a Malaysian health tech start-up, to enhance our food journaling user experience within Pulse. This partnership will enable users in the region to access dieticians, helping users plan a healthy and balanced diet, contributing to their wellness goals.

We recognise the importance of building trust in the markets where we operate. We have worked with health ministries and insurance regulators to understand the local health and financial landscape and the challenges we can help to address. We have also used local epidemiology to understand common health concerns in the region. For example, in Thailand, specific prompts and questions have been built into our symptom checker in recognition of the fact that many common diseases are related to poor water quality or source contamination. We have also worked with public hospitals and doctors to gain insights, which helps us to triage Pulse users appropriately.

Our Pulse app was awarded 'Technology Initiative of the Year' at the Asia Insurance Industry Awards 2020. Pulse was also recognised by the UK government for its positive impact in South-east Asia. The Foreign, Commonwealth and Development Office has included Pulse in its 'Great for Partnership' initiative, a campaign to promote the best of the UK overseas.

As we continue to develop Pulse, we have embraced agile ways of working, exemplified by the use of 'hot houses'. During these intense workshops, a wide range of employees from across the Group with different skills and expertise collaborate to explore new ideas, design and implement solutions to deploy into our Pulse app within days, providing immediate benefits to Pulse users.

Supporting the development of mobile health

The successful adoption of digital health tools like Pulse is dependent upon the accessibility and acceptance of mobile and digital health tools. We therefore work with a range of stakeholders in the markets where we operate to understand the challenges and opportunities associated with the development of mobile health in local markets.

Our recent report, The Health of Asia Barometer, underscores the unprecedented opportunity offered by digital health technologies to improve access to healthcare in Asia. The report, published by The Economist Intelligence Unit, explores attitudes to healthcare in Asia, highlighting the demand for tools and services to help people in the region better navigate the healthcare system. The report, which surveyed 5,000 adults across 13 markets, highlighted consumer appetite towards the digitisation of health.

- 54 per cent believe that medical care is accessible and affordable;
- 81 per cent say technology has already improved their access to health services; and
- 71 per cent will rely on technology even more heavily to improve personal health and wellbeing.

To fulfil the potential of digital healthcare, the report recommends greater public-private collaboration, suggesting that governments partner with private companies to deliver digitally innovative ways to promote and manage health and wellness among citizens.

In 2020, we expanded our Singapore-based PRUFintegrate initiative to include our global and regional teams and seven other Prudential business units. The PRUFintegrate initiative is a partner network of fintech, insurtech, healthtech and medtech companies. We received a total of 99 entries, and evaluated solutions from fintech companies based in Asia, Europe and Africa. Our focus in 2020 was on artificial intelligence, as well as the health, wealth and SME ecosystems on Pulse. This global outreach was made possible through the APIX platform that was set up by the Monetary Authority of Singapore, the ASEAN Bankers Association and the World Bank Group's International Finance Corporation.

In the Philippines, we continue to support the development of mobile digital health solutions. Following our 2019 white paper exploring the current legal and regulatory framework for mobile health in the Philippines, we launched the 'Healthscape Dialogue Series' during 2020. This seeks to build a multi-stakeholder platform to discuss the most pressing topics in Philippine healthcare, providing an important forum for industry players across sectors to come together and discuss how to improve the access of more Filipinos to affordable and quality healthcare services. Webinars over the course of 2020 have covered the use of AI and mobile technology, preventative healthcare and telemedicine. We also partnered with the Analytics Association of the Philippines to provide a webinar on digital transformation in life insurance and the role of big data in achieving financial inclusion and better health for more Filipinos.

Inclusive offerings

As part of our commitment to making health and financial security accessible, we recognise the importance of increasing penetration in the markets where we operate, providing products and services to previously underserved populations. By bringing diversity to our product offering, we will be able to better reflect the needs of our customer base, and integrate any lifestyle impacts from emerging social risks associated with major public health and demographic trends into our product offering. This will include, but not be limited to, lower-income groups, ageing populations, small and medium-sized enterprises and sharia offerings.

Demographics are changing in a number of our markets. In response to Thailand's rapidly ageing population, Prudential Thailand has launched PRUTriple Eight (PRU888), a life insurance plan that allows for effective financial planning at every stage of a person's life. Based on the latest projections by the United Nations Population Fund, Thailand will fully transition into an aged society by 2021, with the number of senior citizens aged 60 and above expected to make up 20 per cent of the total population. As a result, the country will face emergent issues concerning social security, healthcare costs and intergenerational equity in a far shorter time than developed nations. This rapid speed of ageing calls for appropriate response, policies and programmes to help resolve the issues. The PRU888 plan provides financial security to customers including death benefits as well as accidental death coverage where we will pay eight times the normal death benefit up to age 88 while providing annual cashback and a maturity benefit at age 88.

Prudential Indonesia continues to innovate to provide affordable financial protection for Indonesians by launching Asuransi Jiwa Kumpulan Syariah PRUTect Care (PRUTect Care), Prudential Indonesia's first digital product available on our health and wealth super-app, Pulse. As a sharia-based offering, PRUTect Care provides basic natural death benefit coverage, as well as various optional benefits, for a monthly contribution as low as Rp8,000 (US$0.50). To protect more Indonesians, Prudential collaborated with digital partners Gadjian and Kitabisa.com to offer PRUTect Care.

In 2020, Prudential Indonesia launched Asuransi Jiwa Ayariah PRUCinta (PRUCinta), its first sharia-based traditional life insurance product. A simple and affordable product, PRUCinta provides optimised death compensation benefits covering a period of 20 years. PRUCinta shows Prudential Indonesia's aspirations to become a leading contributor to the Indonesian sharia industry and to expand life insurance coverage to a broader segment of the population.

In response to outbreaks of dengue fever, a mosquito-borne viral disease, across South-east Asia, our businesses in Thailand, Cambodia and Singapore have all launched affordable insurance plans to provide customers with cover for dengue fever. Prudential Thailand launched its first digital insurance plan, 'PRUDengue', in partnership with AIS, a leading telecom operator in Thailand's mobile network. AIS customers can purchase PRUDengue via Pulse, launched by Prudential Thailand in June. Dengue fever has impacted nearly one million people in Thailand over the last 10 years. PRUDengue is an all-round and affordable insurance plan to support the insured with a lump-sum payout. PRUDengue's basic package, with an annual premium at THB249 (US$8), provides total benefits of up to THB70,000 (US$2,332). Applicants are not required to complete any health or income check for this plan.

Prudential Cambodia has also launched an affordable insurance solution for dengue fever and malaria. With an annual premium of US$4, the product is Prudential Cambodia's first micro-insurance offering and demonstrates Prudential Cambodia's ambition to making insurance accessible to all Cambodians. With over 34,000 cases of dengue fever in Singapore during 2020, Prudential Singapore launched its affordable insurance plan, PRUSafe Dengue, on Pulse. For a premium of S$5, PRUSafe Dengue provides a number of benefits over a three-month period. In the Philippines, we have also begun to develop bite-sized offerings to help increase insurance penetration and to target specific protection needs of the market. Initial offerings include dengue cover and a breast cancer product.

In December, Prudential Singapore introduced the Spark Kindness Movement. The movement aims to narrow the protection gap by providing underprivileged families with financial support in the event of accidental death. For every PRUActive Protect or PRUCancer 360 policy sold in December, we provided a complimentary two-year Accidental Death Insurance Coverage of S$10,000 to a parent of a low-income family supported by our community partner, AMKFSC Community Services Limited. This coverage provides hope to the children of these families by giving them the means to continue their education. A total of 3,022 individuals from these families received complimentary coverage through the Spark Kindness Movement and Prudential Singapore plans to extend this programme in the future to benefit more underserved populations.

In Taiwan, we offer a micro-insurance policy to a non-profit, the Taiwan Fund for Children and Families, to support disadvantaged families and children. During 2020 this policy has helped support 284 families. Our Taiwan life business, PCA Life Assurance, continues to address child protection issues and in November launched its Child Health white paper, to advocate for child health and protection in Taiwan. PCA Life worked with the Research Centre of Big Data at Taipei Medical University to conduct research and analysis into the factors that affect child growth.

In Malaysia, our CSR initiative, PRUKasih, provides free temporary financial relief to urban low-income families coping with a sudden loss of income due to illness, accident or death. Since this programme started in 2014, more than RM10 million (~US$2.5 million) has been paid out in claims, and during 2020, we supported 40,429 households across 35 communities with PRUKasih. To help PRUKasih communities mitigate the effects of the pandemic, we provided free Covid-19 coverage whereby a cash payment would be made in the event of hospitalisation and/or death.

Also in Malaysia, PruBSN Microtakaful Jariyah provided basic microtakaful coverage to 25,000 underprivileged families during the year. This initiative is the first of its kind in Malaysia and provides complimentary basic takaful coverage for a 12-month term to selected heads of the household from low-income groups. Beneficiaries receive RM10,000 (~US$2,500) in the event that their family breadwinner passes away.

In Ghana, we have collaborated with leading industry partners to deliver an innovative mobile insurance plan, SafeNet, to new customers. The partnership between Prudential Ghana, Vodafone, MicroEnsure and Enterprise will offer Ghanaians key insurance benefits, including cover for hospital cash compensation, accidental injuries or disabilities, and general life insurance. We have teamed up with Enterprise as co-underwriters for SafeNet, a new mobile insurance product that offers an easy way of buying flexible insurance. Vodafone, Ghana's second-largest mobile network operator, is using a platform developed by MicroEnsure to distribute SafeNet to Vodafone subscribers. In line with our commitment to help limit the economic impact on customers of Covid-19, SafeNet will be offered to more than nine million Vodafone subscribers as free insurance cover in the first half of 2021.

Helping to upskill small businesses

In November 2020, Prudential Singapore brought together 80 small and medium-sized enterprises (SMEs) across 50 industries and a government agency – SkillsFuture Singapore (SSG) – to co-create the SME Skills Accelerator programme. This one-year programme is part of Prudential Singapore's value-added services for SMEs to help them upskill and support them in their innovation efforts. SMEs are entitled to curated training programmes that are subsidised by SSG on topics such as design thinking, digital transformation and workplace learning. As part of the programme, SMEs get to join a network of like-minded people to share best practices and improve processes. SMEs are also connected to a dedicated skills manager who advises on the SMEs' upskilling needs.

Recognising the significant impact of the Covid-19 pandemic on micro, small and medium enterprises (MSMEs), Prudential Indonesia has supported MSMEs across Indonesia by holding a series of financial literacy training webinars, in partnership with AKUMANDIRI, SMESCO and the Tangan di Atas Community. The initiative includes a series of webinar sessions delivered by experts from Prudential Indonesia, covering key financial literacy topics including the importance of financial management, business capital, developing business strategies, and cash flow management for business entities.

Promoting financial literacy

The promotion of financial literacy is a priority for Prudential and we actively seek to build trust and improve understanding of protection benefits and options. In doing this we support our customers to prevent, postpone and protect against ill-health. Financial literacy is a key focus area for Prudence Foundation. More information on the broader work of Prudence Foundation can be found in the Community Engagement and Investment section on page 108 of this report.

Cha-Ching – a global financial education programme

Developed by Prudential to address the gap in financial literacy for children, Cha-Ching is a global financial education and responsibility programme aimed at children aged seven to 12. Now in its 10th year, the programme continues to grow and expand across our markets and is well received by educators, parents, children and government stakeholders. We continue to develop a blended learning approach to financial literacy, leveraging digital tools and platforms as well as the school environment. Our aim is to ensure that Cha-Ching is accessible and available to millions of children, parents and teachers across the world for free, providing them with the right foundations in financial literacy.

The Cha-Ching Curriculum was developed in partnership with Junior Achievement (JA), and has been successfully implemented in Asia for five years through strong partnerships with NGOs and governments in eight markets: the Philippines, Indonesia, Malaysia, Vietnam, Taiwan, Singapore, Cambodia and Thailand. To date, more than 15,000 teachers have been trained to deliver the Cha-Ching Curriculum in schools, with over 600,000 primary school students having been taught the lessons of earn, save, spend and donate.

The Cha-Ching Curriculum school implementation programme has also expanded into Africa, and in 2020 Prudence Foundation extended its partnership with JA in Africa, to teach the Cha-Ching Curriculum to primary school students across six countries: Kenya, Ghana, Zambia, Nigeria, Uganda and Côte d'Ivoire over the next three years. By adopting the proven teacher-led model for Cha-Ching, which has seen success in Asia, we will similarly work to improve financial literacy in Africa, in a sustainable and scalable way.

In Asia, the Cha-Ching cartoons continue to be broadcast on Cartoon Network, reaching over 31 million households every day. Cha-Ching content is also accessed online via the website and through digital channels including social media, with over 86 million views to date.

In an effort to increase the reach and impact of Cha-Ching, we also introduced several new digital initiatives in 2020. These have supported the broader reach of Cha-Ching, particularly in the Covid-19 environment, which has limited in-person teaching, and these are intended to continue into 2021:

— The Cha-Ching Kid$ At Home programme, aimed at parents, was launched amidst the backdrop of Covid-19. Available for free online, this consists of guides and at-home activities providing families with an engaging and interactive way to teach financial literacy at home. A digital media campaign was launched to raise awareness, reaching more than 3.7 million people via social media. The educational resources have been actively promoted by Prudential businesses through social media campaigns and public webinars and have been viewed or downloaded over 25,000 times via the Cha-Ching website. In Singapore, Indonesia and Myanmar, employee volunteers have also been trained to deliver the Cha-Ching Curriculum online through webinars.

- In September 2020, Prudence Foundation introduced the online Cha-Ching Financial Accreditation (CCFA), to acknowledge and support the teacher community working to deliver the Cha-Ching Curriculum in schools across Asia. The CCFA platform was launched in the Philippines, Indonesia and Vietnam and will expand to further markets in 2021. This online assessment is endorsed by education authorities and was developed in alignment with the OECD Core Competencies Framework on Financial Literacy for Youth and the ASEAN Teachers Competency Framework. To date, over 4,000 teachers have registered and 2,400 have completed the CCFA online course.
- In the Philippines, Prudence Foundation and JA have worked closely with the Department of Education (DepEd) to incorporate Cha-Ching into the national distance learning approach implemented in response to Covid-19. Cha-Ching printed materials will be distributed to over 157,000 students at home, supplemented by online teaching where possible. Cha-Ching lessons will also be broadcast via TV and radio as part of DepEd's implementation, expected to reach over 56,000 students.
- Cha-Ching videos and parent resources have been made available for free on the Pulse by Prudential app in Singapore with expansion into other markets expected in 2021.

In the US, the Jackson Charitable Foundation has reached more than eight million students since 2017 by partnering with Discovery Education and Junior Achievement USA. We provide free music videos and classroom and at-home activities with Cha-Ching Money Smart Kids to teach elementary school students how to earn, save, spend and donate. The demand for virtual financial education continues to increase, with Cha-Ching Money Smart Kids seeing record engagement in 2020. The Jackson Charitable Foundation has also sponsored 500 high schools to use Ramsey Education's Foundations in Personal Finance curriculum for the 2020-21 school year, at no cost to the schools. Since this partnership began in 2018, the Foundation has committed $2.7 million toward financial education for high school students across the country, reaching 100,000 students in total.

In Malaysia, in line with our commitment to uplift PRUKasih communities and build their financial resilience, we introduced education programmes focused on financial planning. We also rolled out the PRUKasih Entrepreneurship Programme to equip participants with entrepreneurial skills and knowledge. To foster greater collaboration between the public and private sectors on financial empowerment through education, we launched a five-part webinar series, featuring a range of panellists, including Malaysia's Central Bank, Bank Negara Malaysia. The webinar series included topics such as the state of financial education in the country and the creation of a unified financial literacy curriculum.

#MoneyParenting

During 2020, our Asian asset manager, Eastspring, launched its #MoneyParenting initiative. Following a survey of 10,000 parents across nine Asian markets, we found that 51 per cent of parents in Asia do not know if they have been successful teachers and role models for their children. Recognising that parents pass on their attitudes and beliefs about finance to children, Eastspring is aiming to help parents become better role models and to provide them with the knowledge, skills and tools to effectively teach their children about money and plan for their future. When asked what help they wanted in order to teach their child how to use and manage money better, 43 per cent of parents across Asia said they wanted to learn more about financial management themselves. In response to the survey and its findings, Eastspring has launched a dedicated microsite on its website, providing tools and resources for parents to empower them as they are teaching their children about the financial and social responsibilities that come with money.

Pulse roll-out and digital health initiatives

We have provided some examples to illustrate how we have begun to roll-out Pulse across our businesses. Our Pulse offering continues to develop as we work collaboratively with a range of partners to provide value-added services and subscription plans across the health and wellness spectrum to all users. As we design these services, we consider emerging population risks and public health trends, such as rising levels of obesity, increasing urbanisation and ageing populations.

Hong Kong: The launch of Pulse in Hong Kong made us the first in the market to offer an AI-powered chatbot to provide clinically validated information and recommendations for symptoms. Recognising the specific needs of its customers, Pulse users in Hong Kong can access a digital Chinese Medicine Body Constitution Test. Useful information, including hospital listings is now available on Pulse to make information easily accessible for customers.

Malaysia: In October 2020, we launched our Step Up Against Cancer Challenge in Malaysia through Pulse to increase cancer awareness and to highlight the importance of financial protection against cancer. Users are challenged to take at least 5,000 steps a day in order to earn free cancer coverage. Users can connect their fitness device to the Pulse app, allowing them to earn different levels of cancer coverage, depending on the number of steps they take.

Indonesia: Following the release of Pulse in Indonesia, the #SehatBarengPulse (Get Healthy with Pulse) movement was launched. The campaign encouraged users to lead a healthier lifestyle through a series of challenges, including lowering sugar intake and cholesterol levels.

Vietnam: The launch of Pulse in Vietnam enabled users to access features including Health Checkup, Symptom Check, Body Mass Index Measurement and Wrinkle Index Measurement. The app also includes hundreds of articles equipping users with medical information on healthy lifestyles, symptoms and treatments. Prudential Vietnam also introduced an online cancer insurance product, iProtect, on Pulse in September.

Cambodia: Prudential Cambodia was the first to bring AI-based preventative healthcare to Cambodia, through the launch of Pulse. Health infrastructure in Cambodia in both the public and private sectors is underdeveloped, and convenient access to quality healthcare is difficult for most Cambodians. The initial Pulse roll-out included a 'hospital locator' feature for users to access all hospitals and clinics covered under the National Social Security Fund, which is a social health safety net for two million people employed in the formal sector.

Digital health response to the Covid-19 pandemic

Hong Kong: Prudential was the first in the market to launch free Covid-19 coverage to over 300,000 Hong Kong residents. Following rapid take-up, we offered free protection to a further 200,000 Hong Kong residents. During the fourth wave of the Covid-19 outbreak, Prudential Hong Kong announced that it would allocate HK$5 million to its Covid-19 Caring Fund, which provides additional financial support for individuals affected by Covid-19. Eligible applicants can apply through the Pulse app to receive a subsidy of HK$10,000 to relieve their financial burden caused by the pandemic.

Singapore: Pulse was launched in Singapore in April 2020, and was a key part of our response in supporting the community in the fight against the virus. Users of the app were entitled to a daily hospitalisation allowance if they were hospitalised for Covid-19. Prudential Singapore also subsidised part of the consultation costs for users until 30 June 2020, so it cost only S$15 per consultation. Non-customers were eligible to receive a S$100 daily allowance (for up to three months of hospitalisation) if they were hospitalised between the date of their Pulse app registration and 31 May 2020.

Indonesia: In response to the Covid-19 pandemic, Prudential Indonesia provided free Covid-19 coverage and was the first in the market to offer additional protection for Covid-19. Prudential Indonesia also extended the grace period for premium payments, simplified its claims procedure and established a dedicated team for Covid-19 claims. Leveraging Pulse, Prudential Indonesia and Halodoc provided premium-free Covid-19 rapid tests for members of the public in Jakarta and Surabaya. Prudential Indonesia also launched PRUCekatan to enable customers to consult with their agents and access comprehensive protection solutions virtually, rather than through face-to-face meetings.

Thailand: To encourage social distancing during the pandemic, Prudential Thailand partnered with 10 hospitals in Thailand to offer customers access to specialist healthcare services and medication via telemedicine. Customers could choose to schedule a consultation with a doctor via video conference, purchase and arrange for delivery of prescription medicine to their homes or arrange for a home visit by a doctor if necessary.

Africa: Across our eight markets in Africa, we provided customers, staff and agents with a range of additional Covid-19 insurance cover at no cost to themselves. Prudential Africa also simplified its claims procedures and enabled claims to be made via WhatsApp. Additional training was provided to our agents and we enabled customers to buy insurance without the need to meet face-to-face with an agent.

Laos: Prudential Laos extended the grace period for premium payments from 30 days to 60 days. Free Covid-19 coverage was also provided for all existing policyholders, as well as for new policies purchased between 1 May and 31 August 2020. Free Covid-19 cover was offered to the staff of hotels providing quarantine services. In May, Prudential Laos donated 3,000 face shields to the Ministry of Health to protect frontline workers against Covid-19.

The Philippines: Pulse launched in the Philippines in February 2020 and at the onset of the pandemic, was used to provide free Covid-19 protection and personal accident coverage – a one-time, 45-day insurance product to protect the insured against death from Covid-19 or accident. It was the first insurer in the country to offer extra protection against Covid-19.

Malaysia: Prudential was the first insurer in Malaysia to introduce Covid-19 coverage for our customers and this was subsequently extended to non-customers at no additional cost. In the initial stages of the pandemic, we launched public service announcements and content on Pulse and various media channels to educate the public about the virus and how to stay safe. We also supported the Ministry of Health's efforts to conduct more Covid-19 tests by reimbursing our customers for taking the test. Customers facing financial difficulties were able to apply to our premium deferment relief programme.

2. Strategic Pillar: Stewarding the human impacts of climate change

We recognise that climate change presents a serious global challenge, with significant potential economic consequences and direct and indirect impacts on people's health and livelihoods, and we are proactive in enabling the transition to a low-carbon economy. We do this by decarbonising our investment portfolio and working towards sustainable development and energy transition in all our markets. Reflecting the stage of their development, the economies in which we operate tend have a greater reliance on fossil fuels and more exposure to carbon intensive industries than in more developed markets. For example, for the five largest South-east Asian economies of Indonesia, Thailand, Malaysia, the Philippines and Vietnam (plus China) an average of 36.2 per cent of GDP was derived from mining, manufacturing and other industrial activities in 2018. This compared to 18.6 per cent and 17.5 per cent for the US and UK respectively in the same year. This means that the energy transition across the region is likely to proceed at a different pace than for more advanced economies. Recognising this, as we support the move to a lower-carbon economy in these emerging markets, we strive to ensure that the transition is an inclusive one for all of society – one that supports sustainable growth and economic health within our local markets and communities.

Decarbonising our investment portfolio

Our strategic focus on stewarding the human impacts of climate change through decarbonisation of our investment portfolio over time recognises that climate change presents long-term risks to the sustainability of our business. It also acknowledges that, as a responsible corporate citizen, Prudential needs to play its part in the transition to a lower carbon global economy and the collective efforts to limit the rise in global warming that can lead to catastrophic climate change. As a significant investor and an asset owner with long-term investment horizons and liabilities, the Group is vulnerable to climate-related transition risks, and in a position to invest in, and develop, products linked to climate resilience. Our approach to reducing the carbon footprint of our investment portfolio is one which supports sustainable growth and takes into consideration the impact on the economies, businesses and customers in the markets in which we operate and invest.

Approach to climate-related risk

Prudential is a signatory to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Our approach to climate change and climate-related risk is covered below. To show how we are meeting TCFD requirements, we have mapped our disclosures to each of its pillars. This is shown in a table at the end of this section of the report.

Initially categorised as emerging risks, the ESG risks associated with our business, which include climate risk, have more recently been upgraded to Group Principal Risk status. Recently, we have engaged a dedicated climate risk consultancy to further refine our understanding of the nature and materiality of the risks posed by climate change to the business.

The table below lists the key climate risks facing Prudential. The sections that follow provide further detail on the activities undertaken to assess, manage and mitigate these risks.

Risk category	Description	Response
Assets	The Group has financial exposure to assets in carbon-intensive and carbon-reliant sectors that may fail to adapt, innovate or pivot to a lower-carbon business model. These assets are at risk of taxation, regulation and/or reduced demand, leading to impairments or downgrades and/or stranding. Physical climate impacts can also lower the value of assets held.	— Development of metrics to measure the potential financial impacts from climate-related transition risk in the asset book. — Use of scenario analysis to model the exposure assuming different pathways and different temperature scenario.
Insurance	Given the complex interactions with other environmental, demographic and social changes, the impact of climate change on mortality and/or morbidity can be difficult to reliably estimate on a standalone basis.	— Qualitative assessment of the potential impacts from climate risk on our insurance liabilities.
Data and model limitations	Methods for assessing and quantifying the financial impact of climate risks continue to evolve in the industry and also within the Group. The limitations in data and asset and liability modelling make it more difficult to accurately assess the financial impact on the Group, particularly for longer-term time horizons.	— Participation in industry groups and collaboration with data and risk modelling providers to help drive improvements in climate data quality and risk modelling tools.
Regulatory and legislative compliance	The pace and volume of new climate-related regulation across all markets could pose compliance and operational challenges that may necessitate multi-jurisdictional coordination.	— Regulatory change teams are in place to assist the business in proactively adapting and complying with regulatory developments. — Constructive engagement with policymakers and NGOs.
Operational resilience	Operational impacts from physical risk events challenge operational resilience, including impacts to third parties and the servicing of our customers.	— Regular updating and testing of elements of disaster-recovery plans and the Critical Incident Procedure process. — The use of scenario analysis using data sources (including IPCC data) to identify additional vulnerabilities to physical risk.

The risks are also influenced by the broader political, economic and societal backdrop in which the Group operates. These factors interact with, and can amplify and shape, the impacts of climate-related risks. Examples of risk factors that could exacerbate climate risks include geopolitical issues, political processes, such as negotiations to curb emissions, or the unfolding Covid-19 pandemic, which is reshaping global economic activity.

Activity throughout 2020
Work to quantify and model the nature of our climate risk exposure has continued throughout 2020, consistent with our strategic focus on climate change risk and in alignment with the TCFD recommendations. The Group Risk and Group Actuarial functions have led efforts to deepen understanding of the exposure to climate-related risks in our asset management and asset owner businesses across the Group. Activity has included the identification of metrics to measure exposure to greenhouse emissions, measuring the carbon footprint of our asset book, the selection of scenarios for stress testing assets, and investment in new tools to support carbon footprinting and scenario analysis.

A key activity has been the use of scenario analysis to model the Group's exposure to climate-related risk, assuming different transition pathways and temperature scenarios (see case study). The modelling has helped to further our understanding of the nature of the climate risk the Group faces. This has reinforced that the main financial risk is to the asset side of the balance sheet. This finding is consistent with our business model: as a major asset owner and manager, we rely on investment returns to meet the longer-term obligations of our liabilities and thus are vulnerable to risks that interrupt or impair those returns. The finding also reinforces the case for the strategic objective to decarbonise the investment portfolio, which is both a way in which Prudential can limit its exposure to potential transition risks, as well as contribute to global efforts to decarbonise the global economy.

The potential impact from climate risk on our insurance liabilities has also been investigated. To better understand the potential impact to our insurance liabilities, a qualitative assessment of the impact of climate-related risk on insurance risk was carried out by Group Actuarial during the year. This established that over the short term, such as over the three years of the current business plan cycle, climate change is not expected to materially increase or decrease claims for our life and health business. Over the longer term, the financial impacts from climate-related risks on our insurance liabilities could be more significant, for example on reserving implications, if there is a step change in long-term morbidity and/or mortality expectations, and medical inflation. However, the overall financial impact will be mitigated by our ability to reprice contracts and develop new products.

Response to climate-related risks
We believe that the new strategic ESG framework and the long-term goals to decarbonise the investment portfolio and support an inclusive transition are an important way in which we can meet to meet stakeholder expectations and fulfil our fiduciary obligations. It will reduce the Group's exposure to asset risk – which includes transition risk – over time, while also contributing to efforts to decarbonise the global economy.

Recognising that transition risk represents the nearest-term and most impactful financial risk to the Group, the Group Risk function undertook an initial transition risk analysis on insurance assets managed in segregated portfolios by the Group's asset managers.

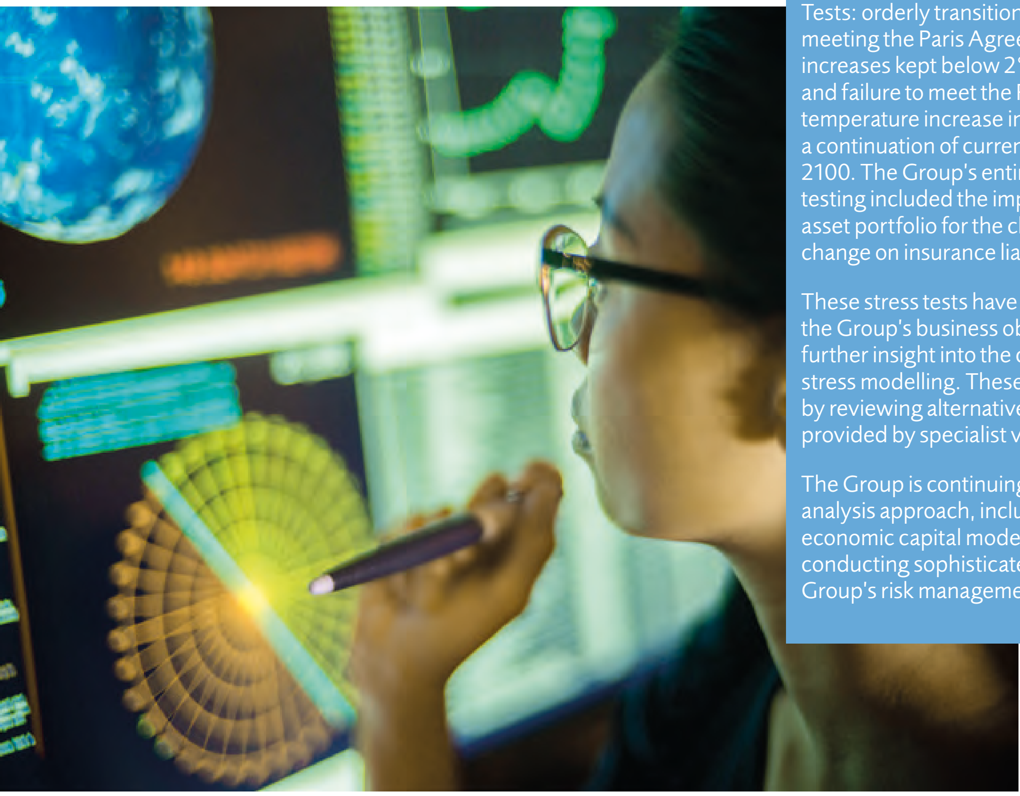
Case study

Modelling climate change risk: The role of scenario testing

During 2020, the Group undertook a stress testing exercise based on the three scenarios laid out within the PRA Insurance Stress Tests: orderly transition (temperature increases kept below 2°C, meeting the Paris Agreement); disorderly transition (temperature increases kept below 2°C but with delayed and sudden policies); and failure to meet the Paris Agreement (specifically, reaching a temperature increase in excess of 4°C assuming no transition and a continuation of current policy trends), with a time horizon up to 2100. The Group's entire asset portfolio was included, and the testing included the impact of physical and transition risk on the asset portfolio for the chosen scenarios. The impacts of climate change on insurance liabilities was also investigated.

These stress tests have informed discussions on how to assess the Group's business objectives and strategy and have provided further insight into the capabilities and data required for future stress modelling. These analyses have also been complemented by reviewing alternative scenario testing methodologies using tools provided by specialist vendors or open solutions.

The Group is continuing to explore and develop its scenario analysis approach, including investigating the use of the Group's economic capital model, and ultimately formalise the process for conducting sophisticated climate scenario analysis as part of the Group's risk management frameworks.



This focused on investments where Prudential both maintains direct control of the mandate and exerts some influence over the investment process. Provisional reports were produced using climate-related data and metrics provided through a proprietary vendor tool. This facilitates a breakdown of the contributions of different sectors to the overall carbon footprint metrics of the asset book and highlights the most carbon-intensive sectors, including those most at risk of being stranded. It also enables the most carbon-intensive companies held in the asset book – and thus the largest issuer contributors to the overall metrics – to be determined and monitored. We have also determined the initial weighted average carbon intensity (WACI) of the listed equity and corporate bond asset classes of our insurance investment portfolio.

Building on this work, we are continuing to develop metrics that are appropriate for our business, to support an enhanced management and reporting process for climate risk. As well as WACI, other potential metrics under consideration include the percentage of the portfolio in carbon-intensive sectors, stranded asset exposure as a percentage of assets under management, and portfolio exposure to clean technology solutions. These metrics were considered at a Board Risk Committee workshop held to discuss the potential business impacts of transition and physical climate risks. Work to enhance the management and reporting of climate risk will continue in collaboration with our asset management and asset owner business units, with the aim of integrating climate risk metrics and monitoring into broader investment processes and aligning with the responsible investment framework.

We also continue to develop our scenario testing capabilities and have engaged with a climate risk consultancy to perform a focused exercise using their scenario modelling capability. Investigating different methodologies supports the Group's ability to determine climate scenarios appropriate to its nature, scale and complexity. The potential impacts of different scenarios on the balance sheet were discussed in 2020 with the Technical Actuarial Committee (TAC), which sets the methodology for the economic capital model. To date, the impacts have been indirectly incorporated into the economic capital model via the market risk calibrations. No additional adjustment is considered necessary at this time and this will be kept under regular review.

Our existing business continuity management programmes are assessing the risk of natural disasters, including those caused by significantly altered climatic conditions, such as increased frequency and severity of tropical storms or increased flooding. The Group remains focused on its operational resilience and is supplementing existing activities with scenario analysis to identify additional areas of vulnerability that may arise due to climate change, including assets, operations, third party supply chains and customers. Group Risk has trialled a number of dedicated risk management platforms and has shared the outputs with local business continuity teams to help inform assessment and management of physical risks to operations in territories for which they are responsible.

Transparency and engagement

As well as the work to enhance internal management and reporting of climate-related information, we participate in external benchmarks to provide additional visibility to stakeholders on our climate-related activity. We aim continually to improve the transparency and utility of our reporting.

In 2020, we continued to participate in CDP (formerly the Carbon Disclosure Project) and maintained our score with a B grading (2019: B). We continue to participate in ClimateWise and received an improved score of 68 per cent (2019: 51 per cent), which we believe reflects the progress we have made over the year in our management and reporting of climate issues.

To help address industry issues, such as the limitation of climate-related disclosures and evolution of data availability and climate risk modelling for financial market participants, we participate in industry bodies that can help drive improvements in risk management processes and lobby for improved standards.

We also seek to collaborate with peers and other investors to amplify the impacts of our activity in this area. These activities are described in more detail in the Responsible Investment section on page 101.

As noted in the list of material risks, the pace and volume of regulatory and legislative compliance developments poses a challenge to the Group. As part of our ongoing government relations activity, we regularly engage with regulators and monitor evolving climate risk-related initiatives that could develop into new regulation in the markets in which we operate. In a similar manner, we also engage constructively with policymakers and NGOs to shape the evolution of regulation and standards relating to climate risk. For example, during 2020 Prudential Hong Kong joined an industry-wide task force established by the Hong Kong Insurance Authority and Hong Kong Federation of Insurers to work on several areas within 'green insurance'. More information on our engagement and regulatory interactions, including those related to climate risks and opportunities, can be found in the Responsible Investment section on page 101.

Supporting an inclusive transition

Our Asian markets include highly developed economies such as Hong Kong and Singapore that have diversified, service-led economies and mature financial markets, and emerging markets that are more dependent on primary and energy-intensive industries. These emerging markets have a greater reliance on fossil fuels in their generation mix, and less developed financial systems.

This means that the energy transition across the region is likely to proceed at a slower pace than for advanced economies as reflected in the countries' Nationally Determined Contributions, as required by the Paris Agreement. This point was highlighted by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore (MAS). Speaking at a Financial Times Investing for Good Asia Digital Conference on 13 October 2020, Mr Menon noted that 'Asia is at a different stage of development, with millions of people still lacking access to electricity, modern sanitation, and drinking water. While demand for affordable energy will continue to grow strongly, most Asian economies are still heavily dependent on fossil fuels for their energy needs and it is unrealistic to suddenly replace fossil fuels with renewable energy.'

For Prudential, this means that, while we are committed to an objective to decarbonise our investment portfolio, we are mindful of the need to implement the strategy in a way that acknowledges the nature of the markets in which we operate and seeks to share the financial and social burden of the transition in a fair manner. Our support for an inclusive transition aims to balance our responsibilities and obligations to all our stakeholders.

We recognise the importance of coalition building in delivering an inclusive transition. As a member of the Sustainable Development Investment Partnership (SDIP), coordinated by the World Economic Forum with support from the OECD, we work with public and private sector institutions in emerging markets, particularly in South-east Asia, to scale domestic and international investment in sustainable infrastructure and promote energy transition. The SDIP's ASEAN Hub, whose Steering Group Prudential has co-chaired since 2017, launched a Sustainable Investment Innovation Roundtable in 2020, a monthly forum to catalyse new ideas for scaling up investments to further the SDGs.

Capturing opportunities

We also recognise that the implementation of our strategic ESG framework can generate opportunities for the Group. Some of these opportunities will come through our efforts to take early mitigating action against the climate risks we identify, including incorporating transition risk into investment decisions to reduce the risk of being exposed to stranded assets.

Others will come through supporting an inclusive transition. The infrastructure and capital expenditure required to enable the transition represents attractive investment opportunities in many cases. For example, there is a role for institutions to both develop new products and invest in structures and mechanisms that enable a managed withdrawal from reliance on coal-powered electricity within developing economies.

In response to this, we have developed several responsible investment products that channel our customers' savings towards ESG-themed investments, such as the Asia Sustainable Bond Fund recently launched by Eastspring. More information on our ESG-related investment activity is available in the Responsible Investment section on page 101.

Climate change is also likely to drive demand for new health products, given the linkage of climate change to human health through changes in the incidence of diseases and the emergence of new diseases. We have launched a dengue alert service to customers in some Asian markets through our Pulse super-app. The decision to offer the application reflects the increasing incidence of dengue fever in the region, driven by warmer temperatures and higher humidity. This alert service is complemented by the provision of affordable insurance plans for the markets in which dengue is prevalent – see Inclusive offerings within Making health and financial security accessible for more information.

Case study

Helping Asia exit from coal: The Energy Transition Mechanism

Writing for the World Economic Forum as part of the Great Reset series in May 2020, Don Kanak, then chairman of Eastspring, outlined a proposal for a 'Coal Retirement Mechanism', which would accelerate the transition to renewables in developing countries where coal use is high and poised to grow – see www.weforum.org/agenda/2020/05/how-to-replace-coal-and-accelerate-the-energy-transition-in-developing-countries/. An investment fund would be established in collaboration with national authorities consistent with climate commitments to purchase and retire coal fired power plants over 10 to 15 years, cutting short their expected lifetimes of 30 to 40 years or more. Investors in the fund would include developed country governments and multilateral banks with access to low-cost capital. The proposal is an example of how we are seeking to support the markets and communities in which we operate to manage the challenge of the energy transition.

Since then, the proposal has been updated and renamed as the Energy Transition Mechanism (ETM) and was published on the World Economic Forum as part of the 2021 Davos Agenda series. The ETM would accelerate the retirement of carbon-intensive power assets, dramatically expand demand for renewables, and provide time and resources for a just transition. www.weforum.org/agenda/2021/01/how-to-accelerate-the-energy-transition-in-developing-economies. □

Next steps

Over the next three years, we will work to strengthen management of climate risk across the Group. We will approach this as a Group-wide cross-functional initiative, with participation from our asset owner and asset manager businesses, risk, actuarial, and government relations colleagues.

Scenario analysis will be an important area of focus as we plan to move it into our mainstream risk management processes during 2021 and to begin internally reporting findings within Group and business unit level management information. As we further investigate how climate risk impacts our business in the long term, we aim to operationalise and to continue to increase the use of scenario testing. We plan to voluntarily run scenario tests emerging from regulators, such as the Bank of England's exploratory climate risk scenario for banks and insurers in 2021.

We are aware that many companies have set targets in alignment with the Paris Agreement. We are in the process of assessing similar suitable targets in respect of the carbon emissions from our investments, given their importance within our overall emissions profile, and our overarching strategic commitment to decarbonising our investment portfolio.

In the interim, we continue to increase our level of ambition in relation to our own emissions footprint. This year we have set new and stretching targets for our Scope 1 and Scope 2 greenhouse gas emissions, with the aim of becoming net carbon neutral across these two scopes by the end of 2030. More information on the environmental impact of our direct operations is available on page 114.

During 2021 we will continue to scale up our engagement strategy with key policy and political stakeholders around the COP26 conference in November with a focus on financial sector issues to support the just transition and sustainable finance priorities in particular for emerging markets.

TCFD: Disclosure Alignment

Pillar	Recommended disclosure	Response reference	Additional comments
Governance Disclose the organisation's governance around climate-related risks and opportunities.	a) Describe the Board's oversight of climate-related risks and opportunities.	Oversight of ESG (page 74); Response to climate-related risks (page 88)	***Board oversight of climate change risk significantly strengthened:*** — In 2020 ESG was overseen by the Board through the Group Nomination & Governance Committee. — In early 2021, the Board established a Responsibility & Sustainability Working Group until May 2022 in order to ensure an appropriate level of Board engagement in, and oversight of, ESG matters (including climate change). — Board Risk Committee workshop held to evaluate the climate change risks facing the Group, discuss transition and physical risk concepts and review potential Key Risk Indicators (KRI).
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	Oversight of ESG; Governance (within the Responsible Investment section) (page 101)	***Management oversight enhanced:*** — Group ESG Committee established to oversee ESG (including climate-related risks), chaired by the Group Chief Financial Officer and Chief Operating Officer, supported by senior functional leaders and representatives from the Group's business units. — Work is under way to bring climate risk into the scope of other relevant governance structures, such as the Group Responsible Investment Advisory Committee (GRIAC) that provides overall review and recommendations for policies on responsible investment activities including climate related investment strategies. — The Technical Actuarial Committee (TAC) is responsible for setting the methodology for Prudential's assets, liabilities and capital requirements, which includes the consideration of climate change.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Approach to climate-related risks (page 87); Capturing opportunities (page 90)	***Risk identification work completed:*** — The risk identification and scenario process has identified six major risk categories. ***Opportunities identified to support climate change mitigation and adaptation:*** — The Pulse digital health platform supports the surveillance and diagnosis of diseases that are becoming more prevalent due to climate change. — Investment products include the Asia Sustainable Bond Fund launched by Eastspring
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Our ESG strategy (page 71); Response to climate-related risks (page 88); Supporting an inclusive transition (page 89); Next steps (page 90)	***New ESG Strategic Framework being rolled out:*** — A new framework includes stewarding human impacts of climate change as a key pillar via decarbonising the investment portfolio and pursuing an inclusive transition. The strategy will drive and shape the Group's overall response to climate change in future years. ***Capacity building efforts continuing:*** — This includes membership of climate risk bodies, such as Climate Action 100+, and investor initiatives (eg, the PRI in an asset manager capacity).
	c) Describe the potential impact of different scenarios, including a 2°C scenario, on the organisation's businesses, strategy, and financial planning.	Next steps (page 90); Capturing opportunities (page 90)	***Adoption of further targets under review:*** — Process underway to assess suitable targets in respect of the carbon emissions from our investment portfolio. — Potential to explore further environmental/climate risk opportunities (such as the development of investment, insurance and digital products to support climate risk).

Pillar	Recommended disclosure	Response reference	Additional comments
Risk management Disclose how the organisation identifies, assesses and manages climate-related risks.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	Approach to climate-related risks (page 87)	***Material climate change risks facing the Group have been identified and assessed:*** — Relevant climate risks identified through the emerging risk, Group Principal Risk and Risk Identification processes. — This output has been supplemented with an in-house analysis of transition risk across specimen insurance portfolios and a materiality assessment undertaken in collaboration with an external consultant. — Initial stress test of the Group balance sheet carried out to establish the broad quantum of financial exposure to transition and physical and liability risk. ***Policy surveillance and engagement/Peer benchmarking:*** — Regular monitoring of regulatory and policy initiatives globally has been initiated.
	b) Describe the organisation's processes for managing climate-related risks.	Response to climate-related risks (page 88); Next steps (page 90); Responsible Investment (Engagement) (page 103)	***Climate-related risk is integrated into risk management considerations:*** — Developing metrics appropriate for the business, to support an enhanced management and reporting process of climate risk (eg WACI). — Analysis of the impact of climate change on capital modelling has been undertaken by Group Actuarial and submitted for consideration by TAC. — Regulatory change teams proactively adapting and complying with regulatory developments. — Operational resilience relating to climate risks captured by the Group Business Continuity Management programme. — Active engagement with carbon intensive companies (including through industry collaborations).
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Response to climate-related risks (page 88); Next steps (page 90)	***Further work to integrate climate-related risks in risk management processes under way:*** — Climate risk treated as a cross-cutting risk that has significant interdependencies with, and impacts on, other risk types. — Engagement with insurance industry forums and data providers to remain apprised of developments in this area.
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Response to climate-related risks (page 88); Next steps (page 90)	***Identification of potential metrics for measuring and reporting climate risk exposures completed:*** — 'Proof of concept' identified a set of potential metrics that could be used to assess and manage climate risk, including Weighted Average Carbon Intensity (WACI). ***Work underway to report additional climate-related metrics:*** — Appropriate metrics under consideration for each major asset class.
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Environment (within Good governance and responsible business practices) (page 114)	***Disclosures provided:*** — Scope 1 and 2 emissions (market basis) declined by 13.4 per cent to 48,840 tCO_2e. — Intention to review our Scope 3 reporting boundaries and broaden these over time.
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Next steps (page 90)	***New environmental targets set:*** — Target includes an aim to be carbon-neutral across Scope 1 and Scope 2 emissions (on a full-time employee basis) by the end of 2030. — Process under way to assess suitable targets in respect of the carbon emissions from our investment portfolio.

B D E

3. Strategic Pillar: Building social capital

We are committed to building both our own human capital and our social capital with our broader stakeholders. We do this by promoting diversity in representation and thought, and fostering a culture of inclusion and a sense of belonging within our organisation. As an organisation, we depend not only on the trust of our people, but also the trust of the external world. As we develop our digital capabilities, we prioritise digital responsibility throughout our organisation. Our focus on the needs and interests of our users is central to our investment in new technologies, shaping how we interact with them and handle their personal data as our capabilities progress.

Diversity, inclusion and belonging

We are committed to building our human capital, seeking to empower our people and unlock their potential. We do this by striving for diversity in representation and thought, and fostering a culture of inclusion and belonging within our organisation. During 2020, we launched a new inclusive purpose statement: We help people get the most out of life.

Diversity and inclusion strategy

In 2020, we established a Global Diversity & Inclusion (D&I) Council, co-chaired by our Group Chief Financial Officer and Chief Operating Officer and Group HR Director, with representation from colleagues across the Group. The Council replaces regional advisory committees and groups. During 2020, we also appointed our first Group Diversity & Inclusion Director to help support our ambition in this area. The D&I Council is responsible for defining our global D&I strategy and supporting programmes, promoting and championing D&I initiatives in respective business units and challenging the organisation when progress is limited. The Council reports to the Nomination & Governance Committee twice a year.

Case study

Defining inclusive leadership behaviours

During 2020, as part of its commitment to establish inclusive leadership at all levels, the Global D&I Council held a workshop with representatives from across our businesses in order to define our inclusive leadership behaviours. The workshop concluded with a panel session with external speakers, entitled, 'Leaders make change happen'. Our inclusive leadership behaviours are to:

- Nurture inclusion – seek out and embrace diverse perspectives;
- Cultivate transparency – provide visibility and display authenticity and vulnerability;
- Actively sponsor – recognise, develop and support talent;
- Drive accountability – take personal responsibility for behaviours and outcomes; and
- Demonstrate care – demonstrate genuine care and interest in others.

These behaviours have been embedded into our leadership development frameworks and senior leadership recruitment processes, as well as into our new values. During 2021 we will continue to reinforce inclusive leadership and behaviours in development and training interventions to help our leaders and people to understand and embed the behaviours we wish to promote. We will also focus on embedding inclusive leadership traits into performance management objectives to reward the behaviours that strengthen belonging and enhance inclusion. Inclusive leadership behaviours will also form a part of our assessment of candidates during the recruitment process.

Our previous Group-wide D&I focus placed emphasis on attributes of diversity such as gender, ethnicity, nationality and experience. During 2020, the Group has also focused on inclusion, which represents the extent to which employees feel valued, respected, encouraged to fully participate, and able to be their authentic selves.

The Council has established a global D&I Charter with the goal to empower employees and create a sense of belonging by respecting and appreciating differences. The Charter is aligned to our purpose and states that the Council will deliver our purpose by creating a culture in which diversity is celebrated and inclusion assured, for our colleagues, customers and partners.

The Charter makes the following commitments:

- D&I approach to be clear and public;
- Establish inclusive leadership at all levels, role modelled from the top;
- Illustrate how inclusive leadership drives innovation and supports greater connectivity;
- Inclusion to be integral in the Prudential values which guide behaviours;
- Reshape our recruitment, reward and recognition programmes to eliminate bias;
- Engage suppliers and corporate partners committed to inclusive practices; and
- Product offerings which address the diversity of our customer needs.

The D&I Charter also outlines our Group D&I Policy, which aims to actively promote employee diversity and provide equal opportunities to all who apply for and those who perform work within our organisation, including our Directors. The policy applies to all of our business units and promotes diversity irrespective of sex, race, age, ethnic origin, social and cultural background, marital or civil partnership status, pregnancy, maternity and paternity, any gender reassignment, religion or belief, sexual orientation, disability, or part-time/fixed-term working arrangements. The policy also promotes diversity of experience, skill sets and professional backgrounds and is reviewed annually by our Group HR Director. We give full and fair consideration to applications for employment made by disabled persons and make appropriate arrangements for continuing the employment of, and arranging training for, employees who have become disabled. We seek to promote the training, career development and progression of disabled persons, making appropriate adaptations where required. Chief Human Resource Officers across our business units are responsible for the implementation, monitoring and review of the policy locally and, as part of the management of the Group Governance Manual, each business unit confirms to Group HR that it has complied with all of our HR policies, including the D&I Policy.

In line with our new D&I Charter, a number of initiatives have taken place during 2020 to improve inclusivity at Prudential. We have conducted a review of recruitment processes, with a new Group Recruitment Policy embedding D&I measures to be introduced in 2021. We are working to mitigate bias in recruitment practices by reviewing the language used in job descriptions and by using more objective selection tools. During 2020, Jackson doubled the period of paid parental leave available to all new parents and quadrupled the benefit to cover adoption expenses. Parental leave arrangements in Asia were also reviewed, with changes including an increase in the period of paid leave by a third and the introduction of paid leave when an employee becomes a parent through adoption or surrogacy. Our HR function has formed a working group with our Risk function to more visibly encourage 'speaking up' and to find constructive ways to call out non-inclusive behaviour. This complements our new Consensual Relationship Policy and Discrimination and Harassment Policy, both of which apply from January 2021. These policies reflect our continuing commitment to a professional and supportive working environment, where everybody is treated fairly, has equal opportunities, and is respected and valued for their contributions to our Company.

D&I performance

As a signatory to the HM Treasury Women in Finance Charter since 2016, we have a target of 30 per cent women in senior management by the end of 2021. At 31 December 2020 this figure was 32 per cent. The Hampton-Alexander Review set recommendations in 2016 for FTSE 350 companies to achieve a minimum 33 per cent target for women on boards and in the two layers of leadership below the board by the end of 2020. At the end of 2020, 29 per cent of our Board was made up of women.

While we did not meet recommendations of the Hampton-Alexander Review as at 31 December 2020, Shriti Vadera replaced Paul Manduca as Chair on 1 January 2021 and Chua Sock Koong and Ming Lu will be joining the Board in May 2021. With these changes, following the retirement of Kai Nargolwala at the AGM, the representation of women on the Board will increase to 36 per cent. We have met the recommendation of the Parker Review to have at least one director from an ethnic group background on the Board. While our diversity figures have improved year-on-year, we recognise that we have more to do in this area. As such, during 2021 we will establish new diversity targets and our local business units will define their own targets and plans to meet these objectives.

During 2020 we again submitted responses to the ShareAction Workforce Disclosure Initiative and the Bloomberg Gender Equality Index, being listed on the 2021 index for the first time.

Prudential headcount as at 31 December 2020

Gender diversity: senior management

Male	Year	Female
68%	2020	32%
72%	2019	28%
71%	2018	29%
75%	2017	25%
83%	2012	17%

Gender diversity: all employees

Headcount	Total	Male	Female	Non-binary	Undisclosed[5]	Unspecified[4]
Chair[1] and Independent Non-executive Directors	11	7	4	0	0	0
Executive Directors	3	3	0	0	0	0
Group Executive Committee (GEC) Includes Executive Directors	7	6	1	0	0	0
Senior Managers[2] Excludes the Chair[1], all Directors and GEC members	114	77	37	0	0	0
Whole Company[3] Full Time Equivalent Includes Chair[1], all Directors, GEC members, Senior Managers	18,687	8,182	10,326	5	28	146

Notes
1 Chair has since been replaced with a female starting 1 January 2021.
2 The definition of Senior Managers in 2020 has changed and the number of Senior Managers has doubled compared to 2019 after the recategorisation. The 2020 Senior Managers definition includes the local business unit CEOs, Chief Officers and other business critical staff.
3 Excludes Prudential Corporation Asia Joint Ventures.
4 No specification or information is captured on gender for an immaterial number of our employees. These employees are recorded as 'unspecified'.
5 In some of our businesses, we provide our employees with the option to not disclose their gender. For these employees, gender is recorded as 'undisclosed'.

Due to Covid-19, activities of the affinity networks at Prudential in 2020 were limited, although some key events did take place. Across various locations, Prudential Corporation Asia's PruPride network once again hosted a Pink Day in October, with active participation in Hong Kong, Vietnam, Taiwan, Cambodia and Thailand. A women's network event with a virtual panel session in September, attended by 185 colleagues on the topic 'Leaders make change happen', was hosted by Group Human Resources Director Jolene Chen and Non-executive Director Alice Schroeder. Our new Board Chair, Shriti Vadera, hosted an in-person networking event in November with Eastspring colleagues in Singapore. Jackson's business resource and affinity groups (BRAGs), each supported by one or more executive sponsors, continued their activities through the year: Pride (LGBT+); VIBE (Vision in Black Excellence); Jackson Young Professionals; Empower (women's network); Enable (for disabled people); and Associates-in-motion (for pre-retirees). A focus for 2021 is to enhance our governance procedures and structures for affinity networks to support them through a global engagement programme to enhance employee engagement globally, regionally and locally.

Racial justice – Jackson's response to the killing of George Floyd
In the aftermath of the killing of George Floyd in late May, the US experienced protests that raised awareness and heightened discussion of issues related to racial bias, structural racism and social justice. The ramifications of these events have broadly impacted society, including the business community and Jackson directly. Jackson's leadership has actively engaged with associates on these issues and continues to engage on this issue.

In the week following the killing of George Floyd, Jackson's D&I Advisory Council held meetings with the Visions in Black Excellence (VIBE) affinity group and senior leaders to discuss the impact on associates and Jackson's response. Jackson-wide communications from Jackson's CEO reinforced the message of 'One Jackson' and encouraged associates to support each other. Jackson hosted a series of all-associate panels and training opportunities, including a 'Listening to our Peers' panel to hear associates' experiences with racism. Jackson and VIBE also held a celebration for Juneteenth and the PRIDE affinity network hosted a discussion with Liliana Reyes, a Latinx, transgender woman and civil rights activist.

Jackson also introduced two training courses that were mandatory for all associates. The first addressed the stereotype threat that exists when actions, conscious or not, contribute to persistent racial segregation. The second addressed the impact of affinity biases that influence workplace choices, based on perceived similarities and differences.

Jackson also made charitable contributions of $250,000 to NAACP Lansing Chapter, $100,000 to Urban League of Middle Tennessee, and $100,000 to Facing History and Ourselves in Chicago. This investment signals Jackson's commitment to local philanthropy, which presents an opportunity to further engage Jackson's affinity groups as partners in equitable community involvement.

Employee engagement
Engagement with our people is a key priority for Prudential and the Board. Two of our Non-executive Directors, Kai Nargolwala for Asia and Africa and Tom Watjen for the US and the UK, were appointed to represent the interests of our people, a duty which they discharged through a range of interactions with staff during 2020. While the Covid-19 pandemic limited opportunities for our Non-executive Directors to interact with our people, a number of face-to-face meetings in small groups took place. Non-executive Director engagement was supplemented with virtual events and our Non-executive Directors also met colleagues through an array of remote events, including the Asia Virtual Regional Conference, staff town halls and meetings of the Jackson Diversity & Inclusion Council and the Global D&I Council.

Case study

Collaboration Jam

Our global employee survey highlighted employee communication and collaboration as an area for improvement. To further engage our people in defining our values as well as to signal our intent to foster open, honest and two-way dialogue across the Company, we hosted a Collaboration Jam in September 2020. A three-day inclusive online conversation, the Collaboration Jam provided a platform for colleagues to connect and co-create solutions for the issues that matter most to employees. More than 5,400 colleagues participated, resulting in nearly 30,000 comments and posts. The most popular discussion threads were 'Open Conversations', 'Listening to Others' and 'Change and Agility'. Building on this activity and the progress made to date, we will commence a three-year journey to embed the desired culture and position Prudential as a place where people can connect, grow and succeed. □

Following Kai Nargolwala's retirement as a Non-executive Director at the conclusion of the 2021 Annual General Meeting and the planned separation of the Jackson business, the Board intends to transfer responsibility for workforce engagement activities to its newly established Responsibility & Sustainability Working Group, which is expected to operate until the 2022 Annual General Meeting. As part of this, it will also consider the best method for employee engagement in the longer term, to ensure this is tailored to the culture and strategic priorities of the refocused Group following the planned separation of the Jackson business, and make a recommendation to the Board for implementation following the 2022 Annual General Meeting.

Global employee survey

We are committed to building a culture that is purpose-led, customer-focused, and digitally-savvy. In May 2020, we conducted an engagement survey to establish a baseline of cultural health and validate our proposed purpose and values in a bottom-up manner.

The survey was conducted using an industry-leading employee engagement platform that provides a range of surveys and broad global benchmarks across industries. More than 11,400 employees from Asia, Africa and the UK participated in the survey, producing a 95 per cent response rate. In the US, Jackson carries out its own employee survey and was therefore not included in this survey.

The engagement survey covered topics including leadership, communication, innovation, career and work-life balance. The survey design was based on academic research and good practice among organisational psychologists. The survey found that 85 per cent of colleagues are proud to work for Prudential. Areas for improvement include communication, collaboration, feedback and work-life balance.

Following the survey, briefings were conducted for the Group Executive Committee as well as the two Non-executive Directors responsible for workforce engagement. The Board received an update on the survey results in July 2020 and summary briefings were provided to stakeholder groups across the Company. Each local business unit has now undertaken detailed action planning in response to its results. Group-wide actions include the launch of a science-based mental health and wellbeing app, the Collaboration Jam (see case study) and the strengthening of Speak Out, our Group-wide whistleblowing programme.

Another global employee survey was undertaken in January 2021 to help assess the effectiveness of actions taken during the year and to highlight our focus areas for 2021. We have made notable progress in many areas, including learning, feedback and recognition, and diversity and inclusion. Collaboration and communication was our most improved factor, up by 7 percentage points.

Leadership and talent development

To ensure appropriately targeted leadership and talent development initiatives, we define various leadership and talent segments across our Group. Our senior leaders continue to play a critical role in driving strategic initiatives, which advance the Group's strategy and culture across our markets, business units and functions. To future-proof our success in an increasingly digital environment, we have redefined the leadership capabilities that we need to drive the business, focusing on inspiring followership when teams work both remotely and from an office; fostering innovation by enabling disruption while ensuring psychological safety; delivering at pace and scale through digital and agile practices; and developing sustainable commercial strategies to deliver aggressive business growth with social responsibility.

Within the leadership community, we focus on the Executive Council and the Senior Management Teams (SMTs). The Executive Council is a small group of individuals holding pivotal Group roles and with key capabilities for our future success. During 2020, we held virtual workshops with this group on positive resilience, creating psychological safety and sustaining team engagement in a remote setting. For the SMTs, we held culture workshops to mobilise teams around our shared purpose and to deepen trust and collaboration. We also provided a new performance coaching programme for 120 of these leaders to specifically develop their coaching skills for remote settings, to help them better engage and empower their teams.

We have focused on capability building within our key talent pools. We conduct an annual talent review and identify successors for executive and senior leadership roles. To support this, during 2020 we defined critical success profiles for senior leader roles. These were used to design our new Executive Development Centre, which will specifically target the business unit CEO pipeline. The critical success profiles have also been used to adapt our existing assessment centres across our talent pipeline.

For those identified as our most strategic talent pool, typically those who are currently SMT and have potential to grow to larger roles and be successors to our Group Executive Committee roles within five years, we have focused on ensuring they have exposure to Group strategic projects and expanded role responsibilities, and are provided with specific, tailored development interventions, where appropriate.

In January 2021, we launched a three-year Sponsorship Programme matching our most senior leaders to protégés, identified through our talent review process, enabling a more diverse talent pipeline to gain visibility and be considered for stretch opportunities and roles. During 2021, we also plan to provide an experiential culture leadership journey to around 200 of our senior leaders, with the aim of developing the behaviours needed to help build an inclusive culture and to create a space where our values can be actively demonstrated by everyone.

We have also taken steps to deepen our functional talent pipeline and to accelerate the development of potential successors. Actions taken include the creation of a CFO development programme to accelerate identified business unit CFO successors and the provision of role expansion and enrichment opportunities for senior leaders in Group Digital. Jackson has focused on ongoing leadership capability assessments for its identified successors and high-potential population.

Where internal successors are not apparent, we aim to attract and retain the best talent across industries, irrespective of generation, culture or gender. We have further adapted our hiring practices to minimise unintentional systematic bias. Practices such as artificial intelligence-assisted job description/advertisements, use of psychometrics to evaluate fit to purpose and values, criterion-based interview methods with diverse panels, and a diverse candidate slate have all been introduced in key markets with wider roll-out through the introduction of our Recruitment Policy in early 2021.

We have continued to support and encourage mobility in our organisation to facilitate the sharing of knowledge and experience. Notwithstanding challenges from Covid-19, more than 100 people moved between our businesses in 2020. Specifically in our insurance growth markets, where this is a strategic priority, we held a virtual talent expo to introduce each business and its job opportunities.

In 2021, we will focus on continuing to broaden our talent pipeline and on building an environment where talent can most easily access the opportunities that match their aspirations. With increasing digitalisation and the need for digital skillsets and capabilities, we are providing our people with comprehensive training and learning opportunities to help them upskill, cross skill, and even reskill themselves to maximise their potential.

Performance and reward

We structure our reward arrangements to attract, motivate and retain high-calibre people. Our people contribute to the success of the Group and are rewarded accordingly. We recognise and reward high performance and are committed to a fair and transparent system of reward. Among our benefits, we offer employees competitive pension arrangements.

Our UK business, Prudential Services Limited, has recently reported its 2020 UK Gender Pay Gap data and details can be found on the Group's website (www.prudentialplc.com/esg). Three of the four gender pay gap figures have increased in 2020, largely driven by the demerger of M&G plc, which saw a number of women in senior roles transfer to M&G. The pay gap remains volatile year-on-year due to the small number of colleagues employed by Prudential Services Limited, which makes the calculation sensitive to any changes in roles. While female representation in our leadership roles has increased from 25 per cent in 2017 to 33 per cent in 2020 in our London Head Office, the continuing pay gap reflects the fact that we have more men than women in leadership roles.

Remuneration is linked to the delivery of business goals, our values and expected behaviours. We ensure that our rewards for our people do not incentivise inappropriate risk-taking by assessing employees on 'what' they have achieved, and on 'how' they have done so.

Case study

Supporting our people through Covid-19

While the Covid-19 pandemic unfolded at different times and with varying levels of impact across our markets, all parts of the business were devoted to ensuring the physical, emotional and social health and safety of our people, taking into account employee preferences during this time. Almost all employees spent at least part of 2020 working remotely, in line with local restrictions and guidance. Asia has established a mental health strategy, emphasising virtual connections, as well as community engagement as part of our commitment to diversity and inclusion. Jackson and our London office have offered regular sessions on different aspects of wellbeing and stress management. To coincide with World Mental Health day, we held our first global wellbeing day in October. This consisted of a series of online sessions across all time zones, including a session in which our leaders shared their own stories about mental health challenges they have faced. The Board has received regular updates from management on how our people have been supported. Beyond this, it is essential that the Group reacts to the trends in workforce expectations that have been intensified and accelerated by the pandemic, particularly around new and more flexible ways of working. Each business is exploring how we can meet the expectations of existing and future staff about flexibility around schedules and location.

The Jackson High Five Recognition Program enables individuals to recognise their colleagues in areas of creativity, empowerment, execution, impact, investment in relationships and respect. In our London office, Angel Court, the Prudential Stars awards enable individuals to nominate colleagues, recognising examples of exceptional contributions, specifically in the areas of delivering synergy, adding value, fostering innovation, demonstrating stakeholder focus and maintaining risk awareness.

We are committed to paying the London Living Wage to permanent and temporary employees, and to contractors who regularly work at our premises in the UK. We also believe in the importance of giving employees the opportunity to benefit from the Group's success through share ownership, and operate share plans for employees in the UK and Asia. This includes the award-winning PruSharePlus plan, which enables employees in Asia to share in the longer-term success of the business and actively encourages share ownership and engagement. Similar all-employee share plans operate in the UK.

Executive remuneration
The Group's executive remuneration arrangements reward the achievement of Group, business, functional and personal targets, provided that performance is aligned to the Group's risk framework and appetite and that our conduct expectations, as well as those of our regulators and other stakeholders, are met. Extensive information on executive remuneration is provided into the Directors' remuneration report within the Annual Report.

In light of the Covid-19 pandemic, the Executive Directors agreed to voluntarily forgo their 2020 salary increases. On 1 April 2020, Executive Directors' salaries were reduced to their December 2019 level. In May 2020, Executive Directors' pension benefits were reduced from 25 per cent of salary to 13 per cent of salary, aligning Executive Directors with the employer pension contribution available to the UK-based workforce.

As part of the three-year cycle, we presented an updated Directors' Remuneration Policy at the 2020 Annual General Meeting and received the support of 95.8 per cent of shareholders in a binding vote.

In order to strengthen the community of interest between executives and other shareholders, remuneration is linked to sustained performance over the longer term. For example, 40 per cent of Executive Directors' bonus is deferred in shares for three years. Executive Directors are required to meet shareholding guidelines and a two-year holding period applies to long-term incentive awards in addition to the three-year performance period. The 2020 Directors' Remuneration Policy requires departing Executive Directors to retain a substantial interest in the Company's shares for two years after they leave the Board.

To further increase transparency of executive remuneration and its alignment with the pay of other employees, we published our CEO pay ratio one year in advance of the disclosure becoming a requirement under the UK Companies (Miscellaneous Reporting) Regulations 2018 in the 2018 Directors' remuneration report. Further information on our CEO pay ratio is detailed in the Directors' remuneration report within the Annual Report.

Digital responsibility

Digital innovation is central to our aim of helping our customers to be healthier and wealthier. We are ambitious and we act with integrity with regards to digital responsibility. We are resolute in our commitment to fairness, safety and transparency in the design, governance and operation of our digital ecosystem.

Digital responsibility and Pulse
We are committed to providing robust security protection over both our Pulse app and customer data. Using the Monetary Authority of Singapore's regulations as a leading standard, we have developed a master set of security controls, from which the core security features have been integrated into our Pulse app. These include multi-factor authentication as part of the device registration process, mandating minimum mobile device operating systems versions, prevention of jailbroken and rooted devices from using Pulse, and the secure transmission and storage of data.

Our Pulse ecosystem relies on partnerships with a range of third parties. All business partners we engage go through a detailed due diligence process to ensure that they meet our high standards on data security and protection requirements. We conduct information security and privacy impact assessments as part of the third-party management process to ensure that robust security and privacy controls are in place for all of our ecosystem partnership engagements.

To align the range of regulatory expectations and requirements across our businesses relating to customer privacy, we have developed the OnePulse Privacy Framework (OPF) to standardise the implementation of privacy controls. Referencing the General Data Protection Regulation (GDPR) requirements, the OPF outlines the mandatory and configurable controls to be built into our Pulse app, covering data subject rights, customer consent and privacy notices. More information about our approach to privacy is available below.

Data within our digital ecosystem is treated the same as all data in our organisation and is governed by the Group-wide Information Security Policy and Group-wide Privacy Policy. Pulse collects information about users in order to provide relevant services to them, which includes contact details, facial recognition information for log-in and fitness information from the user's wearable devices. Health-related information is collected by our health partners (such as Babylon) directly and Prudential will only receive a user's health information from our health partners with the user's explicit consent. All information collected is transparent to the user through the Privacy Notice provided to them before user registration.

Information security
Information security is rated as a principal risk in our business, demonstrating our continued commitment to securely managing the information our customers entrust to us.

During 2020 we embedded a single Group-wide information security team leveraging skills, experience and resource globally via a 'centres of excellence' model. This new model supported increased collaboration and sharing of skills across the whole Group.

The global model has allowed us to consolidate and rationalise information security technologies and processes across the Group, enabling security services to become more consistent and effective. This is critical to our business as it ensures the appropriate assessment, management and assurance of all third parties with the potential to manage or impact Prudential Group data or systems.

Case study

Response to challenges posed by Covid-19

The Covid-19 pandemic has resulted in a large-scale move to remote working, significantly changing the working culture for staff and agents, as well as the way we engage with customers. In response to these new ways of working, we scaled up secure remote access, including VPN services, in the early stages of the pandemic. Additionally, Prudential has leveraged existing collaboration toolsets and capabilities, which have been integrated with security services to enable more secure and efficient team working.

As part of the change to remote working practices, Prudential undertook a reassessment of all employee laptops to ensure that secure remote working software had been correctly deployed and configured. In addition, the assessment reviewed and ensured that all laptops are protected against known vulnerabilities, and a more stringent approach for remote access has been adopted. During 2020, phishing campaign frequency was increased to monthly. Simulated phishing emails are tailored within regions and the sophistication of the techniques varies to ensure that staff are continually challenged to learn. The results of these campaigns and training completion rates are tracked across the Group to ensure that this remains an area of focus. □

A refreshed Global Information Security Policy came into effect in 2020 and was applied to all Group business units to ensure consistency in processes. The policy is mapped to numerous international and local standards including:

— ISO27002;
— NIST Cyber Security Framework;
— The New York Department of Financial Services Cybersecurity Regulation;
— The Monetary Authority of Singapore Guidelines on Technology Risk Management;
— The Hong Kong Insurance Authority Guideline on Cybersecurity; and
— The Bank Negara Malaysia Risk Management in Technology Standard.

This supports our global approach to security and our commitment to protecting the data entrusted to us by customers across our global footprint. The policy is also supported by a suite of technical standards. Our Security function retains its overarching commitment to protect the business, comply with all applicable laws and regulations, and support the growth of the Group securely.

Oversight and governance of information security
The Group-wide Information Security and Privacy Committee defines and provides governance and the risk management framework for information security risks across the Group. This Committee meets at least quarterly and is a sub-committee of the Group Executive Risk Committee (GERC), chaired by the Group Chief Risk and Compliance Officer.

As a standing member of the GERC, the Group Chief Information Security Officer (CISO) provides regular updates to the GERC and the Group Risk Committee on the cyber threats facing Prudential and the progress of Prudential's security programme. On a half-yearly basis, the Group CISO also holds a dedicated session with the Group Risk Committee to enable a more in-depth discussion on the cyber risk facing Prudential.

Our Group-wide framework for information security
The Group-wide framework for information security rests on four key tenets to defend and protect the Group, our information and our customers' data. These are 1) automation, 2) Global Security Operations Centre, 3) accelerate development of people skills and 4) continuous improvement.

1. Automation
Automation allows us to increase the speed and scale of our defences and reduce the need for human interaction in a number of incident types. This frees our team to focus on more challenging initiatives and on continuously maturing our security and privacy disciplines.

Throughout 2020 we have continued to focus on automating security services to increase effectiveness and consistency and create efficiencies. As part of our approach to continuously integrate and deploy new tools into our Pulse ecosystem, we have introduced automated security testing toolsets. These help to ensure that security is integrated into the development life cycle from the beginning of the process, providing early feedback about any vulnerabilities.

2. Global Security Operations Centre (SOC)
A global SOC is in place to provide 24-hour threat and incident management and provides consistent, appropriate 24-hour support to our global businesses in the case of any suspicious event.

We retain membership of various intelligence-sharing networks, such as the Financial Services Information Sharing and Analysis Centre, and maintain industry relationships to support intelligence-sharing through our network of connections.

The function of the Cyber Threat Intelligence team is to assist our teams and businesses in understanding the cyber threats we face and to focus on providing actionable intelligence. The ultimate goal of the intelligence provided is to guide our decisions to ensure the most relevant and impactful risks for our business are addressed.

3. Accelerate development of people skills
Our staff are critical to protecting the information entrusted to us by our customers. Consequently, information security awareness training is an integral component in ensuring that our information and systems

remain safe. All members of staff, including temporary staff, across all our businesses are mandated to complete this training at least annually. Training is provided locally to support local languages and reflect any local regulatory and legal requirements, and completion is tracked within each business. The artificial intelligence skills of our digital security team are assessed and further development opportunities are provided to them.

We have rolled out a programme across the Group to support information security staff through Certified Information Systems Security Professional (CISSP) training and accreditation. The CISSP is one of the most highly regarded professional accreditations for information security worldwide and covers a broad scope of security domains. The programme began in Jackson and has now been extended across the Group-wide Information Security team, with over 40 members of the full-time security team across the Group holding the CISSP certification.

Throughout the year our Non-executive Directors have access to one-to-one training, often delivered by the Group CISO, on topics including cyber threats and privacy. This ensures that they can not only protect themselves and the information they handle on a daily basis, but also engage in Board-level oversight of information security risks from a more informed and confident position, something we consider to be essential to the oversight of our strategy and risk management.

4. Continuous improvement Given the rapid evolution of threats, the security and privacy disciplines need to be in a state of continuous improvement across the three dimensions of people, process and technology. The model to measure the maturity of our security and privacy programme has been completed, with progress being made on rationalisation and optimisation of technology solutions.

The success of our information security programme is measured from both an internal and external perspective. Externally, benchmarking is conducted regularly to ensure that Prudential's cyber security maturity level is above the industry, and internally we assess the organisation's compliance level against the defined security controls as per our Group Information Security Policy and Group Privacy Policy and relevant standards. Security metrics, which measure the level of robustness of our security controls, are generated on a monthly basis to enable the organisation to respond and adapt to any potential adverse changes in our security position.

Incident response and resilience
While our aim at Prudential is always to prevent incidents wherever possible, we must ensure that we are prepared to respond to any incident in a timely and effective manner. Incident response plans are developed, maintained and tested regularly, and the Group Information Security & Privacy team maintains a close working relationship with the business continuity and disaster recovery teams to ensure alignment of plans and support in the event of an incident. Regular scenario-based testing of these processes serves both to confirm the effectiveness of the plans and provide assurance that staff, including senior executives, are prepared for such an event.

Privacy
In 2020, a key focus was on driving consistency of approach to the management of data privacy issues in order to embed high standards across the Group and ensure compliance with the Group Privacy Policy. This was supported by the roll-out of a global privacy management platform across the Group to assist with management of privacy activities and to automate privacy control assessments where possible. Activities also took place to enhance and embed processes to ensure compliance with regional and local privacy requirements, including the California Consumer Privacy Act, which took effect on 1 January 2020.

Our Group Privacy Office continues to maintain oversight of privacy compliance. The office works with our businesses across Asia, Africa and the US to support and advise on ongoing privacy compliance as well as to provide a point of escalation for resolving data privacy issues. Privacy is integrated within the Group-wide Information Security & Privacy team, which reports to the Group CISO, giving coverage of each region and the different countries in which Prudential operates.

AI ethics and governance
While the use of artificial intelligence (AI) could bring tremendous benefits, we are aware of the potential risks in deploying AI. Our Global AI Council, chaired by the Group Chief Digital Officer, is responsible for oversight of AI tools and their implementation in our business. The Global AI Council meets quarterly and includes a number of working groups, which review all projects incorporating AI and machine learning across our business units before they receive approval.

During 2020, we developed a set of AI Ethics Principles, reviewed by the Global AI Council. The principles were approved by the Group Risk Committee, on behalf of the Board, which retains ultimate responsibility for setting the Group's ethical standards. These principles sit alongside our Group Code of Business Conduct and set out the standards expected of our colleagues responsible for designing, developing and operating complex applications.

The principles are:

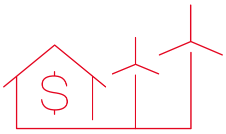
- Effectiveness and value – we design tools with a clearly defined purpose to deliver value for our stakeholders;
- Explainability and transparency – we are transparent that AI tools are used as part of our products and services and explain this simply;
- Bias and fairness – we ensure that AI treats people fairly to avoid bias and unfair discrimination;
- Robustness – we design AI tools that are highly reliable and robust;
- Compliance – we comply and respect relevant regulations, including human rights laws;
- Accountability and responsibility – we accept accountability and responsibility for the outcome of the use of AI tools;
- Privacy and security – we respect user privacy and security; and
- Assurance – we continuously review and monitor our AI deployment and outcomes to ensure that these principles are met.

The Global AI Council is supported by six working groups:

1. Products and pricing – to drive the automation of actuarial work;
2. People – to upskill and certify the AI capabilities of all Prudential employees;
3. Data – to align with Prudential's data governance and management;
4. Technology and platform – to review and approve AI technology and supplier choices;
5. IP – to safeguard Prudential's AI intellectual property; and
6. Ethics – to approve AI prototypes for compliance with Prudential's AI Ethics Principles.

As we invest in AI, big data and other technologies to deliver on our purpose, we are providing everyone in the organisation, regardless of their roles, with opportunities to learn more about these technologies, so that they can participate and contribute to helping our customers. For those who want to advance further, we have created an AI Bootcamp, consisting of a five-level certification process, which covers advanced AI, machine learning, data analytics, as well as AI use in healthcare and finance. An overarching theme of the bootcamp is AI for good and helping families and communities in need.

A D



4. Strategic Enabler: Responsible investment

As a significant allocator of capital in financial markets, our commitment to responsible investment encompasses our role as both asset owner and asset manager. In that capacity, we play a vital role in the transition to a lower carbon economy. We seek to apply ESG considerations more broadly in our investment decisions and our fiduciary and stewardship duties, including ensuring that our investment decisions are aligned with our values around diversity and support our primary focus on healthy lives.

Governance

As with other ESG matters, responsible investment activity is overseen by the Group ESG Committee. More information on the Group ESG Committee is provided in the report introduction.

Operational responsibility for responsible investment activity is delegated to the Group Responsible Investment Advisory Committee (GRIAC). The GRIAC is constituted as a sub-committee of the Group ESG Committee and provides a forum for Group and business units to consider responsible investment approaches. The GRIAC is co-chaired by Prudential Corporation Asia's Chief Investment Officer, Insurance Investment and Co-CIO, Eastspring, respectively senior executives within our main asset owner and asset management businesses. Other permanent members include the CIOs of the major life businesses and the President, CEO and CIO of PPM, as well as representatives from the Group Finance and Group Risk functions.

> "As a significant allocator of capital in financial markets, our commitment to responsible investment encompasses our role as both asset owner and asset manager. In that capacity, we play a vital role in the transition to a lower carbon economy."

Asset owner/asset manager relationship

Historically, Prudential has adopted a principles-based approach to coordinate responsible investment activity across the Group. These principles have been codified into standards, which are set out in the Group Responsible Investment Standards (GRIS) and govern the conduct of responsible investment activity across the Group.

These principles set the tone and parameters under which the Group's asset owner and asset manager businesses develop responsible investment policies appropriate to the markets in which they operate.

During 2021, we will seek further to develop our asset owner Responsible Investment Policy and align expectations across our asset manager mandates, including how ESG considerations will be monitored and measured over time.

Our approach to responsible investment reflects our belief that the quality of corporate governance practices, and how companies manage the environmental and social aspects of their operations, are material to reducing risk and delivering superior financial returns and, ultimately, longer-term shareholder value. It also recognises that responsible investment requires a patient approach and an understanding that changes in corporate behaviour should support shareholder value over time.

Asset owner level

Direction

Apply principles, standards and decision-useful framework to implement Group ESG strategy.

Activity/implementation

Interpret Group ESG strategy with respect to responsible investment principles.

Identify and consider alignment to global standards and frameworks to inform the Group-level approach.

Define how frameworks will apply Group-wide.

Asset manager level

Direction

Apply investor-specific policies and processes to meet requirements of principles-based framework.

Activity/implementation

Asset manager to clearly articulate RI policies and approaches to Group-level approaches.

Asset manager demonstrates process consistency.

Case study

ESG integration case study: Multinational car company challenged to meet new regulations

ESG consideration
During the review of a multinational automotive corporation headquartered in Europe, PPM's research analyst noted concerns about the company's ability to meet European carbon dioxide emission standards, which could lead to meaningful regulatory fines and negative consumer views given the increasingly environmentally conscious consumer. Despite what PPM believed was a solid company balance sheet (strong net industrial cash position and significant gross liquidity), its analyst viewed the company as behind other automotive corporations in its investment in and development of electric vehicles.

PPM analysis
Electric vehicle penetration gained momentum in early 2020 at the onset of Europe's tougher emissions rules. Effective 1 January 2020, the rules imposed more stringent targets for passenger cars and vans – based upon average fleet-wide carbon dioxide emissions (g/km).

PPM's research team discussed the issue in detail during an investment grade review of the automotive industry that assessed the company's positioning among its peers. The research revealed that the company had one of the largest percentage gaps in reducing its year-on-year average fleet-wide carbon dioxide emissions versus its peers and was at the most risk of not meeting standards. While the potential monetary fines were viewed as manageable, the company would be required to undertake significant investment in research and development to catch up with the leaders in the industry, or risk losing meaningful market share.

Outcome
Considering all factors related to the risk and return of the company, the changes to regulations, and the company's progress in developing electric vehicles and increasing its mix to meet emissions standards, PPM downgraded its internal rating. Its analysts will continue to monitor the company's improvements toward emissions goals alongside company fundamentals.

ESG integration
We seek to integrate ESG factors into our investment decisions, alongside traditional financial analysis, to better manage risk and generate sustainable, long-term returns for our customers.

Within Eastspring, the Singapore-based equity team focuses on exploiting opportunities where risk perceptions and expectations have become misaligned. ESG issues are incorporated into the fundamental analysis and decision-making process to the extent that the team believe they could have a material impact on a company's valuation and financial performance. Similarly, for the fixed income team, only ESG issues that are material to the issuer's credit fundamentals and the valuation of the bond are factored into the analysis. For both equity and fixed income, companies are not excluded solely on perceived ESG issues.

This approach to integrate only material ESG factors into investment decision making does not preclude investment in sustainable investment opportunities. For example, in August 2020 Eastspring invested THB 1 billion ($30 million) in the Thai government's inaugural THB 30 billion sustainability bond. The bond carries a 15-year maturity, with proceeds divided between a project to expand the Mass Rail Transit System and to support various expenditures under the government's Covid-19 Rehabilitation Package.

PPM follows a broadly similar approach to Eastspring. ESG factors are incorporated into the investment process where it is believed they may have a material impact on the financial performance of the investment. Investments are not automatically excluded at strategy or fund level on ESG grounds. Rather, the manager works with clients, who will specify exclusion lists unique to their ESG values and requirements.

D

Stewardship and engagement

As custodians of our customers' assets, it is important that we act in ways consistent with our stewardship responsibilities. This means seeking to maximise the long-term capital growth of the assets entrusted to us, while remaining accountable to our customers for our actions and being aware of our duty to uphold their best interests when carrying out investment activities. We aim to meet these requirements in several ways, including:

- Pursuing an active investment policy that aligns engagement activity with the long-term investment thesis to hold the asset in the portfolio;
- Treating shareholder voting rights as a valuable asset and seeking to vote all holdings;
- Developing and adhering to principles of conduct governing our stewardship activities, including the fiduciary relationship with customers; and
- Ensuring that our approach to stewardship is aligned to best practice. Notably, Eastspring is a member of International Corporate Governance Network (ICGN) and its stewardship approach is aligned with the ICGN Global Stewardship Principles and ICGN Global Governance Principles. It is also a member of the Asian Corporate Governance Network, which seeks to promote high standards of corporate governance across the Asia-Pacific region.

Engagement

Engagement is a core part of providing effective stewardship and an important means of generating long-term value. We seek to encourage business and management practices that support sustainable financial performance through constructive interaction, based on our in-depth knowledge of the companies and their business environment.

Our approaches to engagement vary across our asset owner and asset manager businesses, reflecting differences in local investment practices and norms, and consistent with the Group's principles-based framework to coordinate its responsible investment activities. However, within this broad framework, some common principles and practices apply. These include: that engagement is an important way to identify material risks and opportunities to investment; that maintaining a continuing and open dialogue with management is key to building relationships, and thus effective influence; and, that collaboration with other investors (through bodies such as Climate Action 100+ or the Asia Investor Group on Climate Change (AIGCC)) is a helpful way to amplify the effectiveness of our engagement activity on ESG issues. The use of voting rights is also an important means to signal investor preferences to company management and it is the Group's policy to vote on their holdings (see Proxy voting below).

The level of conviction to hold a particular investment can be impacted by the results of engagement. Where conviction levels fall below an appropriate level, the position may be divested. This was the case, for example, with a recent engagement by Eastspring with a company providing education services. During our engagements, the company did respond with some improvement to their initial proposed corporate governance. However we did not have a sufficient level of confidence in the standard of governance or controls in place to avoid future contentious proposals. Given the lower level of conviction around the range of potential outcomes we felt there was insufficient valuation support to compensate for observed risks and Eastspring exited the position.

Both Eastspring and PPM undertake company engagements focused on both financial and non-financial matters on an annual basis. With respect to specific engagements related to material ESG issues, Eastspring's equity and fixed income teams have conducted over 300 unique engagements in 2020, in addition to engagement on financial issues with companies.

Proxy voting

Alongside engagement, voting is considered part of the investment process and the pathway to value realisation. It is therefore integral to our stewardship responsibilities. By exercising our votes, we seek both to add value and to protect our interests as shareholders. We consider the issues, meet company management if necessary and vote accordingly. Where possible, we seek to discuss any contentious resolutions with investee companies before casting our votes in order to ensure that our objectives are understood, and our votes will be cast in the best interests of our investors and clients.

Where appropriate, we use third-party investment advisers to aid the process of making proxy voting decisions. Both Eastspring and PPM engage Institutional Shareholder Services (ISS), a fellow signatory to the United Nations-supported Principles for Responsible Investment (PRI), to provide administrative assistance in connection with voting proxies.

The policies and guidelines of the proxy advisers are periodically reviewed to understand the nature of their recommendations and test their compatibility with our requirements. However, specific policies and advice from the proxy adviser are not applied mechanically. We always apply our judgement and decide how to vote on each resolution on its merits in the context of the principles of our proxy policy.

In Asian and emerging markets, proxy voting activity is commonly focused on governance matters, with fewer shareholder resolutions focused on environmental or social matters. However, our equity team actively vote and take any material ESG issues that have been identified into consideration.

While our equity teams are typically supportive of company management, where applicable we use proxy voting actively to signal to management our expectations for improvement in behaviours.

In 2020, Eastspring voted on 99.63 per cent of the total number of proxy votes in which it was eligible to vote. Eastspring voted with management recommendations 90.33 per cent of the time and voted against management recommendations 9.67 per cent of the time. Please refer to Eastspring's website for more information on its proxy voting record www.eastspring.com/about-us/responsible-investment.

Engagement activity through 2020: Notable examples

In order to highlight the breadth of topics and engagements that have taken place, we provide a selection of recent engagement case studies under the 'Environmental', 'Social' and 'Governance' headers. Often, the engagements span more than one ESG dimension, and where this is the situation, the case study is allocated to the ESG category on the basis of a judgement as to which dimension is more material.

Environmental

Case studies

Global Emerging Markets Equity Team, Singapore: Environmental engagement

Company A, a Korean power company, is a valuation outlier and has been a long-term holding, with which we have maintained ongoing engagement.

Objective: Our engagement is aimed at understanding its long-term strategy around transition to a low-carbon economy, to enable us to perform our fiduciary duties and decisions around proxy voting from a well-informed position.

Scope: In 2020, we engaged with Company A in a discussion about the company's long-term strategy for dealing with carbon emissions. It shared that it has a long-term plan to increase renewable energy and to reduce dependence on coal-fired power generation. We discussed the future of the power company's overseas coal power projects and its commitment in October 2020 to not build any overseas coal plants going forward, but only energy-efficient, renewable-type plants. This is aligned with its commitments to grow renewable energy domestically, add no new coal power plants, start to close coal-fired capacity, and to invest in technology to reduce carbon emissions. Notably, the company's overseas coal project plants in South Africa and the Philippines are being converted to liquefied natural gas (LNG) or terminated.

Subsequently, we engaged with the company on its anti-corruption policies. In response to corruption issues, it has responded by putting in place governance structures that include enhanced processes, training and monitoring.

Outcomes: Demonstrating a response through restructuring and capital allocation towards renewable energy, and improvement to governance structures.

Japan Equity Team, Singapore

Company B is one of the world's largest steel producers.

Objective: Our ongoing engagement since 2017 is aimed at understanding the company's position on three key issues: carbon emissions and energy usage (including disclosure policies), board governance and structure, and workplace safety.

Process: In 2020, our three engagement meetings focused on potential structural change in the industry and the need to reduce capacity, and progress in implementing new (hydrogen-based) steel-making technologies. The team also discussed the potential impact of recent regulation by the Japanese government aimed at reducing coal-fired power generation capacity. The engagement was also undertaken in fulfilment of our obligations as a member of the Climate Action 100+.

Outcome: We observed that management was making good progress towards finalising specific medium and long-term climate change targets, as part of the ultimate target of becoming carbon-neutral by 2050. In terms of board governance and structure, the company sought and received approval from shareholders in June 2020 to transition its governance model. The dialogue has supported the case for continued investment in the company.

Social (labour rights, health and safety)

Case study

Malaysian Equity Team, Malaysia

Company C is a large global glove manufacturer.

Objective: To determine whether the company was putting processes in place to improve labour practices.

Process: In June, we engaged with Company C following allegations of forced labour practices from a UK Channel 4 report. We noted that these allegations, which were brought up in December 2018, had resurfaced and that the company had made progress in rectifying these claims.

In July, we sought further clarification from management when the US Customs and Border Protection (CBP) placed a detention order on disposable gloves manufactured by some of the company's subsidiaries. Management shared that they had remedied some of the key issues, such as retention of identification documents, and were looking into the reimbursement of recruitment fees.

We engaged again in November, following an accident that resulted in the amputation of a worker's arm. The purpose of this engagement was to remind the company to take remedial actions to keep workers safe and close gaps that may contribute to accidents. Subsequently, it was uncovered that the worker had not followed the company's standard operating procedure, which the company will investigate remedying with extensive education. It has continued to improve its training programmes by adding training in native languages, revamping on-site training to include accident-prone areas, and increasing training hours.

Outcome: While we recognised that the company had made significant improvement in labour market practices, we continue to stress to management that, as one of the largest glove manufacturers in the world, it needs to set better standards and be vigilant about ESG issues, and we will continue to engage with it on labour issues into 2021.

Governance (Board composition and diversity)

Case studies

Japan Equity Team, Singapore

Company D is a Japanese international chemical manufacturing company.

Objective: Gain a better understanding of the corporate governance structure and practices to perform our fiduciary duties and decisions around proxy voting from a well-informed position.

Process: In January, we conducted a discussion with the company on its broad ESG approach and its specific positioning for meeting environmental product demands (eg bioplastics). We also highlighted the need for improvements in board structure and function and the nominations and succession process.

We continued our engagement in July, when we conducted a discussion of the ongoing evolution of its governance structure and approach and its oversight and management ownership of ESG-related matters. In our ongoing engagements, we have noted that the company's board and broader governance structures have shown a significant step forward (eg improving board independence, voluntary committee structure).

The company has noted that these changes are, partially, in response to our ongoing engagement. It also detailed its increased focus on ESG with a new ESG committee that reports directly to the board. We were satisfied that ESG governance and management ownership appear to be improving.

Beyond this progress, however, we have also discussed that we would like to see continued progress in terms of board independence, diversity, and change to an independent committee system.

Outcome: Gained clarity on timeline for implementing PRI framework and the company's efforts on ESG.

Japan Equity Team, Singapore

Company E is a credit card issuer and transaction processing company.

Proxy Voting Objective: Proxy vote signals the accountability of chairman and CEO for the delivery of poor longer-term returns.

Process: The current chairman has been both chairman and CEO since 2000. Over this period return on equity (ROE) has been weak and has further deteriorated over the past three years. Although the company's management did seek to buy back some shares, we did not feel this was sufficient to address the issue. We felt a clear strategy needed to be articulated to grow the business, amid fierce competition from other traditional credit card players and new cashless players.

A vote was due to be held at the company AGM to re-elect the chairman (and other directors). While our proxy adviser recommendation, and company management vote was 'For' the re-election of the Chairman, we decided to vote 'Against' re-election on the basis of his accountability for the poor historic performance of the company.

Outcome: In addition to acknowledging the company's historic delivery of poor trend returns, our analysis suggests the company has a good platform and there is sufficient valuation upside to support our level of conviction around the overall governance of the company. However, our vote 'Against' the re-election of the chairman signals our position in relation to accountability for historic performance and the need for a change in leadership to support a clear strategy for growth.

D

Capacity building, collaboration and industry and regulatory engagement

We continue to seek opportunities to build capacity and enhance capabilities within our responsible investment practices. In August 2020, Eastspring participated in a sustainability benchmarking process and capacity-building exercise with the World Wide Fund for Nature (WWF), one of the world's largest independent environmental organisations. WWF works with industry associations, regulators, stock exchanges and investors in Asia to support ESG risk analysis and opportunity identification. The benchmarking process is being used as an enabler to further embed sustainability into the business and is aligned with the Group's strategic focus areas. As part of an ongoing focus on continuous improvement to meet our sustainability ambitions, Eastspring has incorporated actions from the benchmarking exercise into four sustainability work streams focused around purpose, governance, climate strategy and responsible investment. Eastspring also participated in the Asia Investor Group on Climate Change (AIGCC) Climate Change Training Project Advisory Committee, the region's first accredited climate change training.

Collaboration

We continue to view collaboration with investors through collective initiatives and industry bodies as another way to build capacity and to amplify the effectiveness of our engagement activity. Two examples of collective bodies in which we participate are Climate Action 100+ and the AIGCC. Climate Action 100+ is an investor-led initiative to engage systemically important greenhouse gas emitters across the global economy. The AIGCC aims to raise awareness and encourage action among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low-carbon investing. Where appropriate, some of our engagements are coordinated through these bodies.

We have aligned our responsible investment approach to industry best practice through our support for the United Nations Principles of Responsible Investment. Ninety-nine per cent of Prudential Hong Kong's investment portfolio is managed by asset managers that are PRI signatories. Prudential supports PPM's and Eastspring's membership as PRI signatories. Eastspring has been a PRI signatory since February 2018. In 2020, it submitted its first official PRI Report and achieved A+ scores across two categories and A scores across four categories, well above the median scores for the PRI's asset management signatories. An A+ score was achieved for Strategy and Governance and ESG Integration in Listed Equities modules; and an A rating was awarded for Listed Equities – Active Ownership, Fixed Income – SSA, Fixed Income – Corporate (Financial), and Fixed Income – Corporate (Non-Financial).

PPM became a signatory in October 2018 and received an A score for its approach to Strategy and Governance, placing it among the top tier of asset managers in this category.

Regulatory and industry engagement

It is important that our strategic approach to responsible investment develops in line with broader thinking around the issue. Therefore, we seek to engage with policy bodies and regulators in the markets in which we operate to both shape the debate and to align our approach to evolving best practice on the topic. Some examples of notable industry engagements and collaboration undertaken during 2020 are:

BU	Theme	Regulatory/industry initiative
Group (Prudential plc)	Global/regional initiatives	At a Group level, our compliance and government relations functions provide input to regulatory consultations and engage with international bodies, such as the Sustainable Development Investment Partnership (SDIP) – an initiative of the World Economic Forum (WEF) – and the Institute of International Finance (IIF) that are active in setting standards for responsible investment. Notable examples of Group engagement activity through 2020 include the monitoring of the work of the Network for Greening the Financial System (NGFS) and input into the International Association of Insurance Supervisors (IAIS) paper on the Supervision of Climate-related Risks in the Insurance Sector, jointly with the Sustainable Insurance Forum (SIF).
Prudential Hong Kong Ltd (PHKL)	Sustainable insurance	PHKL participates in the Green Insurance task force established in 2020 by the Hong Kong Federation of Insurers. This supports the Green and Sustainable Finance Cross-Agency Steering Group, of which the Hong Kong Insurance Authority is a member. Discussions are at an early stage, but the focus of the taskforce will be on generating industry-wide actions to promote sustainable and environmental business practices, as well as to develop regulatory, green product and investment frameworks.
Prudential Assurance Company Singapore (PACS)	Sustainable insurance	PACS is a member of the Sustainable Insurance Taskforce. It is working with the MAS (Monetary Authority of Singapore), LIA (Life Insurance Association), GIA (General Insurance Association) and SRA (Singapore Reinsurance Association) to develop a set of sustainable insurance guidelines.
PCA Life Assurance Taiwan (PCALT)	Stewardship	PCALT is a signatory to the Taiwan Stock Exchange's 'Stewardship Principles for Institutional Investors'.
Eastspring	Risk management	Eastspring contributed to a consultation paper by the Investment Manager Association of Singapore which consolidated industry feedback to MAS on proposed guidelines for environmental risk management.
	Responsible investment	Eastspring participated in an online seminar hosted by the UNPRI and Korea Financial Investment Association (KOFIA). The event aimed to help educate Korean institutional investors on socially responsible investment/responsible investment concepts, both ensuring a basic level of understanding of responsible investment and providing the opportunity to learn how investor peers have been undertaking responsible investment.
	ESG funds	Eastspring participated in a group meeting with The Securities and Futures Commission of Hong Kong (SFC) on key proposed enhancements for ESG funds, which sets out the expectations on how the existing Code on Unit Trusts and Mutual Funds and disclosure guidance would apply to ESG funds.
	Responsible investing (fixed income)	Eastspring Singapore co-hosted a virtual roundtable with Asian Investor discussing key opportunities and challenges in incorporating ESG within Asian fixed income portfolios.

Product development and client engagement

We are continuing to expand our ESG offering to clients to meet the growing demand for responsible investment products in our markets. In December 2019, Eastspring launched the Asia Sustainable Bond Fund, which supports sustainable objectives, as well as meeting client needs for an ESG-themed investment product. Our Singapore and Hong Kong-based life businesses are anchor investors into the fund. While the fund's AUM remains modest at $73 million, during 2020 Eastspring continued to engage with interested gatekeepers from both retail and institutional investors on the Asia Sustainable Bond Fund strategy, as it builds its performance track record with a view to increasing third-party investment. The fund follows an absolute-return targeting strategy and does not target a specific benchmark. Notwithstanding this, recent performance compares well with broadly similar indices, such as the JPMorgan Asia Credit – ESG Index.

In November 2020, Prudential Hong Kong, through its participating life fund, provided the cornerstone funding for a new ESG ETF provided by BlackRock through its iShares unit. The fund tracks the MSCI USA Minimum Volatility ESG Reduced Carbon Target Index, which reduces greenhouse gas emission intensity by 63 per cent and exposure to fossil fuel reserves by 95 per cent, relative to the parent benchmark.

Other significant ESG-themed asset owner initiatives through 2020 include the adoption by Prudential Assurance Malaysia Berhad of sustainable investing strategies for local equity investment within its PRULink Strategic Fund, and the initiation of a project by PT Prudential Life Assurance (PLAI) to publish ESG scores for all its investment-linked product (ILP) funds. PLAI is also in the process of changing the benchmark for one of its existing ILP funds to a new ESG index (the IDX ESG Leaders) developed by the Indonesia Stock Exchange.

Outlook for 2021 and next steps

Prudential recognises that strengthening our approach to responsible investment is an ongoing and long-term process that we expect will evolve over time.

For 2021, as an asset owner, we expect to take further steps to expand and make more explicit our expectations of asset managers in the areas of ESG integration and engagement. The recent establishment of Eastspring Portfolio Advisers (EPA) will help to facilitate and implement our asset owner requirements with asset managers. EPA is our investment centre of excellence for tactical asset allocation, model portfolio construction, manager selection, liability-driven investments and solutions and derivative expertise. From an asset owner perspective, EPA will integrate ESG in all relevant processes within its remit. EPA's complete view of the asset owner portfolio will contribute to a holistic and coherent approach on ESG. The establishment of EPA has also created a platform where the asset owner and the asset manager can discuss, monitor and advance the ESG initiatives.

As well as these steps to improve the alignment of asset owner and asset manager objectives, we will continue to develop our overall approach by identifying and aligning with selected global standards and initiatives that help to frame and inform our principles-based approach to the impacts and opportunities of ESG. In this context, our Asian business is investigating becoming a PRI signatory as an asset owner in 2021.

By taking ESG issues into account, we can meet our clients' financial expectations, serve their other long-term interests and meet the expectations of society.

A D

5. Strategic Enabler: Community engagement and investment

Our approach to community investment
Our community investment strategy is closely aligned with our business purpose and with our stakeholders' concerns and interests. Our strategy is focused around health and resilience issues relevant to the communities in which we operate, education (particularly financial education) and building resilience across communities. This is underscored by a desire for strong employee engagement in the work we do. Our strong contribution continues to improve lives and build communities, wherever we work. Our relationships with our charity partners are long term, involving support through both funding and skills-based employee volunteering.

Governance of community investment
Our businesses are guided by the framework for investing in the community, as laid out in our Group-wide Community Investment Policy and the Group's ESG strategy. Within that framework they have the autonomy to manage their own community investment programmes. For business units in Asia and Africa, Prudence Foundation, a unified charitable organisation governed by a statutory board of directors, provides regular review of strategy and spending for community investment, which maximises the impact in these regions. In the US, a governance committee of Jackson and the Jackson Charitable Foundation board of directors regularly reviews community investment activity, strategy and spend. Going forward, the Responsibility & Sustainability Working Group will oversee our community engagement and investment activities on behalf of the Board.

Our Group-wide Community Investment Policy sets minimum standards, as well as prohibiting political funding and contributions to religious organisations that have a clear aim to propagate a set faith. It is the Group's policy neither to make donations to political parties nor to incur political expenditure, within the meaning of those expressions as defined in the UK Political Parties, Elections and Referendums Act 2000. The Group did not make any such donations or incur any such expenditure in 2020.

Monitoring and measuring community investment
Our community investment performance metrics are aligned to the Business for Societal Impact (B4SI) Framework (formerly known as London Benchmarking Group), which is used to monitor progress and guide the valuation of both cash and in-kind contributions, employee volunteering and management costs.

In 2020, the Group spent $33.2 million (2019: $29.1 million) supporting community activities. Direct cash donations to charitable organisations amounted to $25 million (2019: $20.6 million). The balance includes in-kind donations, as set out on the Group website, calculated in accordance with Business for Societal Impact (B4SI) framework. The in-kind total includes 112,000 hours of colleague volunteer service for our local communities. Our primary focus areas for community investment in 2020 were health, social and welfare issues, which together accounted for 46 per cent of investment in 2020; followed by education (20 per cent), environment (15 per cent) and emergency relief (7 per cent). In 2020, 63 per cent of our community investment activity was in Asia and Africa, and 35 per cent in the US. The remaining 2 per cent, attributed to London head office, includes both UK and global activity.

Our 2020 community investment reporting is assured by Deloitte LLP. Further information and Deloitte's assurance statement can be found at www.prudentialplc.com/esg.

Covid-19 Relief Fund
Prudential's flagship international volunteering programme, the Chairman's Challenge, has been bringing people together across the Group to help their communities since 2006. In 2020, the Chairman's Challenge joined forces with Prudential Corporation Asia to create a $2.5 million Group-wide Covid-19 Relief Fund. The fund was administered by Prudence Foundation, Prudential's community investment arm in Asia and Africa, and distributed to Prudential's markets around the world, allowing them flexibility to allocate funding based on local knowledge of community needs. Funds were used to support approved charitable and community projects tackling the immediate impact of the pandemic, and its social and economic consequences. Local businesses' programmes included supporting vulnerable communities with Covid-19 messaging, hygiene and sanitation, nutrition and educational programmes. For example:

- Prudential Thailand and Eastspring Thailand donated THB4.9 million (US$150,000) to four hospitals in November. The donation will contribute to the construction of airborne infectious isolation rooms and acute respiratory infection clinics in the four hospitals. Prudential Thailand also donated 2,500 face shields made by its employees to help protect medical professionals and frontline health workers.
- In the Philippines, the Covid-19 Relief Fund donated PhP5 million (US$100,000) to the Philippine General Hospital (PGH) Medical Foundation Inc to support the University of the Philippines (UP)-PGH Covid-19 programme. PGH serves as one of the primary Covid-19 referral hospitals in the Philippines and its Covid-19 programme seeks to equip its healthcare workers with personal protective equipment, including N95 masks, goggles, face shields, and cover-all suits. It also provides medical equipment for cardiac and respiratory care to Covid-19 patients.
- Our Covid-19 Relief Fund was used in Côte d'Ivoire to provide food to vulnerable communities and to deliver a three-month awareness and training programme with AGIS, an NGO, to at-risk areas. In Ghana the fund supported three programmes, including School for Languages, to provide Covid-19 materials and guidance in local Ghanaian languages, as much of the information on Covid-19 is provided in English. In Nigeria the Covid-19 Relief Fund supported a project with Slum2School, to engage 3,000 nursery, primary and secondary school learners between May and December across 20 vulnerable communities.
- Jackson used the fund to support immediate community needs resulting from Covid-19. Jackson awarded $150,000 to non-profits across Chicago, Lansing and Nashville, providing direct financial assistance in tandem with long-term financial coaching and education to individuals and families impacted by the pandemic. This strategic approach provided immediate support for the most vulnerable while working toward a more secure financial future, core to both Jackson's philanthropic and business purposes.

In addition to the Covid-19 Relief fund, Prudential supported communities through other initiatives:

- With elderly people facing a higher risk from Covid-19 than the general population, Prudence Foundation partnered with HelpAge International. Prudence Foundation supported the production of two Safe Steps Elderly Care videos, which provided simple and clear guidelines to care-givers on how to protect older people in care homes, prevent infection and ensure appropriate measures for care-givers' health and safety. HelpAge is working with its network members in Asia alongside the care homes and local governments to disseminate these guidelines to over 1,200 recipients directly. The videos have been translated into five languages and a dedicated website was created to host the information and videos. The videos were available on YouTube, Facebook and Twitter during August 2020, reaching over 42,000 people.
- Jackson has also provided a total of $1.34 million in community grants to support non-profits, which are facing reduced fundraising revenue.
- Since April, Jackson wholesalers have conducted webinars where, for each adviser in attendance, a donation is made to the Feeding America Food Bank in the adviser's local community. Donations totalling $350,100 have been made to more than 100 different food banks across the country, meaning Jackson has helped to provide over 3.5 million meals. Jackson has also partnered with the Nashville Food Project, preparing 6,075 meals for at-risk youth in the underused corporate dining centre.

Financial education

Developed by Prudential to address the gap in financial literacy for children, Cha-Ching is a global financial education and responsibility programme catering for children aged seven to 12 years old. Now in its 10th year, the programme continues to grow and expand across all our markets and is well received by educators, parents, children and government stakeholders. For more information on our approach to promoting financial literacy and how it supports making health and financial security more accessible, please see page 84.

Safety

Safe Steps

Safe Steps is a campaign designed to provide key messaging and raise awareness on life-saving issues across our markets. It now covers disasters, road safety, first aid and Covid-19. Developed in partnership with the International Federation of Red Cross and Red Crescent Societies (IFRC) and NatGeo, it continues to reach millions of people in Asia and Africa via numerous media and government partnerships. The Safe Steps programmes have also been made available and shared on Prudential's Pulse super-app in Hong Kong and the Philippines, and through local television and media partnerships and government partnerships in Cambodia, Myanmar, Malaysia, the Philippines and Vietnam over the years.

A new Safe Steps Covid-19 campaign was also developed in partnership with the IFRC and NatGeo and launched in March 2020, providing key educational messages and awareness on Covid-19. The campaign has been distributed throughout the year across Asia and Africa, leveraging the Safe Steps network.

Building on the success of Safe Steps, in 2019 Prudence Foundation launched Safe Steps Kids, a partnership with the IFRC and Cartoon Network. This initiative uses popular cartoon characters to equip millions of children with actionable information to protect themselves and others in the event of emergencies or disaster situations. The programme has been leveraged by local national Red Cross societies in Malaysia, Singapore, Indonesia and the Philippines through school activities, reaching more than 2,500 students directly. In 2020, in view of the pandemic, Safe Steps Kids online activities have been organised by the Malaysia Red Crescent Society and Indonesian Red Cross Society.

Safe Steps continues to have significant reach. For example:

- Safe Steps programmes continue to reach over 250 million people a day in Asia and 80 million people a month in Africa via media partnerships;
- Safe Steps Kids has a TV reach of 31 million households every day; and
- On social media, Safe Steps Kids has reached over 11 million viewers, and its videos have been viewed 3.1 million times across all digital platforms.

Safe Steps Road Safety Africa was launched in Côte d'Ivoire at the end of 2019 and continues to be promoted across the continent via multimedia distribution on both regional and national TV networks. In December 2020, the campaign was launched in Zambia in partnership with the Road Traffic Safety Agency, the Red Cross and several media partners.

Safe Steps D-Tech Awards

In addition to providing life-saving information, Prudence Foundation launched the Disaster Tech (D-Tech) Innovation Programme in 2019. The objective of the programme is to find, fund and support innovative disaster tech solutions that could save lives in natural disaster events, and to catalyse innovation and increase investment and non-financial support through partnerships. The programme has been unified with the Safe Steps programme and relaunched as the Safe Steps D-Tech Awards. Efforts in 2020 have focused on preparing for the next competition to be held in 2021. The second edition of the awards launched in December 2020, inviting applicants across both profit and non-profit sectors. Finalists will be announced in June 2021 and will have the opportunity to receive grants from a pool of $200,000, as well as mentorship, technology support and access to investor networks. Our network of partners supporting the D-Tech Awards has grown to include humanitarian partner IFRC, technology partner Lenovo and strategic partners Antler, AVPN, National Geographic, e27, Give2Asia, Hatcher+, Jubilee Capital Management and Tech for Impact among others.

Disaster risk reduction in schools

The Comprehensive Safe Schools Framework (CSSF) is a globally recognised framework to ensure that all children are educated in a safe environment. At its core, the framework focuses on three key pillars – school infrastructure, school disaster management and disaster risk education, with an emphasis on disasters to which schools and communities may be exposed. Since 2013, Prudence Foundation has been supporting the implementation of Safe Schools in partnership with Save the Children and Plan International, which aims to address the objectives of the CSSF, as well as the objectives of the Sendai Framework for Disaster Risk Reduction.

To date, Safe Schools has been implemented in Indonesia, Vietnam, Thailand, Cambodia and the Philippines, with 90,000 students directly trained in capacity building, training and planning, together with 42,000 adults across five countries. In 2019 Prudence Foundation renewed its partnership with Plan International to roll out the programme across Thailand, Cambodia and the Philippines between 2019 and 2022, aiming to reach a further 20,000 children and adults by the end of 2022.

In the Philippines, Prudence Foundation has partnered with Save the Children and the Philippines' Department of Education on a strategic initiative to develop a management information system for schools designed to reduce disaster risk, together with training and capacity building for teachers and local government officials. As of 2020, the project has successfully completed the build of a comprehensive Disaster Risk Reduction Management Information System (DRRMIS). The system is now being piloted in selected regions, with the eventual aim for a nationwide roll-out once the pilot is completed at the end of 2021, potentially benefiting over 20 million students and almost 47,000 schools nationwide. External consultants have also been engaged to conduct an independent evaluation of the programme, with the intent to share evidence-based impacts and build a case study for other governments to reduce disaster risk and replicate this approach across other countries.

Health

A key area of focus for Prudence Foundation has been early childhood care and development. In 2020, Prudence Foundation entered a new partnership with UNICEF to implement a regional Early Childhood Development (ECD) programme. The programme focuses on developing a regional strategy to advance ECD aligned with the Nurturing Care Framework, and implementing an effective communication strategy to raise awareness around holistic nurturing care for children aged up to three years old. The communication strategy seeks to raise awareness and to provide essential knowledge and skills to parents and care-givers around holistic nurturing care for children aged from birth to three years old, which is of particular importance during the Covid-19 pandemic, which has adversely impacted young children. The programme will be piloted in Indonesia to reach 90,000 children and their parents or care-givers by the end of 2021.

Prudence Foundation has become a founding member of The China Children Development Fund, which aims to promote healthy and comprehensive child development in poor areas in China by supporting cross-disciplinary empirical research and translating the results into policies and practices. We also support two three-year ECD programmes in rural China under the China Development Research Foundation. REACH (Rural Education and Child Health) is a programme aimed at enhancing parental capabilities and behaviours as well as improving children's health with nutritional support. Under this programme over 1,500 children will be impacted. The second programme is a nutrition improvement programme, which focuses on improving the quality and standards of school nutrition in poverty-stricken areas.

Jackson's community investment approach

Jackson engages its colleagues and strengthens its links with local communities by providing grants, community sponsorships, donation matching and volunteering hours across Lansing, Chicago and Nashville, and nationally through the Jackson Charitable Foundation to increase financial education across the country.

- Lansing: In June, Jackson announced a $750,000 partnership with the Greater Lansing Food Bank to expand the food bank's warehouse. This campaign engaged more than 430 colleagues who personally donated to the project. The new warehouse doubled the square footage, allowing the campaign to increase overall distribution of food from 9 million meals annually to 18 million meals by 2025 and increase daily volunteers by 100 per cent.
- Nashville: On 3 March 2020, tornadoes caused devastation in communities across Greater Nashville, leaving 25 people dead and 309 injured, and destroying many homes and businesses. Jackson colleagues supported tornado relief efforts with supply collections, volunteer opportunities and matched funding donations to the Community Foundation of Middle Tennessee's (CFMT) Emergency Response Fund. Colleagues contributed $19,620 and volunteered 181 hours towards relief efforts.
- Volunteering: In 2020, 848 Jackson associates volunteered, with the company contributing over 29,000 volunteer hours nationally. For the sixth time, Jackson was awarded the US President's Volunteer Service Award. This year, the recognition was elevated to the Gold level in recognition of completing 15,000 hours of volunteering with Junior Achievement during the 2018-2019 school year teaching financial education and work readiness.

London community investment activity

Prudential RideLondon first took place in 2013, and has become the world's greatest festival of cycling, inspiring tens of thousands of people to take up the sport and raising over £77 million for charity from 2013 to 2019. In 2020, the final year of Prudential's sponsorship, the event was replaced with a virtual event, My Prudential RideLondon, due to the Covid-19 pandemic. More than 10,000 people signed up to take on a range of challenges both in the UK and across the world, with participants riding as far afield as the US, Brazil, Kenya, Japan and Australia, and £3 million was raised for charity.

In 2020, Prudential's London Head Office agreed new three-year partnerships with four local charities supporting projects tackling homelessness, isolation and loneliness, mental health and social inclusion. Partnerships were established with The Connection at St Martin's; The Cares Family; Mind in the City, Hackney and Waltham Forest; and The Amos Bursary. The four charities were chosen by a panel of colleague volunteers and the projects are all closely aligned with our overall ESG strategy in helping to make health and financial security available to underserved communities.

A D

6. Strategic Enabler: Good governance and responsible business practices

Strong governance processes are the foundation of our business and critical to maintaining trust with stakeholders, particularly in the highly regulated financial markets within which we operate. Our governance framework is clear about our standards of behaviour and those standards flow into every part of what we do, including our financial performance and tax practices, as well as operating to mitigate financial crime and informing how we deal with our customers and suppliers. We also recognise the importance of reducing the direct impact of our own operations on the environment and see this as a non-negotiable responsible business practice.

Standards of conduct

Our Group Code of Business Conduct sits at the heart of the Group Governance Manual, our internal governance framework that sets out the principles by which we conduct our business and ourselves. The Code highlights the ethical standards that the Board expects of itself, our employees, our agents and others working on behalf of the Group, and is supported by a set of Group-wide principles and values that define how the Group expects business to be conducted in order to achieve its strategic objectives. Our Group Governance Manual presents our Group-wide approach to governance, risk management and internal control, and is subject to regular review to ensure that we meet the expectations of our stakeholders. In 2020 the Group Governance Manual was updated to align with our post-demerger structure and revised operating model, and now serves as the single governance data source for all colleagues across the Group. Each business must certify annual compliance with the requirements set out in the Manual, including the Code, Delegated Authorities and Group-wide policies.

Tax strategy and reporting

The responsible and sustainable management of our tax affairs helps us to maintain constructive relations with our stakeholders and play a positive role in the economy and the wider communities in which we operate. In 2020 we made a total tax contribution of $2,114 million. This significant contribution plays an important part in helping the communities in which we operate to provide valuable public services and build infrastructure for the benefit of the wider community and the economy.

We understand the importance of paying the right amount of tax on time. We manage our tax affairs transparently and seek to build constructive relationships with tax authorities in all the countries in which we operate. Our Tax Risk Policy outlines our processes to identify, measure, control and report on tax risk, and is regularly reviewed and refreshed.

Our tax strategy is published annually and complies with the mandatory requirements under the UK 2016 Finance Act, focusing on:

- Acting responsibly and taking an objective view in all our tax matters;
- Managing tax in line with our Group governance and risk management procedures; and
- Ensuring transparency and engagement with all our stakeholders.

In addition, our tax strategy document includes a number of additional disclosures, including a country-by-country disclosure of revenues, profits, average employee numbers and taxes for countries where more than $5 million tax was paid. Furthermore, we provide a breakdown of the types and amount of taxes we pay globally. This includes taxes borne and collected on employee income, such as social security. Our tax strategy document also provides more detail on what drives our tax payments and demonstrates that our tax footprint (ie where we pay taxes) remains consistent with our business and employee footprint.

We actively monitor developments in the tax transparency agenda and look to further develop the disclosure of meaningful tax information to help our various stakeholders' understanding of our tax footprint. We will be publishing our updated tax strategy, which will include more information on the tax we paid in 2020, how we manage our tax affairs and the governance and management of tax risk, by 31 May 2021.

Fighting financial crime

We take the fight against money laundering, terrorist financing, bribery, corruption and fraud seriously and are committed to implementing and maintaining industry-leading policies and standards.

Our Group-wide financial crime policies were updated in 2020 to integrate Group and business unit policy requirements, reflecting a streamlined governance structure across the Group following the demerger of M&G plc.

All our Group-level financial crime policies are cascaded down to local business units through regional compliance teams, which ensure adherence to the Group requirements and applicable local laws and regulations. These policies form part of the Group Governance Framework, with business units attesting their compliance to the requirements each year. During the year, the Group and business units undertake a range of monitoring activities to ensure that business units are complying with Group policies and the legal and regulatory framework by which we are governed. This includes quarterly reporting, annual risk assessments, compliance monitoring reviews and reporting to Board-level committees, as set out below. Specifically, our Anti-Money Laundering and Sanctions and Anti-Bribery and Corruption policies provide clear standards and guidance to our diverse businesses and highlight the importance of effective due diligence when dealing with customers, vendors and other third parties.

We complete annual risk assessments across all our businesses to assess and monitor their risk profile. The residual financial crime risk is managed through the continuous enhancement of the control environment and is implemented at local level. In recent years we have implemented an automated transaction monitoring system in Hong Kong, Singapore, Indonesia, the Philippines and Vietnam to profile transactions and identify suspicious activities for reporting to law enforcement agencies.

We are committed to complying with international sanctions requirements and continue to monitor international sanctions closely, integrating updated lists into our regular customer and vendor screening processes. During the course of 2020, we have focused in particular on the US-China sanctions that have been issued in order to assess their impact on our business activities. We have upgraded our screening capabilities across all of our Asian businesses, ensuring compliance with regulatory requirements and improving operational efficiency.

The Group Risk Committee continues to review the effectiveness of the financial crime programme and the Group Compliance team regularly updates the Committee on risks, issues, the effectiveness of controls and the improvements made to processes in the financial crime framework. The Group Risk Committee regularly reviews a number of risk indicators in relation to financial crime, including the numbers and percentages of high-risk customers and politically exposed persons, and seeks investigation of movements. It also reviews trends in automated transaction activity alerts and employee-generated suspicious transaction reports. The Committee also reviews gifts and hospitality received and offered to ensure that they comply with our policy. All material matters on financial crime are reported to the Committee.

The financial crime teams remain committed to professional development and regularly participate in conferences and seminars in the UK, the US, Hong Kong and Singapore to build colleagues' skills and knowledge in specialist areas. Best practices are cascaded through training and communications, as well as the implementation of enhancements to operational systems. These ensure that our colleagues are fully prepared to recognise any form of economic crime and take adequate steps to combat it. We provide training to our staff to ensure that they are familiar with international standards and best practice, as well as being well equipped to implement our policies in their respective markets. Training completion levels are monitored throughout the year.

E

Whistleblowing

Our Group-wide whistleblowing procedures apply to all our colleagues and are supported by Speak Out, our Group-wide whistleblowing programme. Speak Out is available both internally and externally to staff, contractors, vendors, agents, customers and the public, enabling reporters to raise concerns in a choice of languages through web and hotline channels. Reporters are able to log concerns covering a range of issues, including but not limited to anti-bribery and corruption, compliance breaches, discrimination and harassment and health and safety. Concerns are recorded by an independent third party and investigated by internal appropriately trained and skilled investigators that are independent of the businesses they investigate. On an annual basis, all colleagues are required to complete a Speak Out computer-based training module. The programme is also supported by communications and awareness materials.

Whistleblowing reporting is overseen by the Group Audit Committee and business unit audit committees through quarterly reporting and through frequent discussion with the Group Resilience Director, with any material issues reported to the Board. On an annual basis, emerging trends and an assessment of the effectiveness of our whistleblowing approach are reported to the Group Audit Committee.

The Speak Out programme is widely used throughout the Group, and during 2020 cases were reported across 24 jurisdictions, including the US, the UK, Hong Kong, Singapore and the Philippines. The number of cases reported across our Asian business units represented 87 per cent of Speak Out cases, which is a reflection of our business footprint. During 2020, the top three issues reported through our whistleblowing channels related to discrimination, harassment or unfair treatment, compliance breaches and misconduct. HR-related cases accounted for 43 per cent of the total cases reported. This figure is in line with the external benchmarks that we use to monitor our Speak Out programme. The percentage of cases being reported openly, rather than anonymously, increased by 3 per cent year-on-year from 2019, which is considered an indicator of growing trust and confidence in the programme. Our Group Security Policy outlines our zero-tolerance approach to retaliation against reporters of any concerns raised via Speak Out.

Supply chain

Our Group Code of Business Conduct outlines the values and standards that are required of each of our suppliers. Our Group Third Party Supply Policy is core to our supply chain governance and specifies our position on supply chain management, setting out our approach to due diligence, selection criteria, contractual requirements and ongoing monitoring of relationships.

Business units conduct due diligence before engaging with, and ultimately selecting, a new supplier. We perform regular due diligence, including daily anti-money laundering checks on our supplier payments, supplier review meetings and audits where required, and our policies and procedures are supported by regular employee training exercises.

Our due diligence requires our suppliers to pass financial stability tests and demonstrate a track record of high performance. We also review the controls the supplier has in place to prevent data leakage and look for any personal data protection issues. Additional due diligence is enacted for any problem categories where we are exposed to potential labour malpractice issues. Our Speak Out whistleblowing service enables employees to raise any concerns they may have in relation to our third-party relationships, and our contractors and third-party suppliers are also able to use this service.

In Asia, we have continued to progress our roll-out of the Coupa procurement management platform across our business units. By improving visibility across all third party spend, the system will facilitate cost savings, procurement and expense controls and process efficiencies. The system has now been implemented across our businesses in Hong Kong, Malaysia, Singapore, Thailand, Indonesia and the Philippines. Our business units in Vietnam and Taiwan and our asset management business, Eastspring, are expected to roll-out Coupa over the course of 2021, ensuring that more than 80 per cent of our third-party expenditure in Asia is processed and approved on one common platform.

We are also rolling out a dedicated third-party risk management system module and accompanying processes that will digitise and automate our vendor governance procedures, enabling us to complete all necessary risk assessments as part of our vendor and contract onboarding processes. This system module, Coupa Risk Assess, integrates into our Coupa procurement management platform and will provide us with detailed visibility of third-party risks across all our key risk domains, in particular information and technology security, data privacy, anti-bribery and corruption and business continuity and resiliency risks. This will improve our ability to mitigate risks and strengthen preventative risk management controls, thereby improving the resilience of our supply chain collaboratively with our vendors, providing greater assurance on our operating business environment. Coupa Risk Assess will also enable us to generate detailed insights into the level of commitment to ESG issues across our supplier footprint. The implementation is expected to be completed across all our markets in Asia during 2021.

Case study

Supporting smaller suppliers during Covid-19

In our commitment to supporting our supply chain through the difficult trading circumstances triggered by the global pandemic, we provided payment assistance from March 2020. We immediately switched to 10-day payment terms for all our London head office small suppliers with under 100 employees. This has so far benefited 136 suppliers with a total of £6 million of accelerated payments made to assist their cash flow. □

To ensure that ESG is embedded in our end-to-end procurement processes, we have developed a specific ESG question set and scoring matrix. This is now incorporated in all our Global RFPs (request for pricing) issued to suppliers during the tender stage and requires a formal response by the potential supplier in respect of the following:

— Their commitment to ESG globally;
— Governance of ESG within their organisation;
— The leadership structure they have within their own organisation on ESG matters;
— ESG transparency on reporting and how that is executed;
— The responsible sourcing practices they use for their own supply chain buying;
— The use of management systems to track their own ESG compliance;
— Ethics and policy documents with their organisation to formally mandate ESG topics;
— Labour practice documents (to confirm ethical behaviour/modern slavery controls);
— Health and Safety best practices are confirmed as embedded for employee wellbeing; and
— Initiatives the supplier is launching to enhance their own ESG agenda.

Upholding our commitments to human rights

Being a responsible business requires organisations to ensure that they meet and strive to surpass commitments to the UN's Declaration of Human Rights. We are committed to ensuring that modern slavery, human trafficking, child labour or any other issue that subjugates human rights is eradicated from our supply chain. For more information around how we are identifying and managing our risks in relation to modern slavery, human trafficking, and child and forced labour, please read our Modern Slavery Statement on the Prudential plc website.

Across Asia, we apply the Third Party Risk Management policy, which ensures compliance to the Group's Third Party Supply policy. All third-party agreements across all countries in Asia are required to undergo due diligence activities, which include human trafficking, anti-money laundering and anti-bribery and corruption checks on the third parties that we deal with.

As in 2019, we reviewed our UK supplier spend to examine and reconfirm that, against the Walk Free Foundation's Global Slavery Index, we are not exposed to modern slavery issues in our supply chain. Our repeat review of this exercise has identified that, across the top 100 countries in the index, 2.5 per cent of UK procurement spend is exposed to these territories. This compares to 2.8 per cent in 2019. Our spend in these countries is in categories that are typically considered to be low-risk, such as property rental and professional services. Full supplier due diligence is maintained in these areas to avoid any potential issues and an expert panel meets each week to review both new contracts and renewals to ensure that we remain vigilant on potential modern slavery exposure and ESG topics. In the UK, we require our suppliers to pay their employees the London or UK Living Wage, as set by the Greater London Authority and Centre for Research in Social Policy respectively.

E

Responsible working practices and health and safety procedures

Prudential recognises the importance of health, safety and wellbeing to help staff get the most out of life and meet our business objectives. By providing a safe and healthy workplace and preventing work-related injury and ill-health through the implementation of appropriate policy and standards, we are able to provide an environment that helps employees to connect, grow and succeed in their work. In 2020 the Group-level policy and standards were revised and aligned with ISO 45001:2018, the international standard for Occupational Health and Safety. The policy and standards apply to all our companies, locations and activities.

For the year ending 31 December 2020, no work-related fatalities were recorded (2019: zero). There were 30 health and safety incidents, resulting in 422 days of lost time (2019: 74 incidents resulting in 203 days of lost time). The increase in lost time is accounted for by two incidents in the United States: a road traffic accident (164 lost days), and a manual handling case (198 lost days).

Health and safety programmes across the Group have this year primarily focused on the response to Covid-19, ensuring that appropriate precautions are implemented in the workplace. We have also focused on providing training and awareness on prevention measures and health and safety best practices for the home. Communications are regularly sent to staff reminding them of the behaviours and protocols needed to protect themselves and the wider community from Covid-19. Our communications have focused on local regulatory changes, maintaining high standards of hygiene, protocols around health monitoring and attendance at the office, and sensible social distancing. Where staff have returned to the office, masks are encouraged to be worn by staff in common areas of the office and in some jurisdictions this is mandated due to local regulations. The Group has also provided intranet resource centres where staff can seek information concerning Covid-19 precautions and best practices, travel restrictions and Covid-related news.

Health and safety teams across the Group have provided online seminars for staff and are available to staff should they have any questions or concerns. We have also implemented PRUThrive, a holistic wellbeing programme to support the mental, physical, financial, family and social wellbeing of employees. We also provide a 24-hour Employee Assistance Programme, offering support and advice through an external provider, and in 2020 launched a science-based mental health and wellbeing app.

D

Treating customers fairly and responsible product design

The value that products are likely to bring to our customers and the quality of product materials and ongoing communications are given the utmost consideration in our businesses. Although many of the financial needs and objectives of our customers are simple, the products we design may seem complex from a customer's perspective. This complexity may make it difficult for a customer to understand the costs and value of the product, and how best to utilise the product to meet their needs.

Prudential's products are designed in accordance with customer conduct standards of treating customers fairly and of providing products and services that meet customer needs, are easy to understand and deliver real value. We design products with a deep understanding of the target customers' protection and savings needs across their life stages. Our development process includes the assessment of policyholders' reasonable expectations created by the product and determines how those expectations are met and managed throughout the product lifecycle.

We aim to simplify our insurance products and how they are explained in product documentation and by salespersons, so that customers can easily understand the features, benefits and associated terms and conditions and are able to clearly assess how products fit with their needs. To protect vulnerable customers, our product development process identifies customer segments for whom the product is not suitable and/or where assistance and further protection might be needed during the sales journey (eg additional point of sales controls, welcome calls). Identifying and treating vulnerable customers with extra care is a core component of training for our sales force.

New products are approved by business unit product committees that comprise of participants from relevant business functions to ensure there is a complete understanding of product risks, including financial, capital and regulatory considerations, as well as a focus on the potential customer experience.

Through Pulse, our health and wealth super-app, we are increasingly focused on making insurance more inclusive to underserved populations of society, through bite-sized digital products and services at little or no cost, and minimal or no underwriting criteria or barriers.

We are also expanding from mortality and morbidity protection, to helping people prevent and postpone adverse health events. Accessible to everyone, Pulse combines healthcare and technology to help and incentivise people to prevent and postpone disease and protect customers by empowering them to take control of their health and wellbeing. We are also working with our distribution partners to increasingly design protection products with diversity and inclusion in mind, such as creating products for gender-specific needs.

We strive to ensure our claims process is simple, fair and transparent, and our staff and agents are professionally trained to support customers in their time of need. Each of our businesses closely monitors customer satisfaction using surveys at touchpoints throughout the customer journey, and also through the monitoring of complaints.

Our businesses are required to comply with their local regulatory requirements and meet our Group-wide policies and standards, including our Group Code of Business Conduct and our Customer Conduct Risk Policy, which covers the fair treatment of customers. Compliance is achieved through the regular training of intermediaries to ensure that the salesforce has a clear understanding of our products, the target customers for each product, and the customer risks inherent in each product; and through the embedding of controls, including customer financial needs analysis and risk appetite profiling, to ensure the suitability of product sales. We are increasingly using technology, particularly electronic point-of-sale tools and e-submissions, to control the sales process and provide sufficient consumer safeguards. During 2020, our compliance controls evolved as we introduced virtual face-to-face selling and remote selling options during the Covid-19 pandemic. Compliance monitoring is performed across the customer and product life cycle, and disciplinary frameworks reinforce compliance through actions up to and including termination.

Management of direct operational environmental impacts

We seek to actively reduce our direct impact on the environment in line with our purpose of improving the lives of our customers and their communities. To understand our impact, we measure our environmental performance and take action to improve our performance.

Our Group Environment Policy forms part of our Group Governance Manual and applies to our operational properties worldwide, guiding our approach to the management of the direct impacts of our business units. This includes compliance with environmental laws and regulations with respect to emissions, energy consumption, water use, waste disposal, environmental supply chain management and the adoption of risk management principles for all property-related matters. As with all policies, business unit performance is monitored against the Group Environment Policy and updates are provided to the Board. More information on our broader strategic approach to the management of climate change risks and opportunities is provided in the stewarding of the human impacts of climate change section on page 87 of this report.

The highlights of our 2020 environmental performance are available below. Our 2020 reporting covers the period 1 October 2019 to 30 September 2020, and selected indicators are assured by Deloitte LLP. Where relevant, comparatives have been restated to remove M&G data.

We have set a target to become net carbon neutral across our Scope 1 and Scope 2 emissions by the end of 2030, through a combination of a 25 per cent reduction per full time employee (FTE) in our operational emissions, and the implementation of carbon offsetting initiatives. The expression of the target in terms of an intensity ratio, rather than as a gross emissions figure, allows for the future growth in the size of our business, while driving improvements in the overall efficiency of our operations. These targets will take effect from 2021. Further details are provided later in this section.

Energy and emissions data

Greenhouse gas (GHG) emissions are broken down into three scopes. We have included full reporting for Scope 1 and 2 and selected Scope 3 reporting. Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity, heating and cooling. We have stated our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. Our Scope 3 footprint includes UK-booked business travel, water consumption from the UK, US and Asia, and waste generated from the UK and US. Aligned with our past commitments, we chose to offset our UK-procured air travel emissions.

SECR Report

We are required to report our global GHG emissions for 2020 in accordance with the Streamlined Energy and Carbon Reporting (SECR) format of the Companies Act 2006 (Strategic and Directors' Reports). This statement is shown below.

	2020	
	UK and offshore	**Global (excluding UK and offshore)**
Emissions from activities for which the company own and control, including combustion of fuel and operation facilities (Scope 1) tCO_2e	147	5,490
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2, location based) tCO_2e	125	42,995
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2, market based) tCO_2e	208	42,995
Total gross Scope 1 and Scope 2 emissions (location-based) tCO_2e	272	48,485
Intensity ratio: tCO_2e/m^2	0.0484	0.0972
Intensity ratio: tCO_2e/fte	1.0146	2.6245
Energy consumption used to calculate above emissions: kWh (Scope 1)	764,344	23,903,383
Energy consumption used to calculate above emissions: kWh (Scope 2)	543,498	77,714,027

For the purposes of compliance with the requirements of SECR, we confirm that no energy reduction projects were undertaken in the UK portfolio during 2020. Information on our Asian initiatives is included below under 'Regional emissions trends'.

Group Position

A summary of our Scope 1, 2 and 3 emissions is provided below. The table also includes a total for Scope 3 data in relation to air travel, water and waste.

Emissions Source (tCO_2e)	**2020**	**2019**	**Change**
Gross emissions			
Scope 1	5,637	7,332	-23.1%
Scope 2 – Market based	43,203	49,092	-12.0%
Scope 2 – Location based	43,120	48,900	-11.8%
Scope 3	2,164	6,248	-65.4%
Total: Scopes 1 & 2*	48,840	56,424	-13.4%
Total: Scopes 1, 2 & 3†	51,004	62,672	-18.6%
Carbon intensity			
kg per m^2 – Scopes 1 & 2	96.24	105.38	-8.7%
Tonnes per employee – Scopes 1 & 2	2.61	3.14	-16.9%
kg per m^2 – Scopes 1, 2 & 3	100.51	117.05	-14.1%

* Market based emissions.
† Assured Scope 3 emissions.

Data notes:
Reporting period: 1 October 2019 to 30 September 2020.
Full details about scope of reported data included in our Basis of Reporting (https://www.prudentialplc.com/esg).
Deloitte LLP has provided limited assurance over selected environmental metrics in accordance with the International Auditing and Assurance Standards Board's (ISAE3000 (Revised)) international standard. Further information and Deloitte's assurance statement can be found on the Prudential plc website at www.prudentialplc.com/esg.
Data restatements: 2019 Scope 1 emission data restated to reflect improved availability of fuel usage data.
To enable comparative reporting in terms of performance reductions (both absolute and by intensity) the reported data for 2019 and 2020 excludes M&G.

Across our occupied estate, our global absolute Scope 1 and 2 (market-based) GHG emissions were 48,840 tCO_2e, down 13.4 per cent on 2019. The main driver of the decline was the widespread reduction in energy use within our office network associated with the Covid-19 pandemic.

When normalised against net lettable floor area, our Scope 1 and 2 emissions were 96.24 kg CO_2e/m^2. This represented an 8.7 per cent reduction over 2019.

The magnitude of the decline across the total Scope 1 and 2 emissions was relatively modest, given the scale of the operational disruption caused by the pandemic. This reflects that most of the office estate in Asia and Africa remained open through the period to support a continued, albeit reduced, employee presence (through for example split team working). With social distancing measures in operation, the increased floor space required for each employee did not result in a proportionate reduction in energy use. It should also be noted that the effect of the timing of the reporting period for Group emissions (1 October 2019 to 30 September 2020) means that only nine months of pandemic-related impacts were captured in the 2020 reporting. With more of our employees working from home (and, therefore, consuming electricity) there has been an increase in emissions from this source, which has not been captured in our reporting. We have, however, started work to model the potential impact in order to understand the associated implications, noting that these would technically be categorised as Scope 3 emissions.

Total Scope 3 reported emissions fell by nearly two-thirds to 2,164 tCO_2e. Air travel, which accounts for the majority of reported Scope 3 emissions, and it fell by 67.7 per cent to 1,965 tCO_2e reflecting the impact of travel restrictions and other control measures related to the pandemic. We continue to work with our business units across all of our regions to extend our Scope 3 emission reporting.

Across Scope 1, 2 and 3, emissions per square metre fell 14.1 per cent to 100.51 kg CO_2e/m^2.

In 2021, we intend to review our Scope 3 reporting boundaries and broaden these over time. Our ultimate intention is to calculate and disclose emissions from our wider supply chain and investment portfolio in line with broader improvements in the quality of data and breadth of disclosures.

Regional emission trends

The restructuring of the Group, resulting in the demerger of M&G, has substantially reduced the Group's office footprint in the UK. The majority of the estate is now located in Asia and, to a lesser extent, in Africa.

Asia's Scope 2 emissions have been in decline since 2017, falling to 23,183 t CO_2e for Scope 2 emissions from 26,627 tCO_2e in 2019 and were impacted by the pandemic, as noted above. During 2020, a total of 34 energy efficiency and behavioural change projects were carried out in Asia, with a combined estimated saving of 895 tCO_2e per year. Measures implemented included the installation of LED lighting, installation of direct current motors in fan coil units and reducing lighting operation hours. We also implemented eight waste reduction initiatives in 2020, including initiatives such as donating excess furniture to be used in an agency office rather than disposal in Malaysia, and providing reusable lunch bags and reducing the use of plastic single use water bottles in Indonesia.

Our occupied estate in Africa expanded by 68 per cent in 2020, with a concurrent increase in headcount of 75 per cent, and we expect the Africa footprint to continue to grow. The gathering of energy data in Africa continues to become more reliable, leading to improvements in data quality and completeness.

The Jackson property portfolio represents 26 per cent of the occupied area of Prudential and accounts for 49 per cent of the Scope 1 and 2 emissions footprint. This is predominately due to the presence of data and disaster recovery centres in the portfolio, which are very energy-intensive and against which it is more challenging to deliver energy saving. However, there has been a 12.1 per cent intensity reduction in Scope 1 and 2 emissions in 2020, reducing them to 179 kg CO_2e/m^2. These reductions can be attributed predominantly to lower occupancy and shutdowns associated with the pandemic, as the occupied area and overall headcount have remained consistent with 2019. The impact of the pandemic is also noted in the 35 per cent reduction in Scope 1 emissions.

Waste and recycling

The quality of our waste and recycling reporting continues to improve, although some challenges remain. For example, where we are tenants in multi-tenanted buildings, the data is only provided to us on a consolidated basis and not broken down by individual tenant.

During 2020 we generated 749 tonnes of waste in the UK and US included in our Scope 3 reporting. The Scope 3 carbon emissions associated with our total waste generation are calculated at 140 tCO_2e, a minor contribution to our overall corporate footprint in comparison with the energy use of our buildings and air travel. Of the UK and the US total, 62 per cent was diverted from landfill through recycling, composting or incineration.

The gathering of waste data in Asia has increased in 2020. We have developed a set of Waste Management Guidelines to raise awareness of the importance of accurate reporting of waste, as well as to practical advice on waste reduction measures for employees engaged in waste management activities.

Water consumption

In 2020, absolute use of water across our global occupied estate (excluding Africa) was 170,648 m^3, an intensity ratio of 0.35m^3/m^2, a reduction of 26 per cent when compared with our like-for-like water consumption in 2019.

As part of our site assessment programme in Asia, the inspection team looked at our water usage to identify ways in which we could reduce our water consumption. As we are predominately tenants in multi-tenanted buildings, where the landlords are responsible for the maintenance and management of the air conditioning, toilets and other common facilities, only limited opportunities to reduce our water consumption were identified.

> "Our aim is to become net carbon-neutral across our Scope 1 and Scope 2 emissions by the end of 2030, through a combination of a 25 per cent reduction (per FTE) in our operational emissions and implementing carbon offsetting initiatives."

Global environmental targets
In 2016 we developed a global environmental targets framework to drive improvements in environmental operational performance. As reported in our 2019 report, this framework was based on the operational footprint of the pre-demerger Prudential Group and, as such, several targets are no longer relevant to the demerged Group.

Our Asian operations have completed four of their five targets, and partially completed the fifth target. Through the programmes implemented as part of this process, we have gained a greater insight into how our sites currently consume energy and the opportunities to reduce this consumption. Notably, we have completed an environmental emission review for the 20 largest energy-consuming locations; created environmental guidelines for all new leasing and fit-out projects; and reviewed our water efficiency and waste management with guidelines adopted by our businesses. The energy management campaign was delayed to better leverage the data collected in the energy assessment, and then further delayed by the Covid-19 pandemic, but will be launched in 2021 to support our new targets.

New targets for 2030
During 2020, we reviewed our global environmental targets framework and have established new targets for the period 2021 to 2030. Our aim is to become net carbon-neutral across our Scope 1 and Scope 2 emissions by the end of 2030, through a combination of a 25 per cent reduction (per FTE) in our operational emissions and implementing carbon offsetting initiatives. This commitment is aligned to our purpose of helping people get the most out of life by enabling a lower-carbon economy through good governance and responsible business practices. The new target will apply across all our operations and improve our ability to communicate a simple and clear environmental strategic direction to all our stakeholders.

During 2020, we engaged a global property services company in a multi-year contract to provide specialist environmental consultancy services to support our aim of reducing the intensity ratios in our Scope 1 and 2 carbon emissions.

Our priority is to reduce our carbon emissions, on an intensity metric, and the site assessment programme has highlighted a number of initiatives that we can implement across the property portfolio to achieve this aim, as well as practical measures that we can take to deliver operational improvements. From these assessments, Scope 1 and 2 carbon reduction road maps are being developed to support the delivery against our target.

We have gained a clear understanding of how we use energy within our property portfolio, and given that the majority of our office space is leased on relatively short-term commitments, we have opportunities to address operational improvements as leases come up for renewal through implementing energy-saving measures or selecting more energy-efficient spaces.

In parallel to these initiatives in our existing property portfolio, we are rolling out a campaign in 2021 to drive behavioural change in terms of energy, water and waste reduction, and it is anticipated that this will be vital to the achievement of our targets.

We are implementing a range of tools and initiatives that will enable further reductions in the Group's energy consumption footprint over the longer term. Some examples include the development of green leasing and design guidelines to assist property management teams to select premises and design our workplaces that will help achieve energy efficiencies; the embedding of sustainability considerations being highlighted in our project approval process; and improved performance tracking through the use of a web-based platform, which will enable our businesses to track progress against targets at an asset level.

Enforcement actions and other regulatory events
No fines or regulatory actions occurred during the year for environmental incidents (2019: zero).

Strategic report approval by the Board of Directors
The strategic report set out on pages 10 to 117 is approved by the Board of Directors.

Signed on behalf of the Board of Directors

Mike Wells
Group Chief Executive

2 March 2021

Governance

Contents

A F

Chair's introduction

Shriti Vadera
Chair

Dear shareholder

It is an honour to chair a 172-year-old company undergoing an exciting transformation and reinventing itself as a digital business focused on Asia and Africa.

In response to the pandemic, the Board adjusted quickly to different ways of working, including holding virtual meetings and hybrid sessions, reflecting the resilience demonstrated by the business in the face of challenges posed by Covid-19, with some Directors when possible gathering physically in our London and Hong Kong head offices and others connecting through video conference. Given the severe curtailment on travel during 2020, we were unable to conduct our usual programme of face-to-face meetings with management and employees, which typically would have included deep dive visits at one or more of our business locations. Instead, we have found other virtual ways to connect with people across the business.

2020 saw important changes to the Board. Paul Manduca, who stepped down as Chairman and Director at the end of 2020, left a legacy of a high-functioning Board of committed Directors. Sir Howard Davies stepped down after 10 years on the Board and as Chair of our Risk Committee, and Jeremy Anderson was appointed to the Board, bringing with him substantial leadership experience of the financial services sector across Asia and the US. Jeremy has extensive technical knowledge on audit and risk management, particularly concerning international companies, and he succeeded Sir Howard as Chair of the Risk Committee in May 2020. On behalf of the Board I would like to thank Paul and Howard for their significant contributions and leadership of the Board and Risk Committee respectively during their tenures. We will be losing more of our experienced Non-executive Directors in the next couple of years as they are reaching the end of their nine-year tenures. Following nine years of service Kai Nargolwala will not offer himself for re-election at the Annual General Meeting (AGM) this year.

I would like to thank Kai, who will step down from the Board at the conclusion of the 2021 AGM, for his significant contribution, both on the Board and as a member of the Risk and Remuneration Committees. More recently, Kai also took on the role of Employee Engagement Director for the Group's workforce in Asia and Africa.

Below are some of the principal strategic and governance items the Board considered during 2020.

Strategy

In its strategy discussions, the Board focused on developing and repositioning the Group for Asian growth. The Board considers that the Group is well positioned to meet the protection and savings needs of the growing populations in Asia and Africa with top-three positions in nine Asian life insurance markets, and significant upside potential in the region's two largest markets. The new growth strategy has been set to align to markets where insurance penetration is currently low and demand for savings solutions is rapidly developing. In August, we announced the new dividend policy, which aligns to this revised strategy.

Time and attention were given to executing the decision, announced in 2020, to separate our US business, through detailed discussions during regular Board meetings and dedicated, additional workshops. This was to ensure that Jackson will have a governance framework suitable for a listed group in the US at the point of the proposed separation. This culminated in our announcement on 28 January 2021 of our plan to separate Jackson in the second quarter of 2021 through a demerger, subject to shareholder and regulatory approval.

B

Our purpose, culture and values

Good governance encourages decisions to be made in a way that is most likely to promote the long-term, sustainable success of the Company, taking into account the views and interests of the Group's wider stakeholders. We aim to achieve this through a governance framework that supports decision-making, facilitates challenge, is continuously updated to meet the Group's business needs, and encompasses a prudent system of internal controls and rigorous processes for identifying, managing and mitigating key risks.

After an extensive consultation over the course of nine months involving 12,000 employees, we have refreshed and restated our shared purpose – to help people get the most out of life. We fulfil this purpose by making healthcare accessible and affordable, protecting wealth and growing assets, and empowering people to save for their education and retirement goals. The Board supported the articulation and development of a framework to embed the desired culture, promoting the Group's purpose consistently across the Group. A description of how Prudential views its purpose as inextricably linked with its business and delivers on it is set out in the ESG report on pages 70 to 117.

2020 was the first year of a three-year plan to promote and embed a diverse and inclusive culture across the Group with our purpose at its core, supporting our people to think about not only what they do but how they do it, aligning our behaviours with performance and managing risks. Embedding this cultural change will require systems and programmes that help shift behaviours and create new habits, both individually and organisationally. This has been a key focus during the year and the Board has discussed, reviewed and monitored the frameworks being put into place to enable this progress.

A D E

Looking after our stakeholders and wider community initiatives

At Prudential, we recognise that all our stakeholders are key to our long-term success. We seek to engage proactively with them, to understand their views and to take these views into account when making decisions. Further information about how the Board has taken into account the views of the Group's key stakeholders, can be found on pages 78 to 81, while engagement with our customers is discussed in more detail on page 79.

Throughout 2020, the Board was particularly concerned about the impact of the Covid-19 pandemic on the health and welfare of customers and employees. The CEO Report and ESG Report describe the various ways in which we responded to the needs of our customers in this challenging period. Our two designated Non-executive Directors appointed to represent the workforce have been working hard to find innovative ways to engage with the workforce during what has been an incredibly difficult year in which to bring people together. They joined a number of events at the start of the year, including visiting our offices in the UK and Asia to meet with and address colleagues. Once the pandemic started, both designated Directors received briefings from Group Security about steps being taken to support and protect employees during the Covid-19 outbreak. The results of our staff survey in 2020 have been considered carefully by the Board and the designated Directors are monitoring the implementation of the action plans, which will enable our employees to see that their feedback has been taken seriously and acted upon. Both designated Directors participated in our follow-up Collaboration Jam, which is described more fully on pages 79 and 96. We will continue to keep our employee engagement mechanisms under review to ensure we choose methods that best serve our employees and provide useful feedback to the Board.

The Board considered Environmental, Social and Governance (ESG) matters and approved the ESG strategic framework for the Group, on the recommendation of the Nomination & Governance Committee. A number of Directors and members of the Nomination & Governance Committee, as well as other stakeholders, were consulted during the year to shape this strategy. For more information, please see the Nomination & Governance Committee report on pages 142 and 148. You can read more about our corporate social responsibility actions in our 2020 ESG report (pages 70 to 117), which will also be published on our website.

Focus for 2021

Since I joined Prudential, in light of the transformation of the business, the composition of the Board has been one of my key priorities, supported by the work of the Nomination & Governance Committee. Reflecting our focus on growth in Asia and Africa, enabled by digital capabilities, I am pleased to welcome Chua Sock Koong and Ming Lu to the Board. Sock Koong has had a distinguished career with operations experience in many of our key markets, while Ming has a long track record of investing in and growing businesses throughout Asia. These appointments are part of an ongoing process to refresh the Board and make sure it has the right skills and experience to support the Group, in particular pan-Asian operating experience, and a high degree of digital familiarity. The next phase of appointments will focus on experience and knowledge of specialist financial services.

As the Board changes, I am keen to ensure that we mitigate some of the loss of experience, wisdom and institutional memory by enabling new Non-executive Directors joining the Board to overlap with those nearing retirement, to give new joiners sufficient time to benefit from building relationships and sharing experience and insight to ensure a smooth transition period.

E L

We are committed to continuing to develop the Group's governance to ensure that it keeps pace with the rapid progress of the business and the evolving external environment. We will draw on the conclusions of the externally facilitated Board effectiveness evaluation conducted in 2020 by Ffion Hague of Independent Board Evaluation, to ensure continued strong oversight and challenge. The methodology and results of that evaluation are set out on page 133. This annual exercise helps inform how we approach governance, risk and culture, which is set out in the Group Chief Risk and Compliance Officer's Report on pages 45 to 69. Our Group-wide Internal Audit function will continue to consider the risk and control culture of the organisation throughout its activities, with our Group Code of Business Conduct underpinning everything we do, shaping our culture and linking culture explicitly to values and behaviours. Good governance includes a commitment to continuous improvement and to that end the Board has asked Jeremy Anderson to lead on considering any lessons for the Board to learn from the revision to Jackson's hedge modelling, announced on 28 January, which impacted Jackson's statutory capital.

B

Our clarity of strategy and purpose will be supported and enabled by our culture and the people who make them a reality. I am clear that our strength – as people and in our performance – will come from continued investment in our diversity and inclusion. The Board has a vital role in setting the tone and demonstrating this in the diversity of our thinking, and through our oversight, constructive challenge and support for management and Prudential's employees. The Responsibility & Sustainability Working Group, established by the Board and chaired by Alice Schroeder, will oversee the embedding of Prudential's ESG framework and progress on diversity and inclusion initiatives, and will take on employee engagement activities.

I hope this report and those of my fellow Committee Chairs demonstrate the work we have undertaken and the tangible and positive impact this has had on our business and for our stakeholders, with oversight and challenge to promote the long-term success of Prudential and the long-term prosperity of our stakeholders. On a personal level, I was disappointed not to be able to attend what would have been my first Prudential AGM in May 2020 as a Non-executive Director, and unfortunately it does not look possible to meet shareholders in person at this year's AGM under current restrictions. We are working hard to ensure that shareholders will be able to participate fully through digital means. The detailed arrangements will be communicated as part of our AGM Notice published in April. I look forward to updating you then and in future Annual Reports.

Shriti Vadera
Chair

A G K

Board of Directors

Shriti Vadera
Chair

N

Appointments:
Board: May 2020
Chair of the Board: January 2021
Chair of the Nomination & Governance Committee: January 2021

Age: 58

Relevant skills and experience

Shriti is the Chair of the Board. She joined Prudential as a Non-executive Director and member of the Nomination & Governance Committee on 1 May 2020 and became Chair of the Board with effect from 1 January 2021. She became Chair of the Nomination & Governance Committee at the same time.

She contributes her senior boardroom experience at complex organisations, including extensive experience with international operations, strong strategic and financial services experience and experience at the highest level of international negotiations between Governments and in multilateral organisations.

Shriti was chair of Santander UK Group Holdings from 2015 until October 2020. She was a Director of BHP from 2011 and its Senior Independent Director from 2015 until October 2020, and a Non-executive Director of Astra Zeneca from 2011 until 2018.

Between 2009 and 2014, she undertook a wide range of assignments, such as advising the South Korean Chair of the G20 in 2010, two European countries on the Eurozone and banking crisis, the African Development Bank on infrastructure financing, a number of global investors and sovereign wealth funds on strategy and economic and market developments.

Shriti was a Minister in the UK government from 2007 to 2009 in the Cabinet Office, Business Department and International Development Department and led on the UK government's response to the global financial crisis and its Presidency of the G20. She was a member of the HM Treasury's Council of Economic Advisers from 1999 to 2007, advising on domestic and international issues including reforms to international organisations following the Asian and financial crisis.

Shriti began her career in investment banking with SG Warburg/UBS in 1984, where she had a strong focus on emerging markets.

Other appointments

— Institute of International Finance, Board Member
— National Institute of Economic and Social Research, Governor

Michael Wells
Group Chief Executive

Appointments:
Board: January 2011
Group Chief Executive: June 2015

Age: 60

Relevant skills and experience

Mike continues to develop the operational management of the Group on behalf of the Board, implementing Board decisions and leading the Executive Directors and senior executives in the management of all aspects of the day-to-day business of the Group.

Mike has more than three decades' experience in insurance and retirement services, having started his career at the US brokerage house Dean Witter, before going on to become a managing director at Smith Barney Shearson.

Mike joined the Prudential Group in 1995 and became Chief Operating Officer and Vice-Chairman of Jackson in 2003. In 2011, he was appointed President and Chief Executive Officer of Jackson, and joined the Board of Prudential.

During his leadership of Jackson, Mike was responsible for the development of Jackson's market-leading range of retirement solutions. He was also part of the Jackson teams that purchased and successfully integrated a savings institute and two life companies.

Mike is Group Chief Executive, a position he has held since June 2015.

Other appointments

— International Advisory Panel of the Monetary Authority of Singapore
— San Diego University Advisory Board

A G K

Executive Directors

Mark FitzPatrick CA
Group Chief Financial Officer and Chief Operating Officer

Appointment:
Board: July 2017

Age: 52

Relevant skills and experience
Mark has a strong background across financial services, insurance and investment management, encompassing wide geographical experience relevant to the Group's key markets.

Mark previously worked at Deloitte for 26 years, building his industry focus on insurance and investment management globally. During this time, Mark was managing partner for Clients and Markets, a member of the executive committee and a member of the board of Deloitte UK. He was a vice chairman of Deloitte for four years, leading the CFO Programme and developing the CFO Transition labs.

Mark previously led the Insurance & Investment Management audit practice and the insurance industry practice.

Mark is Group Chief Financial Officer and Chief Operating Officer, a position he has held since July 2019. He joined the Board as Chief Financial Officer in July 2017.

Other appointment
— British Heart Foundation

James Turner FCA FCSI FRM
Group Chief Risk and Compliance Officer

Appointment:
Board: March 2018

Age: 51

Relevant skills and experience
Having held senior positions at Prudential for over a decade, James has a wide-ranging understanding of the business and draws on previous experience across internal audit, finance and compliance, as well as technical knowledge, relevant to his role.

James joined Prudential as the Director of Group-wide Internal Audit and was appointed Director of Group Finance in September 2015, with responsibility for delivery of the Group's internal and external financial reporting, business planning, performance monitoring and capital and liquidity planning.

James joined the Board as an Executive Director and Group Chief Risk Officer in March 2018 and in July 2019 assumed responsibility for Group Compliance. James relocated to Hong Kong in August 2019 and has led the discussions with the Hong Kong Insurance Authority on the development of their Group Wide Supervisory Framework.

Board changes
Non-executive Directors
As announced on 10 December 2019, Jeremy Anderson was appointed to the Board as a Non-executive Director and member of the Risk and Audit Committees with effect from 1 January 2020. He became the Chair of the Risk Committee with effect from the conclusion of the 2020 AGM held on 14 May 2020.

As announced on 30 January 2020, Shriti Vadera joined the Board as a Non-executive Director and member of the Nomination & Governance Committee with effect from 1 May 2020. She became Chair of the Board and of the Nomination & Governance Committee with effect from 1 January 2021.

As announced on 30 January 2020, Paul Manduca stepped down from the Board with effect from 31 December 2020.

As announced on 11 March 2020, Sir Howard Davies stepped down from the Board with effect from the conclusion of the 2020 AGM held on 14 May 2020. As announced on 4 February 2021, Chua Sock Koong and Ming Lu will join the Board on 1 May 2021.

As announced on 3 March 2021, Kai Nargolwala will step down from the Board on 13 May 2021.

Following the change of Group-wide supervisor in October 2019 to the Hong Kong Insurance Authority, the composition of the Prudential Corporation Asia Limited board of directors mirrors the Prudential Board.

Key
- A Member of the Audit Committee
- N Member of the Nomination & Governance Committee
- Re Member of the Remuneration Committee
- Ri Member of the Risk Committee
- ● Denotes Committee Chair

Non-executive Directors

The Hon. Philip Remnant CBE FCA

Senior Independent Director

A N Re

Appointments:
Board: January 2013
Audit Committee: January 2013
Nomination & Governance Committee: January 2013
Remuneration Committee: January 2013

Age: 66

Relevant skills and experience

Philip contributes experience across a number of sectors and in particular listed company experience and the financial services industry, including asset management, in the UK and Europe.

Philip was a senior adviser at Credit Suisse and a vice chairman of Credit Suisse First Boston (CSFB) Europe and head of the UK Investment Banking Department. He was twice seconded to the role of director general of the Takeover Panel. Philip served on the board of Northern Rock plc and as chairman of the Shareholder Executive. Until July 2018, he also served on the board of UK Financial Investments Limited. In October 2020, Philip stepped down as chairman and member of the board of The City of London Investment Trust plc.

Philip joined the Board in January 2013 as a Non-executive Director, as Senior Independent Director and as a member of each of the Audit Committee, the Remuneration Committee and the Nomination & Governance Committee. He also chaired the M&G Group Limited board from April 2016 until October 2018.

Other appointments

- Severn Trent plc
- Takeover Panel (deputy chairman)

Jeremy Anderson CBE

Non-executive Director

Ri A

Appointments:
Board: January 2020
Chair of the Risk Committee: May 2020
Audit Committee: January 2020
Responsibility & Sustainability Working Group: February 2021

Age: 62

Relevant skills and experience

Jeremy contributes substantial leadership experience of the financial services sector across Asia and the US. He has extensive technical knowledge on audit and risk management, particularly concerning international companies.

Jeremy joined KPMG Consulting in 1985 and held the role of Chief Executive Officer in 2001 before being appointed as head of UK operations at Atos Origin and a member of the Management Board of Atos Origin SA in 2002. From 2006, following two years as head of financial services at KPMG UK, Jeremy held the role of KPMG's Head of Financial Services for Europe followed by head of clients & markets in 2008. He served as KPMG's Chairman of Global Financial Services until 2017. Jeremy also served on the board of the UK Commission for Employment and Skills, and now serves as a non-executive director and chairman of the audit committee of UBS Group AG.

Jeremy joined the Board in January 2020 as a Non-executive Director and member of the Audit and Risk Committees. He became Chair of the Risk Committee and a member of the Nomination & Governance Committee in May 2020. In February 2021, Jeremy stepped down from the Nomination & Governance Committee and became a member of the Responsibility & Sustainability Working Group.

Other appointments

- UBS Group AG / UBS AG (Audit Committee Chair, Senior Independent Director, Vice-Chair)
- The Productivity Group
- The Kingham Hill Trust

David Law ACA

Non-executive Director

A Ri Re

Appointments:
Board: September 2015
Chair of the Audit Committee: May 2017
Risk Committee: May 2017
Remuneration Committee: February 2021

Age: 60

Relevant skills and experience

David has experience across the Group's key international markets including North America and Asia, and across a number of industry sectors. He contributes extensive technical knowledge of audit, accounting and financial reporting essential to his role as Chair of the Audit Committee.

David is an accountant and spent 33 years working with Price Waterhouse and PricewaterhouseCoopers (PwC). During this time he was inter alia the global leader of PwC's insurance practice, a partner in the UK firm, and worked as the lead audit partner for multinational insurance companies until his retirement in 2015. Other roles included leadership of PwC's insurance and investment management assurance practice in London and the firm's Scottish assurance division. He also spent three months working in Hong Kong in the early 1990s. After his retirement David became a director and CEO of L&F Holdings Limited and its subsidiaries (L&F). L&F is the professional indemnity captive insurance group which serves the PwC network and its member firms. David retired from this role in July 2019.

David joined the Board in September 2015 as a Non-executive Director and member of the Audit Committee. He was appointed Chair of the Audit Committee and a member of the Risk Committee and of the Nomination & Governance Committee in May 2017. In February 2021, David stepped down from the Nomination & Governance Committee and was appointed a member of the Remuneration Committee.

Other appointment

- University of Edinburgh (Member of the Court and Policy and Resources committee)

Kaikhushru Nargolwala FCA
Non-executive Director

Re Ri

Appointments:
Board: January 2012
Remuneration Committee: January 2012
Risk Committee: January 2012
Responsibility & Sustainability Working Group: February 2021
Employee Engagement Director: May 2019
Age: 70

Relevant skills and experience
Kai has experience across some of the Group's key international markets, particularly Hong Kong and the wider Asian market. In addition to his experience with listed groups, he contributes knowledge of the financial services sector.

Kai spent 19 years at Bank of America and was based in Hong Kong in roles as group executive vice president and head of the Asia Wholesale Banking Group from 1990 to 1995. He spent 10 years working for Standard Chartered PLC in Singapore as group executive director responsible for Asia governance and risk from 1998 to 2007. Kai was chief executive officer of the Asia Pacific Region of Credit Suisse AG from 2008 to 2010 and now serves as director and chairman of their remuneration committee. Kai also served as chairman of Clifford Capital Pte. Ltd from April 2012 until December 2020 and Clifford Capital Holdings from April 2020 until December 2020.

Kai has served on a number of other boards, including Singapore Telecommunications and Tate & Lyle plc and was appointed deputy chairman of Singapore Pools (Private) Limited with effect from January 2021.

Kai joined the Board in January 2012 as a Non-executive Director and member of the Remuneration and Risk Committees.
In February 2021, he was appointed a member of the Responsibility & Sustainability Working Group. Kai acts as a designated Non-executive Director for employee engagement matters as set out in the UK Code, for the Group's workforce in Asia and Africa.

Other appointments
— Credit Suisse Group AG
— PSA International Pte Ltd
— Co-Chair of Sustainable Finance Steering Committee formed by Temasek
— Singapore Pools (Private) Limited

Anthony Nightingale CMG SBS JP
Non-executive Director

Re N

Appointments:
Board: June 2013
Chair of the Remuneration Committee: May 2015
Nomination & Governance Committee: May 2015

Age: 73

Relevant skills and experience
Anthony has long executive experience of listed companies and, in particular, extensive knowledge of Asian markets.

Anthony spent his career in Asia, where he joined the Jardine Matheson Group in 1969, holding a number of senior positions before joining the board of Jardine Matheson Holdings in 1994. He was managing director of the Jardine Matheson Group from 2006 to 2012. Anthony was on the Board of Schindler Holding Limited until 19 March 2020.

He was a past chairman of the Hong Kong General Chamber of Commerce and was appointed as an ABAC Representative of Hong Kong, China from 2005 to 2017 and the Hong Kong representative to the APEC Vision Group from 2018 to 2019.

He is the Chairperson of the Sailors Home and Missions to Seafarers in Hong Kong.

Anthony joined the Board in June 2013 as a Non-executive Director and member of the Remuneration Committee. He became Chair of the Remuneration Committee and a member of the Nomination & Governance Committee in May 2015.

Other appointments
— Jardine Matheson Holdings (and other Jardine Matheson group companies)
— Shui On Land Limited
— Vitasoy International Holdings Limited
— The Innovation and Strategic Development Council in Hong Kong

Alice Schroeder
Non-executive Director

A Ri

Appointments:
Board: June 2013
Audit Committee: June 2013
Risk Committee: March 2018
Chair of the Responsibility & Sustainability Working Group: February 2021

Age: 64

Relevant skills and experience
Alice has experience across the insurance, asset management, technology and financial services industries in the US.

Alice began her career as a qualified accountant at Ernst & Young. She joined the Financial Accounting Standards Board as a manager in 1991, overseeing the issuance of several significant insurance accounting standards.

From 1993, she led teams of analysts specialising in property-casualty insurance as a managing director at CIBC Oppenheimer, PaineWebber (now UBS) and Morgan Stanley. Alice was also an independent board member of the Cetera Financial Group and held the office of CEO and chair of WebTuner (now Showfer Media LLC), until its sale in 2017. She was also a director of Bank of America Merrill Lynch International until December 2018.

Alice joined the Board in June 2013 as a Non-executive Director and member of the Audit Committee. She became a member of the Risk Committee in March 2018 and was appointed Chair of the Responsibility & Sustainability Working Group in February 2021.

Other appointments
— Quorum Health Corporation
— Natus Medical Incorporated
— Westland Insurance Group Ltd

Non-executive Directors

Thomas Watjen
Non-executive Director
Re Ri N

Appointments:
Board: July 2017
Remuneration Committee: July 2017
Risk Committee: November 2018
Nomination & Governance Committee: February 2021
Employee Engagement Director: May 2019
Age: 66

Relevant skills and experience
Tom has experience across the insurance, asset management and financial services industries as well as experience with listed companies in the UK and the US.

Tom started his career at Aetna Life and Casualty before joining Conning & Company, an investment and asset management provider, where he became a partner in the consulting and private capital areas. He joined Morgan Stanley in 1987, and became a managing director in its insurance practice.

In 1994 he was appointed executive vice president and chief financial officer of Provident Companies Inc.

He was a key member of the team associated with Provident's merger with Unum in 1999 and was appointed president and chief executive officer of the renamed Unum Group in 2003, a role he held until May 2017. Tom also served on the board of Sun Trust Banks from 2010 until April 2019. In 2019, Tom joined the boards of LocatorX, Inc and in 2020 he joined the board of Arch Capital Group Limited.

Tom joined the Board in July 2017 as a Non-executive Director and member of the Remuneration Committee. He became a member of the Risk Committee in November 2018 and a member of the Nomination & Governance Committee in February 2021. Tom acts as a designated Non-executive Director for employee engagement matters as set out in the UK Code, for the Group's workforce in the US and UK.

Other appointments
— Arch Capital Group Limited
— LocatorX, Inc

Fields Wicker-Miurin OBE
Non-executive Director
Re

Appointments:
Board: September 2018
Remuneration Committee: September 2018
Responsibility & Sustainability Working Group: February 2021
Age: 62

Relevant skills and experience
Fields has extensive international boardroom experience, combining knowledge of the Group's key geographic markets in Asia and Africa with experience across the global financial services industry, including more than 10 years as a non-executive director and committee chair of life insurance and reinsurance companies.

Fields has held a number of senior positions, including senior partner at Strategic Planning Associates, chief financial officer and director of strategy at the London Stock Exchange, and leader of the global markets practice at AT Kearney. She was appointed to Nasdaq's Technology Advisory Council and as an expert on the Panel advising the European Parliament on financial markets harmonisation. She previously chaired the investment committee of the Royal London Group and has chaired the audit committee of Savills plc. From 2004-2014, Fields focused on sub-Saharan Africa, India and China in her role as chair of the investment impact committee of CDC, the UK government's development finance institution.

Fields has served on the boards of three UK Government departments, including the Department of Business, where she chaired the strategic investment committee and was a member of the technology strategy board, and the Department for Digital, Culture, Media and Sport (2016-2020), where she chaired the audit and risk committee.

Fields joined the Board in September 2018 as a Non-executive Director and member of the Remuneration Committee and was appointed a member of the Responsibility & Sustainability Working Group in February 2021.

Other appointments
— BNP Paribas
— SCOR SE
— Leaders' Quest (Partner)

Amy Yip
Non-executive Director
A

Appointments:
Board: September 2019
Audit Committee: March 2021
Age: 69

Relevant skills and experience
Amy has extensive experience of China and South- east Asia following a 40-year career in banking, insurance, asset management and government.

Amy started her career in 1978 and has held a number of senior positions in financial services in Asia. She was formerly head of wealth management of DBS Bank, chair of DBS Asset Management and chief executive officer of DBS Bank Hong Kong. Since 2011 she has been an adviser to Vita Green, a health supplements provider based in Hong Kong.

Amy became a non-executive director of AIG Insurance Hong Kong Limited in 2011 and chairs its audit committee. She became a non-executive director and member of the Technology Committee of Deutsche Börse AG in 2015 and became chair of the Asia Pacific advisory board of EFG Bank International in 2019. Amy served as a member of the compensation and nomination committees of Temenos Group AG from 2014 until May 2020, and as a non-executive director of Fidelity Funds from 2017 until October 2020.

Amy joined the Board in September 2019 as a Non-executive Director and member of the Remuneration Committee. With effect from 3 March 2021, Amy stepped down from the Remuneration Committee and joined the Audit Committee.

Other appointments
— AIG Insurance Hong Kong Limited
— Deutsche Böerse AG
— EFG Bank and EFG Bank International (Chairman, Asia Pacific Advisory Board)

Group Executive Committee

The Group Executive Committee (GEC) comprises the Executive Directors, the Chief Executive of each of Prudential Corporation Asia and Jackson Holdings LLC, the Group Human Resources Director and the Group Chief Digital Officer. The GEC is a management committee constituted to support the Group Chief Executive, who also chairs the GEC. For the purposes of the Hong Kong Listing Rules, Senior Management is defined as the members of the GEC.

Jolene Chen

Group Human Resources Director

Appointment to the GEC: June 2019

Age: 61

Relevant skills and experience

Jolene is the Group Human Resources Director and Chief Human Resources Officer for Prudential Corporation Asia. She is also a member of the Prudential Corporation Asia Executive Board and a Councillor of Prudence Foundation, the community investment arm of Prudential in Asia.

Jolene has more than 30 years' experience, including eight as Chief Human Resources Officer for Prudential Corporation Asia. Prior to joining us she spent over 21 years with multinational companies in a variety of resourcing, organisational design, talent management, learning and development and human resources roles.

Nicolaos Nicandrou

Chief Executive, Prudential Corporation Asia

Appointment to the GEC: October 2009

Age: 55

Relevant skills and experience

Nic became Chief Executive of Prudential Corporation Asia in July 2017 and is responsible for Prudential Corporation Asia's life insurance and asset management business across 14 markets in Asia. Nic is also the chairman of CITIC-Prudential Life Insurance Limited.

Nic started his career at PricewaterhouseCoopers (PwC). Before joining Prudential as an Executive Director and Chief Financial Officer in 2009, he worked at Aviva, where he held a number of senior finance roles, including as Norwich Union Life's finance director and board member, Aviva group financial control director, Aviva group financial management and reporting director and CGNU group financial reporting director.

Laura Prieskorn

Chief Executive Officer, Jackson Holdings LLC

Appointment to the GEC: February 2021

Age: 53

Relevant skills and experience

Laura is Chief Executive Officer of Jackson Holdings LLC, which includes Jackson's US subsidiaries and affiliates. Prior to this, as Executive Vice President and Chief Operating Officer, Laura was responsible for leading Jackson's operations and technology teams as well as the business integration efforts directed at continuously supporting and improving the client, adviser and distribution partner experience. Laura joined Jackson in August of 1989, and during her career at the company has held a variety of senior roles, including membership of the Executive, Investment and Product Committees.

She earned a bachelor's degree from Central Michigan University in business administration.

Al-Noor Ramji

Group Chief Digital Officer

Appointment to the GEC: January 2016

Age: 66

Relevant skills and experience

Al-Noor, who joined Prudential in 2016 in the newly-created role of Group Chief Digital Officer, is responsible for developing and executing an integrated, long-term digital strategy for the Group.

Before joining Prudential, he worked at Northgate Capital, a venture capital firm in Silicon Valley, where he ran the technology-focused funds. Prior to that, Al-Noor was at Misys, the financial services software group, and he has previously held leading technology and innovation roles at BT Group, Qwest Communications, Dresdner Kleinwort Benson and Swiss Bank Corporation.

A B C D E F G H I
J K L M N O P Q R

UK Corporate Governance Code Principles

The UK Corporate Governance Code requires that we demonstrate how we have applied the Principles of the Code (listed below). Throughout the Annual Report we have inserted red-circled letters to indicate which section, page or paragraph demonstrates our compliance.

Board leadership and company purpose

A A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

B The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

C The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

D In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

E The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Division of responsibilities

F The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

G The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

H Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

I The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Composition, succession and evaluation

J Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

K The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

L Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Audit, risk and internal control

M The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

N The board should present a fair, balanced and understandable assessment of the company's position and prospects.

O The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Remuneration

P Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

Q A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

R Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

How we operate

This section tells you more about the Group's governance, operation of the Board and Board roles.

Group governance

Corporate governance codes – statement of compliance
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). This report explains how the principles set out in the UK and HK Codes have been applied.

The Board confirms that, for the year under review, the Company has complied with the principles and provisions of the UK Code. Please see page 127 where we set out how we have applied the principles.

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 E.1.2 of the HK Code could not be complied with).

The UK Code is available from:
www.frc.org.uk

The HK Code is available from:
www.hkex.com.hk

C I O

Our governance framework
The Group has established a governance framework for the business, which is approved by the Board, and is designed to promote appropriate behaviours across the Group. The Nomination & Governance Committee keeps material changes to the governance arrangements under review.

The governance framework includes the key mechanisms through which the Group sets strategy, plans its objectives, monitors performance, considers risk management, holds business units to account for delivering on business plans and arranges governance.

Group Governance Manual
The Group Governance Manual (the Manual) sets out the policies and procedures under which the Group operates, taking into account statutory, regulatory and other relevant matters. The Manual includes the Group Code of Business Conduct which is regularly reviewed by the Board. The Risk Committee approves the Group Risk Framework, an integral part of the Manual, and the Audit Committee monitors Group-wide compliance with the Manual throughout the year.

Business units manage and report compliance with the Group-wide mandatory requirements set out in the Manual through annual attestations. This includes compliance with our risk management framework, details of which are set out on pages 139 to 140 of this report.

The content of the Manual is reviewed regularly, reflecting the developing nature of both the Group and the markets in which it operates, with significant changes on key policies reported to the relevant Board Committee.

Subsidiary governance
Since the demerger of M&G plc in October 2019, the Group has made changes to its subsidiary audit and governance arrangements to reflect the changing shape of the Group, in particular with respect to the Asia business. The Group Audit and Risk Committees have established direct links to the audit and risk committees of the four major Asia insurance businesses, Hong Kong, Indonesia, Malaysia and Singapore. Arrangements include regular reports and calls between the Chairs of the Group committees and the local committee chairs, with an open invitation to the Group Committee Chairs to attend the committee meetings of the major Asia business.

In addition, an internal legal restructuring has been undertaken to form a holding company for Eastspring managed entities, Eastspring Investments Group Pte. Ltd. This has created a regional board as well as audit and risk committees with consolidated oversight across the Eastspring business unit and a direct link to the Group-level Audit and Risk Committees.

Other Prudential Corporation Asia businesses also operate local audit and risk committees, with standard terms of reference. Those committees report to the Group-level committees through written updates provided by the attendees from Group functions.

The Nomination & Governance Committee is responsible for oversight of governance arrangements for the significant subsidiaries. A report on the activities of the Nomination & Governance Committee during 2020 can be found on pages 141 to 149.

Regulatory environment
Following the demerger of M&G plc on 21 October 2019, the Group-wide supervisor of Prudential changed to the Hong Kong Insurance Authority (the Hong Kong IA). 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 includes requirements for Hong Kong insurance groups to have in place appropriate corporate governance arrangements and to maintain appropriate internal controls for the oversight of their business.

Individual regulated entities within the Group continue to be subject to entity-level regulatory requirements in the relevant jurisdictions in which they carry on business.

Interactions with regulators shape the Group's governance framework and the Chair, Group Chief Executive, Group Chief Risk Officer and Compliance Officer, and the Chief Executive of Prudential Corporation Asia play a leading role in representing the Group to regulators and ensuring our dialogue with them is constructive.

Terms of reference for each of the Board's principal Committees have been updated to align their duties with the changes expected under the GWS Framework.

B D E

Stakeholder engagement

Information on the Board's engagement with, and discussion of, stakeholder views as part of the Board decision-making process can be found on pages 78 to 81. Additional information can be found on our website at www.prudentialplc.com/about-us/esg/our-approach

Employee voice

The Board has designated two Non-executive Directors to represent the workforce; Kai Nargolwala with responsibility for Asia and Africa, and Tom Watjen with responsibility for the US and the UK.

The Board received an update on activities undertaken and themes arising for consideration on a six-monthly basis. Kai Nargolwala and Tom Watjen offer their insight to Board discussions and decisions as part of the Board's consideration of the workforce as key stakeholders. Kai Nargolwala will be retiring at the AGM in May and post the proposed separation of Jackson the work he and Tom Watjen undertook will be continued by the Responsibility & Sustainability Working Group. As part of this, the Working Group will consider the best method for employee engagement in the longer term, to ensure this is tailored to the culture and strategic priorities of the refocused Group following the proposed separation of the Jackson business, and make a recommendation to the Board for implementation following the 2022 Annual General Meeting.

Please see the Section 172 statement on pages 78 to 81 for an overview of the activities undertaken during 2020.

Shareholders

The Board recognises the importance of maintaining an appropriate level of two-way communication with shareholders. The Group holds an ongoing programme of regular contact with major shareholders, conducted by the Chair, to discuss their views on the Group's governance. The Senior Independent Director and the Committee Chairs are available at the request of shareholders. Engagement with institutional investors on the Directors' Remuneration Policy and implementation is led by the Remuneration Committee Chair on an annual basis.

During 2020, in addition to the governance meetings held with investors by Paul Manduca, Shriti Vadera met with a large number of our major investors as part of her introduction to the business. The Chair of the Remuneration Committee also engaged with our investors on the Directors' Remuneration Policy. Please see our Section 172 Statement on pages 78 to 81 for more information on interactions with shareholders and other key stakeholders.

Due to the UK government restrictions to limit the spread of Covid-19, the AGM on 14 May 2020 chaired by Paul Manduca was held as a 'closed meeting' with just two shareholders to provide the requisite quorum to enable the formal business of passing resolutions to be conducted. In recognising the continuing importance of the AGM as an opportunity to engage with shareholders, the Board encouraged participation from shareholders. The revised meeting arrangements included an option for shareholders to submit questions to the Board in advance of the meeting, the answers to which were posted on the Company's website, and shareholders were also asked to vote their shares by proxy ahead of the meeting. Prudential kept shareholders informed through its website and released a number of updates during the period of the Covid-19 pandemic, including a Q1 business update and other presentations.

Notwithstanding the pandemic and related unprecedented measures and circumstances, the Board continues to receive regular updates on shareholder engagement activities.

A B C D H I

Operation of the Board

How the Board leads the Group

The Group is headed by a Board led by the Chair.

The Board currently consists of 13 Directors, of which a majority, excluding the Chair are independent Non-executive Directors. Biographical details of each of the Directors can be found on pages 122 to 126 and further details of the roles of the Chair, Group Chief Executive, Senior Independent Director, Committee Chairs and the Non-executive Directors can be found on pages 134 to 136.

The Board is collectively responsible to shareholders for the long-term sustainable success of the business through:

- Establishing the Company's purpose, values and strategy and satisfying itself that these are aligned with the Group's culture;
- Approving the Group's long-term strategy, strategic objectives, capital allocation, annual budgets and business plans, recommended by the Group Chief Executive, and any material changes to them;
- Monitoring the implementation of strategic objectives; and
- Assessing and monitoring culture, including alignment with policy, practices, behaviours and risk appetite.

Specific matters are reserved for decision by the Board, including:

- Approving dividend policy and determination of dividends or other capital distributions;
- Approving of strategic projects;
- Approving of the three-year business and financial plan;
- Appointing and removing of Directors and the Company Secretary;
- Approving of the Group's full and half-yearly results announcements and any other periodic financial reporting;
- Ensuring an effective system of internal control and risk management is in place, maintained and reviewed at least annually;
- Approving the Group's overall risk appetite and tolerance; and
- Ensuring effective engagement with, and encouraging participation from, key stakeholder groups.

Key areas of focus – how the Board spent its time
The Board held nine meetings during 2020. The table below gives an indication of the key topics considered at each meeting.

	Feb	Mar	Apr	May	Jul	Aug[1]	Sep	Dec
Strategy and implementation								
Approval and review of strategic priorities	●	○	○	○	○	○	○	○
Strategic priorities monitoring	○	○	○	●	●	○	●	●
Approval of three-year operating plan	○	○	○	○	○	○	○	●
Strategic projects[2]	○	●	●	●	●	○	●	●
Group Chief Executive's report	●	○	●	●	●	○	●	●
Report from Committee Chairs								
Audit	●	●	○	●	●	●	●	●
Nomination & Governance	●	○	○	○	●	○	○	●
Remuneration	●	●	●	○	●	○	●	●
Risk	●	○	●	●	●	○	●	●
Financial reporting and dividends								
Group Chief Financial Officer's performance report	●	○	●	●	●	○	●	●
Full-year and 2019 second interim dividend	●	●	○	○	○	○	○	○
Half-year and 2020 first interim dividend	○	○	○	○	●	●	○	○
Cash, capital and operations reports	●	○	○	●	●	○	●	●
Business unit Chief Executive updates								
Prudential Corporation Asia	●	○	●	●	●	○	●	●
Jackson	●	○	●	●	●	○	●	●
Risk, regulatory and compliance								
Regulatory and Government Relations updates	●	○	○	●	●	○	●	●
Group Chief Risk and Compliance Officer's report	●	○	●	●	●	○	●	●
Governance and stakeholders								
Key governance developments	●	○	○	●	●	○	●	●
Culture and employee engagement	●	○	○	○	●	○	○	●
Board evaluation and actions tracking	●	○	○	○	○	○	●	●
Succession planning	●	○	○	○	○	○	○	●
Corporate responsibility reporting and ESG	●	●	●	○	○	○	○	●
Diversity and inclusion	●	○	○	○	○	○	○	○
Non-executive Directors' fees	○	○	○	●	○	○	○	○
Investor updates including feedback on investor meetings	●	○	●	●	●	○	●	●
Audit tender	○	○	○	○	○	○	○	●

Notes
1 Two meetings for the 2020 Half Year Accounts were held in August.
2 Strategic projects considered during the year included the bancassurance partnership with TMB and Thanachart, the proposed separation of Jackson and various aspects of the strategic positioning of the Group, the Athene transaction, and the expansion of Pulse and associated commercial partnerships.

The Board held a separate workshop focusing on the proposed separation of Jackson in January and a three-day strategy event in June.

Between meetings, the Board is provided with monthly update reports from management.

Board and Committee meeting attendance throughout 2020

Individual Directors' attendance at meetings throughout the year is set out in the table below.

		Board 9 meetings	**Audit Committee** 11 meetings	**Nomination & Governance Committee** 6 meetings	**Remuneration Committee** 5 meetings	**Risk Committee** 8 meetings	**Joint Audit and Risk Committee** 2 meetings	**General Meetings**[1] 1 meeting
Chairman	Paul Manduca	●●●●●●●●●		●●●●●[2]				●
Executive Directors	Mike Wells	●●●●●●●●●						
	Mark FitzPatrick	●●●●●●●●●						
	James Turner	●●●●●●●●●						
Non-executive Directors	Philip Remnant	●●●●●●●●●	●●●●●●●●●●●	●●●●●●	●●●●●		●	
	Jeremy Anderson	●●●●●●●●●	●●●●●●●●●●●	●●●[3]		●●●●●●●●	●●	
	Howard Davies[4]	●●●●	●●●●	●●●		●●●	●	
	David Law	●●●●●●●●●	●●●●●●●●●●●	●●●●●●		●●●●●●●●	●●	
	Kai Nargolwala	●●●●●●●●●			●●●●●	●●● ●●●●	●●	
	Anthony Nightingale	●●●●●●●●●		●●●●●●	●●●●●			
	Alice Schroeder	●●●●●●●●●	●●●●●●●●●●●			●●●●●●●●	●●	
	Tom Watjen	●●●●●●●●●			●●●●●	●●●●●●●●	●●	
	Fields Wicker-Miurin	●●●●●●●●●			●●●●●			
	Amy Yip	●●●●●●●●●			●●●●●			
	Shriti Vadera[5]	●●●●●●		●●●●				

Notes

1 Due to the Covid-19 restrictions in the UK, only the Chairman attended the Annual General Meeting with the Company Secretary.
2 Paul Manduca recused himself from a meeting of the Nomination & Governance Committee which was convened to discuss his succession plans.
3 Jeremy Anderson was appointed a member of the Nomination & Governance Committee with effect from 14 May 2020.
4 Howard Davies stepped down from the Board with effect from the conclusion of the AGM held on 14 May 2020.
5 Shriti Vadera was appointed a member of the Board and of the Nomination & Governance Committee with effect from 1 May 2020.

Board and Committee papers are usually provided one week in advance of a meeting. Where a Director is unable to attend a meeting, his or her views are canvassed in advance by the Chair of that meeting where possible.

Board effectiveness

L

Actions during 2020 arising from the 2019 review

The performance evaluation of the Board and its principal Committees for 2019 was conducted internally at the end of 2019 through a questionnaire. The findings were presented to the Board in February 2020 and an action plan was agreed to address areas of focus identified by the evaluation.

The review confirmed that the Board continued to operate effectively during the year and no major areas requiring improvement were highlighted.

Set out below are the themes, summary of actions and progress updates:

Theme	Summary of actions	Progress
Board composition and process	— Continue to use workshops, as appropriate, to support discussions. — Monitor Board meeting arrangements in the post-demerger context and ensure strategic focus areas, including culture and values, continue to receive appropriate agenda time.	— The workshop format has been used to enable more Board time for discussion where appropriate. — Meeting arrangements have been adapted in response to Covid-19 travel restrictions, including technology upgrades and meeting adjustments to maximise time available and enable Directors to continue to focus on key strategic areas.
Risk, Capital and Audit	— Keep Board training in this area under review and schedule additional sessions as appropriate.	— The Board continued to receive relevant updates during the year. Due to Covid-19 related travel restrictions, on-site sessions were not possible but will resume once restrictions have eased. More details on Board and Committee training is included on page 138.
Stakeholders	— Continue to develop and embed reporting by the designated Non-executive Directors on workforce engagement.	— The roles of the two Designated Non-executive Directors were embedded during 2020 and the Board received reports on their activities. — The Responsibility & Sustainability Working Group established in February 2021 (as described on page 137) will take over the role of workforce engagement from the 2021 AGM until the 2022 AGM. It will also consider and make a recommendation to the Board on the most appropriate method for workforce engagement thereafter.
People	— Continue to develop reporting on talent management, succession pipeline and D&I, utilising the expanded role of the Nomination & Governance Committee.	— Talent management and D&I has been more firmly embedded within the processes across the business, which was reinforced as part of the culture framework developed during the year. — Reporting has been expanded and includes more forward-looking assessments and metrics which are being developed by the newly established D&I Council as part of the Group's D&I strategy.

2020 review and actions for 2021
The performance evaluation of the Board and its principal Committees for 2020 was conducted externally by Independent Board Evaluation, an independent consultancy. The external nature of the review met the provisions of the UK Corporate Governance Code which requires external evaluations on no less than three-yearly intervals.

The evaluation covered the Board, each of the principal committees, and an individual assessment of the Chair and each of the other Non-executive Directors. The Board evaluation focused on Board performance and focus, Board composition, succession planning and induction, and support provided to Board members. The evaluation included seeking feedback from each Director, the Company Secretary and senior management.

Interviews were held with all Board members and other stakeholders, and these were supplemented by attendance and observation at a number of Board and Committee meetings. Supporting materials to enhance understanding of how the Board and its Committees operate were provided.

The findings were presented to the Nomination & Governance Committee and the Board in December 2020 and collective Committee and Board discussions to exchange ideas and agree priorities arising from the report took place.

The Board agreed an action plan to respond to the recommendations at its meeting in February.

I

The report identified a number of strengths of the Board, including a strong Board culture of engagement and collaboration, strong governance and compliance, and clear, timely information being provided to support Board meetings. The evaluation concluded that the Board and its principal committees were operating effectively. Some areas were identified for development in order to support the onboarding of new Board members and to keep pace with the transformation of the Group.

Through the evaluation and subsequent additional discussion at the Board meeting in February 2021, the Board identified areas of particular focus and related actions:

Theme	Summary of actions
Maximising Board inclusivity	— Enhance induction processes to leverage new Board members' skills as quickly as possible. — Recognising the challenge with current travel restrictions, create more opportunities for less formal discussion among Board members.
Focusing on the People and ESG Agenda	— Consider how best to give additional Board time and focus to the ESG and people agenda.
Improvements to Board information flows	— As the shape of the Group changes, build up Board members' depth of knowledge of the Asia and Africa business and re-focus the Board agenda to maximise time considering business performance and strategy on a more granular basis. — Review and strengthen links with subsidiary boards to leverage insight and support from those boards.
Improvements to Board processes	— Consider processes for briefings outside of meetings to support inclusivity and maximise ways in which Board members benefit from each other's experience and expertise.

Director evaluation
The performance of Directors during 2020 was evaluated by Independent Board Evaluation as part of the overall Board evaluation programme. Feedback on individual performance of Non-executive Directors was provided to the then Chair designate, who held discussions with each of them at the start of 2021 on becoming Chair. Feedback on the performance of the then Chair designate was separately provided to, and discussed with her, by the Senior Independent Director. Feedback on the performance of the Executive Directors, in their capacity as Board Directors, was also provided to the Chair designate, who discussed feedback with each of them separately.

The performance of Executive Directors, in their capacity as Executives, is subject to regular review; Paul Manduca assessed the performance of the Group Chief Executive while Mike Wells individually appraised the performance of each of the Executive Directors as part of the annual Group-wide performance evaluation of all employees. The Chair of the Risk Committee provided feedback to the Group Chief Executive on the performance of the Group Chief Risk and Compliance Officer.

The outcome of each of these evaluation processes is reported to the Nomination & Governance Committee in February each year in order to inform the Committee's recommendation for Board members to be put forward for re-election by shareholders.

Executive Director performance is also reviewed by the Remuneration Committee as part of its deliberations on bonus payments.

Directors

A B C D E F G H

Board roles and governance

Chair – Shriti Vadera

The Chair is responsible for leadership of the Board and managing Board business. She ensures, in collaboration with the Group Chief Executive and senior management, that the appropriate issues are brought to the Board, that there is a culture of openness and debate, and that the Board is setting the right tone from the top.

Other aspects of the Chair role include:

Leadership and succession planning

- Responsible for the leadership and the governance of the Board as a whole, demonstrating objective judgement, the highest standards of integrity and probity, and ethical leadership
- Responsible for developing, in conjunction with the Nomination & Governance Committee and the Group Chief Executive, an effective Board as regards its composition, skills and competencies
- Leading the Board in discharging its responsibility in respect of the appointment and removal of Directors
- Leading periodic evaluations, including externally facilitated evaluations, of the Board, its Committees and individual Directors
- Leading the Board in holding to account the performance of management and individual executive directors against agreed performance objectives
- Working with the Nomination & Governance Committee, ensuring that Directors receive a full formal and tailored induction programme, that their development needs are identified and that they keep their skills and knowledge up to date

Managing Board business

- Setting the Board agenda and ensuring, in collaboration with the Group Chief Executive, and the Company Secretary, that appropriate issues are brought to the Board's attention
- Maintaining an effective and constructive liaison with the Non-executive Directors, encouraging their engagement so as to maximise their contribution to the work of the Board and also ensuring constructive relations between Executive and Non-executive Directors
- Meeting with Non-executive Directors independently of the Executive
- Ensuring, in collaboration with management, that information brought to the Board is accurate, clear, timely and contains sufficient analysis appropriate to the scale and nature of the decisions to be made
- Ensuring the Board has effective decision-making processes and applies sufficient challenge to major proposals
- Promoting effective reporting of Board Committee business at Board meetings through regular Committee Chair updates

Relations with shareholders and other stakeholders

- Ensuring effective communication with shareholders and that relevant governance and strategy issues are discussed with major shareholders and that their views are communicated to the Board as a whole
- Representing the Board externally at business, political and community level. Alongside the Group Chief Executive, presenting the Group's views and positions as determined by the Board on key public policy and industry matters and communicating them effectively to governments, other public organisations and regulatory authorities
- Balancing the interests of different categories of stakeholders, preserving an independent view and ensuring effective communication, ensuring that the Board listens to the views of key stakeholders

External positions

- Approving Directors' external positions prior to them being accepted, taking into account the required time commitment and escalating consideration of conflicts of interest to the Nomination & Governance Committee as required

Group Chief Executive – Mike Wells

The Group Chief Executive leads the Executive Directors and senior executives and is responsible for the operational management of the Group on behalf of the Board on a day-to-day basis.

- Responsible for the implementation of Board decisions
- Establishes processes to ensure operations are compliant with regulatory requirements
- Sets policies, provides day-to-day leadership and makes decisions on matters affecting the operation, performance and strategy of the Group, seeking Board approval for matters reserved to the Board
- Supported by the Group Executive Committee which he chairs and which reports to him on performance and implementation of strategy for each business unit and discusses major projects and other activities related to the attainment of strategy
- Chairs the Chief Executive Committee meetings which are held weekly to review matters requiring approval under the Group's framework of delegated authorities
- Keeps in regular contact with the Chair and briefs her on key issues
- Meets with key regulators worldwide
- Leads on day-to-day effective stakeholder engagement

Committee Chairs

Each of the Committee Chairs is responsible for the effective operation of their respective Committee.

- Responsible for the leadership and governance of their Committee
- Sets the agenda for Committee meetings
- Reports to the Board on the activities of each Committee meeting and the business considered, including, where appropriate, seeking Board approval for actions in accordance with the Committee's terms of reference
- Works with the Company Secretary to ensure the continued good governance of each Committee

In addition to Committee duties, the Chairs of the Audit and Risk Committees act as key contact points for the independent chairs of the audit and risk committees of the significant subsidiaries

Senior Independent Director – Philip Remnant

The Senior Independent Director acts as an alternative conduit to the Board for shareholder concerns and leads the evaluation of the Chair.

- Acts as a sounding board for the Chair, providing support in the delivery of the Chair's objectives, and acts as an intermediary for the other Directors and shareholders
- Leads the Non-executive Directors in conducting the Chair's annual evaluation and leads the Chair's succession planning
- Holds meetings with Non-executive Directors without management being present, typically at least once a year to evaluate the performance of the Chair
- Offers meetings to major shareholders to provide them with an additional communication point on request and is generally available to any shareholder to address concerns not resolved through normal channels
- During periods when significant issues are faced by the Company, works closely with the Chair and the other Directors or shareholders, providing support during exceptional circumstances to resolve any issues.

Non-executive Directors

All of the Non-executive Directors are currently deemed to be independent, which is assessed annually, and together have a wide range of experience which can be applied to attain the strategic aims of the Group.

- Constructive and effective challenge
- Providing strategic guidance and offering specialist advice
- Scrutinising and holding to account the performance of management in meeting agreed goals and objectives
- Serving on at least one of the Board's principal Committees
- Engaging with Executive Directors and other senior management at Board and Committee meetings and on an informal basis

The Board has established four principal Committees. These Committees form a key element of the Group governance framework, providing effective independent oversight of the Group's activities by the Non-executive Directors. Each Committee Chair provides an update to the Board on the matters covered at each Committee meeting, supported by a short written summary. The terms of reference for each Committee are reviewed at least annually. The functions of the principal Committees are summarised below.

Nomination & Governance Committee

Chair
Shriti Vadera

- Facilitates the Board in meeting its responsibilities to plan and execute timely Group Chief Executive succession and works with the Group Chief Executive to plan and execute Executive Director succession
- Ensures suitable succession plans are in place for the Board and senior executives to achieve the Group's strategic objectives, ensuring plans are based on merit and against objective criteria
- Recommends appointments to the Board and its principal Committees
- Oversees development of a diverse pipeline in the executive succession plan and talent management
- Assists the Board in the development of a Group-wide approach to all forms of diversity and inclusion
- Oversees the Group's overall governance framework, including the governance arrangements of the Group's significant subsidiaries

See Nomination & Governance Committee report on pages 141 to 149 ›

Remuneration Committee

Chair
Anthony Nightingale

- Ensures there is a formal and transparent process for establishing the Directors' Remuneration Policy
- Approves individual remuneration packages of the Chair, Executive Directors, other members of the Group Executive Committee and the Company Secretary
- Approves the overall Remuneration Policy for the Group
- Reviews the design and development of share plans operated for Executive Directors and others requiring shareholder approval, and approves and assesses performance targets where applicable
- Reviews workforce remuneration practices and policies when setting executive remuneration, as well as the alignment of incentives and awards with culture

See Remuneration Committee report on pages 172 to 202 ›

Audit Committee

Chair
David Law

- Responsible for the integrity of the Group's financial reporting, including scrutinising accounting policies, and reporting to the Board on significant reporting issues and judgements
- Monitors the effectiveness of internal control and risk management systems
- Monitors the effectiveness and objectivity of internal and external auditors
- Approves the internal audit plan
- Recommends the appointment of the external auditor
- Reviews the adequacy and security of the Group's whistleblowing procedures (known as Speak Out) and ensures that there is proportionate and independent investigation of matters raised with appropriate follow-up action

See Audit Committee report on pages 150 to 160 ›

Risk Committee

Chair
Jeremy Anderson

- Provides leadership and direction on and oversees the Group's overall risk appetite, risk tolerance and strategy
- Approves the Group's risk management framework and monitors its effectiveness
- Responsibility for all aspects of compliance
- Supports the Board and management in embedding and maintaining a supportive culture in relation to the management of risk, compliance and treating customers fairly
- Provides advice to the Remuneration Committee on risk management considerations to inform remuneration decisions

See Risk Committee report on pages 161 to 167 ›

Terms of reference for the principal Committees can be accessed at www.prudentialplc.com/investors/governance-and-policies/board-and-committees-governance

Standing Committee

The Board has established a Standing Committee which can meet as required to assist with any business of the Board. It is typically used for ad hoc urgent matters which cannot be delayed until the next scheduled Board meeting. All Directors are members of the Standing Committee and have the right to attend all meetings and receive papers.

Notice of a Standing Committee meeting is sent to all Directors and if an individual is unable to attend, that individual can give comments to the Chair or Company Secretary ahead of the meeting for consideration by the Standing Committee. Before taking decisions on any matter, the Standing Committee must first determine that the business it is intending to consider is appropriate for a Committee of the Board and does not properly need to be brought before the whole Board. All Standing Committee meetings are reported in full to the next scheduled Board meeting.

This governance structure allows for fast decision-making where necessary, while ensuring that the full Board has oversight of all matters under consideration and all Non-executive Directors can contribute. Over 2020, the Company held three meetings of the Standing Committee.

Responsibility & Sustainability Working Group

Chair
Alice Schroeder

Following the Board's approval in December 2020 of a new Environmental, Social and Governance (ESG) Strategic Framework, the Board recognises that the next 18 months will be critical for the embedding of the framework within the Group, as well as for the progress of related matters such as the development and embedding of the Group's Purpose and Values, progressing diversity & inclusion (D&I) priorities, and building upon employee engagement activities in 2020.

To ensure an appropriate level of Board engagement in, and oversight of, these matters, the Board has established for the period up to the 2022 AGM a Responsibility & Sustainability Working Group, to be chaired by Alice Schroeder. As part of its remit, the Working Group will consider and recommend to the Board appropriate long-term governance arrangements for these matters. It will also take on employee engagement activities after the 2021 AGM.

Building Directors' knowledge

Induction – new Directors

Jeremy Anderson and Shriti Vadera received a comprehensive induction, tailored to reflect their respective experience and positions on the Board.

A summary of the general induction programme for Non-executive Directors is set out below:

General induction programme relevant to new Non-executive Directors

Understanding our governance	Understanding our business
— Meetings with the Chair and Group Chief Executive separately — Explanation of Prudential's corporate structure, Board and Executive Committee structure — Briefings on Group governance framework and key policies — Training as needed on the rules and governance requirements of the London and Hong Kong Stock Exchanges and on fulfilling the statutory duties of a Director	— Introduction to the Group's strategy and business plan — Tailored briefings with senior executives from each business unit, including site visits, to facilitate a comprehensive understanding of local business models, product suites, pricing arrangements and governance structures — Tailored meetings with all Group-wide functions — Comprehensive briefings on the regulatory environment in which the Group operates — Briefings on top risks and internal controls — Induction briefings and updates during the year provide Directors with an understanding of the interests of the Group's key stakeholders

D

Role-specific induction for Jeremy Anderson focused on briefings from senior management in Group Risk across the Group and briefings from the outgoing Group Risk Committee Chair. Shriti Vadera worked with the outgoing Chairman, Paul Manduca and met extensively with the Group's major shareholders to shape her understanding of their views and concerns and share her vision as incoming Chair. Ms Vadera also held multiple meetings with each of the Non-executive Directors, members of management and country level teams from across the Group, including on physical visits to Hong Kong and Singapore, and with the Group's key advisers, as part of her induction activities.

Continuing development of knowledge and skills

B

During 2020, the Board and its Committees received a number of technical and business updates as part of their scheduled meetings, providing information on external developments relevant to the Group and on particular products or operations. Below is an overview of how Directors are kept up to date:

- The Board virtually held an annual strategy session, and across the year received updates on key business areas and deep dives on strategic direction and objectives for the Group.
- The Board receives updates on environment, culture, diversity and inclusion and employee engagement activities.
- The Board receives updates on corporate governance, political and regulatory developments in the US, UK, Europe and Asia and the dynamics of equity and currency markets at every scheduled meeting. Governance topics included audit effectiveness (Brydon Report), Board-level diversity and inclusion, ESG matters, developments in corporate reporting, executive remuneration, and proxy advisory guidance updates.
- In May 2020, an information security and privacy update was provided to members of the Risk and Audit Committees, to which all Non-executive Directors were invited.
- The Nomination & Governance Committee received updates on Climate Change and the Task Force on Climate-related Financial Disclosures (TCFD) implementation, the ESG Strategic Framework, health & safety and diversity & inclusion.
- The Board and the Risk Committee receive regular updates on market developments and key risks.
- The Risk Committee reviews top risks on an annual basis and deep dives into specific topics in response to the identification of key risks. This review covers the financial, operational and strategic risks, while also identifying and addressing business environment and insurance risks within the Group.
- The Risk Committee received updates on regulatory developments and the discussions with the Hong Kong IA on the new regulatory regime and regular updates on geo-political developments. Other topics discussed by the Risk Committee included the Group Culture Framework, ESG Strategy and climate change transition risk, the impact of a sustained low interest rate environment, operational resilience during Covid-19, the Group Internal Economic Capital Assessment Model, and regular updates on the Group's capital and solvency positions as well as geopolitical developments.
- The Audit Committee received updates on relevant developments affecting financial reporting and the role of audit committees more widely. The Committee receives a regular report on financial and tax reporting matters for discussion, including the local capital summation method disclosures, the Group's capital metric, and its underlying methodology. Other topics discussed by the Audit Committee included the audit tender process, IFRS 17 developments and the Group-wide Supervision assurance approach by the Hong Kong Insurance Authority.
- The Remuneration Committee receives updates on regulatory and best practice developments affecting the Group's remuneration arrangements. This included the Shareholders' Rights Directive II and updates on proxy advisory guidance impacting remuneration.

All Directors have the opportunity to discuss their individual development needs as part of their Director evaluations and are encouraged to request specific updates during the year. At the start of the year, suggested topics are shared with the Board for feedback. Directors are asked to provide information on any external training or development on an annual basis. All Directors have the right to obtain professional advice at Prudential's expense. Board training materials are also made available, as relevant, to Group Executive Committee members.

C M

Risk management and internal control

The Board is responsible for ensuring that an appropriate and effective system of risk management and internal control is in place across the Group. The framework of risk management and internal control centres on clear delegated authorities to ensure Board oversight and control of important decisions. The framework is underpinned by the Group Code of Business Conduct, which sets out the ethical standards the Board requires of itself, employees, agents and others working on behalf of the Group, and is supported by a set of Group-wide principles and values that define how the Group expects business to be conducted in order to achieve its strategic objectives. The framework is designed to monitor and manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal control

The Group Governance Manual (the Manual) sets out the general principles by which we conduct our business and ourselves and defines our Group-wide approach to Governance, Risk Management and Internal Control. Further information on the Manual is included in the Governance Framework section on page 128. Group-wide policies, internal controls and processes, based on the provisions established in the Manual, are in place across the Group. These include controls covering the preparation of financial reporting. The operation of these controls and processes facilitates the preparation of reliable financial reporting and the preparation of local and consolidated financial statements in accordance with the applicable accounting standards, and requirements of the Sarbanes-Oxley Act. These controls include certifications by the Chief Executive and Chief Financial Officer of each business unit with respect to the accuracy of information provided for use in preparation of the Group's consolidated financial reporting, and the assurance work carried out in respect of US reporting requirements.

The Board has delegated authority to the Audit Committee to review the framework and effectiveness of the Group's system of internal control. The Audit Committee is supported in this responsibility by the assurance work carried out by Group-wide Internal Audit and the work of the audit committees of the Group's major businesses, which oversee the effectiveness of controls in each respective business. Details of how the Audit Committee oversees the framework of controls and their effectiveness on an ongoing basis, is set out more fully in the report on pages 150 to 160.

Risk management

A key component of the Manual is the Group Risk Framework, which requires all business units to establish processes for identifying, evaluating and managing the risks facing the business.

The Board determines the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Board has delegated authority to the Risk Committee to assist it in providing leadership, direction and oversight of the Group's overall risk appetite, risk tolerance and strategy; overseeing and advising on the current and potential future risk exposures of the Group, reviewing and approving the Group's risk management framework, including changes to risk limits within the overall Board approved risk appetite, monitoring the effectiveness of the risk management framework and adherence to the various risk policies. Regular activities are detailed in the report on pages 45 to 69.

The Group's risk governance arrangements, which support the Board, the Risk Committee and the Audit Committee, are based on the principles of the 'three lines of defence' model: risk taking and management, risk control and oversight, and independent assurance.

Three lines of defence

First line of defence (risk taking and management)

- Takes and manages risk exposures in accordance with the risk appetite, mandate and limits set by the Board;
- Identifies and reports the risks that the Group is exposed to, and those that are emerging;
- Promptly escalates any limit breaches or any violations of risk management policies, mandates or instructions;
- Identifies and promptly escalates significant emerging risk issues; and
- Manages the business to ensure full compliance with the Group risk management framework as set out in the Manual, which among other requirements, includes the Group Risk Framework and associated policies as well as approval requirements.

Second line of defence (risk control and oversight)

- Assists the Board to formulate the risk appetite and limit framework, risk management plans, risk policies, risk reporting and risk identification processes; and
- Reviews and assesses the risk-taking activities of the first line of defence, providing risk opinions and where appropriate challenging the actions being taken to manage and control risks.

Third line of defence (independent assurance)

- Provides independent assurance on the design, effectiveness and implementation of the overall system of internal control, including risk management and compliance.

Each business unit is required to implement a governance structure based on the three lines of defence model, proportionate to its size, nature and complexity, and to the risks that it manages.

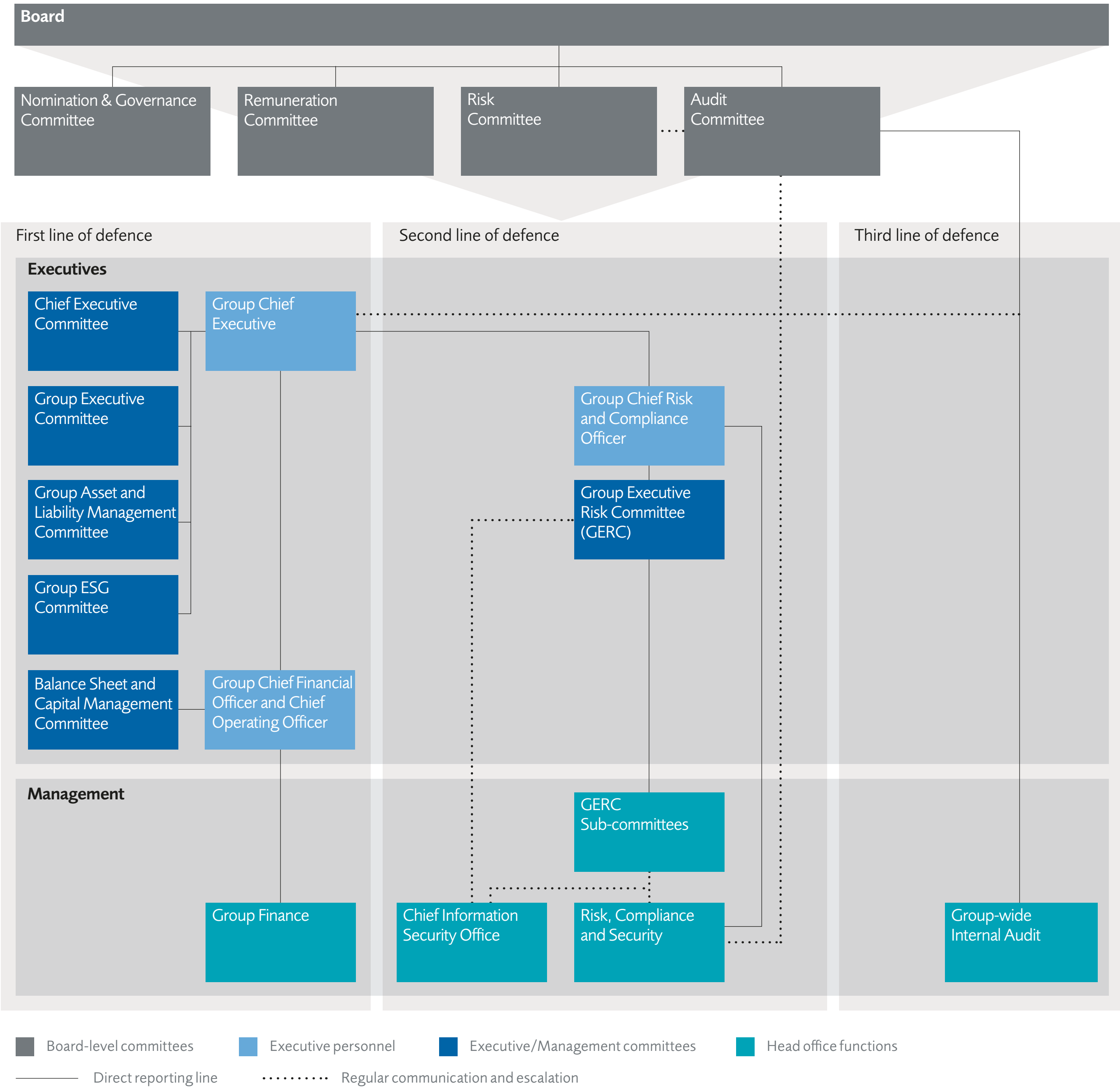
Formal review of controls

A formal evaluation of the system of risk management and internal control is carried out at least annually. Prior to the Board reaching a conclusion on the effectiveness of the system in place, the report is considered by the Disclosure Committee and Audit Committee, with risk specific disclosures within the report also reviewed by the Risk Committee. This evaluation takes place prior to the publication of the Annual Report.

As part of the evaluation, the Chief Executive and Chief Financial Officer of each business unit, including Head Office, certify compliance with the Group's governance policies and associated risk management and internal control requirements. The Governance function, under the responsibility of the Group Chief Financial Officer and Chief Operating Officer, facilitates a review of the matters raised in this certification process. This includes the assessment of any risk and control issues reported during the year, risk and control matters identified and reported by the other Group oversight functions and the findings from the reviews undertaken by Group-wide Internal Audit, which carries out risk-based audit plans across the Group. Issues arising from any external regulatory engagement are also taken into account.

For the purposes of the effectiveness review, the Group has followed the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. In line with this guidance, the certification provided does not apply to certain material joint ventures where the Group does not exercise full management control. In these cases, the Group satisfies itself that suitable governance and risk management arrangements are in place to protect the Group's interests. Additionally, the relevant Group company which is party to the joint venture must, in respect of any services it provides in support of the joint venture, comply with the requirements of the Group's internal governance framework.

Lines of defence



C

Effectiveness of controls

In accordance with provision 29 of the UK Corporate Governance Code and provisions C.2.1, C.2.2 and C.2.3 of the HK Corporate Governance Code, the Board reviewed the effectiveness and performance of the system of risk management and internal control during 2020. This review covered all material controls, including financial, operational and compliance controls, risk management systems, budgets and the adequacy of the resources, qualifications, experience of staff of the Group's accounting, internal audit and financial reporting functions. The review identified a number of areas for improvement, particularly around the treatment of simplifications within the hedge modelling for US statutory standards, and the necessary actions have been or are being taken. The Audit Committees at Group and major business level collectively monitor outstanding actions regularly and ensure sufficient resource and focus is in place to resolve them within a reasonable time frame.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report, and confirms that the system remains effective.

Shriti Vadera
Chair of the Nomination & Governance Committee

J K L

Nomination & Governance Committee report

Dear shareholder

I am pleased to provide you with my first report as Chair of the Nomination & Governance Committee, having joined the Committee in May 2020 and become Chair on 1 January 2021. Before I highlight some of the key areas of focus during 2020, I would like to thank my predecessor, Paul Manduca, for his chairmanship of the Committee until the end of last year.

In 2020, the Committee held three meetings, in addition to our three scheduled meetings, to focus on succession planning and the significant progress by Prudential on articulating its ESG strategy and framework.

Board succession planning

A key aspect of the Committee's role is to ensure that the Board retains an appropriate balance of skills to support the strategic objectives of the Group. As part of this, the Committee helps to maintain a rigorous and transparent approach to the identification of candidates for appointment as Directors.

As explained in my introduction to the Governance Report, in preparing to take on the role of Chair of the Board and of the Nomination & Governance Committee, an important focus has been on the composition of the Board. The Board has prioritised the identification of individuals with the experience and skills to guide Prudential's transformation into a business focused exclusively on Asia and Africa with strong digital capabilities. In February 2021, following interviews in 2020, we announced that Chua Sock Koong and Ming Lu will join the Board on 1 May 2021. Chua Sock Koong has had a distinguished career, with operations experience in many of our key markets, while Ming Lu has a long track record of investing and growing businesses throughout Asia. We will continue to work in 2021 to ensure that the Board reflects our strategic priorities.

During 2020, the Committee also confirmed the appointment of Jeremy Anderson as Chair of the Risk Committee, succeeding Sir Howard.

The Committee received a detailed update on the process and succession plans in place for members of the Group Executive Committee and was also briefed on the process and initiatives to review and promote talent throughout the Group to develop senior leaders. In addition, the Committee supported Jackson in the creation of a new board prior to the proposed separation of our US business and oversaw the succession planning process at senior management level.

Committee members

Shriti Vadera (Member from 1 May 2020 and Chair from 1 January 2021)

Paul Manduca (Chair until 31 December 2020)
Jeremy Anderson (from 14 May 2020 until 4 February 2021)
Howard Davies (until 14 May 2020)
David Law (until 4 February 2021)
Anthony Nightingale
Philip Remnant
Tom Watjen (from 4 February 2021)

Regular attendees

— Group Chief Executive
— Group Human Resources Director
— Company Secretary

Number of meetings in 2020:

6

Diversity and inclusion

B

When identifying candidates for Board-level succession, the Committee considers primarily what diverse perspectives will contribute to a more robust strategy. Talent search agencies are briefed on the Group's requirements in respect of diversity of thinking as well as ensuring the appropriate skills, knowledge and experience when identifying candidates. Gender and race representation has improved at Board level during 2020, and we continue to look for opportunities for progress in this important area as well as ensuring we have representation from individuals with insights to the geographical markets and businesses linking to the strategic objectives of the Group following the demerger of M&G plc in 2019 and the proposed separation of the US business in 2021.

The newly established Responsibility & Sustainability Working Group will bring increased focus to the area of diversity, but also inclusion in 2021: driving a culture where everyone feels valued, treated fairly and respected – enabling them to fully contribute their thoughts and perspectives and to be their authentic selves. This Working Group will assist the Committee and the Board to drive forward its diversity and inclusion agenda, both at Board level, in the executive talent pipeline, and more broadly across the organisation. The Group remains on target to achieve 30 per cent representation of women in senior leadership roles by the end of 2021, in accordance with our commitment to the HM Treasury Women in Finance Charter.

Prudential appointed a Group D&I Director and established a global Diversity & Inclusion Council in 2020, responsible for defining the global D&I strategy, promoting, championing and embedding D&I initiatives and challenging the organisation and leaders where progress is limited. The Working Group will get regular updates on the Diversity & Inclusion Council's activities.

Environmental, social and governance (ESG) considerations

The Committee has focused on Prudential's commitment to being a responsible business. ESG matters have been discussed during all Committee meetings held as part of the usual meeting cycle in 2020 and members have been significantly involved in shaping the ESG Strategic Framework. Committee members have provided feedback at specific points in the year and also met with management ahead of an additional meeting held in October to discuss the framework before it was recommended to the Board for approval.

The Committee oversaw implementation of the recommendations of the TCFD, including the three work streams that have been established to focus on the main aspects of the Group's exposure to climate-related risks. Prudential became a formal supporter of the TCFD recommendations in December 2018, before the UK government announced in November 2020 that it intends to make it mandatory for large financial institutions to make disclosures in line with the TCFD recommendations by 2025, with other jurisdictions – including Hong Kong and Singapore – advancing approaches through 2020.

In addition, the Committee received updates on primary ESG-related reporting developments and climate-related risk, and received regular reporting from the newly established executive Group ESG Committee.

The Responsibility & Sustainability Working Group will also oversee the embedding of Prudential's new ESG Strategic Framework, and will take on employee engagement activities after the 2021 AGM.

Governance

L

In line with our recently expanded remit, which now includes oversight of the Board evaluation process, the Committee approved the appointment of Ffion Hague of Independent Board Evaluation to conduct the evaluation of the Board, its Committees and individual Directors' effectiveness in respect of 2020. Following the evaluation, the Committee discussed the outcome ahead of the results being discussed with the whole Board, focusing in its discussions on findings relevant to succession planning and diversity.

The Committee continues to oversee the governance arrangements for the Group's subsidiaries to ensure that they remain appropriate.

Shriti Vadera

Shriti Vadera
Chair of the Nomination & Governance Committee

How the Committee spent its time during 2020

	Jan	Feb	May	Jul	Oct	Dec
Year-end matters, re-election and tenure						
Review external positions, conflicts of interests and independence, time commitment, tenure and terms of appointment	○	●	○	○	○	○
Review performance of Chair and Non-executive Directors	○	●	○	○	○	○
Review relevant disclosures in the Annual Report and Accounts	○	●	○	○	○	○
Recommend election of Directors by shareholders	○	●	○	○	○	○
Succession planning, diversity and appointments						
Chair	●	○	○	○	○	○
Non-executive Directors	○	●	●	●	●	●
Group Chief Executive	○	●	○	●	●	○
Executive Directors	○	○	○	○	○	●
Group Executive Committee	○	○	○	○	○	●
Succession pipeline, diversity and inclusion governance	○	●	○	●	○	●
Governance and ESG						
ESG, climate change and TCFD implementation update	○	●	○	●	●	●
Board evaluation	○	●	○	●	○	●
Membership review of principal Board Committees	○	●	○	●	○	○
Committee terms of reference	○	○	○	○	○	●
Group governance oversight	○	○	○	●	●	●
Subsidiary board, chair and director evaluations	○	●	○	○	○	○

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Succession planning	
Board composition	K The Committee plays an important role in ensuring that the Board retains an appropriate balance of skills to support the strategic objectives of the Group and in ensuring that an effective framework of succession planning is maintained. Board succession plans and composition, and length of service of Non-executive Directors are kept under review by the Committee throughout the year. These plans are supported and informed by the results of the annual Board evaluation and individual Director evaluations. Succession planning includes both longer-term options and emergency cover. The Committee takes account of the size, structure and composition of the Board and its Committees, including existing knowledge, experience and diversity. In doing so, the Committee considers the Group's strategic goals and anticipates future requirements in respect of skills and experience. Following the demerger of M&G in 2019, the Committee reviewed the size and composition of the Board to ensure that it remains aligned with strategy. The Committee is now considering the balance of skills and diversity required to support the strategic objectives of the Group following the proposed separation of the US business, in particular pan-Asian operating experience, digital expertise and relevant specialist financial services knowledge. In February 2020, the Committee concluded that each of the Directors in office at the time continued to perform effectively and was able to devote appropriate time to fulfil their duties and that collectively, the Board had an appropriate mix of skills and experience for the year under review. The Committee reached the same conclusion in February 2021. The Committee considered that the Non-executive Directors continued to demonstrate the desired attributes, contributing effectively to decision-making and exercising sound independent judgement in holding management to account. Accordingly, the Committee recommended to the Board those Directors standing for election at the 2021 Annual General Meeting. Kai Nargolwala will not stand for election as he has served nine years on the Board.
Succession planning for the Non-executive Directors and principal Committees	Succession planning for Non-executive Directors and the Board's principal Committees ensures the Board is regularly refreshed and maintains appropriate levels of independent challenge to management. G J K The balance of Non-executive and Executive Directors required on the Board is considered on a regular basis, including the overall number, skills and experience. The Committee's succession planning for Non-executive Directors is supported by Egon Zehnder and Spencer Stuart. The Committee regularly reviews the membership of all principal Board Committees and makes recommendations to the Board as appropriate. During 2020, the Committee confirmed the appointment of Jeremy Anderson as the Risk Committee Chair, succeeding Sir Howard who retired at the 2020 Annual General Meeting. Jeremy joined the Board on 1 January and his biographical details are set out on page 124. The Committee also confirmed its previous recommendation to appoint Shriti Vadera as Chair of the Committee, succeeding Paul Manduca. Shriti Vadera joined the Committee on her appointment in May 2020 which facilitated her transition to Chair of the Board and of the Committee on 1 January 2021. When making recommendations, the Committee takes account of the current composition of each of the principal Committees, the skills and experience of the members and the strategic objectives of the Group. Since joining the Board in May 2020, recognising the number of Non-executive Directors reaching the end of their tenure in the next 18 months, Shriti Vadera has led an extensive external recruitment exercise. This was supported by Spencer Stuart, and included Shriti spending time in Hong Kong and Singapore meeting with prospective candidates. As a result of this search Chua Sock Koong and Ming Lu will join the Board on 1 May 2021. These appointments are part of an ongoing process to refresh the Board and make sure it has the right skills and experience to support the Group, in particular pan Asian operating experience, relevant financial services expertise and a high degree of digital familiarity. The next phase of appointments will focus on experience and knowledge of specialist financial services. The Committee is engaged in succession planning for the Senior Independent Director, the Chair of the Remuneration Committee and a further Non-executive Director as Philip Remnant, Anthony Nightingale and Alice Schroeder will reach nine years on the Board in 2022.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Executive Directors, Group Chief Executive and Group Executive Committee	The Committee's work during the year supported the Board in its responsibility for executive succession planning to ensure continuous and effective leadership of the Group. J The Committee assisted the Board by reviewing the succession plans in place for the Group Chief Executive, other Executive Directors and Group Executive Committee roles. Succession plans for the Group Executive Committee were discussed with the Group Chief Executive to identify business requirements and to plan for future succession needs. Succession planning for Executive Directors and the Group Executive Committee includes both longer-term planning and emergency cover. Assessment and development for internal candidates is undertaken, in addition to mapping for potential external candidates. Planning for emergency cover is assisted by a broad annual review of talent across the Group and recognises the possible difficulties in identifying and attracting suitable talent on potentially short notice. L The Committee received feedback on the performance of each Executive Director from the Group Chief Executive and confirmed the Executive Director succession plans. During 2020 and into 2021, the Committee's work has taken into account the proposed separation of the US business and the consequent shift in priorities and their impact on succession plans. The Committee's discussions are being supported by the Group Human Resources Director, Egon Zehnder and Spencer Stuart.
Senior leadership below Group Executive Committee	The Committee has oversight of a diverse pipeline of leadership talent extending below the level of the Group Executive Committee and seeks to attract, retain and develop the next generation of emerging leadership. J The Committee considered succession planning for senior management below Group Executive Committee level, supported by an annual update on talent and diversity at different levels of the organisation. This includes consideration of risk retention mitigation initiatives such as leadership development programmes. In 2020, the focus was on building new capabilities to support the changing business model and future direction of the business. The Committee also oversaw the formation of a new Executive Council to replace the previous 'Top 100 Leadership' group.

In addition to acting as search consultant in respect of certain executive hires, Egon Zehnder provides support for senior management development assessments.

Process for appointing new Directors

J

The Committee assists the Board in ensuring that there is a formal, rigorous and transparent approach to the appointment of new Directors.

The Committee is involved from the start when a vacancy or a gap in the Board's skills is identified. Led by the Chair, and working with the Group Chief Executive and the Group Human Resources Director, a role specification is prepared, reflecting the desired skills and experience and the Group's Diversity and Inclusion Policy. This specification takes into account feedback from the Committee. Once agreed, specialist talent agencies are typically engaged to create a shortlist of candidates which is reviewed by the Committee and other stakeholders. Interviews with individuals then take place with selected Committee members and feedback is provided to all members. In this manner, a preferred candidate is selected and the Committee then recommends the individual to the Board for appointment. For the appointment of Executive Directors, the process is led by the Group Chief Executive working closely with the Chair. The Senior Independent Director leads the Committee in the process of appointing a new Chair.

Contemporaneous with this process, due diligence checks are undertaken on the candidate and Prudential liaises with the relevant regulatory authorities. The Committee is kept updated on this process as appropriate.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Diversity	
Board and Group Executive Committee	J Given the global reach of the Group's operations, its business strategy and long-term focus, the Board makes every effort to ensure it is able to recruit Directors with diversity of thought and perspective who will support and challenge the ongoing transformation of the organisation. The Board seeks net addition of backgrounds, experience and skills that broaden its capability to deliver the strategy of a leading international business. The Group's Diversity and Inclusion Policy applies at all levels of the business and the Committee is responsible for overseeing a diverse pipeline for the Board and other senior executives and driving a culture Group-wide where our people feel valued, treated fairly and respected: enabling them to fully contribute their thoughts and perspectives and to be their authentic selves. The Board does not endorse quotas for Board diversity but appoints candidates to ensure a diversity of overall composition and skills mix from the best available talent. Succession plans are based on merit and against objective criteria, and promote diversity across gender, social and ethnic background, nationality, and cognitive and personal strengths. An element of Executive Directors' remuneration is based on achieving a diversity target. Further information is set out in the Directors' remuneration report. The Board considers that its diversity of background, thought, perspectives, experience and skills set is enhanced as a result of Board level succession in 2020 and the recent appointments taking effect in 2021. The biographies of Directors on pages 122 to 126 provide more details. The Committee considers the pipeline for diverse talent of the Group Executive Committee level remains strong with 31 per cent female representation of those who are regarded as senior management and part of the leadership teams. The Committee is also introducing measures for tracking local representation in senior management positions as well as experience other than insurance. Inclusive leadership practices are implemented starting with the Board and Committee and throughout the organisation. Further details of the gender make-up of the Board, the Group Executive Committee, management and employees can be found on page 95.
Group-wide oversight	The Committee plays an important role in reviewing the Group's diversity and inclusion initiatives to monitor that these are in line with our strategic objectives. This not only ensures the Group has access to a diverse talent pool and pipeline for future leadership but also that the culture of inclusion retains our talent. The demerger of M&G in 2019 presented an opportunity to reassess the diversity & inclusion strategy as part of Prudential's global culture framework to enable the next phase of growth. The aspiration is to build a more diverse workforce and cultivate a workplace where diversity of thought, mindset, skill set, experience and identity are fully valued and can authentically contribute to transform the business. The Committee supported the appointment of a Group Diversity & Inclusion Director and the creation of a global Diversity & Inclusion Council. The Council is composed of representatives from all business units with the goal to empower employees and create a sense of belonging by respecting and appreciating differences and deliver the purpose 'to help people get the most out of life', by creating a culture in which diversity is celebrated and inclusion assured, for our colleagues, customers and partners. As part of the Group's commitment to diversity, Prudential is a signatory to the HM Treasury 'Women in Finance Charter' which aims to increase the number of women working in senior management in financial services companies. As at 31 December 2020 the percentage of women in senior management was 32 per cent which already exceeds the target to meet 30 per cent by the end of 2021. For the purposes of Provision 23 of the UK Code, the percentage of women in senior management positions, including their direct reports, was 30 per cent. A full description of the Group's activities on diversity and inclusion can be found in the ESG report, on pages 93 to 98.

Key matters considered during the year

Matter considered	How the Committee addressed the matter

Non-executive Directors, independence, time commitment and terms of appointment

Independence

H I

The Committee considers the independence of the Non-executive Directors as required by the UK Code and HK Listing Rules as part of any recommendation of the appointment of new Non-executive Directors and when recommending Non-executive Directors for election.

Monitoring and safeguarding the independence of the Non-executive Directors is essential to comply with their statutory and regulatory obligations. Independence helps ensure effective scrutiny of management and individual Executive Directors against agreed objectives.

Each Non-executive Director provides an annual confirmation of his or her independence as required under the Hong Kong Listing Rules.

All Non-executive Directors were considered to be independent, taking into account UK and HK requirements. Although Kai Nargolwala has exceeded the nine-year tenure suggested by the UK Corporate Governance Code, he continues to demonstrate independence of judgement. Kai will not offer himself for re-election at the AGM in May.

Prior to recommending their appointments as Non-executive Directors, the Committee considered the independence of Ming Lu and Chua Sock Koong.

The Committee considered the independence of the Audit Committee members in line with US regulatory requirements, concluding that all members remain independent within the meaning of the Sarbanes-Oxley legislation.

Time commitment

Time required for Non-executive Director role

H I

Setting out clear expectations on time commitment means Non-executive Directors are able to ensure they devote sufficient time for the proper performance of their duties.

The Committee reviews the time commitment required of the Non-executive Directors. Time requirements take account of preparation for and attendance at Board meetings and other regular commitments, as well as additional time that may be required for unforeseen events or future projects.

All Non-executive Directors currently serve on at least one of the Board's principal Committees, which requires an additional commitment of time dependent on the Committee and role.

Following the demerger the Committee carried out a review of the time commitment required of the Non-executive Directors to align to the new structure of Board and Committee meetings. It was concluded that the expected time commitment of 32.5 days per annum remains appropriate. This will be kept under review considering the impact of the pandemic on the operation of the Board and Committees.

External appointments
The Committee considers the external commitments of Directors proposed for appointments and all Non-executive Directors confirm on appointment that they are able to devote sufficient time to the Group's affairs to meet the demands of the role.

The external commitments of Directors were considered when recommending Directors for election at the next AGM. Prudential recognises the need for Non-executive Directors to dedicate sufficient time to their role while also demonstrating an appropriate range of experience and skills through external appointments.

All Non-executive Directors are required to discuss any additional commitments with the Chair prior to accepting these as they might impact the time which the Director is able to devote to their role. The Chair escalates matters to the Committee as appropriate.

Where appropriate, the Committee or the Board reviewed time requirements for additional external positions taken on by Directors during the year.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Terms of appointment	It is important that Non-executive Directors have clear terms of appointment which set out their duties to Prudential and that their tenure is considered as part of ongoing succession activities. Non-executive Directors are appointed for an initial term of three years, and subject to review by the Committee and re-election by shareholders, it is expected that Non-executive Directors serve a second term of three years. After six years, Non-executive Directors may be appointed for a further year, up to a maximum of three years in total. Reappointment is subject to rigorous review as well as re-election by shareholders. The Directors' remuneration report sets out the tenure of each Non-executive Director and the terms of their letters of appointment, in addition to the terms of Executive Directors' service contracts. Anthony Nightingale, Philip Remnant, Alice Schroeder and David Law will all have served two three-year terms or more at the time of the next AGM. When considering their re-election, the Committee considered their continuing appointment particularly carefully. The Committee recommended that they each serve for a further term of one year, subject to shareholder re-election. Ming Lu and Chua Sock Koong will be provided with a letter of appointment, on standard terms, confirming their duties and obligations.
Environmental, Social and Governance (ESG)	
	H The Committee played a key role in setting ESG strategy and the oversight of ESG activities. During the year, the Committee received updates on climate-related risk and progress towards implementing the recommendations of the TCFD. Committee members, as well as Board members more widely, were among those engaged as internal stakeholders in the development of the Group's ESG strategic ambition which will guide the Group's activity and decision-making in this area. Each Committee member spent time with management to contribute their views and experiences as part of the shaping of the ESG strategy. In addition, the Committee received regular updates during the development of the ESG strategy and heard from the newly established executive Group ESG Committee. An additional meeting was held in October to review the ESG strategic framework ahead of the fully-articulated strategic ambition which was presented to the Board in December 2020. This strategic framework focuses on three priorities: making health and financial security accessible; stewarding the human impacts of climate change; and building social capital. For more information on our ESG strategy and activities, please see the ESG report on pages 70 to 117.
Conflicts of interest	Directors have a statutory duty to exercise independent judgement when carrying out their role and to avoid conflicts of interest. In addition, the Company has in place procedures to identify and, where necessary, mitigate potential conflicts of interest. These processes help to ensure decisions are made in the best interests of the Company. The Board has delegated authority to the Committee to identify and, where necessary, authorise any actual or potential conflicts of interest. When recommending a candidate for appointment to the Board, the Committee considers the external appointments of the proposed candidate and recommends authorisation of any conflicts to the Board as appropriate, attaching conditions to the authorisation where necessary. The Committee considered the external positions of Ming Lu and Chua Sock Koong prior to recommending their appointments to the Board. Prior to proposing Directors for election or re-election, the Committee considered the external appointments of Directors and reviewed existing conflict authorisations, reaffirming or updating any terms or conditions attached to authorisations where necessary. If a Director makes a request to take on a new external position during the year, the Chair considers the proposed external appointment and escalates to the Committee for authorisation where a conflict or potential conflict could arise. The Board considers that the procedures for dealing with conflicts of interests operate effectively.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Board evaluation	L Following an update to its terms of reference in December 2019, the Committee provides oversight of the process by which the Board, its Committees and individual Directors' effectiveness is assessed. The annual evaluation of effectiveness should be formal and rigorous and be externally facilitated every three years. At the start of 2020, the Committee reviewed the results of the 2019 evaluation and noted that the Board, its Committees and individual Directors had continued to operate effectively during 2019. The Committee also reviewed the suggested action points ahead of Board approval. In accordance with the UK Corporate Governance Code, the Committee appointed an external facilitator, Ffion Hague of Independent Board Evaluation, to carry out the 2020 evaluation. The evaluation was conducted during September and October, with an initial discussion of the output discussed with the Committee and the Board in December. Please see page 133 for a summary of the review and action plan.
Group governance	The Committee is responsible for reviewing the Group's governance arrangements. During the year, the Committee carried out various activities relating to subsidiary governance, including: — Overseeing the search for and appointment of the Chair of the Jackson Financial Inc board in preparation for the proposed separation of the Jackson business; and — Reviewing governance arrangements for the Group's subsidiaries with a particular focus on changes to the risk and audit committee arrangements for Prudential Corporation Asia given the evolving structure of the Group, and arrangements for Jackson in preparation for the proposed separation.

David Law
Chair of the Audit Committee

M O

Audit Committee report

Dear shareholder
As Chair of the Audit Committee, I am pleased to present this report on the Committee's activities during 2020. In what has been a challenging year, I have observed many examples of how the Group has responded to the global pandemic while at the same time continuing to press ahead with strategic change. Throughout, the Committee has continued to provide the Board with assurance as to the integrity of the Group's financial reporting and, together with the Risk Committee, monitor the effectiveness of the second and third lines of defence, which are an even more integral part of our internal control environment at this difficult time.

Good communication has never been more important than in the current circumstances and, as a result, we have added additional meetings to deal with particular issues, such as the accounting implications of the proposed separation and divestment of Jackson, including the accounting of the associated transaction with Athene in June, and the external audit tender. Potential conflicts of interest have been monitored, as they were for the separation of M&G.

Coordination with the Risk Committee has also been important and, while we were disappointed to lose the experience of Sir Howard Davies after his many years of valuable contribution, we were delighted to welcome Jeremy Anderson to the Committee. During the year, Howard, Jeremy and I have agreed the most appropriate Committee to address particular matters, as well as holding a joint Risk and Audit Committee session, as last year, to focus on cyber and information security, to which all Non-executive Directors were invited.

Not surprisingly, throughout 2020 a key focus of the Committee has been the impact of Covid-19 on controls and financial reporting, including key judgements and disclosures. I am pleased to say the Group has responded well to the social-distancing and working-from-home measures implemented across all our markets and has carefully considered their effects on key controls and processes. No significant deterioration in the control environment has been observed. The Committee also reflected on any wider control and accounting implications of the change to the Jackson hedge modelling that impacted their statutory capital.

The introduction of accounting standard IFRS 17, now expected to come into effect in 2023, has also continued to be a significant challenge, given the scope of changes it entails. The Committee received updates during 2020 on external developments and lobbying as the standard was being developed and on the Group's progress towards its implementation.

Committee members

David Law (Chair)

Jeremy Anderson
Howard Davies (until 14 May 2020)
Philip Remnant
Alice Schroeder
Amy Yip (from 3 March 2021)

Regular attendees

- Chair of the Board
- Group Chief Executive
- Group Chief Financial Officer and Chief Operating Officer
- Group Chief Risk and Compliance Officer
- Director of Group Finance
- Director of Group Financial Accounting and Reporting
- Company Secretary
- Group Chief Internal Auditor
- External Audit Partner

Number of meetings in 2020:
11

E

We have paid particular attention to our whistleblowing procedures and monitored these for any indicators of issues. I regularly meet privately with the Group Resilience Director to discuss whistleblowing cases and their resolution. These are also discussed in private sessions with the Committee or the relevant local audit committee. During the year, we conducted an external review of the processes and enhanced the governance arrangements.

External auditor and audit tender

An important part of the Committee's work consists of overseeing the relationship with the Group's current audit firm KPMG LLP (KPMG), including safeguarding independence, approving non-audit fees and satisfying ourselves that it is in the best interests of shareholders for the Committee to recommend the annual reappointment of KPMG. During the year, the Financial Reporting Council (FRC) conducted a review of KPMG's audit of Prudential's financial statement for the year ended 31 December 2019. The Committee was pleased with the outcome, as no significant recommendations for improvement were noted. The KPMG team continues to look at ways it can enhance its audit and challenge of management, something also encouraged by the Committee in its own effectiveness review of KPMG in 2020.

The Committee discussed with KPMG the impact of Covid-19 on its own business to ensure it had the resources and technology necessary to complete its audit work satisfactorily. We also meet privately with KPMG and I have held a number of meetings with the lead partner team throughout the year. I have also had a review meeting with KPMG's UK Senior Partner.

During the year, the Committee oversaw a formal competitive tender process to select an audit firm to succeed KPMG, in accordance with regulatory requirements and FRC guidance.

Following regular discussion by the Committee in 2020 and formal evaluation of potential candidates, a shortlist of eligible audit firms were invited to tender and the process concluded with presentations to Committee members in September 2020. Given my former position at PwC, I voluntarily recused myself from the decision-making and asked the Group Chief Internal Auditor to support the audit tender process. Alice Schroeder chaired the final Committee meetings and the presentations by shortlisted candidate firms.

The Committee was impressed by the quality of each candidate's presentations and team, but, on balance, the Committee determined that, given the Group's future strategic direction, Ernst & Young LLP (EY) was the best fit as the Group's audit firm. The Committee recommended to the Board two firms with a preference that EY be engaged as the Group's audit firm for the year 2023 onwards. The Board approved this recommendation at its meeting in December 2020, subject to future shareholder approval. Further details on the audit tender process are set out in the Audit Tender section at the end of this report.

Internal audit

Throughout 2020, the Committee continued to receive regular briefings from the Group Chief Internal Auditor. Group-wide Internal Audit (GwIA) undertook a programme of risk-based audits covering matters across the business units in addition to assurance work. The work undertaken by GwIA during the year was important in supporting the proposed separation and divestment of Jackson and the control environment of the Group under the revised working conditions.

We assessed the effectiveness of GwIA and I have met regularly with the Group Chief Internal Auditor and the Group-wide Quality Assurance Director to discuss internal audit work and matters arising. Where particular issues have been raised, management have been invited to Committee meetings to respond. We have monitored resource levels and delivery of and amendments to the audit plan, which by necessity has had to be more flexible than in prior years. Internal Audit have responded well.

Regulatory developments

Following the Hong Kong IA replacing the Prudential Regulation Authority as the Group's regulator, a key focus for the Committee during 2020 has been the Group's programme to demonstrate readiness for compliance with the Hong Kong IA's new group-wide supervision framework, effective from the first half of 2021. The Committee has held a number of discussions on the requirements and received proposals for the assurance work that will be needed to demonstrate compliance. I also met privately with the Hong Kong IA during the year.

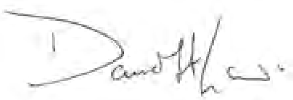
Committee governance

Following the demerger of M&G plc in October 2019, the Committee was focused on overseeing the development and embedding of new governance arrangements across the Group's Asian business, building direct communication and escalation links with the existing local audit committees of the significant businesses. Regular direct communication with each of the local chairs remains a key component of our governance framework, and I have worked closely with the respective chairs of our significant business unit audit committees during the year. At each meeting, I update the Committee on important points raised at local level, and after the meeting I report to the Board on the main matters discussed.

In order to foster a close and collegiate working relationship between the Committee and the local audit committees, Jeremy Anderson and I chaired a session attended by all of the non-executive directors at the four major Prudential Corporation Asia businesses.

In May 2020, we held a private session without the Executives to discuss the results of our 2019 effectiveness evaluation and set the key focus areas for 2020. These included consideration of the impact of Covid-19 on financial matters, the implications of the proposed separation and divestment of Jackson, and the audit tender.

Finally I would like to thank the Committee members for their diligence and contribution throughout the year and management for their responsiveness to challenge and quality of papers.



David Law
Chair of the Audit Committee

How the Committee spent its time during 2020	Feb	Mar[1]	May	Jul	Aug[1]	Sep	Dec[2]
Financial reporting and external auditor							
Periodic financial reporting including: — Full and half-yearly report and accounts — Key accounting judgements and disclosures, including tax — Associated audit reports	●	●	●	●	●	●	●
Audit planning, fees, independence, effectiveness and reappointment	●	○	●	●	○	●	●
Environmental, social and governance reporting	●	○	○	○	○	○	○
Internal control framework							
Internal control framework including effectiveness	●	○	●	●	○	○	●
Internal audit							
Status updates and effectiveness	●	○	○	●	○	○	●
Internal audit plan	○	○	○	●	○	○	●
Financial crime and Speak Out							
Financial crime prevention and Speak Out – regular updates	●	○	●	●	○	●	●
Governance and reporting							
Updates from significant business audit committees	●	●	●	●	●	●	●
Internal governance framework including effectiveness	●	○	○	●	○	●	●
Business unit audit committee effectiveness and terms of reference	●	○	●	○	○	○	●
Committee terms of reference and effectiveness	●	○	●	○	○	○	●

Notes

1 Two meetings were held in March and two in August to discuss full year and half year financial reports.

2 An additional meeting to the scheduled meetings was held in December to discuss the proposed separation and divestment of Jackson.

In addition:

– A meeting was held in June to discuss the disclosures in connection with the equity investment by Athene in Prudential's US business.

– Two joint meetings were held with the Risk Committee: in May to discuss cyber security and governance matters (all Non-executive Directors were invited); and September to discuss Form S-1 Registration Statement and recommend it to the Board.

The Committee also held two informal meetings, also in September, to progress the audit tender.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Financial reporting	
Overview	M One of the Committee's key responsibilities is to monitor the integrity of the financial statements and any other periodic financial reporting. This has primarily focused on the Annual Report and Accounts but also covers the Group's Environmental, Social and Governance (ESG) Report, which is now largely replicated in the Annual Report, and the annual update of the Group's published Tax Strategy. In reviewing these and other items, the Committee received reports from management and, as appropriate, reports from internal and external assurance providers, which in some cases were provided at the explicit request of the Committee. When considering financial reporting matters, the Committee assesses compliance with relevant accounting standards, regulations and governance codes. No material changes to accounting policies were made during 2020. The Committee continued to receive updates on the Group's plans to implement IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts', which are not expected to be effective before 2023. The approach to adopting these standards is further discussed in note A3.2. Throughout its review of financial reporting matters and disclosure, the Committee considered the impact of the Covid-19 pandemic and the short-term uncertainties that it has created. Further explanation on the financial impact Covid-19 has had on the business is set out in the Group Chief Financial Officer and Chief Operating Officer's report. The following sections set out the key assumptions, judgements and other matters considered as part of their review of the 2020 Annual Report and Accounts.
Key assumptions and judgements	N The Committee reviewed the key assumptions and judgements supporting the Group's IFRS results, including those made in valuing the Group's investments, insurance liabilities and deferred acquisition costs under IFRS, together with reports on the operation of internal controls to derive these amounts. The Committee also reviewed the assumptions underpinning the Group's European Embedded Value (EEV) metrics. *Assumption setting* The measurement of insurance liabilities are based on estimates of future cash flows, including those to and from policyholders, over a long period of time. These estimates can, depending on the type of business, be highly judgemental. The Committee considered changes to assumptions and other estimates used to derive IFRS insurance liabilities and for EEV reporting. Peer benchmarking was considered where available alongside current experience. The Committee noted that Covid-19 had not significantly increased the morbidity and mortality claims incurred by the business. The key assumptions reviewed were: — Persistency, mortality, morbidity (including expectations of future medical costs inflation and any related premium rises) and expense assumptions within the Asia life businesses; — Policyholder behaviour (eg guaranteed benefit utilisation and persistency) and mortality assumptions affecting the measurement of Jackson guaranteed liabilities (see note C3.3 of the IFRS financial statements); and — Economic assumptions, including investment return and associated risk discount rates, given the current low interest rate environment. The Committee was satisfied that the assumptions adopted by management were appropriate. Further information on the effects of material changes to insurance assets and liabilities is included in note C3 to the IFRS financial statements and in the EEV basis results. *Valuation of investments* The Committee received information on the carrying value of investments in the Group's balance sheet including information on how those values were calculated for those investments which require more judgement (for example the impairment process for debt securities and commercial loans in the US). Further information on the valuation of assets is contained in note C2 of the IFRS financial statements. The Committee satisfied itself that overall investments were valued appropriately. *Intangible assets including deferred acquisition costs (DAC)* The Committee received information to enable it to review the more material intangible asset balances. This included the assumptions that supported the amortisation profile of the DAC balance in the US, as described in note A3.1 'Other items requiring application of critical estimates or judgements' and whether there had been any indication of impairment of the Group's distribution rights assets or goodwill in light of lower sales and increased economic volatility following the Covid-19 pandemic. The Committee was satisfied that there was no impairment of the Group's intangibles at 31 December 2020. Further information is contained in note C4 of the IFRS financial statements.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Other financial reporting matters	N *Proposed separation of Jackson and associated transactions* In June 2020, the Group reinsured substantially all of its in-force portfolio of US fixed and fixed index annuities (see note D1.1). It also announced a $500 million equity investment into Jackson by Athene (see note D1.2). The Committee reviewed the accounting for these transactions and the planned market announcement, taking advice from the Group's external advisors. The Committee also reviewed the draft public documents prepared by Jackson and the Group in connection with the proposed separation of Jackson, alongside input provided by the Group's external advisers and auditor. *US Statutory reporting and changes to hedge modelling as announced to the market on 28 January 2021* The Committee considered in detail the changes to Jackson's hedge modelling for its US statutory results given the impact on the Group's capital management plans for the proposed separation of Jackson. As part of this process, the Committee received the views and recommendations of the Jackson Audit Committee and management and the reports and conclusions of the external advisers who had reviewed the model and tested the revised output. They also considered any implications on the Group financial reporting, noting that there was no direct impact on IFRS reporting and that a consequential refinement of the method to project future hedge costs for EEV was planned for the FY20 results, as discussed in note 2 (iv) (b) of the EEV financial statements. *Going concern and viability statements* The Committee considered various analyses from management regarding the Group's and the parent company's capital and liquidity position taking into account the Group's principal risks. This included scenarios assessing the impact on the Group's plan of different new business levels depending on the length of time Covid-19 restrictions remain in place, as well as stress scenarios which assume a deterioration in the macroeconomic environment. It also considered scenarios which both included and excluded the proposed separation of Jackson. Following this review, it recommended to the Board that it could conclude that the financial statements should continue to be prepared on the going-concern basis and that the disclosures on the Group's longer-term viability were both reasonable and appropriate. *Fair, balanced and understandable requirement* The Committee carried out a formal review of whether the Annual Report and Accounts were 'fair, balanced and understandable' as required by the UK Corporate Governance Code. In particular, they considered whether the report gave a full picture of the Group's business model, strategy and performance in the year, with important messages appropriately highlighted. They also considered the level of consistency between financial statements and narrative sections, whether performance measures were clearly explained and the prominence of alternative performance measures. After completion of its detailed review, the Committee was satisfied that, taken as a whole, the Group's Annual Report and Accounts were fair, balanced and understandable. *Taxation* The Committee regularly received updates on the Group's tax matters and provisions for certain open tax items, including tax matters in litigation. The Committee was satisfied that the level of provisioning adopted by management was appropriate. See notes B4 and C7 of the IFRS financial statements. *Parent company financial statements* The Committee reviewed the parent company profit and loss account and balance sheet, which includes the recoverability of the parent company's investment in subsidiaries by assessing and confirming that the net assets of the relevant subsidiaries (being an approximation of their minimum recoverable amount) were in excess of their carrying value at the balance sheet date and that those subsidiaries have historically been profit-making.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
External audit ***Review of effectiveness, non-audit services and auditor reappointment***	
External audit effectiveness	M O The Group's external auditor is KPMG LLP (KPMG) and oversight of the relationship with them is one of the Committee's key responsibilities. The Committee reviewed the effectiveness of the audit throughout the year taking into account: — The detailed audit strategy for the year, approach to risk assessment and coverage of the audit response to highlighted significant risks; — Group materiality and how that is applied to the individual business units; — Insight around the key accounting judgements, including benchmarking, and the way KPMG applied constructive challenge and professional scepticism in dealing with management; — The outcome of management's internal evaluation of the auditor as discussed below; and — Other external evaluations of KPMG, with a focus on the FRC's annual quality review. There is an open dialogue on emerging risks and issues between the Group Lead Partner and Committee members via a regular schedule of meetings aligned to key reporting milestones. The Committee formally met with the Group Lead Partner without management present. Internal evaluation of KPMG was conducted using a questionnaire survey that was circulated to the Committee members, independent members of the business unit audit committees, the Group Chief Financial Officer and Chief Operating Officer and the Group's senior financial leadership for completion. A key component of the evaluation was the degree of challenge and robustness of approach to the audit. The survey asked 29 questions over four categories (audit quality and execution, team performance, process and communication) in relation to the 2019 audit. KPMG were given the opportunity to respond to the findings in the reports and where necessary, proposed enhancements to the audit process and team. *FRC's Audit Quality Review (AQR)* The FRC's AQR team carried out a review of KPMG's audit of Prudential's financial statements for the year ended 31 December 2019. This included discussions with the Chair of the Committee. Following completion of the AQR, the Committee was provided with a Review Report from the FRC's AQR team. The Committee was pleased to note that no significant recommendations were made by the FRC for further improvement and a number of areas of good practice were highlighted.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Auditor independence and objectivity	M The Committee has responsibility for monitoring auditor independence and objectivity and is supported in doing so by the Group's Auditor Independence Policy (the Policy). The Policy is updated annually and approved by the Committee. It sets out the circumstances in which the external auditor may be permitted to undertake non-audit services and is based on four key principles which specify that the auditor should not: — Have a mutual or conflicting interest with the Group; — Audit its own firm's work; — Act as management or employees for the Group; or — Be put in a position of being an advocate for the Group. The Policy has two permissible service types: those that require specific approval by the Committee on an engagement basis and those that are pre-approved by the Committee with an annual monetary limit capped at no more than 5 per cent of the Group audit fee in the proposed year and capped at $65,000 individually. Effective from 2020, the policy also provides that the total fees payable to KPMG for non-audit services, other than those required by law or regulation, shall be limited to no more than 70 per cent of the average audit fees paid in the past three consecutive financial years. In accordance with the Policy, the Committee approved these permissible services, classified as either audit or non-audit services, and monitored the usage of the annual limits on a quarterly basis. Non-audit services undertaken by KPMG were agreed prior to the commencement of work and were confirmed as permissible for the external auditor to undertake in accordance with the Policy which complies with the rules and regulations of the FRC's Revised Ethical Standard (2019), the US Securities and Exchange Commission (SEC) and the standards of the Public Company Accounting Oversight Board (PCAOB). The Committee monitored the nature and extent of non-audit services on a regular basis to ensure the provision of non-audit services complied with the Group's policy and did not impair the auditor's objectivity or independence. The Committee noted that KPMG typically only performed non-audit services where they complemented its role as external auditor, for example the review of half year and EEV financial statements or additional assurance to support capital market requirements. This work has by necessity been significant as a result of the demerger of M&G in the prior year and the proposed separation of Jackson. It is not however considered to detract from the objectivity and independence of KPMG due to the nature of the work and the involvement of separate teams. In keeping with professional ethical standards, KPMG also confirmed its independence to the Committee and set out the supporting evidence for their conclusion in a report that was considered by the Committee prior to publication of the financial results. The Committee will continue to monitor developments to ensure the Group's policies and processes around audit effectiveness and independence evolve in line with market practice.
Fees paid to the auditor	M The fees paid to KPMG for the year ended 31 December 2020 amounted to $16.0 million (2019: $30.4 million) of which $1.0 million (2019: $13.2 million) was total amounts payable in respect of non-audit services, except those required by law and regulation, as defined by the FRC's Revised Ethical Standard (2019). A breakdown of the fees payable to KPMG can be found in note B2.4 to the IFRS financial statements. In 2019, $7.3 million of the $13.2 million spent on non-audit services, excluding those required by law and regulation was for one-off services associated with the demerger of M&G plc. Excluding these one-off fees in 2019, total non-audit service fees that are subject to non-audit fee cap were $5.9 million compared with $3.8 million in 2020. The decrease in 2020 primarily reflects a reduction in the level of elective regulatory disclosure work no longer being required. The ratio of non-audit fees for the Group in 2020 over the average of audit fees for the past three years is 28 per cent for the Group, 42 per cent below the 70 per cent cap set by the FRC. In all these cases, the audit firm was considered the most appropriate to carry out the work, given its knowledge of the Group and the synergies that arise from running these engagements alongside its main audit. All non-audit services were pre-approved by the Committee and were in line with the Policy discussed above.
Reappointment	Based on the outcome of the effectiveness evaluation and all other considerations, the Committee concluded that there was nothing in the performance of the auditor which would require a change. The Committee therefore recommended that KPMG be reappointed as the auditor. A resolution to this effect will be proposed to shareholders at the 2021 Annual General Meeting.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Audit tender	The Committee acknowledges the provisions contained in the UK Code in respect of audit tendering, along with European rules on mandatory audit rotation and audit tendering. In conformance with these requirements and as we committed in our Annual Report 2018, the Company has conducted a competitive tender to change audit firm for the 2023 financial year end. The external audit was last put out to competitive retender in 1999 when the present auditor, KPMG, was appointed. Since 2005, the Committee has annually considered the need to retender the external audit service. The tender process has been led by the Audit Committee with the support of the Group Chief Internal Auditor. The overall objective of the audit tender has been to select an audit firm that would provide a high quality and effective audit. The planning for this tender process commenced in 2019 with the Committee Chair meeting with a number of firms, including firms outside of the 'Big Four', to assess interest and ability to tender for the audit, with focus on capability and resource to service the key Asian business units. This was supplemented by a formal request for information to those firms who indicated they would be interested in tendering . A formal invitation to tender was issued in June 2020 to those firms that confirmed they are able to undertake the audit. The formal assessment of candidate firms took place from July to September and was based on the candidate firms' written responses and a series of formal presentations to business units prior to the final presentation given to the Committee. The Committee recommended two firms to the Board with a preference for one and this was approved by the Board in December 2020. A description of the tender process is set out at the end of this report. The auditor tender timeline takes into account the complexity of the Group and the expected timing of the introduction of IFRS 17 and allows the appointee time to ensure they meet the auditor independence requirements to which the Group is subject. The timing remains subject to the Committee's normal annual review of auditor performance and recommendation to shareholders. Throughout the 2020 financial year, the Company has with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 issued by the UK Competition and Markets Authority. In line with the Financial Reporting Council's Ethical Standard, the rules and regulations of the SEC and the standards of the PCAOB, a new Group Lead Partner, Philip Smart, was appointed in respect of the 2017 financial year. Mr Smart is expected to be in place for a five-year term until the completion of the 2021 reporting cycle. A new Group Lead Partner will currently be required for the 2022 audit and an appropriate transition plan is being developed.
Second line oversight Whistleblowing	
Whistleblowing	E The Group continues to operate a Group-wide whistleblowing programme ('Speak Out'), hosted by an independent third party (Navex). The Speak Out programme received ad hoc reports from a wide variety of channels, including a web portal, hotline, email and letters. Reports are captured, confidentially recorded by Navex, and triaged by Group Security Investigations prior to investigation by the appropriate teams. The Committee is responsible for oversight of the effectiveness of the Group's whistleblowing arrangements. The Committee received regular reports on the most serious cases and other significant matters raised through the programme and the actions taken to address them. The Committee was also briefed on emerging Speak Out trends and themes. The Committee may, and has, requested further reviews of particular areas of interest. The Committee reviews the Group's Speak Out programme annually, satisfying itself that it continues to comply with regulatory and governance requirements. The Committee also considered the consistency of approach adopted across subsidiary audit committees. The Speak Out programme has been further strengthened during the year by the establishment of new management level committees. Where relevant, the Committee requested information on the sharing of lessons learnt. The Chair and Committee spent time privately with the Group Resilience Director to understand outcomes of investigations, ensure that investigations were adequately resourced and appropriately managed, that there had been no retaliation against anyone making a report and that investigations were not improperly influenced. A review of the Speak Out programme and its oversight was undertaken in 2020.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Third line oversight Internal audit	
Third line oversight Internal audit Regular reporting	O The Committee received regular updates from Group-wide Internal Audit (GwIA) on audits conducted and management's progress in addressing audit findings within agreed timelines. Any delays in implementing remediation actions were escalated to the Committee and given particular scrutiny. The independent assurance provided by GwIA formed a key part of the Committee's deliberations on the Group's overall control environment. During 2020, the areas reviewed included: change management and transformation (in particular relating to the proposed separation of Jackson Financial Inc), financial controls, outsourcing and third-party supply, customer outcomes, cyber risk, compliance and regulatory, and the second line of defence. In addition, GwIA performed more business monitoring during 2020 to obtain a broader view of the business and enable more regular assessments of emerging risks and changes in the control environment. This has been achieved through a variety of methods including stakeholder discussions and an increasing use of data analytics. The Group Chief Internal Auditor reports functionally to the Committee Chair and for management purposes to the Group Chief Executive, and also has direct access to the Chair of the Board. In addition to formal Committee meetings, the Committee meets with the Group Chief Internal Auditor in private to discuss matters relating to, for example, the effectiveness of the internal audit function, significant audit findings and the risk and control culture of the organisation. The Committee Chair also meets with GwIA's Quality Assurance Director to discuss the outcome of the quality reviews of GwIA's work and actions arising.
Annual internal audit plan and focus for 2021	C GwIA now operates a rolling six-month approach to audit planning. The Committee approved the plan for the second half of 2020. It also considered and approved the Internal Audit Plan, resource and budget for the first half of 2021. The 2021 Internal Audit Plan was formulated based on a bottom-up risk assessment of audit needs mapped against various metrics combined with top-down challenge. The plan was then mapped against a series of risk and control parameters, including the top risks identified by the Risk Committee, to verify that it is appropriately balanced between financial, business change, regulatory and operational risk drivers and provides appropriate coverage of key risk areas and audit themes within a risk-based cycle of coverage. Key areas of focus for 2021 include: strategic change initiatives, customer outcomes, cyber security, financial risk and financial controls, culture, outsourcing and digitisation. GwIA will also continue to consider how to address the needs of the audit committees of the material subsidiaries in Asia and the GWS standards being introduced by the Hong Kong IA.
Effectiveness of Internal Audit	M The Committee is responsible for approval of the GwIA charter, audit plan, resources, and for monitoring the effectiveness of the function. The Committee also assesses the effectiveness of GwIA through a combination of External Quality Assessment reviews, required every five years, and an annual internal effectiveness review. A 2020 Internal Effectiveness review, performed by the GwIA Quality Assurance Director, was conducted in accordance with the professional practice standards of the Chartered Institute of Internal Auditors (CIIA) and assessed continued conformance with the CIIA guidance for Effective Internal Audit in the Financial Services (the CIIA Code). The review concluded that GwIA continued to comply with the requirements of internal audit policies, procedures and practices, and standards in all material respects relating to audit planning and execution, and continued to be aligned with its mandated objectives and maintained general conformance with the CIIA Code. During 2020, GwIA also continued to develop its practices with enhancements to methodology, approaches to audits and the use of data analytics. Latterly in 2020 and in preparation for the proposed separation of Jackson Financial Inc, the function initiated work to create two appropriately skilled and sized, independent internal audit functions, where previously there had been a single function.

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Internal control	
Internal control and risk management systems	C O The Committee is responsible for reporting and making recommendations to the Board on the effectiveness of the Group's system of risk management and internal control. The Committee considered the outcome of the annual review of the systems of risk management and internal control. The review identified specific areas for improvement and the necessary actions that have been, or are being, taken. The Committee considered in particular the changes made to US statutory reporting as announced on 28 January and the actions taken, including an independent review by external advisers of the revised model. They also took the opportunity to consider with management the existing reviews and controls around model changes more widely, including in Asia. Alongside the review carried out by management, the Committee considered that enhanced governance over the more material Asian subsidiaries as previously discussed was providing them with deeper insight, as were the projects to prepare for GWS and IFRS 17. The Committee noted the comparatively low rating for audit and risk governance within the Governance QualityScore issued by Institutional Shareholder Services and satisfied itself that this reflected historic matters that were the subject of the FCA's fine of The Prudential Assurance Company Limited in September 2019, pre the demerger, rather than any broader concerns about the Company's governance arrangements.
Governance	
Group Governance Manual	E The Group Governance Manual sets out the policies and procedures by which the Group operates within its framework of internal governance, taking into account relevant statutory and regulatory matters. Incorporating our Group Code of Business Conduct, the Group Governance Manual sets out the general principles by which we conduct our business and ourselves. Each business attests annually to compliance with: — Mandatory requirements set out in Group-wide policies, including the Group Code of Business; and — Matters requiring prior approval from those parties with delegated authority. The Committee reviewed the results of the Group Governance Manual annual content review and the results of the year end compliance attestation for the year ended 31 December 2020.
Competence and experience	In relation to the provisions of the UK Code and HK Listing Rules, the Board is satisfied that David Law has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the business operates. Full biographies of the Committee members including experience and professional qualifications, are set out on pages 122 to 126. The Board has determined that David Law qualifies as the designated Audit Committee Financial Expert under the SEC rules consistent with Section 407 of the Sarbanes-Oxley Act.

Audit tender in 2020

1. Introduction

The Prudential Group's Annual Report 2018 noted the Group's intention to commence a tender process to appoint a new auditor in line with the UK Code in respect of audit tendering and European rules on mandatory audit rotation. The external audit tender resulted in the proposal, subject to shareholder approval at the 2023 AGM, to appoint EY as the Prudential external auditor for the financial year 2023.

The process ran from November 2019 to December 2020, was led by the Committee and was in compliance with statutory requirements and guidance issued by the FRC.

2. Governance

The objective of the audit tender was to select the best audit firm to provide a high quality, effective and efficient audit in succession to KPMG, recognising the business lines and geographical spread of the organisation. To ensure a transparent and robust selection and evaluation process, the Committee assumed responsibility for leading the tender process and recommending the preferred firm to the Board.

Prior to commencing the audit tender, two potential conflicts of interest were specifically recognised. These related to the Chair of the Committee's former positions and pension from PwC and the Group Chief Financial Officer and Chief Operating Officer's former position and pension from Deloitte. To mitigate the risk the Group Chief Internal Auditor was asked to support the audit tender process. In addition, with the Committee's agreement, the Chair recused himself from the final decision and asked Alice Schroeder to chair those meetings at which decisions regarding the tender were made.

3. Participants

Five firms were approached (three from the 'Big Four' and two 'challenger' firms). The two challenger firms chose not to take part in the process due to resources and strategic focus. Request for Information (RFI) letters were issued to the remaining candidate firms in November 2019. EY and PwC responded positively, confirming their intention to commit to the tender process and that they could meet the independence requirements. Deloitte noted potential independence concerns and subsequently withdrew from the process as they did not believe these could be resolved.

4. Scope of tender

The audit tender was designed to select the Prudential Group's external auditor, as well as the auditor for the business units across the group. The audit tender acknowledged that certain local companies within the Group had separate auditor rotation requirements.

5. Independence

Firms were asked to confirm that they would be able to demonstrate how independence would be achieved by no later than 31 December 2021, in accordance with the FRC Revised Ethical Standard 2019 and PCAOB auditing and related professional practice standards. In response, the firms confirmed their ability to assert their independence by 31 December 2021 and set out how this would be achieved in respect of:

- Current engagements (non-audit services) with Prudential;
- Prudential's management of the firm's investments and investments Prudential may hold in the firm;
- Internal procedures for dealing with the personal independence of the firm's partners, former partners and staff (in respect of direct investments, pensions of former partners and pensions held); and
- Other current business relationships with Prudential.

Prudential is satisfied that the required independence of the audit firm can be achieved.

6. Selection criteria

In order to codify what was required of the firms, a transparent set of selection criteria was devised and incorporated in scorecards used to evaluate the firms' proposals and presentations:

- *Core requirements* – the standards candidate firms were required to demonstrate to enable them to fulfil the audit of all in-scope business units within the Group; and
- *Further differentiators* – criteria designed to assist in distinguishing between the candidate firms should there be no clear difference based on the core requirements.

The selection criteria also took account of local qualification requirements to ensure that these were able to be satisfied.

7. Access to information

In order to ensure a level playing field (ie a fair, open and transparent tender process), between June and September 2020 both firms were given access to management and key stakeholders across the Group in order to help them understand the business and better tailor their proposals. These meetings included the Head Office locations and the principal business units. The information received by the candidate firms from these visits was supplemented with the provision of additional information made available through a virtual data room to ensure both firms had the same information.

8. Evaluation activities

The following activities were conducted to assess the firms and inform evaluation against each of the evaluation criteria:

- *Written proposals* – Prepared for the Group and principal business units.
- *Formal assessed presentations* – To the Audit Committee in Jackson National Life Insurance Company and Jackson National Asset Management, to Group Finance and a presentation to a panel in Prudential Corporation Asia which included the audit committee chairs of the Hong Kong and Singapore life businesses.
- *Meetings with chief finance officers of local business units in Asia and Africa* – To assess the firm's capability in local markets and their ability to perform the role of local statutory auditor.
- *Technical case studies* – Both firms participated in an exercise to help assess how they would work with Prudential on a technical matter.
- *Technology demonstration* – These events gave both firms the opportunity to set out their technology and innovation strategy and how this could enhance the quality of the audit; and
- *Formal Presentations to the Committee* – A summary of the assessments from the above process was presented to the Committee in advance of final formal presentations.

9. Evaluation

The Committee recommended both EY and PwC to the Board and considered both able to conduct a high quality audit of the Group. The Committee identified a first and second choice, and at its meeting on 3 December 2020 the Board resolved that it intends to recommend EY for appointment for the year ending 31 December 2023, subject to shareholders' approval at the AGM in 2023. In making this decision, the Board noted that EY had particularly differentiated themselves with the Asian experience of their team.

10. Transition

KPMG will remain the Group's auditor until 2023. Over the intervening period EY and the Group will start the transition process, including independence in respect of non-audit services and other business relationships globally and preparation for the introduction of revised accounting procedures IFRS 17 and IFRS 9.

Jeremy Anderson
Chair of the Risk Committee

C O

Risk Committee report

Committee members

Jeremy Anderson (from 1 January 2020, and Chair from 14 May 2020)

David Law
Kai Nargolwala
Alice Schroeder
Tom Watjen
Howard Davies (Chair until 14 May 2020)

Regular attendees

- Chair of the Board
- Group Chief Executive
- Group Chief Risk and Compliance Officer
- Group Chief Financial Officer and Chief Operating Officer
- Company Secretary
- Group Chief Internal Auditor
- Chief risk officers of the main business units and members of the Group Risk Leadership Team are invited to attend each meeting as appropriate.

Number of meetings in 2020:

8

Dear shareholder

As Chair of the Risk Committee from May, I am pleased to report on the Committee's activities and focus during 2020. It was certainly an eventful year to step into the role, with the Committee considering key strategic and externally driven changes that will leave an indelible mark on the Group's operations into the future. I would like to take this opportunity to thank my predecessor, Howard Davies, who has served as a Non-executive Director and chaired the Committee since October 2010, for his outstanding contribution. I would also like to take this opportunity to thank my fellow Committee members and everyone on the Prudential team who supported me in my transition to Chair.

Committee operation

The Committee assists the Board in providing leadership, direction and oversight of the Group's overall risk appetite, limits and strategy. It also oversees and advises the Board on current and future risk exposures of the Group, including those which have the potential to impact on the delivery of the Group's Business Plan. The Committee reviews the Group Risk Framework and recommends changes to it for approval by the Board to ensure that it remains effective in identifying and managing the risks faced by the Group. The Committee received regular reports from the Group Chief Risk and Compliance Officer, who is advised by the Group Executive Risk Committee (GERC). I provided feedback on the performance of the Group Chief Risk and Compliance Officer to the Group Chief Executive as part of the annual evaluation of the Board and its members. The Committee also received regular reports from the Group-wide Internal Audit function and updates from other areas of the business as needed.

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 unit risk committees were aligned and approved locally and include a standing invitation for the Group Chief Risk and Compliance Officer and Group Chief Executive and the requirement for relevant risk escalations directly to the Committee.

Covid-19 risks and responses

As the Covid-19 crisis started to take hold at the start of the year the Group responded incisively. An additional meeting of the Committee was convened in March to consider the potential impacts and disruption to the Group's people, customers and service delivery and to its solvency, liquidity position and credit risk exposures. At the same meeting the Committee reviewed and approved a recalibration to the Group's Economic Capital (ECap) solvency risk appetite target given the evident shift in the position in the economic cycle triggered by the pandemic. High cadence monitoring, with a focus on solvency and liquidity risks to the Group, was performed through a series of meetings of the Critical Incident Group (CIG), invoked by the Group Chief Risk and Compliance Officer under the Group's Critical Incident Procedures. Key updates from the CIG meetings were provided to the Committee.

In addition to the operational and market impact of Covid-19, the pandemic has accelerated digital adoption at the Group's agency business and increased the user base of Prudential's digital health application Pulse. Increased digitalisation was an emerging focus during 2020 and will remain a prominent theme in 2021. For the remainder of the year, the Committee also considered changes to the Group's sales processes (including the rollout of virtual face-to-face sales processes across its markets and associated regulatory and conduct risk implications) and the impact to sales, claims, lapses and surrenders. The Committee also monitored the operational resilience of the business and its key third parties as well as its information security posture and cyber defence capabilities amidst the crisis.

Regulatory matters

To align Hong Kong's regulatory regime with international standards and practices, the Hong Kong Insurance Authority (IA) has developed a new group-wide supervision (GWS) framework for multinational insurance groups under its supervision. 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 also come into operation on 29 March 2021. The GWS framework is expected to become effective for Prudential upon designation by the Hong Kong IA in the second half of 2021, subject to transitional arrangements. The framework is based on 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 as 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. Prior to the GWS framework becoming effective, the Group remains subject to the Regulatory Letter signed with the Hong Kong IA, which outlines the interim supervision arrangements from October 2019 when it became the Group-wide supervisor of the Group.

During the year, the Committee has received regular updates from the Group Chief Risk and Compliance Officer on GWS developments as well as compliance with the existing regime and the Group's preparation for the implementation of the new framework.

The Group Chief Risk and Compliance Officer briefed the Committee regularly on developments in systemic risk regulation and the Insurance Capital Standards (ICS). We considered the Group's FY 2019 ICS results, including the results from the 2020 data collection exercise and the latest developments in the Standards in December. Many of the policy requirements that resulted from the Group's prior designation in 2016 as a Global Systemically Important Insurer (G-SII) have been adopted into the Insurance Core Principles (ICPs) and the Common Framework (ComFrame). The Committee therefore considered and approved the Group's 2020 Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan.

Transformation risk, including the proposed Jackson separation, and other in-depth reviews

During 2020, a key area of consideration for the Committee was the risks associated with the Group's key strategic change initiatives, which included the Athene reinsurance and equity injection transactions and the Group's digital transformation, as well as those related to IFRS 17 and LIBOR transition. The Committee also considered risk opinions related to the financial and non-financial risks to the execution of the Jackson separation strategy and reviewed the risk disclosures within key in-progress transaction documentation, including those for the Prudential plc shareholder Circular and Jackson's Form 10 Information Statement.

In-depth reviews were performed on existing and emerging high-risk areas including the risks related to the Group's insurance products in Asia and Africa; the product portfolio at Prudential Life Thailand; and the actions for managing the risks from historically low interest rates during the year in Hong Kong, Singapore, Thailand and Vietnam. The latter review formed part of a series of work considering the long-term impact of lower interest rates on product profitability and local business unit solvency. Following a 2019 deep dive review performed on Digital Transformation and Artificial Intelligence (AI), a number of developments resulting from the review were considered by the Committee during 2020. This included progress updates on the development of AI governance and Ethics Principles for the Group.

Risk appetite and principal risks

The Committee performed its regular review of the Group's risk policies and proposed changes to the Group risk appetite statements. Aligned with these reviews, proposals to amend associated limits were also considered. The Committee reviewed the Group's annual ORSA report in May, and in light of the change in the Group's risk profile following the Athene transactions and the changes in the economic environment driven by the pandemic, an interim refreshed ORSA update was reviewed by the Committee in September.
In addition to the frequent monitoring performed during the most acute phases of the market turmoil in the first half of 2020, we regularly reviewed the strength of our capital and liquidity positions (including the results of stress and scenario analyses) under the Hong Kong IA's Local Capital Summation Method (LCSM) to assess the resilience of the buffer above the Group's regulatory capital requirements.

The Committee also considered the principal risks facing the Group and received updates on these through the course of the year, as well as reports from the risk committee chairs of the Group's major businesses, with the chief risk officers of Prudential Corporation Asia and Jackson regularly attending Committee meetings. A fuller explanation of principal risks facing the Group and the way in which the Group manages these is set out in the Group Chief Risk and Compliance Officer's report on pages 45 to 69. During 2020, the Committee considered risk assessments and opinions on key areas covering the risks associated with the Group's Business Plan and executive remuneration.

In respect of our principal risks, we continued to focus on the risks to the Group's financial viability and non-financial sustainability. This includes those arising from the external business and macroeconomic environment in which the Group operates, including the implications of sustained low interest rates; risks arising from the nature of the Group's business and industry; risks around global legal and regulatory compliance; and environmental, social and governance (ESG) related risks. In May 2020, a joint session with the Audit Committee on cyber security included an update on the Group-wide response to Covid-19 related cyber security risks, as well as progress updates on the Group's Privacy Programme and the standardised Information Security Programme across the businesses. The Committee approved a global set of ethics principles for artificial intelligence and complex tools (forming part of the Group Code of Business Conduct) in May, and in December was provided a progress update on the development of the governance in this area.

B

The Committee convened an additional meeting in September focusing on ESG risks, in particular climate-related transition risk for the Group's invested assets. Aligned to the strategic focus by the Group on its purpose, culture and values and the adoption of People & Culture as one of the Group's principal risks at the beginning of 2020, the Committee considered how the Group's culture initiative and purpose could be applied to support sound risk management practice, behaviours, conduct and awareness. In December 2020, after a successful period of road-testing, the Committee approved a new Group Customer Conduct Risk Policy.

Committee governance

The Committee works closely with the Audit Committee to ensure both Committees are updated and aligned on matters of common interest. Where responsibilities are perceived to overlap between the two Committees, David Law and I agree the most appropriate Committee to consider the matter. Aligned with the consolidation of the Risk, Compliance and Security functions under the leadership of the Group Chief Risk and Compliance Officer during 2019, the Committee assumed responsibility for Compliance oversight from the Audit Committee with effect from 1 January 2020. The Committee considered and approved the Risk and Compliance plans for the year.

Following the demerger of M&G in October 2019, the Committee was focused on overseeing the development and embedding of new governance arrangements across the Group's Asian business, building direct communication and escalation links with the existing local risk committees of the significant businesses. Regular direct communication with each of the local chairs remains a key component of our governance framework, and I have worked closely with the respective chairs of our significant business unit risk committees during the year. At each meeting, I update the Committee on important points raised at local level, and after the meeting I report to the Board on the main matters discussed.

In order to foster a close and collegiate working relationship at the Committee and with the local audit committees, David Law and I chaired a session attended by all of the non-executive directors at the four major Prudential Corporation Asia businesses.

Jeremy Anderson
Chair of the Risk Committee

How the Committee spent its time during 2020	Feb	Mar	May	Jul	Sep[1]	Dec
Risk and market updates						
Group Chief Risk and Compliance Officer reporting	●	●	●	●	●	●
Updates from significant business risk committees	●	●	●	●	●	●
Risk management						
Group principal risk identification and discussions[1]	●	●	●	●	●	●
— Covid-19 related risks	○	●	●	●	●	●
— Information security and privacy	○	○	●	○	○	●
— ESG including climate related transition risks	○	○	○	●	●	○
Deep dives	●	○	●	●	●	●
Business unit specific risk matters	●	●	●	●	●	●
Risk assessment of Business Plan	○	○	○	○	○	●
Risk function effectiveness	●	○	○	○	○	○
Risk oversight of remuneration	●	○	○	○	●	●
Regulatory and Compliance						
Group regulatory and compliance reporting	●	○	●	●	●	●
GWS	●	○	●	●	●	●
Risk and Compliance Framework						
Internal model development and changes	○	○	●	○	●	●
Group Risk appetite review	○	●	○	●	○	○
Risk limit updates	○	○	○	●	○	●
Risk, Compliance and Security policy framework	●	○	○	●	○	●
Group-wide Internal Audit update	●	○	●	●	●	●
Governance arrangements and terms of reference (including business units)	●	○	●	●	○	●
External reporting						
Full year and half year risk disclosures	●	○	○	●	○	○
ECap full and half year results	●	○	●	○	●	○
Own Risk and Solvency Assessment	○	○	●	○	●	○
Systemic risk reports (LRMP, SRMP, RCP)	○	○	○	○	●	○
ICS results	○	○	○	○	○	●

Note

1 An additional meeting to the usual scheduled meetings was held in September to discuss ESG risks, in particular climate-related transition risk for the Group's invested assets.

In addition:
- A meeting was held in June to discuss the risk opinion on the equity investment by Athene in Prudential's US business.
- Two joint meetings with the Audit Committee were held: in May to discuss cyber security and governance matters (all Non-executive Directors were invited); and in September to discuss Form S-1 Registration Statement.

C O

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Risk and Compliance framework	The Group Risk Framework and risk policies were subject to both their regular annual review and a gap analysis of the Group's policies was performed against the incoming requirements of the Hong Kong Insurance Authority's (IA's) Group-wide Supervision Framework. Changes were recommended by the Committee for approval by the Board. Annually, business units are required to assess and certify their compliance with the Group Risk Framework and associated policies as part of the annual Group Governance Manual certification process. The certification process is facilitated by the Risk, Compliance and Security function and subject to oversight by the Committee. The Committee conducted its annual review of risk effectiveness in February. It also considered the effectiveness of, and approved updates to, the Group Risk Mandate which formally sets out the purpose and responsibilities of the Group Risk function and its effectiveness in overseeing the key risks to the Group. The Committee also reviewed the methodology and calibration of the Group internal model.
Group Risk appetite	The Committee is responsible for recommending changes in the Group's overall risk appetite and tolerance to the Board for approval. In March, the Committee reviewed and approved a reduction in the Group's Economic Capital (ECap) solvency risk appetite given the change in the position of the economic cycle triggered by the pandemic, and the reversal of this change on the subsequent recovery of the economic cycle indicators. The Committee also performed its annual review of the Group Risk Appetite Statement and associated limits. These are defined in aggregate for financial and non-financial risks by the setting of objectives for its liquidity, capital requirements and non-financial risk exposure. As part of this review, the Committee approved the adoption, following a period of road-testing, of a revised Liquidity Coverage Ratio (LCR) metric and a revision of the LCR trigger level.
Group-wide Supervision Framework (GWS)	Since the demerger of M&G plc, the Group has been subject to the consolidated supervision of the Hong Kong IA as Prudential's Group-wide supervisor. Key updates on GWS developments and implementation progress were provided to the Committee during the year.
Business Plan	As part of its role in overseeing and advising the Board on future risk exposures and strategic risks, the Committee reviewed the risk assessment of the Business Plan, which included key financial risks (including those associated with the challenging macroeconomic and geopolitical environments, being more uncertain than those foreseen in previous Plan assessments, and including prolonged low interest rates) and non-financial risks (including the execution risks in delivering the Group's announced strategy for Jackson; risks to top-line sales growth and increasing third party risk). The analysis review included sensitivity assessments of the impact of various plausible scenarios.
Own Risk and Solvency Assessment (ORSA)	The ORSA is a key ongoing process for identifying, assessing, controlling, monitoring and reporting the risks to which the Group is exposed and assessing capital adequacy over the business planning horizon. In May, the Committee considered the Group's ORSA report, based on the Business Plan, prior to its approval by the Board. An additional interim ORSA report was considered by the Committee in September, produced in light of the change in the Group's risk profile following the Athene transactions and the changes in the economic environment driven by the pandemic.
Stress and scenario testing	The Committee is responsible for reviewing the outcome and results of stress and scenario testing, which is a key risk identification, measurement and management tool for the Group. Stress and scenario testing is a key component of the Group's ORSA and the risk assessment of the Business Plan, as described above, as well as its Recovery Planning and Reverse Stress Testing (RST). The Group's Recovery Plan, considered by the Committee in September, included an assessment of the financial and operational resilience of Prudential. The Plan concluded that despite the challenging conditions linked to Covid-19 and significant stress experienced in the first half of 2020, the Group's position remained strong and that a range of credible recovery actions remain available, at both Group and business unit level which are considered sufficient to recover the Group's position if it comes under severe stress.

C O

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Systemic Risk Management	The FSB has endorsed a new Holistic Framework for systemic risk management and suspended G-SII designations until a review is undertaken in 2022. Many of the policy requirements that resulted from the Group's prior designation in 2016 as a Global Systemically Important Insurer (G-SII) have been adopted into the Insurance Core Principles (ICPs) and ComFrame – the common framework for the supervision of Internationally Active Insurance Groups (IAIGs). As Prudential is expected to satisfy the criteria of an IAIG, these measures are anticipated to continue for the Group. The Committee therefore considered, and recommended for approval by the Board, the Systemic Risk Management Plan, Recovery Plan and Liquidity Risk Management Plan.
Transformation activity and proposed Jackson separation	During 2020, a key area of consideration for the Committee was the proposed Jackson separation, which contributed to the portfolio of key strategic change activity across the Group. The Committee's work included consideration of risk opinions related to the financial and non-financial risks to the execution of the proposed Jackson separation, reviewing the risk disclosures within key in-progress transaction documentation, including those for the Prudential plc shareholder Circular and Jackson's Form 10 Information Statement and the revision to Jackson's hedge modelling for US statutory standards for calculating reserves and capital. The Committee was provided with updates on other transformation activity throughout the year. It received regular updates on the Group's portfolio of key strategic change initiatives, including those related to IFRS 17, the Group's digital transformation and LIBOR transition.
Covid-19 related risks	The impact of the Covid-19 pandemic has been broad, with implications for the Group's solvency and liquidity position and many of its principal risks. At an additional meeting of the Committee convened in March as the crisis started to unfold, the Committee reviewed and approved a recalibration to the Group's Economic Capital (ECap) solvency risk appetite. Key updates focusing on solvency and liquidity risks to the Group from the meetings of the Critical Incident Group, convened by the Group Chief Risk and Compliance Officer under the Group's Critical Incident Procedures, were provided to the Committee. The Committee received regular updates on the nature and extent of the impacts across its principal risks, including the changes to the Group's sales processes (including the rollout of virtual face-to-face sales processes across its markets and associated regulatory implications) and the impact to sales, claims, lapses and surrenders. The Committee also monitored the operational resilience of the business and its key third parties as well as its information security posture amidst the crisis.
Group principal risks	The Committee evaluated the Group's principal risks, considering recommendations for promoting additional risks and changes in the scope of existing risks. In addition to those impacted by the pandemic as outlined above, the Committee also received regular reporting on principal and emerging risks and external events, such as the international responses to the enactment of the national security law in Hong Kong, over the course of the year within the Group Chief Risk and Compliance Officer's regular report to the Committee. Further information about how the Group identifies emerging and principal risks can be found in the Group Chief Risk and Compliance Officer's report. Additional meetings of the Committee were convened in March and September focusing on Covid-19 driven risks and ESG risks, in particular climate-related transition risk for the Group's invested assets, respectively. The Group Chief Risk and Compliance Officer's reports also provided the Committee with regulatory updates; the implications of the developing global capital standards including the engagement with the Hong Kong IA on the development of GWS; and developments in the area of systemic risk management.
Deep dives	As part of its risk oversight responsibilities, the Committee also considers the result of 'deep dive' risk reviews performed over the year. In 2020, these focused on the risks related to the Group's insurance products in Asia and Africa; the product portfolio at Prudential Life Thailand; and the actions for managing interest rate risk in Hong Kong, Singapore, Thailand and Vietnam. The latter review formed part of a series of work considering the impact of lower for longer interest rates. Following a 2019 deep dive review performed on Digital Transformation and Artificial Intelligence (AI), a number of developments resulting from the review were considered by the Committee during 2020. This included progress updates on the development of AI governance and Ethics Principles for the Group.

C O

Key matters considered during the year

Matter considered	How the Committee addressed the matter
Information security and privacy	During 2020, updates were provided to the Committee on progress made in the operationalisation of the Group-wide governance model and strategy for cyber security management and data privacy risks. In May, in a joint session of the Risk and Audit Committee to which all Non-executive Directors were invited, updates on the Group-wide response to Covid-19 related cyber security risks, and progress on the Group's Privacy Programme and the standardised Information Security Programme across the businesses, were provided. The Committee received regular updates on Group-wide information security and privacy metrics providing a view of security posture across the businesses.
Remuneration	The Committee has a formal role in the provision of advice to the Remuneration Committee on risk management considerations in respect of executive remuneration. It considered risk management assessments of proposed executive remuneration structures and outcomes during the year, making related recommendations to the Remuneration Committee for their consideration.
Compliance and audit reporting	The Committee received regular reporting on key compliance risks and mitigation activity throughout the year. It also reviewed and approved updates to regulatory compliance risk-related policies including changes to the Personal Account Dealing Policy and the Conflicts of Interest Policy. The Committee also approved, after a successful period of road-testing, a new Group Customer Conduct Risk Policy. The Committee received updates from Group-wide Internal Audit throughout the year relating to effectiveness of risk management and internal control systems and other matters relating to its responsibilities.

Statutory and regulatory disclosures

Financial reporting
The Directors have a duty to report to shareholders on the performance and financial position of the Group and are responsible for preparing the financial statements on pages 206 to 308 and the supplementary information on pages 320 to 347. It is the responsibility of the auditor to form independent opinions, based on its audit of the financial statements and its audit of the EEV basis supplementary information, and to report its opinions to the Company's shareholders and to the Company. Its opinions are given on pages 310 to 319 and pages 349 to 351.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial affairs of the Company and of the Group. The criteria applied in the preparation of the financial statements are set out in the Statement of Directors' responsibilities on pages 309 and 348. Company law also requires the Board to approve the Strategic report. In addition, the UK Code requires the Directors' statement to state that they consider the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors are further required to confirm that the Strategic report includes a fair review of the development and performance of the business, with a description of the principal risks and uncertainties. Such confirmation is included in the Statement of Directors' responsibilities on page 309.

The Strategic report provides, on pages 10 to 69, a description of the Group's capital position, financing and liquidity. The risks facing the Group's business are discussed in the Group Chief Risk and Compliance Officer's report of the risks facing our business and how these are managed on pages 45 to 69.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Going concern
In accordance with the guidance issued by the Financial Reporting Council in September 2014, 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', after making sufficient enquiries, 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 the financial statements are approved. Further information is provided in note A1 on page 215.

Powers of the Board
The Board may exercise all powers conferred on it by the Company's Articles and the Companies Act 2006. This includes the powers of the Company to borrow money and to mortgage or charge any of its assets (subject to the limitations set out in the Companies Act 2006 and the Company's Articles) and to give a guarantee, security or indemnity in respect of a debt or other obligation of the Company.

Rules governing the appointment of Directors
The appointment and removal of Directors is governed by the provisions in the Articles of Association (the Articles), the UK Code, the HK Code (as appended to the Hong Kong Listing Rules) and the Companies Act 2006.

Director indemnities
Subject to the provisions of the Companies Act 2006, the Company's Articles permit the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office.

Suitable insurance cover is in place in respect of legal action against directors and senior managers of companies within the Group.

Qualifying third-party indemnity provisions are also available for the benefit of the Directors of the Company and certain other such persons, including certain directors of other companies within the Group. These indemnities were in force for 2020 and remain so.

Contract of significance
At no time during the year did any Director hold a material interest in any contract of significance with the Company or any subsidiary undertaking.

Securities dealing and inside information
Prudential has adopted securities dealing rules relating to transactions by Directors on terms no less exacting than required by Appendix 10 to the HK Listing Rules and by relevant UK regulations. Having made specific enquiry of all Directors, the Directors have complied with these rules throughout the period.

The Group has adopted an Inside Information Policy which includes guidance and procedures for the identification, dissemination and escalation of inside information as well as appropriate controls on the disclosure of such information in line with regulatory requirements. All staff are made aware of the policy and receive communications reminding them of their obligations when they work on any confidential matters in the business or are notified when the Company enters or exits a closed period.

Requirements of Listing Rule 9.8.4
Information to be included in the Annual Report and Accounts under Listing Rule 9.8.4 may be found as follows:

Listing Rule	Description	Page
9.8.4 (4)	Details of long-term incentive schemes required by Listing Rule 9.4.3	191
9.8.4 (10)	Contracts of Significance involving a Director	168
9.8.4 (12)	Details of shareholder waiver of dividends	397
9.8.4 (13)	Details of shareholder waiver of future dividends	397

US regulation and legislation
As a result of its listing on the New York Stock Exchange, the Company is required to comply with the relevant provisions of the Sarbanes-Oxley Act 2002 as they apply to foreign private issuers and have adopted procedures to ensure such compliance. In particular, in relation to Section 302 of the Sarbanes-Oxley Act 2002 which covers disclosure controls and procedures, a Disclosure Committee has been established, reporting to the Group Chief Executive, chaired by the Group Chief Financial Officer and Chief Operating Officer and comprising members of head office management. The work of the Disclosure Committee supports the Group Chief Executive and Group Chief Financial Officer and Chief Operating Officer in making the certifications regarding the effectiveness of the Group's disclosure procedures.

Change of control
Under the agreements governing Prudential Corporation Holdings Limited's life insurance and fund management joint ventures with China International Trust & Investment Corporation (CITIC), if there is a change of control of the Company, CITIC may terminate the agreements and either, (i) purchase the Company's entire interest in the joint venture or require the Company to sell its interest to a third party designated by CITIC, or (ii) require the Company to purchase all of CITIC's interest in the joint venture. The price of such purchase or sale is to be the fair value of the shares to be transferred, as determined by the auditor of the joint venture.

Customers
The five largest customers of the Group constituted in aggregate less than 30 per cent of its total revenue from sales for each of 2020 and 2019.

Index to principal Directors' report disclosures

Information required to be disclosed in the Directors' report may be found in the following sections:

Information	Section in Annual Report	Page number(s)
Disclosure of information to auditor	Statutory and regulatory disclosures	168
Directors in office during the year	Board of Directors	122-126
ESG report	ESG report	70-117
Employment practices	ESG report	93-98
Greenhouse gas emissions	ESG report	114-117
Charitable donations	ESG report	108-110
Political donations and expenditure	ESG report	108
Remuneration Committee report	Directors' remuneration report	179-202
Directors' interests in shares	Directors' remuneration report	197
Agreements for compensation for loss of office or employment on takeover	Directors' remuneration report	199
Details of qualifying third-party indemnity provisions	Governance report	168
Internal control and risk management	Governance report and Strategic report	139-140 and 45-69
Powers of Directors	Governance report	168
Rules governing appointment of Directors	Governance report	168
Significant agreements impacted by a change of control	Governance report	168
Future developments of the business of the Company	Group Chief Executive's report	5-9
Post-balance sheet events	Note D3 of the notes on the Group financial statements	289
Rules governing changes to the Articles of Association	Shareholder information	396
Structure of share capital, including changes during the year and restrictions on the transfer of securities, voting rights and significant shareholders	Shareholder information, Governance report and note C8 of the notes on the Group financial statements	396-397 and 168 and 282
Business review	Group overview and strategic report	5-117
Changes in borrowings	Group Chief Financial Officer and Chief Operating Officer's report and note C5 of the notes on the Group financial statements	32 and 274
Dividend details	Group overview and strategic report	3 and 34
Financial instruments	Strategic report and Additional information	45-69 and 379-383
Corporate governance statement including compliance with the Code	Governance report	118-169
Fostering the Company's business relationships	ESG report	78-81
Monitoring culture	ESG report	78-81 and 93-98

In addition, the risk factors set out on pages 379 to 390 and the additional unaudited financial information set out on pages 354 to 378, are incorporated by reference into the Directors' report.

The Directors' report is signed on behalf of the Board of Directors by

Tom Clarkson
Company Secretary

2 March 2021

Directors' remuneration report

Contents

This report has been prepared to comply with Schedule 8 of The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, as well as the Companies Act 2006 and other related regulations.

The following sections were subject to audit: Table of 2020 and 2019 Executive Director total remuneration (the 'single figure') and related notes (including details of all fixed and variable remuneration elements shown in the single figure table), Pension entitlements, Long-term incentives awarded in 2020, Chair of the Board and Non-executive Director remuneration in 2020 and 2019, Statement of Directors' shareholdings and Payments to past Directors and payments for loss of office.

Anthony Nightingale CMG SBS JP
Chair of the Remuneration Committee

Annual statement from the Chair of the Remuneration Committee

Dear shareholder,
I am pleased to present our Directors' remuneration report for the year to 31 December 2020 on behalf of the members of the Remuneration Committee.

By way of preface, I would like to share the context for the key decisions the Committee took during 2020 and for the developments in our arrangements planned for 2021.

R

In the Committee's 2019 report, we presented a new Directors' remuneration policy. In April 2020, in light of the Covid-19 pandemic and the need for continued restraint in executive remuneration, the Committee clarified how we intended to operate the new policy, as described in the 'Aligning pay and performance in the context of Covid-19' section of this report. These clarifications included reversing salary increases awarded for 2020, reducing pension benefits of incumbent Executive Directors from 25 per cent to 13 per cent of salary in line with the UK workforce and reversing the proposed increase in the Prudential Long Term Incentive Plan (PLTIP) award level for the Group Chief Financial Officer and Chief Operating Officer. The 2020 Directors' remuneration policy was approved by shareholders at the 2020 AGM with 95.8 per cent votes cast in favour. During 2021, the Committee intends to operate within the 2020 policy and in line with our previous clarifications.

D P

As described below, a number of changes are planned in the application of the policy for 2021 to maintain the strong connection between incentive arrangements and the Group's evolving strategy. I have had the opportunity during late 2020 and early 2021 to discuss these changes with many of our major shareholders, as well as the organisations that represent and advise them. I am pleased to say that we have had the benefit of substantive feedback from over 40 per cent of our shareholder register and that the majority of shareholders and advisory bodies who provided input are supportive of the remuneration arrangements that we proposed for 2021. These arrangements are in line with our approved 2020 remuneration policy. On behalf of the Committee, I would like to thank the shareholders and advisory bodies for their engagement to date and look forward to continuing this useful dialogue into the future.

R

Reflecting 2020 financial performance

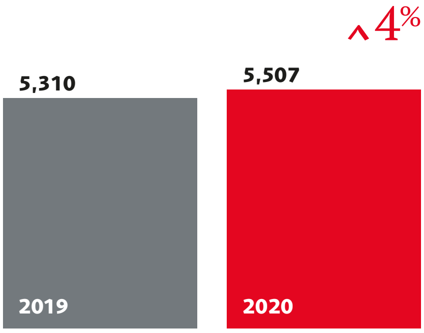
Prudential's executive remuneration arrangements reward the achievement of Group, business, functional and personal targets, provided that this performance is delivered within the Company's risk framework and appetites, and that the conduct expectations of Prudential, our regulators and other stakeholders are met.

As set out in the Strategic report section earlier in this Annual report, despite the unexpected challenges throughout 2020 the Group delivered positive operating results as we continue to develop our capabilities and presence in our chosen Asia and Africa markets. The table below illustrates achievement of KPIs:

Performance measures | **Group performance ($m)**[3] | **2020 bonus achievement**[4]

Adjusted operating profit from continuing operations[1]
Prudential's primary measure of profitability and a key driver of shareholder value.

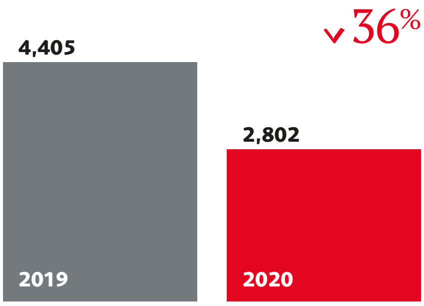
Adjusted operating profit accounted for 35 per cent of Group financial bonus targets.



Above target level, approaching stretch target level

Life new business profit from continuing operations
A measure of the future profitability of the new business sold during the year and an indicator of the profitable growth of the Group.

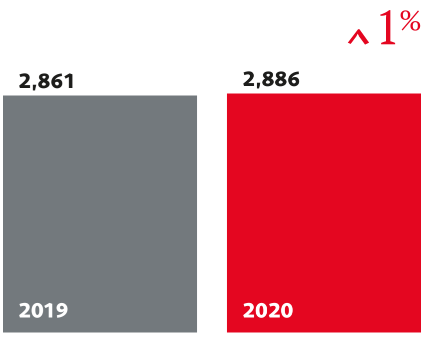
New business profit accounted for 15 per cent of Group financial bonus targets.



Below minimum threshold

Operating free surplus generated from continuing operations[2]
A measure of the internal cash generation of our business units.

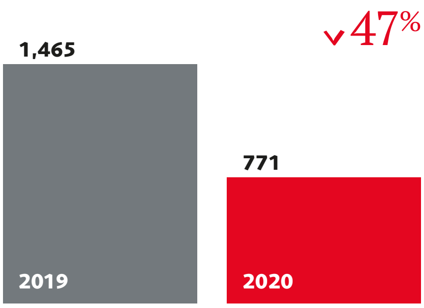
Operating free surplus generated accounted for 30 per cent of Group financial bonus targets.



Above stretch target level

Business unit remittances[5]
Cash flows across the Group[6] reflect our aim of achieving a balance between ensuring sufficient net remittances from business units to cover the dividend (after corporate costs) and the use of cash for reinvestment in profitable opportunities.

A cash flow measure was used to determine 20 per cent of the Group financial bonus targets.



Below minimum threshold

Notes
1 In this report 'adjusted operating profit' refers to adjusted IFRS operating profit based on longer-term investment returns from continuing operations.
2 For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the period less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the year.
3 As reported basis.
4 Targets and the level of achievement are set out in the 'Annual bonus outcomes for 2020' section of the Annual report on remuneration.
5 2019 business unit remittances exclude remittances from discontinued remittances.
6 Group cash flow includes business unit remittances net of dividends and corporate costs.

2020 adjusted operating profit was 4 per cent higher than prior year on an actual exchange rate basis (and on a constant exchange rate basis) reflecting the performance outlined in the Strategic report, and delivered a result that is above the approved targets.

Life new business profit was 36 per cent lower than prior year on an actual exchange rate basis (37 per cent on a constant exchange rate basis). This reflected the change in geographical sales mix, most notably the fall in Hong Kong APE, as a result of the challenging trading environment caused by the Covid-19 pandemic. This result was below the minimum threshold.

Operating free surplus generation was 1 per cent higher than 2019 on an actual exchange rate basis (and on a constant exchange rate basis) and this result was above the approved stretch target.

Business units remittance levels were 47 per cent lower than 2019 and were below minimum threshold. Holding company cash was $1.5 billion at the year end, after dividends, corporate costs and strategic investment in Asia, though, reflecting the lower level of remittances received from the business units, the Group cash flow measure was below the minimum threshold level.

The Group achieved these results while maintaining appropriate levels of capital and while operating within the Group's risk framework and appetites in the challenging market environment.

Reflecting stakeholders' 2020 experiences

In reaching its decisions for 2020, the Committee considered the experience of the Company's stakeholder groups, particularly in the context of the pandemic. More details can be found in the ESG section of the Strategic report:

Investors

- At the half year, the Company announced a change in the dividend policy, aligned with the revised Group strategy to focus on value creation through growth. Dividends are expected to grow broadly in line with the growth in Asia and will be set taking into account financial prospects, investment opportunities and market conditions.
- While the Company's share price reduced by 7 per cent during 2020, our one-year TSR performance has been stronger than our comparators, outperforming the median of the 2020 PLTIP peer group (Prudential, (8.6) per cent compared with the peer group median of (12.5) per cent on a point to point basis).
- On 28 January 2021, Prudential announced that it was considering an equity raise of around $2.5-3 billion to increase financial flexibility and take advantage of Asia growth opportunities.

Our people

- Almost all employees have spent at least part of 2020 working remotely, in line with local restrictions and guidance.
- No employees were furloughed or made redundant as a result of the pandemic. Our remuneration programmes operated as usual during the pandemic period with medical insurance coverage extended to offer free Covid testing where necessary. Employees received their regular remuneration during any periods of shielding or self-isolation.
- In July 2020 the Global Diversity & Inclusion Council was established to empower employees and create a sense of belonging by respecting and appreciating differences.
- A range of initiatives was launched to support employees' wellbeing and mental health, including the Group's first global wellbeing day held on World Mental Health day.

Governments and Regulators

- Group has not sought any government support during the pandemic. A job support payment inadvertently received from one government was repaid in full.
- The Group has engaged frequently with its Lead Regulator on the development of the proposed Group-wide Supervision (GWS) framework which is expected to become effective from March 2021.

Suppliers

- All London Head Office suppliers with fewer than 100 employees were automatically switched to 10-day payment terms.
- Human rights and modern slavery considerations are embedded across all supplier and supply chain arrangements.

Customers

- Customer service processes made claiming easier with dedicated hotlines, fast-track claims processing and policy premium grace period extensions.
- Free limited-time Covid-19 cover was offered in Asia and the 'Pulse by Prudential' app put artificial intelligence-powered medical symptom checking, wellness advice and tele-medicine into people's hands.
- A total of $4.2 million was spent on goodwill payments.

Society

- The Group created a $2.5 million Covid-19 relief fund.
- The Prudence Foundation Safe Steps Covid-19 campaign provided practical advice about safety in the pandemic and reached over 250 million people daily across Asia and 80 million people a month across Africa.
- Significant progress was made in redefining the Group's ESG ambition and strategy including the creation of the Responsibility and Sustainability Working Party of the Board.

Rewarding 2020 performance

The Committee determined remuneration outcomes having considered the financial performance of the Group, its delivery to stakeholders and the personal contribution of executives.

As set out above, 2020 saw the Group perform well against its key operating profit and operating free surplus generation targets in the face of difficult external conditions. This performance, combined with his effective personal leadership, resulted in an overall bonus outcome for Mr Wells of 66 per cent of his maximum opportunity. However, the Committee and Mr Wells recognised the impact on investors of elements of the Group's announcement on 28 January 2021 with respect to Jackson and the Committee exercised its discretion to reduce Mr Wells's 2020 bonus outcome by 30 per cent (from 66 to 46 per cent of his maximum opportunity).

The Committee believes that the bonuses it awarded to the other Executive Directors for 2020 (between 70 per cent and 80 per cent of executives' maximum Annual Incentive Plan (AIP) opportunities) appropriately reflect underlying Company performance, individual and/or functional performance and wider factors.

Over the longer term, the Group has demonstrated positive operating results delivering total cumulative adjusted operating profits of $18,472 million in the 2018, 2019 and 2020 financial years. Based on this strong cumulative adjusted operating profit performance over the period and performance against our sustainability scorecard, the Committee determined that 68.75 per cent of the Prudential Long Term Incentive Plan (PLTIP) awards made to Executive Directors in 2018 would vest. These awards will be released to participants from April 2021, but remain subject to a two-year post-performance holding period. The portion of the awards related to Prudential's total shareholder return (TSR) lapsed as TSR performance was ranked below the median of the peer group.

The total 2020 remuneration or 'single figure' for the Group Chief Executive, Mike Wells, is 11 per cent lower than his total restated 2019 'single figure', notwithstanding his exceptional leadership and personal performance. This chiefly reflects the reduction in the value of his 2020 bonus and the decrease in the pension contribution from 25 per cent to 13 per cent of salary.

Preparing for the intended separation and divestment of Jackson

As the Group prepares for the proposed separation and divestment of the Jackson business, the Committee established a set of principles to underpin decisions on remuneration relating to the separation, including:

— Executives should not be advantaged or disadvantaged by the separation;
— The value of outstanding awards and their key terms (vesting dates, holding periods, malus and clawback provisions) should be unaffected;
— If performance conditions are revised, the new conditions should be no more or less stretching than those originally attached to the awards; and
— Where the Committee has applied discretion, this will be clearly disclosed.

These principles are consistent with those adopted in respect of the 2019 demerger of the M&G business and will be the basis for the decisions which will be taken by the Committee and disclosed in due course, including the treatment of outstanding share awards.

D P R

Engaging shareholders on 2021 remuneration arrangements

In late 2020 and early 2021, we consulted with our major shareholders and the main institutional voting agencies on the proposed implementation of our Directors' remuneration policy in 2021. We had constructive conversations about our approach to remuneration and received broad support for our proposals, as summarised below:

— We proposed rebalancing the AIP metrics for 2021 with an increased weight assigned to the EEV new business profit, in line with our strategy of driving growth in profitable new business.

— On the PLTIP, we proposed that RoEV replaces the RoE measure for 2021 awards to reflect the focus on achieving sustained growth in embedded value per share while the TSR peer group is revised to reflect the footprint of the post-separation Group. These changes ensure the strong alignment of remuneration structures with the Group's strategic priorities.

— The Committee has taken the decision not to award salary increases to Executive Directors for 2021. Details of the proposed operation of the incentive plans in 2021 are included in the 'Statement of implementation of remuneration policy in 2021' section. 2021 will be the ninth consecutive year in which the increases generally offered to executives have been below or close to the bottom of the salary increase budget ranges for the broader workforce.

In 2020 and 2021, non-financial incentive measures included a shared annual ESG objective and the Conduct and Diversity elements in the Sustainability Scorecard. Looking further ahead, I anticipate that the Group's renewed focus on measuring its ESG impact (described in our ESG Report) may result in further ESG measures being used within the Company's incentive plans. This is something that the Committee has considered and that I have discussed with shareholders. The Committee will take advice from the newly established Responsibility and Sustainability Working Party about how we might develop robust and stretching incentive targets which are meaningfully connected with the Group's ESG strategy.

I trust that you will find this report a clear account of the way in which the Committee has implemented the Directors' remuneration policy during 2020 and of the proposed Directors' remuneration arrangements for 2021.

Anthony Nightingale

Anthony Nightingale, CMG SBS JP
Chair of the Remuneration Committee

2 March 2021

Our Executive Directors' remuneration at a glance

R

What performance means for Executive Directors' pay

At Prudential, remuneration packages are designed to ensure strong alignment between pay and performance. 2020 saw the Group perform well against its key operating profit and operating free surplus generation targets in the face of difficult external conditions. This has been reflected in both the annual bonuses paid and the release of long-term incentive awards, as set out in the Annual report on remuneration.

The value of the performance-related elements of remuneration is added to the fixed packages provided to Executive Directors to calculate the 2020 'single figure' of total remuneration. The total 2020 'single figure' for the Group Chief Executive is 11 per cent less than the total 2019 'single figure'. This chiefly reflects the reduction in the value of his 2020 bonus and the decrease in the pension contribution from 25 per cent to 13 per cent of salary. The values for the current Executive Directors are outlined in the table below:

		Fixed pay		Variable pay			
Executive Director	**Role**	**2020 salary** ($000)	**Pension and benefits** ($000)	**2020 bonus** ($000)	**PLTIP vesting** ($000)	**2020 single figure**[1] ($000)	**2019 single figure**[2] ($000)
Mark FitzPatrick	Group Chief Financial Officer and Chief Operating Officer	980	410	1,186	1,405	3,981	4,316
James Turner[3]	Group Chief Risk and Compliance Officer	950	812	1,322	729	3,813	3,146
Mike Wells	Group Chief Executive	1,481	646	1,355	3,398	6,880	7,671

Notes
1 The 2020 single figure is presented in USD (the Company's reporting currency).
2 The revised 2019 single figure reflects the actual PLTIP value for awards with performance period ending in 2019, valued using the share price on the date of vesting of £10.21 (£12.60 for Mark FitzPatrick), and including additional dividends paid. The 2019 single figure has been converted to USD.
3 Mr Turner relocated to Hong Kong on 1 August 2019 and has since been paid in HK dollars, while Messrs Wells and FitzPatrick are paid in sterling. Exchange rate fluctuations will therefore impact the reported values. Actual amounts paid and the rates of exchange used to convert into a single currency are set out in the Notes to the 'single figure' table in the Annual report on remuneration.

R

Aligning pay and performance in the context of Covid-19

Prudential has a highly resilient business model and remains well placed to support its customers and distribution partners, and deliver profitable growth for its shareholders. Nevertheless, in light of the challenges presented by Covid-19 and the need for continued restraint in executive remuneration, in April 2020 Prudential's Executive Directors proposed the following changes to their remuneration, which were accepted by the Remuneration Committee:

— A reduction in the salaries of Executive Directors to the level on 31 December 2019, reversing the 2 per cent salary increase with effect from 1 April 2020.
— A reduction in the pension benefits of incumbent Executive Directors from 25 per cent to 13 per cent of salary, with effect from 14 May 2020, a level in line with the employer pension contribution available to the UK workforce.
— The Group Chief Financial Officer and Chief Operating Officer's 2020 PLTIP award was maintained at 250 per cent instead of moving to the level of 300 per cent of salary provided by the policy.

In recognition of the continued focus on pay restraint and after due deliberation, the Committee considered there should be no salary increases for the Executive Directors for 2021. The factors taken into account by the Committee when determining that the pay freeze should apply included treatment of all Company stakeholders and pay fairness. 2021 will be the ninth consecutive year in which the increases generally offered to executives have been below or close to the bottom of the salary increase budget ranges for the broader workforce.

Remuneration packages for 2021, effective 1 January 2021, are set out in detail in the Annual report on remuneration and are summarised below:

				Annual Incentive Plan (AIP)		
Executive Director	**Role**	**2021 salary (Local currency)**	**2021 salary (USD)**[1]	**Maximum bonus (% of salary)**	**Bonus deferred (% of bonus)**	**PLTIP award (% of salary)**[2]
Mark FitzPatrick	Group Chief Financial Officer and Chief Operating Officer	£760,000	$975,000	175%	40%	250%
James Turner	Group Chief Risk and Compliance Officer	HKD7,330,000	$945,000	175%	40%	250%
Mike Wells	Group Chief Executive	£1,149,000	$1,473,000	200%	40%	400%

Notes
1 The exchange rate used to convert pay to USD is the reporting rate during 2020 of 1.2824:1 for GBP and 1:7.7560 for HKD. All salaries are rounded to the nearest $1,000/£1,000 or HKD 10,000.
2 The PLTIP award is subject to a three-year performance period and a holding period which ends on the fifth anniversary of the award.

Summary of the current Directors' remuneration policy

The current Directors' remuneration policy was approved at the AGM on 14 May 2020 and is expected to fully apply until the 2023 AGM, when shareholders will be asked to approve a revised Directors' remuneration policy. The Committee is comfortable that the current Policy operated as intended and that the overall 2020 remuneration paid to Executive Directors set out below was appropriate.

The pages that follow present a summary of the current Directors' remuneration policy. The complete policy is available on the Company's website at www.prudentialplc.com/investors/governance-and-policies/policies-and-statements.

Summary of the Directors' remuneration policy

Current key elements of remuneration		2020	2021	2022	2023	2024	2025	Key features of operation of the current policy	How we implemented the policy in 2020
Fixed pay	**Salary and benefits**							Salaries reviewed annually with increases generally aligned with those of the workforce. Benefits reflect individual circumstances and are competitive in the local market	A 2% salary increase was made with effect from 1 January 2020 followed by a reduction to the 31 December 2019 level from 1 April 2020
	Pension							Pension contributions and/or a cash supplement up to 22.5% of salary (20% from 14 May 2021). Executive Directors based in Hong Kong receive this in addition to contributions into the Hong Kong Mandatory Provident Fund	Pension contributions for the incumbent Executive Directors reduced to 13% of salary from 14 May 2020, in line with the employer pension contribution available to the UK workforce
Short-term variable pay One-year performance assessed on financial, functional and personal objectives, set with reference to business plans approved by the Board. Awards are subject to the achievement of a Pillar I capital underpin aligned with the Hong Kong Insurance Authority capital framework	**Cash bonus**							The maximum opportunity is up to 200% of salary	The Group Chief Executive was awarded a maximum bonus opportunity of 200% of salary
	Deferred bonus							40% of bonus is deferred into shares for three years Award is subject to malus and clawback provisions, including in circumstances where there are non-financial issues and personal conduct which falls short of the Company's expectations	Other Executive Directors were awarded a maximum opportunity of 175% of salary 2020 bonuses were paid based on financial and personal objectives and, in the case of the Group Chief Risk & Compliance Officer, functional objectives
Long-term variable pay Three-year performance assessed on a combination of: — Financial measures; — Total Shareholder Return (TSR) relative to international insurance peers; and — Sustainability scorecard of capital, conduct and diversity measures	**Prudential Long Term Plan (PLTIP)**	Performance period			Holding period			Maximum award under the Plan is 550% of salary although regular awards are below this level Awards are subject to a three-year vesting period from date of grant and a further two-year holding period from the end of the vesting period Awards are subject to malus and clawback provisions, including in circumstances where there are non-financial issues and personal conduct which falls short of the Company's expectations The proportion of awards which will vest for threshold performance is 20%	Awards in 2020 were below the plan limits: — Group Chief Executive: 400% of salary — Other Executive Directors: 250% of salary Weight of 2020 PLTIP measures was as follows: 50% TSR, 30% Operating return on average shareholders' funds (RoE) and 20% sustainability scorecard On vesting, the Committee will review awards to ensure that participants do not benefit from windfall gains. The Committee will consider Prudential's stretching performance targets, share price performance of Prudential and its peers, the prices of the indices on which Prudential is listed and any other factors deemed relevant
Share ownership guidelines	Share ownership guidelines							Significant in-employment share ownership guidelines for all Executive Directors as follows: — 400% of salary for the Group Chief Executive — 250% of salary for other Executive Directors Executives have five years from the later of the date of their appointment, or the date of an increase in these guidelines, to build this level of ownership Executive Directors leaving the Board are required to hold the lower of their actual shareholding at their retirement date and their in-employment share ownership guideline for a period of two years, subject to Remuneration Committee discretion	The post-employment shareholding requirement is implemented by requiring Executive Directors retiring from the Board to obtain clearance to deal in the Company's shares during the two years following their retirement

Principles underlying the policy

When determining the 2020 Directors' remuneration policy, the Committee had regard to a number of key principles as illustrated below:

Current key elements of remuneration	How we implemented the policy in 2020
Simplicity	The Committee is comfortable that the current remuneration structure is simple as it consists of fixed remuneration, annual and long-term incentives only. This structure is largely unchanged from our previous policy. Stakeholders are familiar with the operation of reward arrangements and there is a demonstrable link between performance and reward outcome.
P **Risk**	The Group Risk Committee formally provides advice to the Committee on risk management considerations to inform decisions over bonus payments and long-term incentive vesting levels. The policy provides the Committee with substantial flexibility to adjust incentive outcomes, to reduce or cancel unvested awards and to reclaim both bonus and long-term incentive payments. The Committee's discretionary powers have been formalised and additional malus and clawback triggers for personal conduct introduced in relation to the AIP and PLTIP to take into account non-financial and individual factors. The time horizon for our long-term incentives extends for five years, including the holding period on awards. There are currently significant in-employment share ownership guidelines for all Executive Directors providing a material connection to the sustained success of the Company. Executives have five years from the later of the date of their appointment, or the date of an increase in these guidelines, to build this level of ownership. A post-employment shareholding requirement for Executive Directors provides continued alignment with the success of the Company and stakeholder interests even after leaving the Board. This obligation will be implemented by requiring Executive Directors retiring from the Board to obtain clearance to deal in the Company's shares during the two years following their retirement.
P **Alignment to culture**	New and existing Executive Directors are offered pension benefits of 13 per cent of salary, aligned with the employer pension contribution available to the UK workforce. The conduct measure in the PLTIP rewards for appropriate management action and ensures that there are no significant conduct/culture/governance issues that result in significant capital add-ons or material fines. The pay arrangements for Executive Directors are aligned with those of the senior leadership team. The vesting period attached to the long-term incentives reflects the time horizon of the business plan. The additional post-vesting holding period and post-employment shareholding requirement strengthens the community of interests between Executives and other stakeholders.
Q **Clarity**	The Committee has consulted with the Company's largest shareholders and their advisers on the current policy and executive pay decisions before they are implemented. Details on Executive Director pay are clearly set out in the Annual report on remuneration.
Q **Proportionality**	There are no incentive awards for below threshold performance. Financial targets are set against the Board-approved Plan. Under the PLTIP, 20 per cent of each portion of the award will vest for achieving threshold performance. The Committee approves the termination arrangements of Executive Directors to ensure that there is no reward for failure. The PLTIP leaver rules are another safeguard that there is no reward for failure under this plan. The Committee's discretionary powers have been formalised and additional malus and clawback triggers for personal conduct introduced in relation to the AIP and PLTIP to take into account non-financial and individual factors.
Q **Predictability**	The levels of awards under incentive arrangements to Executive Directors at threshold, on-target and maximum performance points are clearly defined and presented in relevant sections of this report.

Annual report on remuneration

The Board has established Audit, Remuneration, Risk and Nomination & Governance Committees as principal standing committees of the Board. These committees form a key element of the Group governance framework.

The operation of the Remuneration Committee

Members

Anthony Nightingale (Chair of the Committee)
Kai Nargolwala
Philip Remnant
Thomas Watjen
Fields Wicker-Miurin
Amy Yip

Individual Directors' attendance at meetings throughout 2020 is set out in the 'Governance' section.

Q

Role and responsibilities

The role and responsibilities of the Committee are set out in its terms of reference, which are reviewed by the Committee and approved by the Board on a periodic basis, and which can be found on the Company's website at www.prudentialplc.com/~/media/Files/P/Prudential-V3/content-pdf/gremco-tor-at-01-01-2021-v2.pdf. The Committee's role is to assist the Board in meeting its responsibilities regarding the determination, implementation and operation of the overall remuneration policy for the Group, including the remuneration of the Chair of the Board, Executive Directors, Group Executive Committee members and the Company Secretary, as well as overseeing the remuneration arrangements of other staff within its purview.

The principal responsibilities of the Committee set out In their terms of reference during 2020 were:

- Approving the operation of performance-related pay schemes operated for the Executive Directors, other members of the Group Executive Committee and the Company Secretary, and determining the targets and individual payouts under such schemes;
- Reviewing the operation and awards made under all share plans requiring approval by the Board and/or the Company's shareholders;
- Monitoring compliance of the Chair and Executive Directors and other members of the Group Executive Committee with share ownership guidelines;
- Reviewing and approving individual packages for the Executive Directors and other members of the Group Executive Committee, and the fees of the Chair. Similarly, reviewing and approving fees for the Non-executive Directors of the Group's material subsidiaries;
- Reviewing workforce remuneration practices and related policies across the Group when setting the remuneration policy for Executive Directors, as well as the alignment of incentives and awards with culture;
- Reviewing and approving the content and format of the UK gender pay gap report;
- Monitoring the remuneration and risk management implications of remuneration of senior executives across the Group and other selected roles; and
- Overseeing the implementation of the Group remuneration policy for those roles within scope of the specific arrangements referred to in the draft Hong Kong IA GWS Framework.

In 2020, the Committee met five times. Key activities at each meeting are shown in the table below:

Meeting	Key activities
February 2020	Approve the 2020 Directors' remuneration policy and the 2019 Directors' remuneration report; consider 2019 bonus awards for Executive Directors; note the personal and functional objectives to be used for the 2020 Annual Incentive Plan; consider vesting of long-term incentive awards with a performance period ending on 31 December 2019; approve 2020 long-term incentive awards and performance measures; approve the content and format of the UK Gender Pay Gap Report; note an update on the Board's review of the Committee's effectiveness; and review the appointment of the Committee's independent adviser and approve the remuneration package of the Company Secretary.
March 2020	Ratify 2019 bonus outcome and 2017 PLTIP vesting level approved at the February meeting in light of audited financial results.
June 2020	Note shareholder, voting agency and media reaction to the 2020 Directors' remuneration policy and 2019 Directors' remuneration report; approve the policy for authorising expense claims submitted by the Group Chief Executive and Chair; note an update on market trends; note the governance report on the remuneration of staff within the Committee's purview; review progress towards share ownership guidelines by the Chair of the Board, Executive Directors and other Group Executive Committee members; approve the Chair of the Board's fee; review the Committee's remit against all applicable legislative and regulatory requirements, including GWS; discuss the TSR peer group to be used for 2021 and subsequent PLTIP awards; and discuss the process for the Committee adviser tender.
September 2020	E Review the workforce remuneration dashboard (including the Group's response to the Covid pandemic); review proposed 2021 salaries for Executive Directors; approve the content and process for consulting shareholders on remuneration proposals; approve amendments to the Committee's Terms of Reference for recommendation to the Board; approve remuneration-related proposals and documentation connected with the intended separation of Jackson; note a report of the Company's performance against competitors; review proposals for performance measures for 2021 incentive plans; and approve the appointment terms of the Chair of the Board in contemplation of her appointment.
December 2020	Consider shareholder consultation feedback; approve Group Executive Committee members' 2021 salaries; approve the financial performance conditions, drawing on advice from the Group Risk Committee, to be attached to 2021 bonuses; review the first draft of the 2020 Annual report on remuneration; note an update on regulatory changes with implications for remuneration arrangements; approve the criteria to identify staff covered by the Hong Kong IA GWS Framework for the 2021 performance year and approve changes to the Group Remuneration Policy; review the draft of the Gender Pay Gap report; review the level of participation in the Company's all employee share plans and dilution levels resulting from the Company's share plans; and approve remuneration-related proposals and documentation connected with the intended separation of Jackson.

The Chair and the Group Chief Executive attend meetings by invitation. The Committee also had the benefit of advice from:

— Group Chief Risk and Compliance Officer;
— Group Chief Financial Officer and Chief Operating Officer;
— Group Human Resources Director; and
— Director of Group Reward and Employee Relations.

Q

Individuals are not present when their own remuneration is discussed and the Committee is always careful to manage potential conflicts of interest when receiving views from Executive Directors or senior management about executive remuneration proposals.

As part of our broader programme of shareholder engagement, the Chair of the Committee held meetings with shareholders and the principle advisory bodies to discuss decisions taken in respect of the Executive Directors' remuneration arrangements for 2021. We have had the benefit of substantive feedback from over 40 per cent of our shareholder register and are pleased that the majority of shareholders and advisory bodies who provided input were supportive of our proposals and commended the manner in which we conducted the consultation process.

During 2020, Deloitte LLP was the independent adviser to the Committee. Deloitte was appointed by the Committee in 2011 following a competitive tender process. As part of this process, the Committee considered the services that Deloitte provided to Prudential and its competitors, as well as other potential conflicts of interest. Deloitte is a member of the Remuneration Consultants' Group and voluntarily operates under their code of conduct when providing advice on executive remuneration in the UK. Deloitte regularly meets with the Chair of the Committee without management present. The Committee is comfortable that the Deloitte engagement partner and team providing remuneration advice to the Committee do not have connections with Prudential that may impair their independence and objectivity. The total fees paid to Deloitte for the provision of independent advice to the Committee in 2020 were £75,500 charged on a time and materials basis. During 2020, Deloitte provided Prudential management advice on remuneration, capital optimisation, digital and technology, taxation, internal audit, real estate, global mobility and other financial, ESG, risk and regulatory matters. Remuneration advice is provided by an entirely separate team within Deloitte. The Committee reviewed Deloitte's appointment in March 2019 and considered Deloitte to be independent. As disclosed in the 2019 Directors' remuneration report, the Committee agreed to review the appointment of its independent adviser during 2020. In light of the restrictions resulting from Covid-19, the tender process commenced in late 2020 and will be completed during 2021.

In addition, management received external advice and data from a number of other providers. This included market data and legal counsel. This advice, and these services, are not considered to be material.

As set out in the Governance section of this Annual report, in 2020 the Board conducted an external valuation of its effectiveness which included an assessment of the Remuneration Committee. The Committee was found to be functioning effectively. During the year, the Company has acted in a manner that is consistent with the appropriate provisions of the UK Corporate Governance Code regarding Directors' remuneration.

Table of 2020 Executive Director total remuneration (the 'single figure')

$000s	2020 salary	2020 taxable benefits*	2020 total bonus†	2020 PLTIP releases‡	2020 pension benefits§	Total 2020 fixed remuneration~	Total 2020 variable remuneration~	Total 2020 remuneration the 'single figure'^	Total 2020 remuneration the 'single figure' in GBP (£000)#
Mark FitzPatrick	980	239	1,186	1,405	171	1,390	2,591	3,981	3,104
James Turner[1]	950	643	1,322	729	169	1,762	2,051	3,813	2,973
Mike Wells	1,481	388	1,355	3,398	258	2,127	4,753	6,880	5,364
Total	3,411	1,270	3,863	5,532	598	5,279	9,395	14,674	11,441

* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements, relocation/expatriate benefits and shares awarded due to participation in the Share Incentive Plan (SIP).

† The total value of the bonus, comprising both the 60 per cent delivered in cash and 40 per cent bonus deferred into Prudential plc shares for three years. The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies, but no further performance conditions.

‡ In line with the regulations, the estimated value of the 2020 PLTIP releases for all Executive Directors has been calculated based on the average share price over the last three months of 2020 (£11.95) and includes the accumulated dividends delivered in the form of shares. The Committee's approach to determining the level of vesting for this award is set out in the 'Remuneration in respect of performance periods ending in 2020' section. The number of Prudential plc shares under award have been adjusted in line with the approach set out in the section on 'Remuneration decisions taken in relation to the demerger' of the 2019 Directors' remuneration report. The actual value of vesting PLTIP awards, based on the share price on the date awards are released, will be shown in the 2021 report. Due to the share price depreciation over the vesting period, the estimated value per share of the 2018 PLTIP awards is 32% lower than the value per share at grant. As a result, no value is attributable to share price appreciation. Therefore, no adjustment to vesting levels has been proposed as a result of the share price appreciation.

§ 2020 pension benefits include cash supplements for pension purposes and contributions into defined contribution schemes as outlined in the 'pension benefit entitlement' section.

~ Total fixed remuneration includes salary, taxable benefits and pension benefits. Total variable remuneration includes total bonus and PLTIP releases.

^ Each remuneration element is rounded to the nearest $1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of Statutory Instrument 2013 No. 1981 – The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. Total 2020 remuneration has been converted to US dollars using the exchange rate of 1.2824:1 for GBP and 1:7.7560 for HKD. Exchange rate fluctuations will therefore impact the reported value.

\# Total 2020 remuneration has been converted to GBP using the exchange rate of 1 GBP to 9.9461 HKD.

Note

1 Mr Turner relocated to Hong Kong on 1 August 2019 and has since been paid in HK dollars.

Table of 2019 Executive Director total remuneration (the 'single figure')

We note that this table was presented in sterling in the 2019 Annual Report. All amounts have been restated to reflect the transition to US dollars as the main reporting currency.

$000s	2019 salary	2019 taxable benefits*	2019 total bonus†	2019 LTIP releases‡	2019 pension benefits§	2019 Other payments¶	Total 2019 fixed remuneration~	Total 2019 variable remuneration~	Total 2019 remuneration the 'single figure'^	Total 2019 remuneration the 'single figure' in GBP (£000)#
Michael Falcon[1,2,3]	$303	$161	$1,566	$0	$75	$6,319	$539	$7,885	$8,424	£6,599
Mark FitzPatrick	$970	$190	$1,633	$1,280	$243	$0	$1,403	$2,913	$4,316	£3,381
John Foley[2,4]	$383	$146	$0	$0	$96	$0	$625	$0	$625	£489
Nic Nicandrou[2,3,5]	$525	$180	$902	$895	$131	$0	$836	$1,797	$2,633	£2,063
James Turner[3,6]	$865	$431	$1,343	$291	$216	$0	$1,512	$1,634	$3,146	£2,465
Mike Wells	$1,467	$288	$2,804	$2,746	$366	$0	$2,121	$5,550	$7,671	£6,010
Total	$4,513	$1,396	$8,248	$5,212	$1,127	$6,319	$7,036	$19,779	$26,815	£21,007

* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements, relocation/expatriate benefits and shares awarded due to participation in the Share Incentive Plan (SIP).

† The total value of the bonus, comprising both the 60 per cent delivered in cash and 40 per cent bonus deferred into Prudential plc shares or ADRs for three years. The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies, but no further performance conditions.

‡ The value of the 2019 PLTIP releases for all Executive Directors has been calculated using the share price at vesting of £10.21 (£12.60 for Mark FitzPatrick, who was granted the 2017 PLTIP award in August 2017, on appointment) and includes the accumulated dividends delivered in the form of shares/ADRs. The number of Prudential plc shares/ADRs under award have been adjusted in line with the approach set out in the section on 'Remuneration decisions taken in relation to the demerger' in the 2019 Annual Report. Due to the share price depreciation over the vesting period, the value per share of the 2017 PLTIP awards is 39% lower (30% lower for Mark FitzPatrick) than the value per share at grant. As a result, no value is attributable to share price appreciation. Therefore, no adjustment to vesting levels has been proposed as a result of the share price appreciation. Awards were granted using a share/ADR price of £16.75/US$42.12 for all Executive Directors other than Mark FitzPatrick and £18.005 for Mark FitzPatrick in 2017.

§ 2019 pension benefits include cash supplements for pension purposes and contributions into defined contribution schemes as outlined in the 'pension benefit entitlement' section of the 2019 Directors' remuneration report.

¶ The value of Mr Falcon's buy-out award has been included in its entirety as it was granted without performance conditions during his period of Board service. The award vests in line with the original vesting schedule with the final tranche vesting 30 days commencing on the date of release of Prudential plc's results for 2020.

~ Total fixed remuneration includes salary, taxable benefits and pension benefits. Total variable remuneration includes total bonus, PLTIP releases and other payments.

^ Each remuneration element is rounded to the nearest $1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of Statutory Instrument 2013 No. 1981 – The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. Total 2019 remuneration has been converted to US dollars using the exchange rate of 1.2765 for GBP and 7.8351 for HKD.

\# Total 2019 remuneration has been converted to GBP using the exchange rate of 1 GBP to 10.0015 HKD and 1 GBP to 1.2765 USD.

Notes
1 Michael Falcon was appointed to the Board on 7 January 2019 as Chairman and Chief Executive Officer, Jackson Holdings LLC.
2 Michael Falcon, Nic Nicandrou and John Foley stepped down from the Board on 16 May 2019. The remuneration above was paid in respect of their service as Executive Directors. While salary and certain monthly paid benefits reflect what was actually delivered during the period, other benefits, bonus, LTIP releases and pension benefits are pro-rata for the period. The 2019 LTIP release for Nic Nicandrou has been pro-rated for 28.5 months of the LTIP's 36-month performance period to reflect his time as an Executive Director during the LTIP's performance period.
3 Michael Falcon, Nic Nicandrou and James Turner are paid in their local currency and exchange rate fluctuations will therefore impact the reported values.
4 John Foley stepped down from the Board on 16 May 2019. He subsequently left the Company on the demerger of M&G plc from Prudential plc on 21 October 2019. As an Executive Director of Prudential plc during 2019 Mr Foley was eligible to receive a 2019 bonus award of up to 180% of salary. Since transferring to M&G plc it was agreed with M&G plc that his 2019 bonus would be assessed and determined by the M&G plc Remuneration Committee and would be paid by M&G plc. No 2019 bonus award was paid to Mr Foley by Prudential plc.
Mr Foley's 2017-2019 PLTIP award was exchanged for an equivalent award over M&G plc shares. Under the terms of the Demerger Agreement this replacement award should be of an equivalent value; with the same release schedule; subject to equivalent malus and clawback provisions and subject to performance conditions which are relevant to M&G plc and which are no more or less onerous than those which originally applied.
The amount of any bonus payment (including any deferred component) to John Foley in respect of 2019 (including that awarded for performance and service during the pre-demerger period) and the vesting of Mr Foley's replacement 2017-2019 long-term incentive award were disclosed by M&G plc and described in the M&G plc Directors' remuneration report as set out in the M&G plc 2019 Annual Report.
5 To facilitate Nic Nicandrou's relocation to Hong Kong, benefits included £95,000 to cover accommodation.
6 James Turner relocated to Hong Kong on 1 August 2019 and since has been paid in HK dollars; 2019 benefits included £160,000 to cover accommodation.

Remuneration in respect of performance in 2020

Base salary

R

Executive Directors' salaries were reviewed in 2019 with changes effective from 1 January 2020. When the Committee took these decisions it considered:

- The salary increase budgets for other employees, which vary across our business units, reflecting local market conditions;
- The performance and experience of each Executive Director;
- The relative size of each Executive Director's role; and
- The performance of the Group.

After careful consideration by the Committee, all Executive Directors received a salary increase of 2 per cent. The 2020 salary increase budgets for other employees across our business units were between 2.5 per cent and 5.1 per cent.

To provide context for the market review, information was also drawn from the following market reference points:

Executive	Role	Benchmarks used to assess remuneration
Mark FitzPatrick	Group Chief Financial Officer and Chief Operating Officer	FTSE 40 International insurance companies
James Turner	Group Chief Risk and Compliance Officer	FTSE 40 International insurance and financial services companies with operations in Asia
Mike Wells	Group Chief Executive	FTSE 40 International insurance companies

As announced by the Company in April 2020, after careful consideration by the Committee, salaries for Executive Directors were reduced to December 2019 levels from 1 April 2020 in light of the Covid-19 pandemic and its impact on the communities Prudential serves globally.

As a result, Executive Directors received the following salaries in 2020:

Executive Director	2020 salary (local currency) from 1 January 2020	2020 salary (USD)[1] from 1 January 2020	2020 salary (local currency) from 1 April 2020	2020 salary (USD)[1] from 1 April 2020
Mark FitzPatrick, Group Chief Financial Officer and Chief Operating Officer	£776,000	$995,000	£760,000	$975,000
James Turner[1], Group Chief Risk and Compliance Officer	HKD 7,480,000	$964,000	HKD 7,330,000	$945,000
Mike Wells, Group Chief Executive	£1,172,000	$1,503,000	£1,149,000	$1,473,000

Note
1 2020 salaries were converted to US dollars using an exchange rate of 1 GBP to 1.2824 US Dollar and the exchange rate of 1 USD to 7.7560 HKD. All salaries are rounded to the nearest $1,000/£1,000 or HKD 10,000.

Pension benefit entitlements

Pension benefit arrangements which became effective on 14 May 2020 are set out in the table below.

Executive Director	2020 pension benefit[1]	Life assurance provision
James Turner	Pension supplement in lieu of pension of 13 per cent of salary and a HKD18,000 employer payment to the Hong Kong Mandatory Provident Fund.	Eight times salary.
Mark FitzPatrick and Mike Wells	Pension supplement in lieu of pension of 13 per cent of salary.	Four times salary plus an additional four times salary dependants' pension.

Note

1 Pension contributions for all incumbent Executive Directors were reduced from 25% of salary to 13% of salary from 14 May 2020, in line with the employer pension contribution available to the UK workforce. The table above shows the effective 2020 pension contribution rates applicable from 14 May 2020.

Annual bonus outcomes for 2020

Target setting

Financial AIP metrics comprise 80 per cent of the bonus opportunity for all Executive Directors apart from the Group Chief Risk and Compliance Officer, for whom this accounts for 40 per cent of the bonus opportunity. The performance ranges are based on the annual business plans approved by the Board and reflect the ambitions of the Group, in the context of anticipated market conditions. The financial element of Executive Directors' 2020 bonuses was determined by the achievement of four Group measures, namely adjusted operating profit, operating free surplus generation, EEV new business profit and cash flow, which are aligned to the Group's growth and cash generation focus.

Personal objectives comprise 20 per cent of the bonus opportunity for all Executive Directors. These objectives were established at the start of the year and reflect the Company's Strategic Priorities set by the Board. For 2020, Executive Directors had one shared strategic objective linked to developing plans to determine the Group's exposure to climate-related risks and opportunities.

Functional objectives account for the remaining 40 per cent of the Group Chief Risk and Compliance Officer's bonus opportunity. These are based on the Group Risk Plan and are developed with input from the Chair of the Group Risk Committee.

AIP payments are subject to meeting minimum capital thresholds which are aligned to the Group risk framework and appetites (as adjusted for any Group Risk Committee approved counter-cyclical buffers), as described in the Group Chief Risk and Compliance Officer's report section of this report.

The Committee seeks advice from the Group Risk Committee on risk management considerations to inform decisions about remuneration architecture and performance measures to ensure that risk management, culture and conduct are appropriately reflected in the design and operation of Executive Directors' remuneration.

Performance assessment

The Committee determines the overall value of the bonus, taking account of the inputs described above and any other factors which it considers relevant. The table below illustrates the weighting of performance measures for 2020 and the level of achievement under the AIP. As set out earlier in this report, the Committee exercised discretion to reduce the bonus outcome for Mike Wells by 30 per cent:

	Weighting of measures (% of total bonus opportunity)			Achievement against performance measures (% of maximum for each component)			
Executive Director	Group financial measures	Functional objectives	Personal objectives	Group financial measures	Functional objectives	Personal objectives	2020 AIP outcome[1] (% of total bonus opportunity)
Mark FitzPatrick	80%	–	20%	63.4%	–	94.0%	69.5%
James Turner	40%	40%	20%	63.4%	90.0%	92.9%	79.9%
Mike Wells	80%	–	20%	63.4%	–	74.8%	65.7% reduced to 46.0%

Note

1 All bonus awards are subject to 40 per cent deferral for three years and the deferred bonus will be paid in Prudential plc shares or ADRs.

Financial performance
The Committee reviewed performance against the performance ranges at its meeting in February 2021. Group adjusted operating profit was approaching the stretch target. Group free surplus generation exceeded the stretching target established by the Board. Below threshold Group cash flow reflects the lower level of remittances received from the business units. Life new business profit achievement was below threshold reflecting the negative impact of Covid-19.

The Committee considered a report from the Group Chief Risk and Compliance Officer which had been approved by the Group Risk Committee. This report confirmed that the 2020 results were achieved within the Group's and business units' risk framework and appetite. The Group Chief Risk and Compliance Officer also considered the effectiveness of risk management and internal controls, and specific actions taken to mitigate risks, particularly where these may be at the expense of profits or sales. The report also confirmed that the Group met minimum capital thresholds which were aligned to the Group risk framework and appetites. The Committee took into account this advice when determining AIP outcomes for Executive Directors.

The level of performance required for threshold, plan and maximum payment against the Group's 2020 AIP financial measures and the results achieved are set out below:

2020 AIP measure	Weighting	Threshold ($m)	Target ($m)	Stretch target ($m)	Achievement ($m)
Group adjusted operating profit	35%	4,602	5,113	5,625	5,507
Group operating free surplus generated	30%	2,955	3,284	3,612	3,905
Group cash flow	20%	104	302	434	(478)
Group EEV new business profit	15%	3,141	4,161	4,535	2,802

Personal performance
P
As set out in our Directors' remuneration policy, a proportion of the annual bonus for each Executive Director is based on the achievement of personal objectives including:

R
— The executive meeting their individual conduct and customer measures;
— The executive's contribution to Group strategy as a member of the Board; and
— Specific goals related to the function for which they are responsible and progress on major projects.

At the end of the year, the Committee considered the performance of all executives against objectives established at the start of the year. At its meeting in February 2021, it concluded that there had been a high level of performance against these 2020 objectives. All executives met their individual conduct measures and each Executive Director made a significant contribution to the achievement of Group strategy during 2020.

The below summarises performance against the personal objectives and strategic priorities for the current Executive Directors:

Shared strategic objective

2020 key strategic objective	Achievement	Performance relative to target
Develop plans to determine the Group's exposure to climate-related risks and opportunities.	— Identified potential metrics to measure carbon exposures and investment portfolios within the scope of carbon footprinting and used scenario modelling to refine the understanding of the nature of the potential climate risks. — Invested in digital solutions to support our customers and broader society to adapt to climate change. — Developed ESG framework, aligned with Group strategy making health and financial security accessible, stewarding the human impacts of climate change and building social capital.	Above the stretch target

Mark FitzPatrick, Group Chief Financial Officer and Chief Operating Officer

2020 key strategic deliverables	Achievement	Performance relative to target
Advance Project Scott, developing and executing strategic routes for Jackson.	— Developed and led the financial planning and corporate finance plans for the execution of the separation of Jackson. — Led the determination of the preferred route for separation and created optionality for the pivot to alternative routes. — Led the execution of the preparation of the financial processes supporting execution including the management of multi-jurisdictional stakeholder documentation.	Above the stretch target
Lead strategic communications between Prudential and the debt and equity markets.	— Raised $1 billion of Group debt in three days of global marketing. This was completed virtually and it was the first deal in the US debt market for a number of years. — Managed and co-ordinated virtual results, ad hoc Webex and conference call events in 2020 including the $27.6 billion US reinsurance agreement alongside $500 million equity investment by Athene Holding Ltd into the US business.	Above target
Deliver reporting changes including IFRS 17, LCSM and GWS.	— Reviewed the requirements of the new standard on insurance accounting IFRS 17, 'Insurance Contracts', including targeted amendments to this standard issued in June 2020. — Implemented 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 in 2021.	Above the stretch target

Recognising Mr FitzPatrick's very strong performance against both his individual and shared personal objectives during 2020, the Committee judged that 19 per cent of a maximum of 20 per cent attributable to personal objectives was appropriate.

James Turner, Group Chief Risk and Compliance Officer

2020 key objectives	Achievement	Performance relative to target
Lead strategic communications between Prudential and key regulators, ensuring constructive and open relationships. Oversee the internal Regulatory Communication Policy which sets out the values and behaviours to ensure that communication is appropriate, complete and timely. Maintain constructive engagement and relationships with industry peers.	— Worked closely with the HKIA and industry peers in support of development of GWS legislation and associated guidelines, with the GWS Bill passed by the HK Legislative Council (HK LegCo) in July 2020. — Developed a strong relationship with the HKIA in its first year acting as Group-wide Regulatory Supervisor. — Regular and transparent communication with the HKIA on the Group's response and positions versus risk appetite linked to the impact of Covid-19. — Proactive engagement with the HKIA & DIFS on developments in the Group's strategy, particularly in relation to the progress towards an independent US business. — Provided insight to regulators on key Group risks and associated developments as part of the annual College of Supervisors. — Focused on exploratory discussions with HKIA and peers on HK RBC capital regime given economic capital focus.	Above the stretch target
Develop the Risk & Compliance leadership team and key talent to enable strong succession planning/talent pipeline. Further develop close working relationships and strong lines of communication within the Group-wide risk and compliance management structure to operate as one team, to most effectively support prompt identification and oversight of Group-wide risks and issues.	— Led realignment of function towards Group-wide supervisor, and operational centres to support business strategy, despite significant headwinds linked to the pandemic. — Monitored the implementation of Group-wide regulatory capital rule changes and risks arising including Jackson for early adoption of NAIC rules for VA business and PCA for implementation of LCSM.	Above target

Recognising Mr Turner's very strong performance against both his individual and shared personal objectives during 2020, the Committee judged that 19 per cent of a maximum of 20 per cent attributable to personal objectives was appropriate.

Mike Wells, Group Chief Executive

2020 key objectives	Achievement	Performance relative to target
Advance Project Scott, developing and executing strategic routes for Jackson.	— Pursued numerous explorations for all options for the separation during the year with several third parties following expressions of interest. — Secured and completed reinsurance and primary capital transactions with Athene. — Announced full separation intent for Jackson in August 2020. — Announced the Jackson demerger which will take place in the second quarter of 2021 and will accelerate the separation. — Secured the appointment of high calibre Chair of JFI and monitored the creation of an equity story for Jackson that supported value creation through the demerger.	Above the stretch target
Develop and implement the Group's approach to talent management, Group culture and diversity & inclusion.	— Launched several initiatives (eg Pru Connect, flexible working arrangements) to support employees' wellbeing and mental health. — Supported employees through both the pandemic and the post-demerger restructuring activity taking place in Jackson and Angel Court, communicating regularly and clearly and prioritising the fair treatment of all our employees. — Recruited global lead on D&I and formed Global D&I Council established to empower employees and create a sense of belonging by respecting and appreciating differences. — Organised an array of remote events including the PCA Virtual Regional Conference, staff Townhalls and meetings of the NABU Diversity & Inclusion Council and the Global D&I Council. — Refreshed Company values as part of the work on corporate purpose. — Supported the efforts of the two Non-executive Directors, Kai Nargolwala for Asia and Africa and Tom Watjen for the US and the UK in their ongoing activity in their roles as conduits between employees and the Board.	Above the stretch target
Build, deploy and leverage digital enablers for customer proposition, operational efficiency and distribution; develop regional models to acquire new customers, leveraging 'Pulse' platform.	— Led the development by the Executive team of the Group's digital proposition, specifically the digital health app, Pulse by Prudential. This has enabled the Company to provide its customers a greater range of services, including through partnerships with others. — Delivered and executed increased engagement with policy-makers on health systems, health financing and the role of technology across the Group's markets to support and promote the roll out of Pulse. — Identified and drove the opportunity to accelerate and introduce a range of innovative measures (eg dedicated hotline, fast-track processing of claims, policy premium grace period extensions) to both deal with the short impact of the virus and provide the means for the customers to emerge in a stronger position once the effect of the virus has subsided.	Above the stretch target
Make progress towards business expansion in China and tackle strategic opportunities in India.	— Focused considerable effort and application of relationship management in negotiating potential changes in the ownership of the joint venture operations in China and India. — Sought and initiated relationship with the incoming new Chairman of CITIC to continue the dialogue despite Covid travel restrictions. — Explored potential business combinations with financial advisers and Principals.	At target level

Recognising Mr Wells's very strong performance against both his individual and shared personal objectives during 2020, the Committee judged that 15 per cent of a maximum of 20 per cent attributable to personal objectives was appropriate.

Functional performance

The Group Chief Executive and the Chair of the Group Risk Committee undertakes the assessment of performance against functional objectives for the Group Chief Risk and Compliance Officer. 2020 achievement is summarised below:

Summary of 2020 functional objectives	Achievement	Performance relative to target
Group-wide Risk & Compliance Developments Oversee implementation of HKIA GWS requirements within the Group, including embedding of the defined statutory capital metric (LCSM) and development of the economic capital model (GIECA). Target enhancements to the non-financial risk framework to reflect changing external and internal risk drivers.	— Strong progress made in business readiness to implement HKIA GWS requirements in advance of legislation becoming effective and Group designation in 2021. — Project to enhance the current Economic Capital framework to deliver the next generation of models for the Group, fully reflecting the new shape of the Group and GIECA requirements has been initiated and is making good progress. — Significant focus on non-financial risk framework within the function and by the Group Risk Committee. — Framework enhancements delivered in respect of Customer-related Conduct, AI ethics principles, operational resilience, whistleblowing arrangements and metrics to support the Group's understanding of climate-related transition risk.	Above target
Risk & Compliance Oversight Define and provide oversight of the Group's adherence to the framework of the Group-wide Risk & Compliance policies, risk appetite and limits. Ensure that the Risk framework, policies and GIECA model are fit for purpose and meet regulatory expectations. Ensure the business is sufficiently informed on external risk perspectives and challenged, where appropriate to take effective actions and decisions. Provide Non-executive and Executive management information and insight to fully support members in meeting their responsibilities and duties set out in their Terms of Reference in respect of risk management. Deliver key regulatory outputs and risk disclosures. Support the identification and management of emerging and top risks by the business, including deep dives into areas identified in the Top Risk process (eg interest rate management, Jackson financial risk oversight, speak out). Provide risk opinions on all strategic initiatives to support Executive and Non-executive Management decision making, specifically: — Provide clear, timely risk opinions in support of the Jackson strategic objective to *'create and leverage optionality with Jackson's post-demerger ownership structure; including continuing to evaluate and execute upon third-party and or public capital alternatives'*. — Provide clear, timely risk opinions in support of PCA strategic objectives.	— Convened and chaired the Incident Group to monitor and manage the impact to the Group's capital and liquidity positions resulting from Covid-19. — Provided insight on both principal and emerging risks. In addition to risks related to Covid-19, this included focus on evolving geo-political risks and the impact of a long-term low interest rate environment. — Retained focus on managing the risks of the ongoing business, performing defined role in providing risk management support and oversight, as well as objective challenge to ensure the Group remained within its risk appetite. Delivered disclosures and key regulatory outputs such as the ORSA and Recovery plan. — Provided clear and concise risk analysis and opinions in support of Board decisions including, the Athene equity investment and reinsurance transaction, and the Group's strategy and path to an independent Jackson.	Above target

Summary of 2020 functional objectives	Achievement	Performance relative to target
Operating model Implementation Operationalise a Group-wide function for the International business, improving efficiency and effectiveness through collaboration and coordination. Successfully manage the move of key team leadership and talent to further strengthen the HK based team. Maintain the capability, effectiveness and the sustainable bench-strength of the Risk & Compliance function, ensuring that it is controlled effectively and complies with the relevant requirements of the applicable regulatory environments.	— Despite headwinds created by the pandemic, completed significant operational and structural changes to align the Group-wide function more closely with the lead regulator and operational businesses. — Successfully transitioned to new ways of working across multiple time zones providing strong stewardship and enhanced monitoring of risks during the most acute phases of the pandemic.	Above target

In recognition of James Turner's very strong performance against his functional objectives during 2020, the Committee judged that 36 per cent of a maximum of 40 per cent attributable to functional objectives was appropriate.

2020 bonus awards

The Committee determined the 2020 AIP awards below on the basis of the performance of the Group and of the individual executives. In making these decisions, it reflected on factors including:

- Adherence to the behavioural, conduct and risk management considerations; and
- The experience of the Group's stakeholders during 2020. These considerations included the ways in which the Company supported its customers, people, suppliers and communities during the pandemic. Specifically, the Committee noted that no employees were furloughed or made redundant as a result of the pandemic. Our remuneration programmes operated as usual during the pandemic period with medical insurance coverage extended to offer free Covid testing where necessary. Employees received their regular remuneration during any periods of shielding or self-isolation. Prudential repaid in full government support inadvertently received in one location.

As set out earlier in this report, the Committee exercised discretion to reduce the 2020 bonus outcome for Mike Wells by 30 per cent.

Executive Director	Role	2020 salary[1]	Maximum 2020 AIP (% of salary)	Actual 2020 AIP award (% of maximum opportunity)	2020 bonus award (including cash and deferred elements)
Mark FitzPatrick	Group Chief Financial Officer and Chief Operating Officer	$975,000	175%	69.5%	$1,185,547
James Turner	Group Chief Risk and Compliance Officer	$945,000	175%	79.9%	$1,321,909
Mike Wells	Group Chief Executive	$1,473,000	200%	46.0%	$1,354,601

Notes

1 Salaries are converted to US dollars using an exchange rate of 1.2824 for GBP and 7.7560 for HKD.
2 40 per cent of all bonus awards are deferred into shares for three years.

Long-term incentives vesting in respect of performance to 31 December 2020

Prudential Long Term Incentive Plan (PLTIP)

Target setting

Our long-term incentive plans have stretching performance conditions that are aligned to the strategic priorities of the Group. In 2018, all Executive Directors were granted awards under the PLTIP. In determining the financial targets the Committee had regard to the stretching nature of the three-year Business Plan for adjusted operating profit and capital positions as set by the Board. Further, in setting the conduct and diversity targets under the sustainability scorecard, the Committee considered input from Group-wide Internal Audit and the Group Chief Risk and Compliance Officer on conduct risk for the conduct measure and had regard to the Company's commitment under the Women in Finance Charter for the diversity measure.

The weightings of the measures are detailed in the table below:

	Weighting of measures						Vesting (% of maximum)	
			Sustainability Scorecard					
Executive Director	Group TSR[1]	Adjusted operating Group profit[2]	Solvency measure[3]	ECap operating capital generation[4]	Conduct[5]	Diversity[6]	Threshold performance	Stretch performance
Mark FitzPatrick	25%	50%	6.25%	6.25%	6.25%	6.25%	25%	100%
James Turner[7]	50%	20%	7.50%	7.50%	7.50%	7.50%	25%	100%
Mike Wells	25%	50%	6.25%	6.25%	6.25%	6.25%	25%	100%

Notes

1 Group TSR is measured on a ranked basis over three years relative to peers.
2 Adjusted operating profit is measured on a cumulative basis over three years.
3 At the time of award a Solvency II operating capital generation measure was used in the sustainability scorecard. As set out in the 'Remuneration decisions taken in relation to the demerger' section of the 2019 Directors' remuneration report, Solvency II operating capital generation was replaced with Group free surplus generation from 1 July 2019 since Prudential ceased to be subject to Solvency II capital requirements and no longer calculated or disclosed a Solvency II position following the demerger of the M&G business and the change in the Company's Group-wide supervisor.
4 This is cumulative three-year ECap Group operating capital generation, less cost of capital (based on the capital position at the start of the performance period).
5 Conduct is assessed through appropriate management action, ensuring there are no significant conduct/culture/governance issues that could result in significant capital add-ons or material fines.
6 Diversity is measured as the percentage of the Leadership Team that is female at the end of 2020. The target for this metric has been based on progress towards the goal that the Company set when it signed the Women in Finance Charter, where 30 per cent of our Leadership Team should be female by the end of 2021.
7 James Turner was granted this award as the Group Chief Risk Officer. Therefore, his award is linked to performance measures with different weightings, as set out above, in line with the requirements of Solvency II.

As discussed in the section on 'Remuneration decisions taken in relation to the demerger' of the 2019 Directors' remuneration report, the Committee adjusted the performance conditions attached to the 2018 PLTIP awards in order to take account of the demerger, ensuring that the revised performance conditions are no more or less stretching than those originally attached to the awards. The performance assessment provided below and overleaf is based on these adjusted targets.

Performance assessment

In deciding the proportion of the awards to be released, the Committee considered actual financial results against performance targets. The Committee also reviewed underlying Company performance to ensure vesting levels were appropriate, including an assessment of whether results were achieved within the Group's risk framework and appetite. Finally, overall vesting levels were reviewed to ensure that levels of reward provided remain reflective of the Company's performance in the challenging circumstances. The Directors' remuneration policy summary section contains further details of the design of Prudential's long-term incentive plans.

Group adjusted operating profit performance

Under the adjusted operating profit measure, 25 per cent of the 2018 awards vest for meeting the threshold adjusted operating profit target set at the start of the performance period, increasing to full vesting for performance at or above the stretch level. The table below illustrates the cumulative performance achieved over 2018 to 2020 compared to the adjusted Group targets which exclude M&G plc from the point of demerger:

	2018-20 adjusted cumulative targets				
Group	Threshold	Plan	Maximum	2018-20 cumulative achievement	Vesting under the adjusted operating profit element
Adjusted operating profit	$14,216m	$15,795m	$17,375m	$18,472m	100%

The cumulative adjusted operating profit target established for the PLTIP is expressed using exchange rates consistent with the reported disclosures.

TSR performance
Under the Group TSR measure attached to 2018 PLTIP awards, 25 per cent of the award vests for TSR at the median of the peer group increasing to full vesting for performance within the upper quartile. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison. No adjustments were made to the peer group used for 2018 awards in respect of the demerger. The peer group for the 2018 awards is set out below:

Aegon	AIA	AIG	Allianz
Aviva	AXA	Generali	Legal & General
Manulife	MetLife	Old Mutual	Prudential Financial
Standard Life	Sun Life Financial	Zurich Insurance Group	

Following the demerger of Quilter from Old Mutual and Old Mutual's delisting from the FTSE on 26 June 2018, the Committee determined that Old Mutual be retained as a TSR peer with no adjustment to its performance during the period prior to its demerger and delisting, and that Old Mutual's TSR performance from the date of its demerger and delisting would track an index of the peers (excluding Prudential plc) for all outstanding PLTIP awards.

Prudential's TSR performance during the performance period (1 January 2018 to 31 December 2020) was ranked below the median of the peer group. The portion of the awards related to TSR will therefore lapse.

Sustainability scorecard performance
Capital measure – Group Solvency II operating capital generation/Group operating free surplus generation
Under the Group Solvency II operating capital generation and Group operating free surplus generation measure, performance below threshold results in nil vesting, 25 per cent of the award vests for achieving threshold, increasing to full vesting for performance above the stretch level. The weighted average of the adjusted Group Solvency II operating capital generation from 1 January 2018 to 30 June 2019 (target $7.0 billion) and the Group operating free surplus generation from 1 July 2019 to 31 December 2020 (target $5.6 billion), which excludes M&G plc performance from the point of demerger, met the cumulative stretch target and therefore generated 100 per cent vesting on this element.

Capital measure – Group ECap operating capital generation
Under the Group ECap operating capital generation measure, performance below threshold results in nil vesting, 25 per cent of the award vests for achieving threshold, increasing to full vesting for performance above the stretch level. The adjusted cumulative Group ECap operating capital generation was below the target of $6.8 billion (which excludes M&G plc from the point of demerger) and therefore generated a 0 per cent vesting outcome on this element of the PLTIP.

Details of cumulative achievement under the capital measures have not been disclosed as the Committee considers that these are commercially sensitive and would put the Company at a disadvantage compared to its competitors. The Committee will keep this disclosure policy under review based on whether, in its view, disclosure would compromise the Company's competitive position.

Conduct assessment
Under the conduct measure, performance below threshold results in nil vesting, 25 per cent of the award vests for partial achievement of the Group's expectations, increasing to full vesting for achieving the Group's expectations. During the performance period there were no conduct, culture or governance issues that resulted in significant capital add-ons or material fines so 100 per cent of this element of the PLTIP vested.

Diversity assessment
Under the diversity measure, performance below threshold results in nil vesting, 25 per cent of the award vests for achievement of threshold diversity target (27 per cent of Leadership Team being female) increasing to full vesting for achieving the stretch diversity target (29 per cent of Leadership Team being female). On 31 December 2020, 32.5 per cent of our Leadership Team was female. Since this was above the 29 per cent level required for full vesting, the portion of the awards related to diversity that therefore vested was 100 per cent. Please note that in 2019 the Leadership Team was subdivided into the Leadership Team and the Executive Council. Both of these leadership groups are considered for the purposes of this assessment.

PLTIP vesting

The Committee considered a report from the Group Chief Risk and Compliance Officer which had been approved by the Group Risk Committee. This report confirmed that the financial results were achieved within the Group's risk framework and appetite. On the basis of this report and the performance of the Group described above, the Committee decided not to apply a discretionary adjustment to the arithmetic vesting outcome under the 2018 PLTIP awards and determined the vesting of each Executive Director's PLTIP awards as set out below:

Executive Director	Maximum value of award at full vesting[1]	Percentage of the PLTIP award vesting	Number of shares vesting[2]	Value of shares vesting[1]
Mark FitzPatrick, Group Chief Financial Officer and Chief Operating Officer	$2,043,699	68.75%	91,685	$1,405,043
James Turner, Group Chief Risk and Compliance Officer	$1,714,510	42.50%	47,545	$728,612
Mike Wells, Group Chief Executive	$4,942,317	68.75%	221,721	$3,397,803

Notes

1 The share price used to calculate the value of the PLTIP awards with performance periods which ended on 31 December 2020 and vest in April 2021 for all Executive Directors, was the average share price for the three months up to 31 December 2020, being £11.95 converted at the exchange rate of 1 GBP to 1.2824 USD. The number of Prudential plc shares under award has been adjusted in line with the approach set out in the section on 'Remuneration decisions taken in relation to the demerger' in the 2019 Directors' remuneration report.

2 The number of shares vesting includes accrued dividends. Shares vesting will be subject to a two-year holding period.

Long-term incentives awarded in 2020

2020 share-based long-term incentive awards

The table below shows the awards of conditional shares made to Executive Directors under the PLTIP and the performance conditions attached to these awards. Awards are made annually with face value determined by reference to each Director's salary, as set out in the Directors' remuneration policy. As set out earlier in this report, the increase planned to the PLTIP award level for Mr. FitzPatrick was not applied and the award was made at 250 per cent of salary.

			Face value of award		Percentage of awards released for achieving threshold targets‡		Weighting of performance conditions		
Executive Director	Role	Number of shares subject to award	% of salary	(USD)†		End of performance period	Group TSR	RoE	Sustainability scorecard§
Mark FitzPatrick	Group Chief Financial Officer and Chief Operating Officer	175,115	250%	2,436,557	20%	31 December 2022	50%	30%	20%
James Turner	Group Chief Risk and Compliance Officer	177,562	250%	2,470,605	20%	31 December 2022	50%	30%	20%
Mike Wells	Group Chief Executive	423,594	400%	5,893,904	20%	31 December 2022	50%	30%	20%

† Awards for Executive Directors are calculated based on the average share price over the three dealing days prior to the grant date, being £10.85/$13.91.
‡ The percentage of awards released for achieving maximum targets is 100 per cent.
§ Each of the four measures within the sustainability scorecard has equal weighting. They are LCSM, Group ECap operating capital generation, diversity and conduct.

As disclosed by the Company at the time of grant, the Committee will review awards on vesting to ensure that participants do not benefit from windfall gains. The Committee will consider Prudential's stretching performance targets, the share performance of Prudential and its peers, the prices of the indices on which Prudential is listed and any other factors deemed relevant.

Relative TSR

Under the Group TSR measure, 20 per cent of the award will vest for TSR at the median of the peer group, increasing to full vesting for performance within the upper quartile. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison. A comprehensive review of the TSR peer group which anticipated the Group's post-demerger footprint was undertaken for the 2019 PLTIP awards. The companies were selected based on organisational size, product mix and geographical footprint. The peer group for 2020 PLTIP awards is the same as that used for 2019 and is set out below:

Aegon	AIA	Equitable Holdings	China Taiping Insurance
Great Eastern	Lincoln National	Manulife	MetLife
Ping An Insurance	Principal Financial	Prudential Financial	Sun Life Financial

Operating return on average shareholders' funds

Operating return on average shareholders' funds is calculated as adjusted IFRS operating profit based on longer-term investment returns ('adjusted operating profit') after tax and net of non-controlling interests divided by average shareholders' funds, and is assessed at Group level. 20 per cent of the award will vest for achieving the threshold level of performance of 16.7 per cent, increasing to full vesting for reaching the stretch level of at least 22.9 per cent.

Sustainability scorecard

Under the 2020 sustainability scorecard, performance will be assessed for each of the four measures, at the end of the three-year performance period. Performance will be assessed on a sliding scale. Each of the measures has equal weighting and the 2020 measures are set out below:

Capital measure:	Cumulative three-year ECap Group operating capital generation relative to threshold, less cost of capital (based on the capital position at the start of the performance period).
Vesting basis:	Performance below threshold results in nil vesting, 20 per cent vesting for achieving threshold, increasing to full vesting for performance above stretch level. The threshold figure for this metric will be published in the Annual Report for the final year of the performance period.
Capital measure:	Cumulative three-year LCSM operating capital generation relative to threshold.
Vesting basis:	Performance below threshold results in nil vesting, 20 per cent vesting for achieving threshold, increasing to full vesting for performance above stretch level. The threshold figure for this metric will be published in the Annual Report for the final year of the performance period.
Conduct measure:	Through strong risk management action, ensure there are no significant conduct/culture/governance issues that result in significant capital add-ons or material fines.
Vesting basis:	Performance below threshold results in nil vesting, 20 per cent vesting for partial achievement of the Group's expectations, increasing to full vesting for achieving the Group's expectations.
Diversity measure:	Percentage of the Executive Council and Leadership Team that are female at the end of 2022.
Vesting basis:	Performance below threshold results in nil vesting, 20 per cent vests for meeting the threshold of at least 27 per cent of our Executive Council and Leadership Team being female at the end of 2022, increasing to full vesting for reaching the stretch level of at least 33 per cent being female at that date.

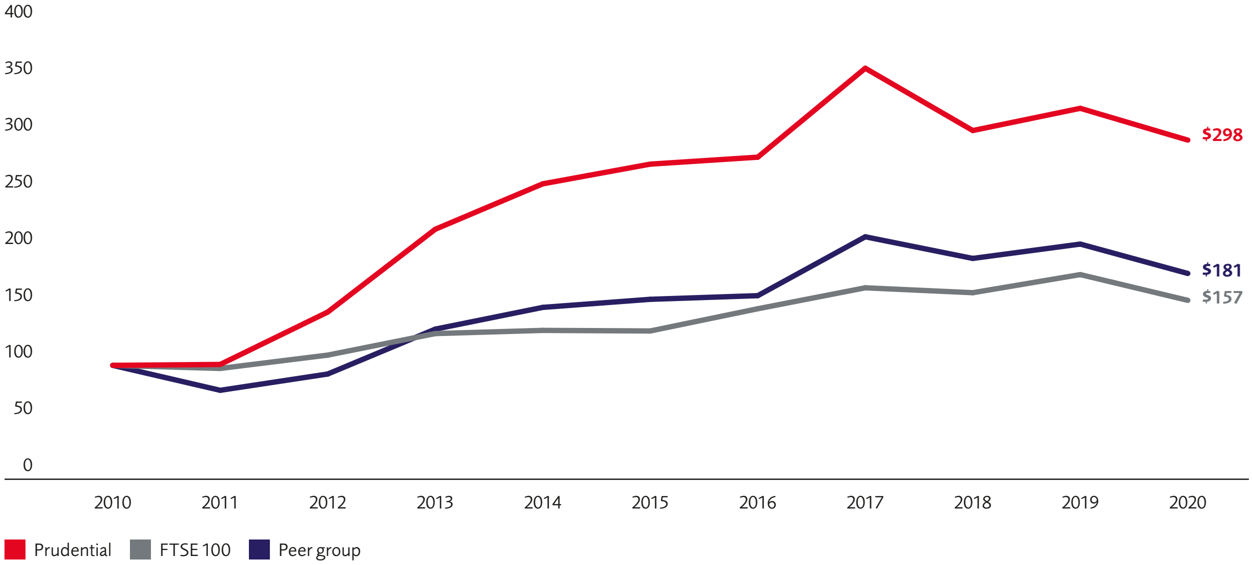
Ⓐ

Pay comparisons

Performance graph and table

The chart below illustrates the TSR performance of Prudential, the FTSE 100 (as the Company has a premium listing on the London Stock Exchange) and the peer group of international insurers used to benchmark the Company's performance for the purposes of the 2020 PLTIP awards. The chart illustrates the performance of a hypothetical investment of $100 in ordinary shares of Prudential plc over the 10-year period 1 January 2011 to 31 December 2020 compared to a similar investment in the FTSE 100 or an index of the Company's peers. Total shareholder return is based on Returns Index data calculated on a daily share price growth plus re-invested dividends (as measured at the ex-dividend dates).

Prudential TSR vs. FTSE 100 and peer group average – total return per cent over 10-year period to December 2020



Note

The index of Prudential's peers represents the average daily total shareholder return performance of the peer group used for the 2020 PLTIP awards (excluding companies not listed at the start of the period).

The information in the table below shows the total remuneration for the Group Chief Executive over the same period:

$000[1]	2011	2012	2013	2014	2015	2015	2016	2017	2018	2019	2020
Group Chief Executive	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam[2]	M Wells	M Wells	M Wells	M Wells	M Wells	M Wells
Salary, pension and benefits	1,986	2,169	2,201	2,406	938	3,048	3,029	2,415	2,423	2,122	2,126
Annual bonus payment	2,512	3,160	3,207	3,501	1,077	1,903	2,904	2,673	2,848	2,804	1,355
(As % of maximum)	(97%)	(100%)	(99.8%)	(100%)	(77.3%)	(99.7%)	(99.5%)	(94%)	(95%)	(96%)	(46.0%)
LTIP vesting	4,045	9,733	8,167	16,233	5,174	6,564	4,016	5,955	4,837	2,746	3,398
(As % of maximum)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(70.8%)	(95.8%)	(62.5%)	(62.5%)	(68.8%)
Other payments	–	–	–	–	–	–	–	–	–	–	–
Group Chief Executive 'single figure' of total remuneration[3]	8,542	15,062	13,575	22,140	7,189	11,515	9,950	11,042	10,109	7,671	6,880

Notes

1 All remuneration has been converted to USD using the average exchange rate for each respective financial year.

2 Tidjane Thiam left the Company on 31 May 2015. Mike Wells became Group Chief Executive on 1 June 2015. The figures shown for Mike Wells's remuneration in 2015 relate only to his service as Group Chief Executive.

3 Further detail on the 'single figure' is provided in the 'single figure' table for the relevant year. The figures provided reflect the value of vesting LTIP awards on the date of their release other than for 2020 (for which an estimate is used).

Relative importance of spend on pay
The table below sets out the amounts payable in respect of 2019 and 2020 on all employee pay and dividends:

	2019	2020	Percentage change
All employee pay ($m)[1,2]	1,466	1,679	14.5%
Dividends including demerger dividend ($m)[3]	8,582	n/a	n/a
Dividends excluding demerger dividend ($m)[3]	1,203	420	(65.1)%

Notes
1 All employee pay as taken from note B2.1 to the financial statements.
2 This excludes the costs of employment of M&G plc employees for 2019 in order to present a like-for-like comparison between the two years.
3 Dividends taken from note B5 to the financial statements. The Company's new dividend policy reflects a rebalancing of capital allocation from cash dividends to reinvestment of capital into the Asia business, which is expected to deliver profitable and sustainable compounding growth, and high-risk adjusted returns for shareholders.

Percentage change in remuneration
The table below sets out how the change in remuneration for each Director between 2019 and 2020 compared to a wider employee comparator group:

	Salary (% change)	Benefits (% change)	Bonus (% change)
Executive Directors[1]			
Mark FitzPatrick	1%	26%	(27)%
James Turner	10%	49%	(2)%
Mike Wells	1%	35%	(52)%
Chair and Non-executive Directors			
Paul Manduca	1%	45%	n/a
Jeremy Anderson	–	–	–
David Law	1%	n/a	n/a
Kai Nargolwala[2]	10%	n/a	n/a
Anthony Nightingale	4%	n/a	n/a
Philip Remnant	1%	n/a	n/a
Alice Schroeder	1%	n/a	n/a
Shriti Vadera	–	–	–
Thomas Watjen[2]	10%	n/a	n/a
Fields Wicker-Miurin	1%	n/a	n/a
Amy Yip[3]	0%	n/a	n/a
Average pay for all UK-based employees	3.76%	(3.95)%	(7.27)%

Notes
1 The change in the total salaries paid to Messrs FitzPatrick, Turner and Wells in 2020 includes a salary increase reversed from 1 April 2020. The figure for Mr Turner reflects the change in his package when he relocated to Hong Kong in August 2019.
2 Change in fee levels for Kai Nargolwala and Thomas Watjen is due to the additional fees paid to them as Workforce Engagement Directors.
3 Amy Yip joined the Board In September 2019.

The regulations prescribe that this comparison should include all employees of the parent company. The number of individuals employed by the parent company is insufficient to be the basis of a representative comparison. Therefore the Committee decided to use all UK-based employees as the basis for this calculation. As disclosed in the 2019 Directors' remuneration report, employees in M&G plc have been excluded from the calculation of average pay in 2019 as M&G plc demerged from Prudential plc on 21 October 2019. The average pay for all employees has been calculated on a full-time equivalent basis by reference to the total pay awarded to UK employees in 2020 and 2019. The salary increase includes uplifts made through the annual salary review, as well as any additional changes in the year; for example to reflect promotions or role changes. The decrease in benefits paid to all UK employees is due to the reduction in the cost to the Company of providing certain benefits.

Group Chief Executive pay compared with employee pay
The table below compares the Group Chief Executive's 'single figure' of total remuneration to that received by three representative UK employees in 2020.

The pay ratio decreased in 2020 which chiefly reflects the higher pay outcomes for the identified employees and a lower bonus outcome for the Group Chief Executive.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option B	64:1	42:1	29:1
2019[1]	Option B	78:1	60:1	39:1

Note
1 2019 CEO pay ratio has been recalculated to account for the restated 2019 CEO single figure which includes the actual value of the 2017 PLTIP award at vesting.

Under the regulations there is a choice of three methodologies to determine the 25th, median and 75th full-time equivalent remuneration of our UK employees. The Company has chosen to use the 2020 hourly rate gender pay gap information (collected in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017) as this method uses data that is aligned with other disclosures made under our gender pay gap reporting and includes all UK employees ('Option B' in the table above). The employees used in the calculations were identified using the most recently collected gender pay gap data, on 29 January 2021, following the end of the financial year. Base salary and total remuneration for these identified employees has then been calculated based on their actual remuneration for 2020. The Committee determined that the identified employees are reasonably representative since the structure of their remuneration arrangements is in line with that of the majority of employees within the UK-based Group Head Office workforce. The same methodology used for calculating the 'single figure' of the Group Chief Executive has been used for calculating the pay and benefits of these three UK employees. No elements of remuneration were omitted or adjusted. The identified individuals were employed on a full-time basis so no further adjustment has been made to their remuneration.

The salary and total remuneration received during 2020 by the indicative employees used in the above analysis are set out below:

	25th percentile	Median	75th percentile
2020 salary ($000)	58,000	85,000	116,000
Total 2020 remuneration ($000)	84,000	126,000	186,000

The Committee believes the median pay ratio is consistent with the pay, reward and progression policies for our UK-based Group Head Office employees. The base salary and total remuneration levels for the Group Chief Executive and the median representative employee are competitively positioned within the relevant markets and reflect the operation of our remuneration structures which are effective in appropriately incentivising staff, having regard to our risk framework, risk appetites and to rewarding the 'how' as well as the 'what' of performance.

Gender pay gap

Our UK business, Prudential Services Limited, is the employing entity for all of our London Head Office staff including the UK-based Group Chief Executive and his direct reports. Prudential Services Limited has recently reported its 2020 UK gender pay gap data and details can be found on the Group's website (www.prudentialplc.com/about-us/esg/performance/gender-pay-gap-report).

Due to the change in the Group's business focus, senior management roles are now split between locations in the UK and Asia. The 2020 gender pay gap calculations are based on the employees based in the UK only, and therefore exclude data for part of our senior management team, including a number of senior female leaders, who are based in Hong Kong.

While women and men continue to be paid equally for performing similar roles, our gender pay gap reflects the fact that men and women have traditionally held different roles, particularly in the financial services sector. It highlights the fact that we have more men than women in leadership and senior operational roles. In addition, a number of senior roles were transferred to M&G as part of the demerger process. Some of these senior roles were held by women, and as M&G is now excluded from our calculations, this has affected Prudential's reported gender pay gap for this year. We continue to focus our efforts on closing the gender pay gap as quickly as possible. Female representation in our leadership roles has increased from 25 per cent in 2017 to 33 per cent in 2020 in our London Head Office.

B

Consideration of workforce pay and approach to engagement

During the year, the Committee considered workforce remuneration and related policies in the business units across the Group. Information presented to the Committee, by way of a dashboard, included how the Company's incentive arrangements are aligned with the culture and informed the Committee's decision-making on executive pay and policy. By way of example, business unit salary increase budgets are considered as part of the year-end review of Executive Director compensation and salary increases.

As part of the Board's wider approach to employee engagement, which also included a Group-wide engagement survey, the Committee took additional measures in 2020 to explain how the remuneration of Executive Directors aligns with the wider Company pay policy. The Company operates a microsite on its intranet that outlines executive pay arrangements during the previous financial year and key areas of change for 2020. It explains to employees that total remuneration for Executive Directors is made up of a number of elements and is governed by both the Directors' remuneration policy and the Group's remuneration policy (which is also published on the Company's website) with the relevant links to these documents. Employee engagement is led by two Non-executive Directors and the Governance Report section of this report describes how they discharged this responsibility during 2020.

Chair and Non-executive Director remuneration in 2020

Chair fees

The Chair fee was reviewed by the Committee during 2020 which resulted in no increase being awarded. The fee remains at £765,000 ($981,000 converted at the exchange rate of 1.2824). As disclosed in the 'Letters of appointment of the Chair and Non-executive Directors' section of this Annual report, Shriti Vadera became the Chair of the Board from 1 January 2021. Her 2021 fee has been set at £765,000 ($981,000) with effect from that date.

Non-executive Directors' fees

The Non-executive Directors' fees were reviewed by the Board during 2020 which resulted in no increase being awarded.

Annual fees	From 1 July 2019 ($)	From 1 July 2019 (£)	From 1 July 2020 ($)	From 1 July 2020 (£)
Basic fee	126,000	99,000	127,000	99,000
Additional fees:				
Audit Committee Chair	96,000	75,000	96,000	75,000
Audit Committee member	38,000	30,000	38,000	30,000
Remuneration Committee Chair	83,000	65,000	83,000	65,000
Remuneration Committee member	38,000	30,000	38,000	30,000
Risk Committee Chair	96,000	75,000	96,000	75,000
Risk Committee member	38,000	30,000	38,000	30,000
Nomination & Governance Committee Chair[1]	–	–	–	–
Nomination & Governance Committee member	19,000	15,000	19,000	15,000
Senior Independent Director	64,000	50,000	64,000	50,000
Workforce engagement role	38,000	30,000	38,000	30,000

Notes
1 There is no fee paid for the role of Nomination & Governance Committee Chair.
2 Fees were denominated in sterling and were converted to USD using an exchange rate of 1.2824 for 2020 and 1.2765 for 2019.

If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.

The resulting fees paid to the Chair and Non-executive Directors are:

	2020 fees	2019 fees	2020 taxable benefits*	2019 taxable benefits*	Total 2020 remuneration: the 'single figure' ($000)s†	Total 2020 remuneration: the 'single figure' in GBP (£000s)‡	Total 2019 remuneration: the 'single figure' ($000s)†	Total 2019 remuneration: the 'single figure' in GBP (£000s)‡
Chair								
Paul Manduca	981	968	319	220	1,300	1,014	1,188	930
Non-executive Directors								
Jeremy Anderson[1]	252	–	–	–	252	197	–	–
Howard Davies[2]	104	277	–	–	104	81	277	217
David Law	281	277	–	–	281	219	277	217
Kai Nargolwala[3]	242	221	–	–	242	189	221	173
Anthony Nightingale	230	222	–	–	230	179	222	174
Philip Remnant	287	283	–	–	287	224	283	222
Alice Schroeder	204	202	–	–	204	159	202	158
Lord Turner[4]	–	75	–	–	–	–	75	59
Shriti Vadera[5]	97	–	–	–	97	76	–	–
Thomas Watjen	242	221	–	–	242	189	221	173
Fields Wicker-Miurin	165	163	–	–	165	129	163	128
Amy Yip[6]	165	55	–	–	165	129	55	43
Total	3,250	2,964	319	220	3,569	2,785	3,183	2,494

* Benefits include the cost of providing the use of a car and driver, medical insurance and security arrangements (including any tax thereon).
† Each remuneration element is rounded to the nearest $1,000/£1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of the Companies Act. The Chair and Non-executive Directors are not entitled to participate in annual bonus plans or long-term incentive plans.
‡ Total remuneration has been converted to US dollars using the exchange rate of 1 GBP to 1.2824 USD for the 2020 single figure calculations and 1 GBP to 1.2765 USD for the 2019 single figure calculations. As Non-executive Directors and the Chair don't receive variable remuneration components, the table above doesn't include a sum of total fixed and total variable remuneration.

Notes
1 Jeremy Anderson joined the Board on 1 January 2020 and was appointed as the Chair of the Risk Committee in May 2020.
2 Howard Davies stepped down from the Board on 14 May 2020.
3 In 2019 Kai Nargolwala also received an annual fee of £250,000 in respect of his non-executive chairmanship of Prudential Corporation Asia Limited.
4 Lord Turner stepped down from the Board on 16 May 2019.
5 Shriti Vadera joined the Board on 1 May 2020.
6 Amy Yip joined the Board and the Remuneration Committee on 2 September 2019.

Statement of Directors' shareholdings

The interests of Directors in ordinary shares of the Company are set out below. 'Beneficial interest' includes shares owned outright, shares acquired under the Share Incentive Plan (SIP) and deferred annual incentive awards, detailed in the 'Supplementary information' section. It is only these shares that count towards the share ownership guidelines.

	1 January 2020 (or on date of appointment)	During 2020		31 December 2020			Share ownership guidelines	
	Total beneficial interest (number of shares)	Number of shares acquired	Number of shares disposed	Total beneficial interest* (number of shares)	Number of shares subject to performance conditions†	Total interest in shares	Share ownership guidelines‡ (% of salary/fee)	Beneficial interest as a percentage of basic salary/ basic fees§
Chair								
Paul Manduca	42,500	–	–	42,500	–	42,500	100%	66%
Executive Directors								
Mark FitzPatrick	72,301	131,511	37,452	166,360	440,695	607,055	250%	262%
James Turner	80,624	66,348	8,804	138,168	400,443	538,611	250%	224%
Mike Wells[1]	976,272	295,292	127,479	1,144,085	1,065,936	2,210,021	400%	1,190%
Non-executive Directors								
Jeremy Anderson[2]	–	9,157	–	9,157	–	9,157	100%	111%
Howard Davies[3]	9,813	–	–	9,813	–	9,813	n/a	n/a
David Law	9,066	1,988	–	11,054	–	11,054	100%	133%
Kai Nargolwala	70,000	–	–	70,000	–	70,000	100%	845%
Anthony Nightingale	50,000	–	–	50,000	–	50,000	100%	604%
Philip Remnant	6,916	1,000	–	7,916	–	7,916	100%	96%
Alice Schroeder[4]	14,500	5,500	–	20,000	–	20,000	100%	241%
Shriti Vadera[5]	–	67,500	–	67,500	–	67,500	100%	815%
Thomas Watjen[6]	10,340	–	–	10,340	–	10,340	100%	125%
Fields Wicker-Miurin	4,500	2,000	–	6,500	–	6,500	100%	78%
Amy Yip	–	2,500	–	2,500	–	2,500	100%	30%

* Beneficial interests include shares held directly or indirectly by connected persons. There were no changes of Directors' interests in ordinary shares between 31 December 2020 and 2 March 2021 with the exception of the UK based Executive Directors due to their participation in the monthly Share Incentive Plan (SIP). Mark FitzPatrick acquired a further 28 shares in the SIP and Mike Wells acquired a further 27 shares in the SIP during this period.

† Further information on share awards subject to performance conditions are detailed in the 'share-based long-term incentive awards' part of the 'Supplementary information' section.

‡ Holding requirement of the Articles of Association (2,500 ordinary shares) must be obtained within one year of appointment to the Board. The increased guidelines for Executive Directors were introduced with effect from January 2013 and increased again in 2017. Executive Directors have five years from this date (or date of joining or role change, if later) to reach the enhanced guideline. The guideline for Non-executive Directors was introduced on 1 July 2011. Non-executive Directors have three years from their date of joining to reach the guideline. During 2019 the guidelines for Executive Directors and Non-executive Directors were revised to reflect the impact of the demerger.

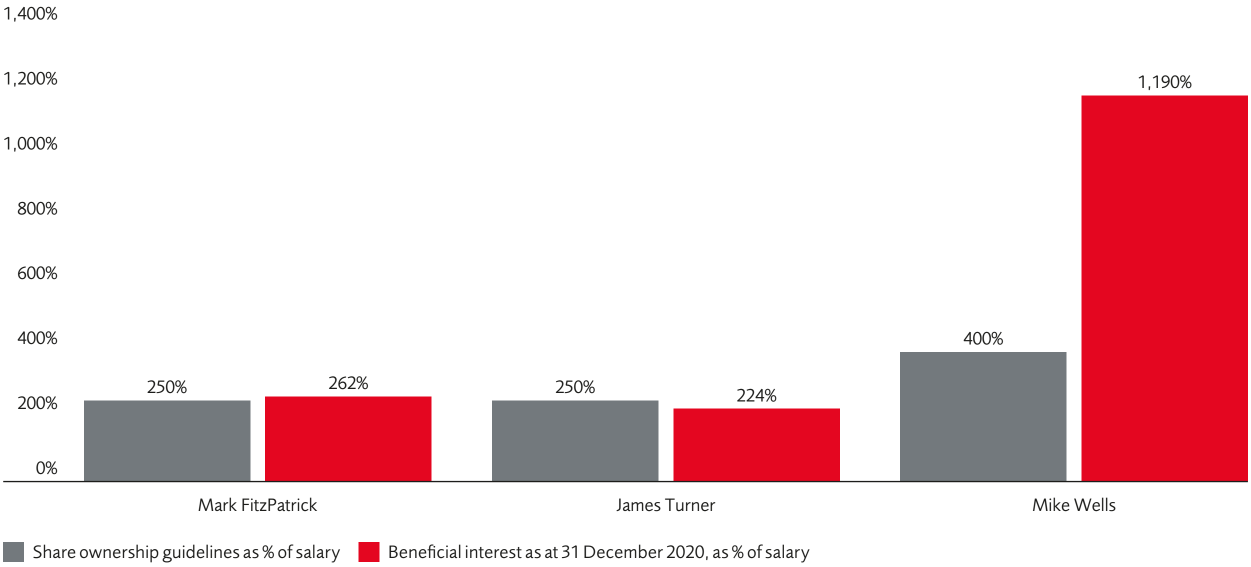
§ Based on the average closing price for the six months to 31 December 2020 (£11.95).

The Company and its Directors, Chief Executives and shareholders have been granted a partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO). As a result of this exemption, Directors, Chief Executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of Directors' and Chief Executives' interests under section 352 of the SFO, nor a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with the Stock Exchange of Hong Kong Limited any disclosure of interests notified to it in the United Kingdom.

Notes

1 For the 1 January 2020 figure, Mike Wells's beneficial interest in shares is made up of 297,320 ADRs (representing 594,640 ordinary shares) and 381,632 ordinary shares. For the 31 December 2020 figure, his beneficial interest in shares is made up of 297,320 ADRs (representing 594,640 ordinary shares) and 549,445 ordinary shares.
2 Jeremy Anderson was appointed to the Board on 1 January 2020. Total interest in shares is shown from this date.
3 Howard Davies stepped down from the Board on 14 May 2020. Total interest in shares is shown at this date.
4 For the 1 January 2020 figure, Alice Schroeder's beneficial interest in shares is made up of 7,250 ADRs (representing 14,500 ordinary shares). For the 31 December 2020 figure, the beneficial interest in shares is made up of 10,000 ADRs (representing 20,000 ordinary shares).
5 Shriti Vadera was appointed to the Board on 1 May 2020. Total interest in shares is shown from this date.
6 For the 1 January 2020 figure, Thomas Watjen's beneficial interest in shares is made up of 5,170 ADRs (representing 10,340 ordinary shares). For the 31 December 2020 figure, the beneficial interest in shares is made up of 5,170 ADRs (representing 10,340 ordinary shares).

The bar chart below illustrates the Executive Directors' shareholding as a percentage of base salary versus the share ownership guideline.



Note
Mark FitzPatrick and James Turner were appointed to the Board in July 2017 and March 2018 respectively so both are within the period over which they were asked to attain the share ownership guideline.

Outstanding share options

The following table sets out the share options held by the Executive Directors in the UK Savings-Related Share Option Scheme (SAYE) as at the end of the period. No other directors participated in any other option scheme.

	Date of grant	Exercise price (pence)	Market price at 31 Dec 2020 (pence)	Exercise period		Number of options						
				Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
Mark FitzPatrick	21 Sep 17	1455	1388.5	01 Dec 22	31 May 23	2,061	–	–	–	–	–	2,061
James Turner	21 Sep 17	1455	1388.5	01 Jan 21	30 Jun 21	1,237	–	–	–	–	–	1,237
Mike Wells	22 Sep 20	964	1388.5	01 Dec 23	31 May 24	–	1,867	–	–	–	–	1,867

Notes
1 No Directors exercised SAYE options in 2020.
2 No price was paid for the award of any option.
3 The highest and lowest closing share prices during 2020 were £15.06 and £7.11 respectively.
4 All exercise prices are shown to the nearest pence.

Directors' terms of employment

Details of the service contracts of each Executive Director are outlined in the table below. The Directors' remuneration policy contains further details of the terms included in Executive Director service contracts.

	Date of contract	Notice period to the Company	Notice period from the Company
Executive Directors			
Mark FitzPatrick	17 May 2017	12 months	12 months
James Turner	1 March 2018	12 months	12 months
Mike Wells	21 May 2015	12 months	12 months

Directors served on the boards of educational, charitable and cultural organisations without receiving a fee for these services.

Letters of appointment of the Chair and Non-executive Directors

Details of Non-executive Directors' individual appointments are outlined below. The Directors' remuneration policy contains further details on their letters of appointment. The Chair and Non-executive Directors are not entitled to receive any payments for loss of office.

Chair/Non-executive Director	Appointment by the Board	Notice period	Time on the Board at 2021 AGM
Chair			
Paul Manduca[1]	15 October 2010 (Chair from July 2012)	12 months	n/a
Non-executive Directors			
Philip Remnant	1 January 2013	6 months	8 years 4 months
Jeremy Anderson	1 January 2020	6 months	1 year 4 months
David Law	15 September 2015	6 months	5 years 8 months
Kai Nargolwala	1 January 2012	6 months	9 years 4 months
Anthony Nightingale	1 June 2013	6 months	7 years 11 months
Alice Schroeder	10 June 2013	6 months	7 years 11 months
Shriti Vadera	1 May 2020	6 months	1 year
Thomas Watjen	11 July 2017	6 months	3 years 10 months
Fields Wicker-Miurin	3 September 2018	6 months	2 years 8 months
Amy Yip	2 September 2019	6 months	1 year 8 months

Note

1 Paul Manduca retired from the Board on 31 December 2020. Shriti Vadera became the Chair of the Board from 1 January 2021.

Payments to past Directors and payments for loss of office

There were no payments for loss of office in 2020.

As disclosed in the 2019 Directors' remuneration report, a number of Directors stepped down from the Board in 2019. Treatment of their outstanding awards and other remuneration elements was disclosed in 2019. We set out below payments in respect of the awards that vested during 2020.

Nic Nicandrou

Nic holds a PLTIP award granted in 2018 and as set out in the section 'Remuneration in respect of performance in 2020' the performance condition attached to Nic's 2018 PLTIP awards was partially met and 68.75 per cent of these awards will be released in 2021. The details of the release are set out below.

Award	Number of shares vesting[1]	Value of shares vesting[2]
PLTIP	119,407	$1,829,874

Notes

1 The number of shares vesting include accrued dividends.

2 The share price used to calculate the value was the average ADR price for the three months up to 31 December 2020, being £11.95.

Barry Stowe

Barry holds a PLTIP award granted in 2018 and as set out in the section 'Remuneration in respect of performance in 2020' the performance condition attached to Barry's 2018 PLTIP awards was partially met and 68 per cent of these awards will be released in 2021. These awards were pro-rated for service (nine of 36 months) and the details of the release are set out below.

Award	Number of ADRs vesting[1]	Value of ADRs vesting[2]
PLTIP	22,931	$725,537

Notes

1 The number of ADRs vesting include accrued dividends.

2 The ADR price used to calculate the value was the average ADR price for the three months up to 31 December 2020, being $31.64.

Other Directors

A number of former Directors receive retiree medical benefits for themselves and their partner (where applicable). This is consistent with other senior members of staff employed at the same time. A de minimis threshold of £10,000 has been set by the Committee; any payments or benefits provided to a past Director above this amount will be reported.

Statement of voting at general meeting

At the 2020 Annual General Meeting, shareholders were asked to vote on the current Directors' remuneration policy and the 2019 Directors' remuneration report. Each of these resolutions received a significant vote in favour by shareholders and the Committee is grateful for this support and endorsement by our shareholders. The votes received were:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the Directors' remuneration policy (2020 AGM)	1,930,172,979	95.84	83,796,656	4.16	2,013,969,635	1,043,445
To approve the Directors' remuneration report (2020 AGM)	1,930,404,646	96.84	63,037,343	3.16	1,993,441,989	21,570,822

Statement of implementation of remuneration policy in 2021

Base salary

Executive Directors' remuneration packages were reviewed in 2020 with changes effective from 1 January 2021. When the Committee made these decisions, it considered the salary increases awarded to other employees in 2020 and the expected increases in 2021. The external market reference points used to provide context to the Committee were similar to those used for 2020 salaries.

In recognition of the continued focus on pay restraint and after due deliberation the Committee considered there should be no salary increases to the Executive Directors for 2021. The 2021 salary increase budgets for other employees across the Group's business units were between 2 per cent and 4.6 per cent. On this basis, 2021 will be the ninth consecutive year in which the increases generally offered to executives have been below or close to the bottom of the range of salary increases budgeted for the broader workforce.

The salaries effective from 1 January 2021 are set out below:

— Mark FitzPatrick: £760,000
— James Turner: HKD7,330,000
— Mike Wells: £1,149,000

2021 pension entitlements

While the approved Directors' remuneration policy provides for a phased reduction of Executive Directors' pension benefits to the workforce rate of 13 per cent of salary, the Committee accelerated this change to be effective on 14 May 2020. Pension levels will remain at this reduced rate for 2021. In addition, statutory contributions will continue to be made into mandatory pension arrangements in the country in which the Executive Directors are based, in line with the local requirements.

Annual bonus

No changes have been made to the bonus opportunities for Executive Directors for 2021.

The separation and divestment of Jackson will transform Prudential into a Group targeting the structural opportunities of Asia and Africa. The post-separation Group will focus on achieving sustained double-digit growth in embedded value per share. This will be supported by growth rates of new business profit, which are expected to substantially exceed GDP growth in the markets in which the Group operates. It is therefore imperative that the measures attached to the 2021 AIP and PLTIP awards create a clear focus within the executive team and a straightforward connection with the value to be delivered to shareholders.

2021 AIP financial measures

The Committee is mindful of the need for the weightings of the AIP measures to be sufficiently aligned with the post-separation Group's focus on the high-growth Asia and Africa businesses. The proposed revised weightings of the financial performance measures are set out in the table below.

Financial performance measure	Weightings (% of financial element) 2020	2021	Change and rationale
Group EEV new business profit	15%	35%	***Increase*** – to focus the executive team on driving growth in profitable new business which is critical to the growth in embedded value of the post-separation Prudential Group
Group adjusted operating profit	35%	25%	***Reduction*** – to reflect the increased emphasis on growth of new business. Operating profit is largely driven by the level of historic in-force business
Group operating free surplus generated	30%	30%	***No change*** – reflecting the importance of free surplus to support growth in investment in new business
Group Holding Company cash flow	20%	10%	***Reduction*** – given the strategic priority of allocating capital to future growth in Asia and Africa whilst continuing to adequately fund central costs

The Remuneration Committee intends to include Jackson within the targets and results used for the AIP until the Group owns less than 50% of Jackson. From the date on which the Group owns less than 50% of Jackson, Jackson will be removed from Group AIP targets and outcomes for the remainder of the relevant year. From this date, Group AIP weightings will be consistent with those adopted for the Asia business. The date from which Jackson is removed from the AIP targets and the resulting changes to the weighting of the bonus metrics will be disclosed in the Annual Report on Remuneration for the year in which this takes place. Principles which will underpin the approach to the separation of Jackson are described in the Annual statement from the Chair of the Remuneration Committee.

2021 share-based long-term incentive awards

Award levels

No changes have been made to the PLTIP award levels for Executive Directors for 2021.

Performance conditions

Performance conditions for 2021 PLTIP awards have been revised to ensure that reward remains aligned with the strategic priorities and capital allocation framework of the post-separation Group. In particular, RoE replaced with RoEV to reflect the focus on achieving sustained double-digit growth in Embedded Value per share. In addition, the TSR peer group was revised to reflect the footprint of the post-separation Prudential Group.

The weighting of measures for the 2021 PLTIP awards for all Executive Directors will be as follows:

— Relative TSR (50 per cent of award);
— A return on embedded value measure (30 per cent of award); and
— Sustainability scorecard of strategic measures (20 per cent of award).

The proportion of 2021 long-term incentive awards which will vest for threshold performance will remain at 20 per cent.

The conduct measure in the sustainability scorecard will include Jackson for 2021 awards for the period in which the Group owns at least 50% of Jackson, whilst the other scorecard metrics and RoEV will be calculated based on the Group excluding the US business. Principles which will underpin the approach to the separation of Jackson are described in the Annual statement from the Chair of the Remuneration Committee.

Relative TSR

Under the Group TSR measure, 20 per cent of the award will vest for TSR at the median of the peer group, increasing to full vesting for performance within the upper quartile. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison.

In 2020 the Committee reviewed the TSR peer group to reflect the footprint post separation of Jackson. The resulting peer group for 2021 PLTIP awards is set out below:

AIA Group	Allianz	AXA	China Life
China Pacific Insurance (CPIC)	China Taiping Insurance	Great Eastern	Manulife Financial
New China Life (NCI)	Ping An Insurance	Sun Life Financial	Zurich Insurance Group

Return on embedded value

RoEV will replace RoE as the PLTIP measure for 2021 awards. The Company believes that this measure is more relevant, considering the Asia focus of the Group, aligned to the ambition to grow EV and pivot towards EV based valuations.

RoEV will be calculated as the total post-tax EEV operating profit as a percentage of the average EEV basis shareholders' equity. RoEV will be assessed at the Group level.

20 per cent of the award will vest for achieving the threshold level of performance of 9 per cent, increasing to full vesting for reaching the stretch level of at least 11 per cent.

Sustainability scorecard

Under the 2021 sustainability scorecard, performance will be assessed for each of the four measures, at the end of the three-year performance period. Performance will be assessed on a sliding scale. Each of the measures has equal weighting and the 2021 measures are set out below:

Capital measure:	Cumulative three-year ECap Group operating capital generation relative to threshold, less cost of capital (based on the capital position at the start of the performance period).
Vesting basis:	Performance below threshold results in nil vesting, 20 per cent vesting for achieving threshold, increasing to full vesting for performance above stretch level. The threshold figure for this metric will be published in the Annual Report for the final year of the performance period.
Capital measure:	Cumulative three-year LCSM operating capital generation relative to threshold.
Vesting basis:	Performance below threshold results in nil vesting, 20 per cent vesting for achieving threshold, increasing to full vesting for performance above stretch level. The threshold figure for this metric will be published in the Annual Report for the final year of the performance period.
Conduct measure:	Through strong risk management action, ensure there are no significant conduct/culture/governance issues that result in significant capital add-ons or material fines.
Vesting basis:	Performance below threshold results in nil vesting, 20 per cent vesting for partial achievement of the Group's expectations, increasing to full vesting for achieving the Group's expectations.
Diversity measure:	Percentage of the Executive Council and Leadership Team[1] that are female at the end of 2023.
Vesting basis:	Performance below threshold results in nil vesting, 20 per cent vests for meeting the threshold of at least 33 per cent of our Executive Council and Leadership Team being female at the end of 2023, increasing to full vesting for reaching the stretch level of at least 37 per cent being female at that date.

Note

1 Please note that in 2020 the definition of the Leadership Team for the purposes of this assessment changed to include Executive Council and other key executives critical for the definition and execution of our strategy. This is comparable to what was previously referred to as the Leadership Team.

Chair and Non-executive Directors

Fees for the Chair and Non-executive Directors were unchanged in 2020. The Committee has decided to appoint the new Chair, Ms Vadera, on the same fee (£765,000 per annum) as the outgoing Chair, Mr Manduca.

The Board has established for the period up to the 2022 AGM a Responsibility & Sustainability Working Group which will oversee the embedding of our new ESG framework and progress on diversity and inclusion initiatives and employee engagement activities. As Chair of the Working Group, Ms Schroeder will receive a fee of £45,000 per annum while Working Party members will receive a fee of £22,000.

Anthony Nightingale, CMG SBS JP
Chair of the Remuneration Committee

2 March 2021

Shriti Vadera
Chair

2 March 2021

Additional remuneration disclosures

Directors' outstanding long-term incentive awards

Share-based long-term incentive awards

	Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2020 (number of shares)	Conditional awards in 2020 (number of shares)	Market price at date of award (pence)	Dividend equivalents on vested shares[note] (number of shares released)	Rights exercised in 2020	Rights lapsed in 2020	Conditional share awards outstanding at 31 Dec 2020 (number of shares)	Date of end of performance period
Mark FitzPatrick	PLTIP	2017	117,047	–	1828	6,449	73,155	43,892	–	31 Dec 19
	PLTIP	2018	123,110	–	1750	–	–	–	123,110	31 Dec 20
	PLTIP	2019	142,470	–	1605.5	–	–	–	142,470	31 Dec 21
	PLTIP	2020	–	175,115	1049.5	–	–	–	175,115	31 Dec 22
			382,627	**175,115**	–	**6,449**	**73,155**	**43,892**	**440,695**	
James Turner	PLTIP	2017	32,264	–	1672	1,738	20,165	12,099	–	31 Dec 19
	PLTIP	2018	103,281	–	1750	–	–	–	103,281	31 Dec 20
	PLTIP	2019	119,600	–	1605.5	–	–	–	119,600	31 Dec 21
	PLTIP	2020	–	177,562	1049.5	–	–	–	177,562	31 Dec 22
			255,145	**177,562**	–	**1,738**	**20,165**	**12,099**	**400,443**	
Mike Wells	PLTIP	2017	304,166	–	1672	16,414	190,103	114,063	–	31 Dec 19
	PLTIP	2018	297,713	–	1750	–	–	–	297,713	31 Dec 20
	PLTIP	2019	344,629	–	1605.5	–	–	–	344,629	31 Dec 21
	PLTIP	2020	–	423,594	1049.5	–	–	–	423,594	31 Dec 22
			946,508	**423,594**	–	**16,414**	**190,103**	**114,063**	**1,065,936**	

Note
A dividend equivalent was accumulated on these awards.

Other share awards

The table below sets out Executive Directors' deferred bonus share awards.

	Year of grant	Conditional share awards outstanding at 1 Jan 2020 (number of shares)	Conditionally awarded in 2020 (number of shares)	Dividends accumulated in 2020[note] (number of shares)	Shares released in 2020 (number of shares)	Conditional share awards outstanding at 31 Dec 2020 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
Mark FitzPatrick										
Deferred 2017 annual incentive award	2018	33,518	–	771	–	34,289	31 Dec 20	–	1750	–
Deferred 2018 annual incentive award	2019	38,411	–	884	–	39,295	31 Dec 21	–	1605.5	–
Deferred 2019 annual incentive award	2020	–	48,780	1,123	–	49,903	31 Dec 22	–	1047	–
		71,929	**48,780**	**2,778**	–	**123,487**	–	–		–
James Turner										
Deferred 2018 annual incentive award	2019	24,560	–	565	–	25,125	31 Dec 21	–	1605.5	–
Deferred 2019 annual incentive award	2020	–	42,125	970	–	43,095	31 Dec 22	–	1047	–
		24,560	**42,125**	**1,535**	–	**68,220**	–	–	–	–
Mike Wells										
Deferred 2016 annual incentive award	2017	64,440	–	–	64,440	–	31 Dec 19	06 Apr 20	1672	1021
Deferred 2017 annual incentive award	2018	58,008	–	1,336	–	59,344	31 Dec 20	–	1750	–
Deferred 2018 annual incentive award	2019	66,030	–	1,521	–	67,551	31 Dec 21	–	1605.5	–
Deferred 2019 annual incentive award	2020	–	83,782	1,930	–	85,712	31 Dec 22	–	1047	–
		188,478	**83,782**	**4,787**	**64,440**	**212,607**	–	–	–	–

Note
A dividend equivalent was accumulated on these awards.

All-employee share plans

It is important that all employees are offered the opportunity to own shares in Prudential, connecting them both to the success of the Company and to the interests of other shareholders. Executive Directors are invited to participate in these plans on the same basis as other staff in their location.

Save As You Earn (SAYE) schemes

UK-based Executive Directors are normally eligible to participate in the HM Revenue and Customs (HMRC) approved Prudential Savings-Related Share Option Scheme. This scheme allows all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

Since 2014 participants have been able to elect to enter into savings contracts of up to £500 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and any other option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

Details of Executive Directors' rights under the SAYE scheme are set out in the 'Outstanding share options' table.

Share Incentive Plan (SIP)

UK-based Executive Directors are also eligible to participate in the Company's Share Incentive Plan (SIP). Since April 2014, all UK-based employees have been able to purchase Prudential plc shares up to a value of £150 per month from their gross salary (partnership shares) through the SIP. For every four partnership shares bought, an additional matching share is awarded which is purchased by Prudential plc on the open market. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares may be forfeited.

The table below provides information about shares purchased under the SIP together with matching shares (awarded on a 1:4 basis) and dividend shares.

	Year of initial grant	Share Incentive Plan awards held in Trust at 1 Jan 2020 (number of shares)	Partnership shares accumulated in 2020 (number of shares)	Matching shares accumulated in 2020 (number of shares)	Dividend shares accumulated in 2020 (number of shares)	Share Incentive Plan awards held in Trust at 31 Dec 2020 (number of shares)
Mark FitzPatrick	2017	372	150	37	11	570
James Turner	2011	829	–	–	20	849
Mike Wells	2015	719	150	38	18	925

Cash-settled long-term incentive awards

This information has been prepared in line with the reporting requirements of the Hong Kong Stock Exchange and sets out Executive Directors' outstanding share awards and share options. For details of the cash-settled long-term incentive awards held by one Executive Director, please see our 2019 Annual report on remuneration.

Dilution

Dilution Releases from the Prudential Long Term Incentive Plan and the Prudential Agency Long Term Incentive Plan are satisfied using new issue shares rather than by purchasing shares in the open market. Shares relating to options granted under all-employee share plans are also satisfied by new issue shares. The combined dilution from all outstanding shares and options at 31 December 2020 was 1 per cent of the total share capital at the time. Deferred bonus awards will continue to be satisfied by the purchase of shares in the open market.

Remuneration of the five highest-paid individuals and the remuneration of senior management

In line with the requirements of the Stock Exchange of Hong Kong Limited, the following table sets out, on an aggregate basis, the annual remuneration of i) the five highest-paid employees, and ii) senior management for the year ended 31 December 2020.

Of the five individuals with the highest emoluments in 2020, one was an Executive Director for the full year whose emoluments are disclosed in this report. The aggregate of the emoluments of the other four individuals for 2020 are set out in the table below. Senior management comprised the Executive Directors and members of the Group Executive Committee. The table sets outs the aggregate of the emoluments paid to the senior management team:

	Five highest paid		Senior management	
Components of remuneration	HKD000	$000	HKD000	$000
Base salaries, allowances and benefits in kind	16,081	2,073	70,021	9,028
Pension contributions	661	85	9,408	1,213
Performance-related pay	146,736	18,919	155,019	19,987
Payments made on appointment	18,292	2,358	n/a	n/a
Payments made on separation	46,536	6,000	n/a	n/a
Total	228,306	29,435	234,448	30,228

Their emoluments for 2020 were within the following bands:

		Number of employees	
Remuneration band HKD	**Remuneration band USD equivalent**	**Five highest paid**	**Senior management**
19,000,001 – 19,500,000	2,449,700 – 2,514,200	0	1
25,000,001 – 25,500,000	3,223,300 – 3,287,800	0	1
29,500,001 – 30,000,000	3,803,500 – 3,868,000	0	1
30,500,001 – 31,000,000	3,932,400 – 3,996,900	0	1
31,500,001 – 32,000,000	4,254,800 – 4,319,200	0	1
44,000,001 – 44,500,000	5,673,000 – 5,737,500	0	1
46,000,001 – 46,500,000	5,930,900 – 5,995,400	1	0
46,500,001 – 47,000,000	5,995,400 – 6,059,800	1	0
49,000,001 – 49,500,000	6,317,700 – 6,382,200	1	0
53,000,001 – 53,500,000	7,413,600 – 7,478,100	0	1
85,500,001 – 86,000,000	11,217,100 – 11,281,600	1	0

Financial statements

Contents

Index to Group IFRS financial statements

Consolidated income statement

	Note	2020 $m	2019 $m
Continuing operations:			
Gross premiums earned		42,521	45,064
Outward reinsurance premiums	B1.4	(32,209)	(1,583)
Earned premiums, net of reinsurance	B1.4	10,312	43,481
Investment return	B1.4	44,991	49,555
Other income	B1.4	670	700
Total revenue, net of reinsurance	B1.4	55,973	93,736
Benefits and claims	C3.1	(82,176)	(85,475)
Reinsurers' share of benefits and claims	C3.1	34,409	2,985
Movement in unallocated surplus of with-profits funds	C3.1	(438)	(1,415)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	B1.4	(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	B1.4	(54,071)	(91,846)
Share of profit from joint ventures and associates, net of related tax	D6.3	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	D1.3	–	(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) profit from discontinued operations		–	(44.8)¢
Total		81.6¢	30.3¢
Diluted			
Based on profit from continuing operations		81.6¢	75.1¢
Based on (loss) profit from discontinued operations		–	(44.8)¢
Total		81.6¢	30.3¢

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	D1.3	–	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

	Note	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserves	Share-holders' equity	Non-controlling interests	Total equity
		Year ended 31 Dec 2020 $m							
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

		Year ended 31 Dec 2019 $m							
	Note	Share capital	Share premium	Retained earnings	Translation reserve*	Available-for-sale securities reserves	Share-holders' 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. The Group's accounting principles on foreign exchange translation are described in note A1.

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	C11	893	1,065
Reinsurers' share of insurance contract liabilities [note (i)]	C3.1	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		280	396
Accruals, deferred income and other creditors		15,508	14,488
Provisions	C9	350	466
Derivative liabilities		482	392
Total liabilities	C1	493,978	434,545
Total equity and liabilities	C1	516,097	454,214

The parent company statement of financial position is presented on page 302.

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).

The consolidated financial statements on pages 209 to 301 were approved by the Board of Directors on 2 March 2021. They were signed on its behalf:

Shriti Vadera
Chair

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

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	C11	(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 [note (iv)]	D1.3	–	(5,690)
Cash and cash equivalents at 1 Jan		6,965	15,442
Effect of exchange rate changes on cash and cash equivalents [note (iv)]		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

(iv) The 2019 cash flows shown in the statement of cash flow above are presented excluding any transactions between continuing and discontinued operations. The 2019 effect of exchange rate changes included $78 million from discontinued operations up to demerger. See note D1.3 for details.

A Basis of preparation and accounting policies

A1 Basis of preparation and exchange rates

Prudential plc ('the Company') together with its subsidiaries (collectively, 'the Group' or 'Prudential') is an Asia-led portfolio of businesses focused on structural growth markets. The Group currently has businesses in Asia, Africa and the US and head office functions in London and Hong Kong. The Group helps individuals get the most out of life through life and health insurance, and retirement and asset management solutions.

Basis of preparation

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.

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.

The parent company statement of financial position prepared in accordance with the UK Generally Accepted Accounting Practice (including Financial Reporting Standard 101 'Reduced Disclosure Framework') is presented on page 302.

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

Foreign exchange translation

In order to present the consolidated financial statements in USD, the results and financial position of entities not using USD as functional currency (ie the currency of the primary economic environment in which the entity operates) must be translated into USD. The general principle for converting foreign currency transactions is to translate at the functional currency spot rate prevailing at the date of the transactions. From 2020, Prudential determines and declares its dividend in USD. All assets and liabilities of entities not operating in USD are converted at closing exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income.

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.

The effect of foreign exchange movements from continuing operations arising during the years shown recognised in other comprehensive income is:

	2020 $m	**2019** $m
Asia operations	235	194
Unallocated to a segment	(2)	(42)
	233	152

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.

A3 Accounting policies

Note A3.1 presents the critical accounting policies, estimates and judgements applied in preparing the Group's consolidated financial statements. Other accounting policies, where significant, are presented in the relevant individual notes. All accounting policies are applied consistently for both years presented and normally are not subject to changes unless new accounting standards, interpretations or amendments are introduced by the IASB.

A3.1 Critical accounting policies, estimates and judgements

The preparation of these financial statements requires Prudential to make accounting estimates and judgements about the amounts of assets, liabilities, revenues and expenses, which are both recognised and unrecognised (eg contingent liabilities) in the financial statements. Prudential evaluates its critical accounting estimates, including those related to long-term business provisioning and the fair value of assets as required. The notes below set out those critical accounting policies, the application of which requires the Group to make critical estimates and judgements. Also set out are further critical accounting policies affecting the presentation of the Group's results and other items that require the application of critical estimates and judgements.

(a) Critical accounting policies with associated critical estimates and judgements

Measurement of policyholder liabilities and unallocated surplus of with-profits	
The measurement basis of policyholder liabilities is dependent upon the classification of the contracts under IFRS 4. Impacts $462.1 billion of policyholder liabilities and unallocated surplus of with-profits funds including those held by joint venture and associates. Policyholder liabilities are estimated based on a number of actuarial assumptions (eg mortality, morbidity, policyholder behaviour and expenses). The Group applies judgement in determining the actuarial assumptions to be applied to estimate the future amounts due to or from the policyholder in the measurement of the policyholder liabilities.	IFRS 4 permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP) for insurance contracts and investment contracts with discretionary participating features. A modified statutory basis of reporting was adopted by the Group on first time adoption of IFRS Standards in 2005. This was set out in the Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP). The ABI SORP was withdrawn for the accounting periods beginning in or after 2015. As used in these consolidated financial statements, the term 'grandfathered' ABI SORP refers to the requirements of the pronouncements prior to its withdrawal. For investment contracts that do not contain discretionary participating features, IAS 39 is applied and, where the contract includes an investment management element, IFRS 15 'Revenue from Contracts with Customers' applies. The policies applied in each business unit are noted below. When measuring policyholder liabilities, a number of assumptions are applied to estimate future amounts due to or from the policyholder. The nature of assumptions varies by product and among the most significant is policyholder behaviour, particularly in the US. Additional details of valuation methodologies and assumptions applied for material product types are discussed in note C3.4.
Measurement of insurance contract liabilities and investment contract liabilities with discretionary participation features	**Asia insurance operations** The policyholder liabilities for businesses in Asia are generally determined in accordance with methods prescribed by local GAAP, adjusted to comply with the modified statutory basis where necessary. Refinements to the local reserving methodology are generally treated as changes in estimates, dependent on their nature. The UK-style with-profits funds' liabilities in Hong Kong are valued under the realistic basis in accordance with the requirements of 'grandfathered' FRS 27 'Life Assurance' (issued by the Accounting Standards Board in 2004 and withdrawn in 2015). The realistic basis requires the value of liabilities to be calculated as the sum of a with-profits benefits reserve, future policy-related liabilities and the realistic current liabilities of the fund. In Taiwan and India, US GAAP principles are applied. The sensitivity of Asia insurance operations to variations in key estimates and assumptions, including mortality and morbidity, is discussed in note C6.4.

Measurement of policyholder liabilities and unallocated surplus of with-profits continued

	US insurance operations (Jackson) The policyholder liabilities for Jackson's conventional protection-type policies are determined under US GAAP principles with locked in assumptions for mortality, interest, policy lapses and expenses along with provisions for adverse deviations. For other policies, the policyholder liabilities include the policyholder account balance. For those investment contracts in the US with fixed and guaranteed terms, the Group uses the amortised cost model to measure the liability. The US has no investment contracts with discretionary participation features. The sensitivity of US insurance operations to variations in key estimates and assumptions, including policyholder behaviour, is discussed in note C6.4.
Measurement of investment contract liabilities without discretionary participation features	Investment contracts without discretionary participation features are measured in accordance with IAS 39 to reflect the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals, and taken directly to the statement of financial position as movements in the financial liability balance. Investment contracts without fixed and guaranteed terms are classified as financial instruments and designated as fair value through profit or loss because the resulting liabilities are managed and their performance is evaluated on a fair value basis. Where the contract includes a surrender option, its carrying value is subject to a minimum carrying value equal to its surrender value. Other investment contracts are measured at amortised cost.
Measurement of unallocated surplus of with-profits funds	Unallocated surplus of with-profits funds represents the excess of assets over policyholder liabilities, determined in accordance with the Group's accounting policies, that have yet to be appropriated between policyholders and shareholders for the Group's with-profits funds in Hong Kong and Malaysia. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess or shortfall of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to or from the unallocated surplus each period through a charge or credit to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation or depreciation on investments.
Liability adequacy test	The Group performs adequacy testing on its insurance liabilities to ensure that the carrying amounts (net of related deferred acquisition costs) and, where relevant, present value of acquired in-force business is sufficient to cover current estimates of future cash outflows. Any deficiency is immediately charged to the income statement. Jackson's liabilities for insurance contracts, which include those for separate accounts (reflecting the value of the related separate account assets), policyholder account values and guarantees measured as described in note C3.4 and the associated deferred acquisition cost asset, are measured under US GAAP and liability adequacy testing is performed in this context. Under US GAAP, most of Jackson's products are accounted for under Accounting Standards Codification Topic 944, Financial Services – Insurance of the Financial Accounting Standards Board (ASC 944) whereby deferred acquisition costs are amortised in line with expected gross profits. Recoverability of the deferred acquisition costs in the balance sheet is tested against the projected value of future profit using current estimates and therefore no additional liability adequacy test is required under IFRS 4. The deferred acquisition cost asset recoverability test is performed in line with US GAAP requirements, which in practice is at a grouped level of those contracts managed together.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

(b) Further critical accounting policies affecting the presentation of the Group's results

Presentation of results before tax attributable to shareholders

Profit before tax is a significant IFRS income statement item. The Group has chosen to present a measure of profit before tax attributable to shareholders which distinguishes between tax borne by shareholders and tax attributable to policyholders to support understanding of the performance of the Group.

Profit before tax attributable to shareholders is $2,148 million and compares to profit before tax of $2,419 million.

The total tax charge for the Group reflects tax that, in addition to that relating to shareholders' profit, is also attributable to policyholders through the interest in with-profits or unit-linked funds. Further detail is provided in note B3. Reported IFRS profit before the tax measure is therefore not representative of pre-tax profit attributable to shareholders. Accordingly, in order to provide a measure of pre-tax profit attributable to shareholders, the Group has chosen to adopt an income statement presentation of the tax charge and pre-tax results that distinguishes between policyholders' and shareholders' returns.

Segmental analysis of results and earnings attributable to shareholders

The Group uses adjusted operating profit as the segmental measure of its results.

Total segmental adjusted operating profit is $6,463 million and is shown in note B1.1.

The basis of calculation of adjusted operating profit is provided in note B1.3.

For shareholder-backed business, with the exception of debt securities held by Jackson and the Group's treasury company, which are treated as available-for-sale, and assets classified as loans and receivables at amortised cost, all financial investments and investment properties are designated as assets at fair value through profit or loss. Short-term fluctuations in fair value affect the result for the year and the Group provides additional analysis of results before and after the effects of short-term fluctuations in investment returns, together with other items that are of a short-term, volatile or one-off nature. The effects of short-term fluctuations include asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described in note B1.2.

Short-term fluctuations in investment returns on assets held by with-profits funds in Hong Kong, Malaysia and Singapore do not affect directly reported shareholder results. This is because (i) the unallocated surplus of with-profits funds is accounted for as a liability and (ii) excess or deficit of income and expenditure of the funds over the required surplus for distribution are transferred to or from policyholder liabilities (including the unallocated surplus).

Measurement and presentation of derivatives and debt securities of US insurance operations (Jackson)

Jackson holds a number of derivative instruments and debt securities. The selection of the accounting approach for these items significantly affects the volatility of profit before tax.

$457 million of the US investment return in the income statement arises from such derivatives and debt securities.

Jackson enters into derivative instruments to mitigate economic exposures. The Group has considered whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. The key factors considered in this assessment were the complexity of asset and liability matching in Jackson's product range and the difficulty and cost of applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book.

The Group has decided that, except for occasional circumstances, applying hedge accounting using IAS 39 to derivative instruments held by Jackson would not improve the relevance or reliability of the financial statements to such an extent that would justify the difficulty and cost of applying these provisions. As a result of this decision, the total income statement results are more volatile as the movements in the fair value of Jackson's derivatives are reflected within it. This volatility is reflected in the level of short-term fluctuations in investment returns, as shown in notes B1.1 and B1.2.

Under IAS 39, unless carried at amortised cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are carried at fair value. The Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements, unless impaired, being recorded as movements within other comprehensive income. Impairments are recorded in the income statement, as discussed in note (c) below.

(c) Other items requiring application of critical estimates or judgements

Deferred acquisition costs (DAC) for insurance contracts

The Group estimates projected future profits/margins to assess whether adjustments to the carrying value or amortisation profile of DAC asset are necessary.

Impacts $16.2 billion of DAC as shown in note C4.2.

Costs of acquiring new insurance business are accounted for in a way that is consistent with the principles of the 'grandfathered' ABI SORP with deferral and amortisation against margins in future revenues on the related insurance policies. The Group determines qualifying costs that should be capitalised (ie those costs of acquiring new insurance contracts that meet the criteria under the Group's accounting policy for DAC). The recoverability of the DAC is measured and the DAC asset is deemed impaired if the projected margins (which are estimated based on a number of assumptions similar to those underlying policyholder liabilities) are less than the carrying value. To the extent that the future margins differ from those anticipated, an adjustment to the carrying value will be necessary either through a charge to the income statement (if the projected margins are lower than carrying value) or through a change in the amortisation profile.

Asia insurance operations
For those business units applying US GAAP to insurance assets and liabilities, as permitted by the 'grandfathered' ABI SORP, principles similar to those set out in the US insurance operations paragraph below are applied to the deferral and amortisation of acquisition costs. For other business units in Asia, the general principles of the 'grandfathered' ABI SORP are applied. In general, deferral of acquisition costs is shown by an explicit carrying value in the balance sheet. However, in some Asia operations the deferral is implicit through the reserving basis.

US insurance operations
The most material estimates and assumptions applied in the measurement and amortisation of DAC balances relate to the US insurance operations.

The Group's US insurance operations apply FASB ASU 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' and capitalise only those incremental costs directly relating to successfully acquiring a contract.

For term life business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For fixed and fixed index annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders.

The majority of Jackson's DAC relates to its variable annuities business. For variable annuity business, a key assumption is the long-term investment return from the separate accounts, which for 2020 is 7.15 per cent (2019: 7.4 per cent). The impact of using this return is reflected in two principal ways, namely:

- Through the projected expected gross profits that are used to determine the amortisation of DAC. This is applied through the use of a mean reversion technique which is described in more detail below; and
- The required level of provision for claims for guaranteed minimum death, 'for life' withdrawal, and income benefits.

The present value of the estimated gross profit is computed using the rate of interest that accrues to policyholder balances (sometimes referred to as the contract rate).

Estimated gross profits for the fixed interest rate annuities, fixed index annuities and variable annuities include estimates of the following, each of which will be determined based on the best estimate of amounts over the life of the book of contracts without provision for adverse deviation:

- Amounts expected to be assessed against policyholder balances for mortality less benefit claims in excess of related policyholder balances;
- Amounts expected to be assessed for contract administration less costs incurred for contract administration;
- Amounts expected to be earned from the investment of policyholder balances less interest credited to policyholder balances;
- Amounts expected to be assessed against policyholder balances upon termination of contracts (sometimes referred to as surrender charges);
- Assumptions for the long-term investment return for the separate accounts;
- Assumptions for future hedge costs; and
- Other expected assessments and credits.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Deferred acquisition costs (DAC) for insurance contracts continued

Jackson uses a mean reversion methodology that sets the projected level of return for each of the next five years such that these returns in combination with the actual rates of return for the preceding three years (including the current year) average the assumed long-term annual return (gross of asset management fees and other charges to policyholders, but net of external fund management fees) over the eight-year period. Projected returns after the mean reversion period revert back to the long-term investment return. For further details on current balances, assumptions and sensitivity, refer to note C4.2.

To ensure that the methodology in extreme market movements produces future expected returns that are realistic, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than zero per cent per annum (both gross of asset management fees and other charges to policyholders, but net of external fund management fees) in each year.

Jackson makes certain adjustments to the DAC assets which are recognised directly in other comprehensive income ('shadow accounting') to match the recognition of unrealised gains or losses on available-for-sale securities causing the adjustments. More precisely, shadow DAC adjustments reflect the change in DAC that would have arisen if the assets held in the statement of financial position had been sold, crystallising unrealised gains or losses, and the proceeds reinvested at the yields currently available in the market.

Carrying value of distribution rights intangible assets

The Group applies judgement to assess whether factors such as the financial performance of the distribution arrangement, changes in relevant legislation and regulatory requirements indicate an impairment of intangible assets representing distribution rights.

To determine the impaired value, the Group estimates the discounted future expected cash flows arising from distribution rights.

Affects $4.0 billion of assets as shown in note C4.2.

Distribution rights relate to bancassurance partnership arrangements for the distribution of products for the term of the contractual agreement with the bank partner, for which an asset is recognised based on fees paid (including fees payable in future years). Distribution rights impairment testing is conducted when there is an indication of impairment.

To assess indicators of an impairment, the Group monitors a number of internal and external factors, including indications that the financial performance of the arrangement is likely to be worse than expected and changes in relevant legislation and regulatory requirements that could impact the Group's ability to continue to sell new business through the bancassurance channel, and then applies judgement to assess whether these factors indicate that an impairment has occurred.

If an impairment has occurred, a charge is recognised in the income statement for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset or the cash generating unit to which it is allocated.

Financial investments – Valuation

Financial investments held at fair value represent $412.8 billion of the Group's total assets.

Financial investments held at amortised cost represent $14.6 billion of the Group's total assets.

The Group estimates the fair value of financial investments that are not actively traded using quotations from independent third parties or internally developed pricing models.

The Group holds the majority of its financial investments at fair value (either through profit or loss or available-for-sale). Financial investments held at amortised cost primarily comprise loans and deposits.

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.

Current market bid prices are used to value investments having quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties such as brokers or pricing services. Financial investments measured at fair value are classified into a three-level hierarchy as described in note C2.1.

Financial investments – Valuation continued

If the market for a financial investment of the Group is not active, the Group establishes fair value by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of 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 and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as 'level 3' to which valuation techniques are applied and the sensitivity of profit before tax to a change in the valuation of these items, are presented in note C2.2(ii).

Financial investments – Determining impairment of 'available-for-sale' and 'amortised cost' assets

The Group applies judgement to assess whether factors such as the severity and duration of the decline in fair value, the financial condition and the prospects of the issuer indicate an impairment in value of financial investments classified as 'available-for-sale' or 'held at amortised cost'.

If evidence for impairment exists, valuation techniques, including estimates, are then applied in determining the impaired value, which is based on its expectation of discounted future cash flows. If the impaired value is less than book cost, an impairment loss is recognised in the income statement.

Affects $49.3 billion of assets.

For financial investments classified as 'available for sale' or 'at amortised cost', if a loss event that will have a detrimental effect on cash flows is identified, an impairment loss is recognised in the income statement. The loss recognised is determined as the difference between the book cost and the fair value or estimated future cash flows of the relevant impaired assets. The loss comprises the effect of the expected loss of contractual cash flows and any additional market-price driven temporary reductions in values.

Available-for-sale securities

The Group's available-for-sale securities are principally held by the US insurance operations. For these securities, the consideration of evidence of impairment requires management's judgement. In making this determination, a range of market and industry indicators are considered including the severity and duration of the decline in fair value and the financial condition and prospects of the issuer. The factors reviewed include economic conditions, credit loss experience, other issuer-specific developments and future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/ask spreads and a change in cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial statements, unrealised losses currently in equity may be recognised in the income statement in future periods.

For US residential mortgage-backed and other asset-backed securities, all of which are classified as available-for-sale, impairment is estimated using a model of expected future cash flows. Key assumptions used in the model include assumptions about how much of the currently delinquent loans will eventually default and assumed loss severity.

Additional details on the methodology and estimates used to determine impairments of the available-for-sale securities of Jackson are described in note C1.1.

Assets held at amortised cost

When assets held at amortised cost are subject to impairment testing, estimated future cash flows are compared to the carrying value of the asset. In estimating future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist, or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

Reversal of impairment losses

If, in subsequent periods, an impaired debt security held on an available-for-sale basis or an impaired loan or receivable recovers in value (in part or in full) and this recovery can be objectively related to an event occurring after the impairment, then any amount determined to have been recovered is reversed through the income statement.

A3 Accounting policies continued

A3.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued by the IASB but are not yet effective in 2020. For 2021 and beyond, the Group will prepare financial statements in accordance with UK-adopted international accounting standards and will be reliant on the UK adoption for the new accounting pronouncements that have not been endorsed by the EU by 31 December 2020.

This is not intended to be a complete list as only those standards, interpretations and amendments that could have a material impact on the Group's financial statements are discussed.

IFRS 9 'Financial instruments: Classification and measurement'

IFRS 9 became mandatorily effective for the annual periods beginning on or after 1 January 2018, with early application permitted and transitional rules apply.

The Group met the eligibility criteria for temporary exemption under the Amendments to IFRS 4 from applying IFRS 9 and has accordingly deferred the adoption of IFRS 9 until the date when IFRS 17 'Insurance Contracts' is expected to be adopted upon its current mandatory effective date. The Group is eligible as its activities are predominantly to issue insurance contracts based on the criteria as set out in the amendments to IFRS 4. The required disclosure of the fair value of the Group's financial assets, showing the amounts for instruments that meet the 'Solely for Payment of Principal and Interest' (SPPI) criteria but do not meet the definition of held for trading and are not managed and evaluated on a fair value basis separately from all other financial assets, is provided below.

When adopted IFRS 9 replaces the existing IAS 39 'Financial Instruments – Recognition and Measurement' and will affect the following three areas:

The classification and the measurement of financial assets and liabilities

IFRS 9 redefines the classification of financial assets. Based on the way in which the assets are managed in order to generate cash flows and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'), financial assets are classified into one of the following categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). An option is also available at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces accounting mismatches.

Under IAS 39, 88 per cent of the Group's investments are valued at FVTPL and the Group's current expectation is that a significant proportion of its investments will continue to be designated as such under IFRS 9. The Group is currently evaluating whether some of the assets held at amortised cost today should be designated at FVTPL in conjunction with the required changes in classification to the relevant underlying liabilities upon adoption of IFRS 17.

The existing IAS 39 amortised cost measurement for financial liabilities is largely maintained under IFRS 9. For financial liabilities designated at FVTPL IFRS 9 requires changes in fair value due to changes in entity's own credit risk to be recognised in other comprehensive income.

The calculation of the impairment charge relevant for financial assets held at amortised cost or FVOCI

A new impairment model based on an expected credit loss approach replaces the existing IAS 39 incurred loss impairment model, resulting in earlier recognition of credit losses compared to IAS 39. This aspect is the most complex area of IFRS 9 to implement and will involve significant judgements and estimation processes. The Group is currently assessing the scope of assets to which these requirements will apply but as noted above it is currently expected that the majority of assets will be held at FVTPL to which these requirements will not apply.

The hedge accounting requirements which are more closely aligned with the risk management activities of the Company

No significant change to the Group's hedge accounting is currently anticipated, but this remains under review.

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with IFRS 17 as permitted. Further details on IFRS 17 are provided below.

The parent company and a number of intermediate holding companies in the UK and non-insurance subsidiaries in Asia adopted IFRS 9 in 2018 in their individual or separate financial statements where these statements are prepared in accordance with IFRS, including the UK Financial Reporting Standard 101 'Reduced Disclosure Framework'. The public availability of the financial statements for these entities varies according to the local laws and regulations of each jurisdiction. The results for these entities continue to be accounted for on an IAS 39 basis in these consolidated financial statements.

The fair value of the Group's directly held financial assets at 31 December 2020 and 2019 are shown below. Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) as defined by IFRS 9 are shown separately. This excludes financial assets that meet the definition of held for trading or are managed and evaluated on a fair value basis.

Financial assets, net of derivative liabilities	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
	Fair value at 31 Dec 2020 $m	Movement in the fair value during 2020 $m	Fair value at 31 Dec 2020 $m	Movement in the fair value during 2020 $m
Accrued investment income	1,428	–	–	–
Other debtors	3,248	–	–	–
Loans note (1)	11,302	154	3,905	3
Equity securities and holdings in collective investment schemes	–	–	278,635	33,515
Debt securities note (2)	32,991	3,194	92,837	6,817
Derivative assets, net of derivative liabilities	–	–	2,117	(3,683)
Other investments	–	–	1,866	(36)
Deposits	3,882	–	–	–
Cash and cash equivalents	8,018	–	–	–
Total financial assets, net of derivative liabilities	60,869	3,348	379,360	36,616

Financial assets, net of derivative liabilities	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
	Fair value at 31 Dec 2019 $m	Movement in the fair value during 2019 $m	Fair value at 31 Dec 2019 $m	Movement in the fair value during 2019 $m
Accrued investment income	1,641	–	–	–
Other debtors	2,054	–	–	–
Loans note (1)	13,484	517	3,614	2
Equity securities and holdings in collective investment schemes	–	–	247,281	44,250
Debt securities note (2)	56,365	4,114	78,205	5,594
Derivative assets, net of derivative liabilities	–	–	1,353	(5,825)
Other investments	–	–	1,302	44
Deposits	2,615	–	–	–
Cash and cash equivalents	6,965	–	–	–
Total financial assets, net of derivative liabilities	83,124	4,631	331,755	44,065

Notes

(1) The loans that pass the SPPI test in the table above are primarily carried at amortised cost under IAS 39. Further information on these loans is as provided in note C1.

(2) The debt securities that pass the SPPI test in the table above are primarily held by Jackson and are classified as available-for-sale under IAS 39. The credit ratings of these securities, analysed on the same basis of those disclosed in note C1, are as follows:

Available-for-sale debt securities that pass the SPPI test	31 Dec 2020 $m	31 Dec 2019 $m
AAA	1,058	1,117
AA+ to AA-	6,830	11,328
A+ to A-	6,904	15,140
BBB+ to BBB-	9,812	17,972
Below BBB- and unrated	8,387	10,808
Total fair value	32,991	56,365

A3 Accounting policies continued

A3.2 New accounting pronouncements not yet effective continued

The underlying financial assets of the Group's joint ventures and associates accounted for using the equity method are analysed below into those which meet the SPPI condition of IFRS 9, excluding any financial assets that meet the definition of held for trading or are managed and evaluated on a fair value basis, and all other financial assets. Fair value information for joint ventures and associates is also set out in the table below:

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets, net of derivative liabilities, held by the Group's joint ventures and associates accounted for using the equity method	**Fair value at 31 Dec 2020** $m	**Movement in the fair value during 2020** $m	**Fair value at 31 Dec 2020** $m	**Movement in the fair value during 2020** $m
Accrued investment income	156	–	–	–
Other debtors	310	–	–	–
Loans	269	–	–	–
Equity securities and holdings in collective investment schemes	–	–	7,949	1,032
Debt securities	–	–	7,741	102
Deposits	777	–	–	–
Cash and cash equivalents	582	–	–	–
Total financial assets, net of derivative liabilities	2,094	–	15,690	1,134

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets, net of derivative liabilities, held by the Group's joint ventures and associates accounted for using the equity method	**Fair value at 31 Dec 2019** $m	**Movement in the fair value during 2019** $m	**Fair value at 31 Dec 2019** $m	**Movement in the fair value during 2019** $m
Accrued investment income	161	–	–	–
Other debtors	329	–	–	–
Loans	197	–	–	–
Equity securities and holdings in collective investment schemes	–	–	5,999	444
Debt securities	–	–	6,080	86
Deposits	521	–	–	–
Cash and cash equivalents	513	–	–	–
Total financial assets, net of derivative liabilities	1,721	–	12,079	530

IFRS 17 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17 'Insurance Contracts' to replace the existing IFRS 4 'Insurance Contracts'. In June 2020, the IASB issued amendments to IFRS 17, including delaying the effective date to reporting periods on or after 1 January 2023. The standard is subject to endorsement in the UK via the UK Endorsement Board which is currently being established. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9.

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. IFRS 17 replaces this with a new measurement model for all insurance contracts.

IFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin (CSM) that is initially set equal and opposite to any day-one gain arising on initial recognition. Losses are recognised directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

Profit for insurance contracts under IFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and investment profit.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders), the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non-economic assumptions.

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement.

In order to transition to IFRS 17, the amount of deferred profit, being the CSM at transition date, needs to be determined. IFRS 17 requires this CSM to be calculated as if the standard had applied retrospectively. However, if this is not practical an entity is required to choose either a modified retrospective approach or to determine the CSM by reference to the fair value of the liabilities at the transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profits on in-force business in future reporting periods.

IFRS 17 implementation programme

IFRS 17 is expected to have a significant impact as the requirements of the new standard are complex and requires a fundamental change to accounting for insurance contracts as well as the application of significant judgement and new estimation techniques. The effect of changes required to the Group's accounting policies as a result of implementing these standards, that are expected to alter the timing of IFRS profit recognition, are currently uncertain, particularly as amendments were issued by the IASB in June 2020 to IFRS 17. The implementation of this standard will involve significant enhancements to IT, actuarial and finance systems of the Group.

The Group has a Group-wide implementation programme to implement IFRS 17 and IFRS 9. The programme is responsible for setting Group-wide accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing appropriate data and implementing actuarial and finance system changes.

A Group-wide Steering Committee, chaired by the Group Chief Financial Officer and Chief Operating Officer with participation from the Group Risk function and the Group's and business units' senior finance managers, provides oversight and strategic direction to the implementation programme. A number of sub-committees are also in place to provide governance over the technical interpretation and accounting policies selected, design and delivery of the programme. During 2020, the Group has made significant progress with the development of the accounting policies and application methodologies and the build of the actuarial and finance systems. The Group is also assessing the IASB amendments issued in June 2020 and incorporating the changes into the delivery of the programme.

Other new accounting pronouncements

In addition to the above, the following new accounting pronouncements have also been issued and are not yet effective but the Group is not expecting them to have a significant impact on the Group's financial statements:

- Amendments to IFRS 9, IAS 39 and IFRS 7 and IFRS 16 'Interest rate benchmark reform – phase 2' issued in August 2020 and effective from 1 January 2021;
- Amendments to IAS 16, 'Property, Plant and Equipment: Proceeds before intended use' issued in May 2020 and effective from 1 January 2022;
- Reference to the Conceptual Framework – Amendments to IFRS 3, 'Business combination' issued in May 2020 and effective from 1 January 2022;
- Amendments to IAS 37 'Onerous contracts – Cost of fulfilling a contract' issued in May 2020 and effective from 1 January 2022;
- Annual Improvements to IFRS Standards 2018–2020 issued in May 2020 and effective from 1 January 2022;
- Amendments to IAS 1 'Classification of liabilities as current or non-current' issued in January 2020 and effective from 1 January 2023;
- Amendments to IAS 1 'Disclosure of accounting policies' issued in February 2021 and effective from 1 January 2023; and
- Amendments to IFRS 8 'Definition of Accounting Estimates' issued in February 2021 and effective from 1 January 2023.

B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results

	Note	2020 $m	2019 $m AER note (i)	2019 $m CER note (i)	2020 vs 2019 % AER note (i)	2020 vs 2019 % CER note (i)
Continuing operations:						
Asia						
Insurance operations		3,384	2,993	2,978	13%	14%
Asset management		283	283	278	0%	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)	Note	2020	2019 AER note (i)	2019 CER note (i)	2020 vs 2019 % AER note (i)	2020 vs 2019 % CER 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)

Notes

(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.

B1 Analysis of performance by segment continued

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

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

	2020			2019		
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	**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 deferred acquisition costs			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.

B1 Analysis of performance by segment continued

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

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.

B1.4 Segmental income statement

Premiums and annuity considerations for conventional and other protection type insurance policies are recognised as revenue when due. Premiums and annuity considerations for linked policies and other investment type policies are recognised as revenue when received or, in the case of unitised or unit-linked policies, when units are issued. These amounts exclude premium taxes and similar duties where Prudential collects and settles taxes borne by the policyholder.

Policy fees charged on linked policies for mortality, morbidity, asset management and policy administration are recognised when related services are provided.

Claims paid include maturities, annuities, surrenders, deaths and other claim events. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid. Death and other claims are generally recorded when notified with additional contract liabilities held, where appropriate, for 'incurred but not reported' (IBNR) claims.

	2020 $m				
	Asia	**US**	**Total segment**	**Unallocated to a segment**	**Group total**
Gross premiums earned	23,341	19,026	42,367	154	42,521
Outward reinsurance premiums note (i)	(1,615)	(30,584)	(32,199)	(10)	(32,209)
Earned premiums, net of reinsurance	21,726	(11,558)	10,168	144	10,312
Other income note (ii)	609	55	664	6	670
Total external revenue notes (iii), (iv)	22,335	(11,503)	10,832	150	10,982
Intra-group revenue	–	37	37	(37)	–
Interest income note (v)	1,961	2,380	4,341	36	4,377
Other investment return note B1.5	11,755	28,849	40,604	10	40,614
Total revenue, net of reinsurance	36,051	19,763	55,814	159	55,973
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance note C3.1	(28,488)	(19,617)	(48,105)	(100)	(48,205)
Acquisition costs and other operating expenditure note B2	(3,989)	(821)	(4,810)	(671)	(5,481)
Interest on core structural borrowings	–	(21)	(21)	(316)	(337)
Loss attaching to corporate transactions note D1.1	–	(18)	(18)	(30)	(48)
Total charges, net of reinsurance and loss on disposal of businesses	(32,477)	(20,477)	(52,954)	(1,117)	(54,071)
Share of profit from joint ventures and associates, net of related tax	517	–	517	–	517
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)*	4,091	(714)	3,377	(958)	2,419
Tax charge attributable to policyholders' returns	(271)	–	(271)	–	(271)
Profit (loss) before tax attributable to shareholders' returns	3,820	(714)	3,106	(958)	2,148
Analysis of profit (loss) before tax attributable to shareholders' returns:					
Adjusted operating profit (loss)	3,667	2,796	6,463	(956)	5,507
Short-term fluctuations in investment returns on shareholder-backed business	(607)	(4,262)	(4,869)	28	(4,841)
Amortisation of acquisition accounting adjustments	(5)	(34)	(39)	–	(39)
Gain (loss) attaching to corporate transactions note D1.1	765	786	1,551	(30)	1,521
	3,820	(714)	3,106	(958)	2,148

B1 Analysis of performance by segment continued

B1.4 Segmental income statement continued

	2019 $m				
	Asia	US	Total segment	Unallocated to a segment	Group total
Gross premiums earned	23,757	21,209	44,966	98	45,064
Outward reinsurance premiums	(1,108)	(467)	(1,575)	(8)	(1,583)
Earned premiums, net of reinsurance	22,649	20,742	43,391	90	43,481
Other income note (ii)	548	61	609	91	700
Total external revenue notes (iii),(iv)	23,197	20,803	44,000	181	44,181
Intra-group revenue	–	34	34	(34)	–
Interest income note (v)	1,569	2,971	4,540	67	4,607
Other investment return note B1.5	13,406	31,623	45,029	(81)	44,948
Total revenue, net of reinsurance	38,172	55,431	93,603	133	93,736
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance note C3.1	(29,119)	(54,734)	(83,853)	(52)	(83,905)
Acquisition costs and other operating expenditure note B2	(5,157)	(1,402)	(6,559)	(724)	(7,283)
Interest on core structural borrowings	–	(20)	(20)	(496)	(516)
Gain (loss) attaching to corporate transactions note D1.1	265	–	265	(407)	(142)
Total charges, net of reinsurance and gain on disposal of business	(34,011)	(56,156)	(90,167)	(1,679)	(91,846)
Share of profit from joint ventures and associates, net of related tax	397	–	397	–	397
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)*	4,558	(725)	3,833	(1,546)	2,287
Tax charge attributable to policyholders' returns	(365)	–	(365)	–	(365)
Profit (loss) before tax attributable to shareholders' returns from continuing operations	4,193	(725)	3,468	(1,546)	1,922
Analysis of profit (loss) before tax attributable to shareholders' returns from continuing operations:					
Adjusted operating profit (loss)	3,276	3,070	6,346	(1,036)	5,310
Short-term fluctuations in investment returns on shareholder-backed business	657	(3,757)	(3,100)	(103)	(3,203)
Amortisation of acquisition accounting adjustments	(5)	(38)	(43)	–	(43)
Gain (loss) attaching to corporate transactions note D1.1	265	–	265	(407)	(142)
	4,193	(725)	3,468	(1,546)	1,922

Notes

(i) In 2020, outward reinsurance premiums include $(30,156) million in respect of the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd.

(ii) Included within other income is revenue from the Group's continuing asset management business of $505 million (2019: $453 million). The remaining other income consists primarily of policy fee income from external customers.

(iii) In Asia, external revenue from no one individual market exceeds 10 per cent of the Group total, excluding Athene's reinsurance premium of $30,156 million, except for Hong Kong and Singapore in both 2020 and 2019. Total external revenue of Hong Kong is $9,232 million (2019: $9,821 million) and Singapore is $5,505 million (2019: $4,401 million).

(iv) Due to the nature of the business of the Group, there is no reliance on any major customers.

(v) Interest income includes $2,197 million (2019: $2,817 million) in respect of financial assets not at fair value through profit and loss, of which $1 million (2019: $4 million) is accrued in respect of impaired securities.

B1.5 Other investment return

Investment return included in the income statement principally comprises interest income, dividends, investment appreciation and depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit or loss, and realised gains and losses (including impairment losses) on items held at amortised cost and Jackson's debt securities designated as available-for-sale. Movements in unrealised appreciation or depreciation of debt securities designated as available-for-sale are recorded in other comprehensive income. Interest income is recognised as it accrues, taking into account the effective yield on investments. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accrual basis.

	2020 $m	2019 $m
Realised and unrealised gains (losses) on securities at fair value through profit or loss	40,070	49,809
Realised and unrealised (losses) gains on derivatives at fair value through profit or loss	(3,691)	(5,825)
Realised gains on available-for-sale securities, including impairment previously recognised in other comprehensive income*	3,371	185
Realised gains (losses) on loans	43	(3)
Dividends	1,249	1,000
Other investment (loss) income	(428)	(218)
Other investment return	40,614	44,948

* Included in realised gains on available-for-sale securities is $2,817 million arising upon derecognition of debt securities held by Jackson related to the reinsurance of fixed and fixed index annuities to Athene. These gains are excluded from adjusted operating profit and are recognised in the results of the corporate transaction as discussed in note D1.1.

Realised gains and losses on the Group's investments for 2020 recognised in the income statement amounted to a net gain of $2.8 billion (2019: a net loss of $2.0 billion).

B1.6 Additional analysis of performance by segment components

(a) Asia

	2020 $m				2019 $m
	Insurance	Asset management	Eliminations	Total	Total
Earned premiums, net of reinsurance	21,726	–	–	21,726	22,649
Other income	192	417	–	609	548
Total external revenue	21,918	417	–	22,335	23,197
Intra-group revenue	1	164	(165)	–	–
Interest income	1,956	5	–	1,961	1,569
Other investment return	11,729	26	–	11,755	13,406
Total revenue, net of reinsurance	35,604	612	(165)	36,051	38,172
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(28,488)	–	–	(28,488)	(29,119)
Acquisition costs and other expenditure note B2	(3,708)	(446)	165	(3,989)	(5,157)
Gain (loss) attaching to corporate transactions note D1.1	–	–	–	–	265
Total charges, net of reinsurance and gain (loss) attaching to corporate transactions	(32,196)	(446)	165	(32,477)	(34,011)
Share of profit from joint ventures and associates, net of related tax	400	117	–	517	397
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	3,808	283	–	4,091	4,558
Tax charge attributable to policyholders' returns	(271)	–	–	(271)	(365)
Profit before tax attributable to shareholders' returns	3,537	283	–	3,820	4,193
Analysis of profit before tax:					
Adjusted operating profit (loss)	3,384	283	–	3,667	3,276
Short-term fluctuations in investment returns on shareholder-backed business	(607)	–	–	(607)	657
Amortisation of acquisition accounting adjustments	(5)	–	–	(5)	(5)
Gain (loss) attaching to corporate transactions note D1.1	765	–	–	765	265
	3,537	283	–	3,820	4,193

B1 Analysis of performance by segment continued

B1.6 Additional analysis of performance by segment components continued

(b) US

	2020 $m				2019 $m
	Insurance	Asset management	Eliminations	Total	Total
Earned premiums, net of reinsurance	(11,558)	–	–	(11,558)	20,742
Other income	4	51	–	55	61
Total external revenue	(11,554)	51	–	(11,503)	20,803
Intra-group revenue	–	115	(78)	37	34
Interest income	2,380	–	–	2,380	2,971
Other investment return	28,848	1	–	28,849	31,623
Total revenue, net of reinsurance	19,674	167	(78)	19,763	55,431
Benefits and claims net of reinsurance	(19,617)	–	–	(19,617)	(54,734)
Acquisition costs and other operating expenditure	(741)	(158)	78	(821)	(1,402)
Interest on core structural borrowings	(21)	–	–	(21)	(20)
Loss attaching to corporate transactions note D1.1	(18)	–	–	(18)	–
Total charges, net of reinsurance and loss on disposal of businesses	(20,397)	(158)	78	(20,477)	(56,156)
(Loss) profit before tax	(723)	9	–	(714)	(725)
Analysis of profit (loss) before tax:					
Adjusted operating profit (loss)	2,787	9	–	2,796	3,070
Short-term fluctuations in investment returns on shareholder-backed business	(4,262)	–	–	(4,262)	(3,757)
Amortisation of acquisition accounting adjustments	(34)	–	–	(34)	(38)
Gain (loss) attaching to corporate transactions note D1.1	786	–	–	786	–
	(723)	9	–	(714)	(725)

B2 Acquisition costs and other expenditure

	2020 $m	2019 $m
Acquisition costs incurred for insurance policies note (v)	(3,070)	(4,177)
Acquisition costs deferred note C4.2	1,357	1,422
Amortisation of acquisition costs notes (i),(v)	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) notes (iii),(iv),(v)	(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.

(iv) During 2019, the Group paid $182 million of upfront fees to modify the terms and conditions of two subordinated debt instruments, which were expensed to the income statement as, in accordance with IAS 39, the transaction was treated as extinguishment of old debt and the issuance of new at fair value. Other fee expenses relating to financial liabilities held at amortised cost in 2020 and 2019 are part of the determination of the effective interest rate. All such amounts are included in 'Administration costs and other expenditure'.

(v) Total depreciation and amortisation expense is included in 'Acquisition costs incurred for insurance policies', 'Administration costs and other expenditure' and 'Amortisation of acquisition costs' and relates primarily to amortisation of DAC of insurance contracts and asset management contracts. The segmental analysis of interest expense (included in 'Administration costs and other expenditure'), other than interest expense in core structural borrowings (included separately in finance costs), and depreciation and amortisation (included within 'Total acquisition costs and other expenditure') is shown below. Interest expense on financial liabilities not at fair value through profit and loss for 2020 was $564 million (2019: $802 million).

	Other interest expense		Depreciation and amortisation	
	2020 $m	2019 $m	2020 $m	2019 $m
Asia operations:				
Insurance	(12)	(13)	(669)	(641)
Asset management	(1)	–	(16)	(14)
US operations:				
Insurance	(220)	(264)	346	901
Asset management	(1)	(2)	(4)	(4)
Total segment	(234)	(279)	(343)	242
Unallocated to a segment (other operations)	(18)	(27)	(40)	(30)
Total continuing operations	(252)	(306)	(383)	212

B2.1 Staff and employment costs

The average number of staff employed by the Group, for both continuing and discontinued operations, during the years shown was:

	2020	2019
Asia and Africa operations*	12,949	14,206
US operations	3,650	4,014
Head office function†	657	784
Total continuing operations	17,256	19,004
Discontinued UK and Europe operations‡	–	5,672
Total Group	17,256	24,676

* The Asia and Africa operations staff numbers above exclude 502 commission based sales staff (2019: 346) who have an employment contract with the Company.
† The 'Head office function' staff numbers include staff based in London and Hong Kong.
‡ Average staff numbers of the discontinued UK and Europe operations were for the period up to the demerger in October 2019.

B2 Acquisition costs and other expenditure continued

B2.1 Staff and employment costs continued

The costs of employment, for both continuing and discontinued operations, were:

	2020 $m	2019 $m		
	Group total	Continuing	Discontinued	Group total
Wages and salaries	1,536	1,435	573	2,008
Social security costs	67	53	68	121
Defined benefit schemes*	–	(91)	(5)	(96)
Defined contribution schemes	76	69	41	110
Total Group†	1,679	1,466	677	2,143

* The credit incorporated the effect of actuarial gains and losses. Post-demerger of the UK and Europe operations in October 2019, the Group's defined benefit schemes costs are negligible.
† Total costs of employment in the table above include staff costs of the discontinued UK and Europe operations for the period up to the demerger in October 2019.

B2.2 Share-based payment

The Group offers discretionary share awards to certain key employees and all-employee share plans in the UK and a number of Asian locations. The compensation expense charged to the income statement is primarily based upon the fair value of the awards granted, the vesting period and the vesting conditions. The Company has established trusts to facilitate the delivery of Prudential plc shares under some of these plans. The cost to the Company of acquiring these newly issued shares held in trusts is shown as a deduction from shareholders' equity.

(a) Description of the plans

The Group operates a number of share award plans that provides Prudential plc shares, or ADRs, to participants upon vesting. The plans in operation include the Prudential Long Term Incentive Plan, the Prudential Annual Incentive Plan, savings-related share option schemes, share purchase plans and deferred bonus plans. Where Executive Directors participate in these plans, details are provided in the Directors' remuneration report. In addition, the following information is provided.

Share scheme	*Description*
Prudential Corporation Asia Long-Term Incentive Plan (PCA LTIP)	The PCA LTIP provides eligible employees with conditional awards. Awards are discretionary and vest after three years subject to the employee being in employment. Vesting of awards may also be subject to performance conditions. All awards are generally made in Prudential shares, or ADRs. In countries where share awards are not feasible due to securities and/or tax considerations, awards will be replaced by the cash value of the shares that would otherwise have vested.
Prudential Agency Long-Term Incentive Plan (LTIP)	Certain agents in Asia are eligible to be granted awards in Prudential shares under the Prudential Agency LTIP. These awards are structured in a similar way to the PCA LTIP described above.
Restricted Share Plan 2015 (RSP)	The Company operates the RSP for certain employees. Awards under this plan are discretionary, and the vesting of awards may be subject to performance conditions. All awards are made in Prudential shares or ADRs.
Deferred bonus plans	The Company operates a number of deferred bonus plans including the Group Deferred Bonus Plan (GDBP) and the Prudential Corporation Asia Deferred Bonus Plan (PCA DBP). There are no performance conditions attached to deferred share awards made under these arrangements.
Savings-related share option schemes*	Employees and eligible agents in a number of geographies are eligible for plans similar to the HMRC-approved Save As You Earn (SAYE) share option scheme in the UK. During the year ended 31 December 2020, eligible agents based in certain regions of Asia can participate in the International Savings-Related Share Option Scheme for Non-Employees.
Share purchase plans	Eligible employees outside the UK are invited to participate in arrangements similar to the Company's HMRC-approved UK SIP, which allows the purchase of Prudential plc shares. Staff based in Asia are eligible to participate in the Prudential Corporation Asia All Employee Share Purchase Plan.

* The total numbers of securities available for issue under the scheme is disclosed in note I(viii) in additional financial information.

(b) Outstanding options and awards

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

	Options outstanding under SAYE schemes				Awards outstanding under incentive plans	
	2020		2019		2020	2019
	Number of options millions	Weighted average exercise price £	Number of options millions	Weighted average exercise price £	Number of awards millions	
Balance at beginning of year:	3.8	12.38	4.9	12.10	33.0	32.8
Granted	0.4	9.64	0.6	11.13	20.2	13.4
Modification	–	–	0.3	11.95	–	4.3
Exercised	(0.9)	11.44	(1.7)	10.87	(10.3)	(9.8)
Forfeited	–	14.27	–	12.87	(1.5)	(2.5)
Cancelled	(0.1)	12.55	(0.1)	12.82	(0.1)	(0.7)
Lapsed/Expired	(0.9)	13.28	(0.1)	12.93	(0.7)	(1.0)
M&G plc awards derecognised on demerger*	–	–	(0.1)	13.37	–	(3.5)
Balance at end of year	2.3	11.86	3.8	12.38	40.6	33.0
Options immediately exercisable at end of year	0.5	12.64	0.9	11.33		

* Prior to the demerger in October 2019, employees of M&G plc were granted replacement awards over M&G plc shares, in exchange for existing Prudential Group awards outstanding under incentive plans. As designated replacement awards were granted, no cancellation was recognised in respect of the original awards. As the replacement awards are an obligation of M&G plc, these awards were derecognised by the Group on demerger. M&G plc employees with outstanding SAYE options on demerger were treated as 'good leavers', with both the vesting period and number of options exercisable curtailed on demerger.

The weighted average share price of Prudential plc for 2020 was £11.64 (2019: £15.05).

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

	Outstanding						Exercisable			
	Number outstanding (millions)		Weighted average remaining contractual life (years)*		Weighted average exercise prices £		Number exercisable (millions)		Weighted average exercise prices £	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Between £9 and £10	0.4	–	4.2	–	9.64	–	–	–	–	–
Between £11 and £12	1.2	2.4	2.2	2.0	11.11	11.19	0.3	0.9	11.11	11.33
Between £13 and £14	0.3	0.3	2.2	3.2	13.94	13.94	–	–	–	–
Between £14 and £15	0.4	1.1	1.3	2.0	14.55	14.55	0.2	–	14.55	–
Weighted average	2.3	3.8	2.4	2.1	11.86	12.38	0.5	0.9	12.64	11.33

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

(c) Fair value of options and awards

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

	2020			2019			
					SAYE options		
	Prudential LTIP (TSR)	SAYE options	Other awards	Prudential LTIP (TSR)	Granted in October 2019	Granted in November 2019	Other awards
Dividend yield (%)	–	3.45	–	–	3.66	2.10	–
Expected volatility (%)	41.08	27.55	–	22.14	25.58	23.92	–
Risk-free interest rate (%)	0.39	0.27	–	0.97	0.31	1.60	–
Expected option life (years)	–	3.92	–	–	3.96	3.47	–
Weighted average exercise price (£)	–	10.74	–	–	11.12	11.18	–
Weighted average share price at grant date (£)	10.49	9.64	–	16.07	13.94	13.77	–
Weighted average fair value at grant date (£)	4.93	1.95	10.54	6.32	2.90	3.35	15.39

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

B2 Acquisition costs and other expenditure continued

B2.2 Share-based payment continued

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

Risk-free interest rates are taken from swap spot rates with projection terms matching the corresponding vesting periods. For awards with a TSR condition, volatilities and correlations between Prudential and a basket of 12 competitor companies is required. For grants in 2020, the average volatility for the basket of competitors was 41.40 per cent (2019: 23.10 per cent). Correlations for the basket are calculated for each pairing from the log of daily TSR returns for the three years prior to the valuation date. Market implied volatilities are used for both Prudential and the basket of competitors. Changes to the subjective input assumptions could materially affect the fair value estimate.

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

Total expense recognised in 2020 in the consolidated financial statements relating to share-based compensation is $171 million (2019: $181 million), of which $166 million is accounted for as equity-settled.

The Group had $32 million of liabilities at 31 December 2020 (31 December 2019: nil) relating to share-based payment awards accounted for as cash settled.

B2.3 Key management remuneration

Key management constitutes the Directors of Prudential plc as they have authority and responsibility for planning, directing and controlling the activities of the Group and following reorganisations during 2019, key management also includes other non-director members of the Group Executive Committee from August 2019.

Total key management remuneration is analysed in the following table:

	2020 $m	2019 $m
Salaries and short-term benefits	20.0	25.2
Post-employment benefits	1.2	1.5
Share-based payments	14.6	13.1
	35.8	39.8

The share-based payments charge comprises $10.7 million (2019: $8.4 million), which is determined in accordance with IFRS 2 'Share-based Payment' (see note B2.2) and $3.9 million (2019: $4.8 million) of deferred share awards.

B2.4 Fees payable to the auditor

	2020 $m	2019 $m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2.3	2.2
Fees payable to the Company's auditor and its associates for other services:		
Audit of subsidiaries pursuant to legislation	9.2	9.5
Audit-related assurance services note (1)	3.5	5.7
Other assurance services	0.7	5.7
Services relating to corporate finance transactions	0.3	7.3
Total fees paid to the auditor	16.0	30.4
Analysed into:		
Fees payable to the auditor attributable to the continuing operations:		
Non-audit services associated with the demerger of the UK and Europe operations note (2)	–	11.7
Other audit and non-audit services	16.0	15.3
	16.0	27.0
Fees payable to the auditor attributable to the discontinued UK and Europe operations	–	3.4
	16.0	30.4

Notes

(1) Of the audit-related assurance service fees of $3.5 million in 2020 (2019: $5.7 million), $0.7 million (2019: $1.1 million) relates to services that are required by law.

(2) Of the $11.7 million one-off non-audit services fees in 2019 associated with the demerger of the UK and Europe operations, $4.4 million was for other assurance services required by regulation and $7.3 million was for services relating to corporate finance transactions.

In addition, in 2019 there were fees incurred by pension schemes of $0.1 million for audit services. These pension schemes were transferred to the discontinued UK and Europe operations (M&G plc) in 2019 as part of the demerger.

B3 Tax charge

Prudential is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. The positions taken in tax returns where applicable tax regulation is subject to interpretation are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, provisions are established based on management's estimate and judgement of the likely amount of the liability, or recovery, by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple outcomes.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, life insurance companies are taxed on both their shareholders' profits and on their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's consolidated income statement, they are presented separately in the consolidated income statement to provide the most relevant information about tax that the Group pays on its profits.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 'Income Taxes' does not require all temporary differences to be provided for, in particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

B3.1 Total tax charge by nature

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

	2020 $m			2019 $m
Tax charge	**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.

The total tax (charge) credit comprises:

	2020 $m	2019 $m
Current tax expense:		
Corporation tax	(445)	(589)
Adjustments in respect of prior years	131	28
Total current tax charge	(314)	(561)
Deferred tax arising from:		
Origination and reversal of temporary differences	33	235
Impact of changes in local statutory tax rates	(1)	7
Credit in respect of a previously unrecognised tax loss, tax credit or temporary difference from a prior period	48	(15)
Total deferred tax credit	80	227
Total tax charge	(234)	(334)

The $131 million of adjustments in respect of prior years primarily relates to US operations from the true up of the 2019 tax provision following finalisation and submission of the 2019 corporate income tax return during 2020 and the carry back of losses under the CARES Act.

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 Tax charge continued

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	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¢

B4 Earnings per share continued

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-.

C1 Group assets and liabilities by business type continued

	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)	Unallo-cated 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 note (vi)	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 note (vii)	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 note (viii)	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 note (ix)	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)	Unallo-cated to a segment	Elimina-tion of intra-group debtors and creditors	Group total
Debt securities note (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 loans note 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 assets note (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 investments note (iv)	963	383	1,363	106	–	2,815	2,791	56	–	5,662
Total financial investments note (vi)	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 note (vii)	963	356	1,015	156	–	2,490	1,960	2,515	–	6,965
Reinsurers' share of insurance contract liabilities note (v)	152	–	5,306	–	–	5,458	8,394	4	–	13,856
Other assets note (viii)	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 funds note (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 note (ix)	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

C1 Group assets and liabilities by business type continued

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.

(vi) Of the total financial investments of $427,400 million as at 31 December 2020 (31 December 2019: $404,096 million), $288,310 million (31 December 2019: $260,896 million) are due to be recovered within one year.

(vii) Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition and are analysed as follows:

	31 Dec 2020 $m	31 Dec 2019 $m
Cash	2,492	2,071
Cash equivalents	5,526	4,894
Total cash and cash equivalents*	8,018	6,965
Analysed as:		
Held by the Group's holding and non-regulated entities and available for general use	3,250	2,491
Other funds not available for general use by the Group, including funds held for the benefit of policyholders	4,768	4,474
Total cash and cash equivalents	8,018	6,965

* The Group's cash and cash equivalents are held in the following currencies as at 31 December 2020: USD 59 per cent, GBP 15 per cent, HKD 3 per cent, SGD 3 per cent, MYR 8 per cent and other currencies 12 per cent (31 December 2019: USD 59 per cent, GBP 13 per cent, HKD 8 per cent, SGD 3 per cent, MYR 5 per cent and other currencies 12 per cent).

(viii) Of total 'Other assets' at 31 December 2020, there are:
– Property, plant and equipment (PPE) of $893 million (31 December 2019: $1,065 million). Movements in the PPE including right-of-use assets are provided in note C11; and
– Accrued investment income and other debtors, which are analysed as follows:

	31 Dec 2020 $m	31 Dec 2019 $m
Interest receivable	1,008	1,064
Other accrued income	419	577
Total accrued investment income	1,427	1,641
Amounts receivable due from:		
Policyholders	757	574
Intermediaries	2	4
Reinsurers	920	216
Other sundry debtors	1,492	1,260
Total other debtors	3,171	2,054
Total accrued investment income and other debtors	4,598	3,695
Analysed as:		
Expected to be settled within one year	4,151	3,191
Expected to be settled beyond one year	447	504
	4,598	3,695

(ix) Within 'Other liabilities' are accruals, deferred income and other liabilities of $15,508 million (31 December 2019: $14,488 million), which are analysed as follows (detailed maturity analysis is provided in note C2):

	31 Dec 2020 $m	31 Dec 2019 $m
Accruals and deferred income	702	582
Creditors arising from direct insurance and reinsurance operations	2,296	2,831
Interest payable	74	68
Funds withheld under reinsurance agreements	4,628	3,760
Other creditors	7,808	7,247
Total accruals, deferred income and other creditors	15,508	14,488

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 $m note D1.1	Unrealised gains (losses) arising in the year $m	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

C1 Group assets and liabilities by business type continued

C1.1 Additional analysis of debt securities continued

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				
Shareholder-backed business	Total	Tier 1	Tier 2	Total	Group total	Group 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

(f) Impairment of US available-for-sale debt securities and other financial assets

In accordance with the Group's accounting policy set out in note A3.1, impairment reviews were performed for available-for-sale securities and loans and receivables.

During the year ended 31 December 2020, a charge for impairment net of recoveries of $62 million (2019: charge of $17 million) was recognised for available-for-sale securities and loans and receivables held by Jackson.

Jackson, with the support of internal credit analysts, regularly monitors and reports on the credit quality of its holdings of debt securities.

In addition, there is a periodic review of its investments on a case-by-case basis to determine whether any decline in fair value represents an impairment. Investments in structured securities are subject to a review of their future estimated cash flows, including expected and stress case scenarios, to identify potential shortfalls in contractual payments (both interest and principal). Impairment charges are recorded on structured securities when the Company forecasts a contractual payment shortfall. Situations where such a shortfall would not lead to a recognition of a loss are rare. The impairment loss reflects the difference between the fair value and book value.

In 2020, the Group realised gross losses on sales of available-for-sale securities of $193 million (2019: $70 million) with 69 per cent (2019: 51 per cent) of these losses related to the disposal of fixed maturity securities of the top 10 individual issuers, which were disposed of to limit future credit loss exposure. Of the $193 million (2019: $70 million), $148 million (2019: $28 million) relates to losses on sales of impaired and deteriorating securities.

The effect of changes in the key assumptions that underpin the assessment of whether impairment has taken place depends on the factors described in note A3.1. A key indicator of whether such impairment may arise in future, and the potential amounts at risk, is the profile of gross unrealised losses for fixed maturity securities accounted for on an available-for-sale basis by reference to the time periods by which the securities have been held continuously in an unrealised loss position and by reference to the maturity date of the securities concerned.

For 2020, the amount of gross unrealised losses for fixed maturity securities classified as available-for-sale under IFRS in an unrealised loss position was $144 million (2019: $27 million). Note B1.2 provides further details on the impairment charges and unrealised losses of Jackson's available-for-sale securities.

C1 Group assets and liabilities by business type continued

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

The Group holds financial investments in accordance with IAS 39, whereby subject to specific criteria, financial instruments are required to be accounted for under one of the following categories:

- *Financial assets and liabilities at fair value through profit or loss – this comprises assets and liabilities designated by management as fair value through profit or loss on inception and derivatives. This includes instruments that are managed and the performance evaluated on a fair value basis and includes liabilities related to net assets attributable to unit holders of consolidated investment funds and, in Asia, policyholder liabilities for investment contracts without discretionary participation features. All investments within this category are measured at fair value with all changes thereon being recognised in investment return in the income statement;*
- *Financial investments on an available-for-sale basis – this comprises assets that are designated by management as available-for-sale and/or do not fall into any of the other categories. These assets are initially recognised at fair value plus attributable transaction costs. Available-for-sale assets are subsequently measured at fair value. Interest income is recognised on an effective interest basis in the income statement. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. Except for foreign exchange gains and losses on the amortised cost of the debt securities, which are included in the income statement, unrealised gains and losses are recognised in other comprehensive income. Upon disposal or impairment, accumulated unrealised gains and losses are transferred from other comprehensive income to the income statement as realised gains or losses; and*
- *Loans and receivables – except for those designated as fair value through profit or loss or available-for-sale, these instruments comprise non-quoted investments that have fixed or determinable payments. These instruments include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method.*

The Group uses the trade date method to account for regular purchases and sales of financial assets.

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 unobservable market inputs note (i)	Valuation based on significant observable 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

C2 Fair value measurement continued

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

	31 Dec 2019 $m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant unobservable market inputs note (i)	Valuation based on significant observable 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 asset of $2,008 million (31 December 2019: $1,581 million) referred to above:
- A net assets 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.

(ii) Transfers into and out of levels

The Group's policy is to recognise transfers into and out of levels as of the end of each reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer. Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities of the securities.

During 2020, the transfers between levels within the Group's portfolio, were primarily transfers from level 1 to level 2 of $3,927 million (2019: $678 million) and transfers from level 2 to level 1 of $1,631 million (2019: $1,121 million). These transfers which relate to equity securities and debt securities arose to reflect the change in the observed valuation inputs and in certain cases, the change in the level of trading activities of the securities. There were transfers into level 3 of $53 million in the year (2019: nil).

Reconciliation of movements in level 3 assets and liabilities measured at fair value

The following table reconciles the value of level 3 fair valued assets and liabilities at 1 January 2020 to that presented at 31 December 2020.

Total investment return recorded in the income statement represents interest and dividend income, realised gains and losses, unrealised gains and losses on the assets classified at fair value through profit and loss and foreign exchange movements on an individual entity's overseas investments.

Total gains and losses recorded in other comprehensive income includes unrealised gains and losses on debt securities held as available-for-sale principally within Jackson and foreign exchange movements arising from the retranslation of the Group's overseas subsidiaries and branches.

	2020 $m						
Reconciliation of movements in level 3 assets and liabilities measured at fair value	**Loans**	**Equity securities and holdings in collective investment schemes**	**Debt securities**	**Other investments (including derivative assets)**	**Net asset value attributable to unit holders of consolidated investment funds**	**Other financial liabilities**	**Total**
Balance at 1 Jan	3,587	276	6	1,301	(2)	(3,760)	1,408
Total gains (losses) in income statement[note]	(2)	4	(5)	(37)	15	(1)	(26)
Total gains (losses) recorded in other comprehensive income	–	9	–	–	(1)	(1)	7
Purchases and other additions	–	428	10	700	(520)	–	618
Sales	–	(169)	(2)	(98)	14	–	(255)
Issues	277	–	–	–	–	(475)	(198)
Settlements	(401)	–	–	–	–	648	247
Transfers into level 3	–	–	53	–	–	–	53
Balance at 31 Dec	3,461	548	62	1,866	(494)	(3,589)	1,854

	2019 $m								
Reconciliation of movements in level 3 assets and liabilities measured at fair value	**Loans**	**Equity securities and holdings in collective investment schemes**	**Debt securities**	**Other investments (including derivative assets)**	**Derivative liabilities**	**Borrowings attributable to with-profits businesses**	**Net asset value attributable to unit holders of consolidated investment funds**	**Other financial liabilities**	**Total**
Balance at 1 Jan	6,054	656	1,505	6,714	(539)	(2,045)	(1,258)	(4,335)	6,752
Removal of discontinued UK and Europe operations	(2,509)	(440)	(1,498)	(5,513)	–	2,045	1,258	451	(6,206)
Total gains (losses) in income statement[note]	1	(11)	6	30	539	–	–	(28)	537
Total gains (losses) recorded in other comprehensive income	–	3	–	(6)	–	–	–	(11)	(14)
Purchases	–	69	–	269	–	–	(2)	–	336
Sales	–	(1)	(7)	(193)	–	–	–	–	(201)
Issues	275	–	–	–	–	–	–	(143)	132
Settlements	(234)	–	–	–	–	–	–	306	72
Balance at 31 Dec	3,587	276	6	1,301	–	–	(2)	(3,760)	1,408

Note

Of the total net gains and (losses) in the income statement of $(26) million in 2020 (2019: $537 million), $(46) million (2019: $19 million) relates to net unrealised gains and losses of financial instruments still held at the end of the year, which can be analysed as follows:

	2020 $m	**2019** $m
Equity securities and holdings in collective investment schemes	(34)	(11)
Debt securities	1	–
Other investments	(26)	34
Net asset value attributable to unit holders of consolidated investment funds	13	–
Other financial liabilities	–	(4)
Total	(46)	19

C2 Fair value measurement continued

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

(iii) Assets and liabilities at amortised cost and their fair value

The table below shows the financial assets and liabilities carried at amortised cost on the statement of financial position and their fair value. Cash deposits, accrued income, other debtors, accruals, deferred income and other liabilities are excluded from the analysis below, as these are carried at amortised cost, which approximates fair value.

	31 Dec 2020 $m				31 Dec 2019 $m			
	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	Fair value	Carrying value	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	Fair value	Carrying value
Assets								
Loans	2,027	9,303	11,330	10,711	1,865	11,646	13,511	12,996
Liabilities					–	–	–	–
Investment contract liabilities without discretionary participation features	–	(3,218)	(3,218)	(3,188)	–	(3,957)	(3,957)	(3,891)
Core structural borrowings of shareholder-financed businesses	(7,518)	–	(7,518)	(6,633)	(6,227)	–	(6,227)	(5,594)
Operational borrowings (excluding lease liabilities)	(1,948)	–	(1,948)	(1,948)	(2,015)	–	(2,015)	(2,015)
Obligations under funding, securities lending and sale and repurchase agreements	(1,344)	(8,702)	(10,046)	(9,768)	(48)	(9,087)	(9,135)	(8,901)
Total	(8,783)	(2,617)	(11,400)	(10,826)	(6,425)	(1,398)	(7,823)	(7,405)

The fair value of the assets and liabilities in the table above, with the exception of the subordinated and senior debt issued by the parent company, has been estimated from the discounted cash flows expected to be received or paid. Where appropriate, the observable market interest rate has been used and the assets and liabilities are classified within level 2. Otherwise, they are included as level 3 assets or liabilities. The fair value included for the subordinated and senior debt issued by the parent company is determined using quoted prices from independent third parties. These are presented as level 2 liabilities.

C2.3 Additional information on financial instruments

(i) Financial risk

Liquidity analysis

Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities and investment contracts that are separately presented. The financial liabilities are included in the column relating to the contractual maturities of the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

	31 Dec 2020 $m								
		Contractual maturity profile for financial liabilities							
Financial liabilities	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undiscounted cash flows
Core structural borrowings of shareholder-financed businesses[C5.1]	6,633	139	1,261	2,000	631	–	–	3,725	7,756
Lease liabilities under IFRS 16	496	142	317	84	20	–	1	–	564
Other operational borrowings	1,948	909	108	473	691	–	–	–	2,181
Obligations under funding, securities lending and sale and repurchase agreements	9,768	3,983	4,461	1,764	147	–	–	–	10,355
Accruals, deferred income and other liabilities	15,508	9,877	290	36	218	–	–	5,087	15,508
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	5,975	5,975	–	–	–	–	–	–	5,975
Total	40,328	21,025	6,437	4,357	1,707	–	1	8,812	42,339

Financial liabilities	31 Dec 2019 $m								
		Contractual maturity profile for financial liabilities							
	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undis-counted cash flows
Core structural borrowings of shareholder-financed businesses[C5.1]	5,594	105	1,146	888	648	–	–	3,725	6,512
Lease liabilities under IFRS 16	630	145	388	113	37	18	1	–	702
Operational borrowings	2,015	941	188	232	1,132	2	–	–	2,495
Obligations under funding, securities lending and sale and repurchase agreements	8,901	2,067	5,476	1,902	278	–	–	–	9,723
Accruals, deferred income and other liabilities	14,488	9,172	636	1	–	248	–	4,431	14,488
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	5,998	5,998	–	–	–	–	–	–	5,998
Total	37,626	18,428	7,834	3,136	2,095	268	1	8,156	39,918

Maturity analysis of derivatives

The following table shows the carrying value of the gross and net derivative positions.

	Carrying value of net derivatives $m		
	Derivative assets	Derivative liabilities	Net derivative position
31 Dec 2020	**2,599**	**(482)**	**2,117**
31 Dec 2019	1,745	(392)	1,353

All net derivatives of $2,117 million (31 December 2019: $1,353 million) have been included at fair value due within one year or less, representing the basis on which they are managed (ie to manage principally asset or liability value exposures). The Group has no cash flow hedges and, in general, contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments.

Maturity analysis of investment contracts

The table below shows the maturity profile for investment contracts based on undiscounted cash flow projections of expected benefit payments.

	Maturity profile for investment contracts $m							
	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total undis-counted cash flows
31 Dec 2020	**3,658**	**519**	**1,713**	**215**	**575**	**710**	**17**	**3,749**
31 Dec 2019	4,366	600	2,015	534	350	961	12	4,472

The undiscounted cash flows in the maturity profile shown above excludes contracts which have no stated maturity but which are repayable on demand. 2019 cash flows have been adjusted to show them on a consistent basis.

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but the additional charges and term of the contracts mean these are unlikely to be exercised in practice and the more useful information is to present information on expected payment.

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit, this asset/liability matching is performed on a portfolio-by-portfolio basis.

In terms of liquidity risk, a large proportion of the policyholder liabilities contain discretionary surrender values or surrender charges, meaning that many of the Group's liabilities are expected to be held for the long term. Much of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets.

For the reasons provided above, an analysis of the Group's assets by contractual maturity is not considered meaningful to evaluate the nature and extent of the Group's liquidity risk.

C2 Fair value measurement continued

C2.3 Additional information on financial instruments continued

Credit risk

The Group's maximum exposure to credit risk of financial instruments before any allowance for collateral or allocation of losses to policyholders is represented by the carrying value of financial instruments on the balance sheet that have exposures to credit risk comprising cash and cash equivalents, deposits, debt securities, loans and derivative assets, accrued investment income and other debtors, the carrying value of which are disclosed at the start of this note and note (ii) below for derivative assets. The collateral in place in relation to derivatives is described in note (iii) below. Note C1.2 describes the security for the loans held by the Group. The Group's exposure to credit risk is further discussed in note C6 below.

Of the total loans and receivables held, $8 million (31 December 2019: $7 million) are past their due date but are not impaired. Of the total past due but not impaired, $1 million are less than one year past their due date (31 December 2019: $1 million). The Group expects full recovery of these loans and receivables.

There are no financial assets that would have been past due or impaired had the terms not been renegotiated in both years.

In addition, the Group did not take possession of any other collateral held as security in both years.

Further details of collateral in place in relation to derivatives, securities lending, repurchase agreements and other transactions are provided in note (iii) below.

Foreign exchange risk

As at 31 December 2020, the Group held 9 per cent (31 December 2019: 8 per cent) of its financial assets and 30 per cent (31 December 2019: 25 per cent) of its financial liabilities in currencies, mainly USD, other than the functional currency of the relevant business units or the currency to which the functional currency is pegged (eg financial assets and liabilities of USD denominated business in Hong Kong). The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts and currency swaps as described in note (ii) below.

The amount of exchange loss recognised in the income statement in 2020, except for those arising on financial instruments measured at fair value through profit or loss, is $33 million (2019: $72 million).

(ii) Derivatives and hedging

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39. The Group has no fair value and cash flows hedges under IAS 39 at 31 December 2020 and 2019. All derivatives that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded in the income statement.

Embedded derivatives are embedded within other non-derivative host financial instruments and insurance contracts to create hybrid instruments. Embedded derivatives meeting the definition of an insurance contract are accounted for under IFRS 4. Where economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with the changes in fair value recognised in the income statement, the embedded derivative is bifurcated and carried at fair value as a derivative measured in accordance with IAS 39.

In addition, the Group applies the option under IFRS 4 to not separate and fair value surrender options embedded in host contracts and with-profits investment contracts whose strike price is either a fixed amount or a fixed amount plus interest.

Derivatives held and their purpose

The Group enters into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward contracts, swaps and swaptions.

All over-the-counter derivative transactions, with the exception of transactions in some Asia operations, are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

The majority of the Group's derivatives are held by Jackson. Derivatives are used for efficient portfolio management to obtain cost effective and management of exposure to various markets in accordance with the Group's investment strategies and to manage exposure to interest rate, currency, credit and other business risks. The Group also uses interest rate derivatives to reduce exposure to interest rate volatility. In particular:

- US operations hold large amounts of interest-rate sensitive investments that contain credit risks on which a certain level of defaults is expected. These businesses have purchased some swaptions to manage the default risk on certain underlying assets and hence reduce the amount of regulatory capital held to support the assets; and
- Some products, especially in the US, have guarantee features linked to equity indices. A mismatch between guaranteed product liabilities and the performance of the underlying assets exposes the Group to equity index risk. In order to mitigate this risk, the relevant business units purchase swaptions, equity options and futures to better match asset performance with liabilities under equity-indexed products.

Additional information on Jackson derivative programme
Jackson enters into financial derivative transactions, including those noted below, to reduce and manage business risks. These transactions manage the risk of a change in the value, yield, price, cash flows or quantity of, or a degree of exposure, with respect to assets, liabilities or future cash flows, which Jackson has acquired or incurred.

Jackson uses free-standing derivative instruments for hedging purposes. Additionally, certain liabilities, primarily trust instruments supported by funding agreements, fixed index annuities, certain variable annuity guaranteed benefit features and reinsured Guaranteed Minimum Income Benefit variable annuity features are similar to derivatives. Jackson does not account for such items as either fair value or cash flow hedges as might be permitted if the specific hedge documentation requirements of IAS 39 were followed. Financial derivatives are carried at fair value, including derivatives embedded in certain host liabilities where these are required to be valued separately.

The principal types of derivatives used by Jackson and their purpose are as follows:

Derivative	*Purpose*
Interest rate swaps	These generally involve the exchange of fixed and floating payments over the period for which Jackson holds the instrument without an exchange of the underlying principal amount. These agreements are used to hedge Jackson's exposure to movements in interest rates.
Swaption contracts	These contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-duration interest rate swap at future exercise dates. Jackson both purchases and writes swaptions in order to hedge against significant movements in interest rates.
Treasury futures contracts	These derivatives are used to hedge Jackson's exposure to movements in interest rates.
Equity index futures contracts and equity index options	These derivatives (including various call and put options and options contingent on interest rates and currency exchange rates) are used to hedge Jackson's obligations associated with its issuance of certain VA guarantees. Some of these annuities and guarantees contain embedded options that are fair valued for financial reporting purposes.
Cross-currency swaps	Cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated funding agreements supporting trust instrument obligations.
Credit default swaps	These swaps represent agreements under which the buyer has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow Jackson to sell the protected bonds at par value to the counterparty if a default event occurs in exchange for periodic payments made by Jackson for the life of the agreement.

Hedging
Up to 31 December 2019, the Group had designated perpetual subordinated capital securities totalling $3.7 billion as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson. This net investment hedge was 100 per cent effective in 2019. The Group had no net investment, cash flow or fair value hedges in place during 2020.

(iii) Derecognition, collateral and offsetting
Derecognition of financial assets and liabilities
The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

Reverse repurchase agreements
The Group is party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments in the statement of financial position but the right to receive the cash paid is recognised as deposits.

The Group has entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. At 31 December 2020, the fair value of the collateral held in respect of these transactions, which is represented by the purchased securities, was $603 million (31 December 2019: $1,011 million).

Securities lending and repurchase agreements
The Group is also party to various securities lending agreements (including repurchase agreements) under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. To the extent cash collateral is received it is recognised on the statement of financial position with the obligation to repay the cash paid recognised as a liability. Other collateral is not recognised.

At 31 December 2020, the Group had $2,007 million (31 December 2019: $90 million) of lent securities and assets subject to repurchase agreements. The cash and securities collateral held or pledged under such agreements were $2,047 million (31 December 2019: $95 million).

C2 Fair value measurement continued

C2.3 Additional information on financial instruments continued

Collateral and pledges under derivative transactions

At 31 December 2020, the Group had pledged $2,422 million (31 December 2019: $1,301 million) for liabilities and held collateral of $2,306 million (31 December 2019: $1,883 million) in respect of over-the-counter derivative transactions. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

The Group has entered into collateral arrangements in relation to over-the-counter derivative transactions, which permit sale or re-pledging of underlying collateral. The Group has not sold any collateral held or re-pledged any collateral. All over-the-counter derivative transactions, with the exception of transactions in some Asia operations, are conducted under standardised International Swaps and Derivatives Association (ISDA) master agreements. The collateral management for these transactions is conducted under the usual and customary terms and conditions set out in the Credit Support Annex to the ISDA master agreement.

Other collateral

At 31 December 2020, the Group had pledged collateral of $2,614 million (31 December 2019: $3,299 million) in respect of other transactions. This principally arises from Jackson's membership of the Federal Home Loan Bank of Indianapolis (FHLBI) primarily for the purpose of participating in the bank's collateralised loan advance programme with short-term and long-term funding facilities. The membership requires Jackson to purchase and hold a minimum amount of FHLBI capital stock, plus additional stock based on outstanding advances in the form of either short-term or long-term notes or funding agreements issued to FHLBI.

Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis within the consolidated balance sheets.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

	31 Dec 2020 $m				
		Related amounts not offset in the balance sheet			
	Gross amount included in the balance sheet note (i)	Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	Net amount note (iv)
Financial assets:					
Derivative assets	2,523	(122)	(1,249)	(890)	262
Reverse repurchase agreements	588	–	–	(588)	–
Total financial assets	3,111	(122)	(1,249)	(1,478)	262
Financial liabilities:					
Derivative liabilities	(203)	122	69	–	(12)
Securities lending and repurchase agreements	(1,384)	–	244	1,140	–
Total financial liabilities	(1,587)	122	313	1,140	(12)

	31 Dec 2019 $m				
		Related amounts not offset in the balance sheet			
	Gross amount included in the balance sheet note (i)	Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	Net amount note (iv)
Financial assets:					
Derivative assets	1,708	(115)	(901)	(618)	74
Reverse repurchase agreements	953	–	–	(953)	–
Total financial assets	2,661	(115)	(901)	(1,571)	74
Financial liabilities:					
Derivative liabilities	(216)	115	86	–	(15)
Securities lending and repurchase agreements	(48)	–	48	–	–
Total financial liabilities	(264)	115	134	–	(15)

Notes

(i) The Group has not offset any of the amounts included in the balance sheet.
(ii) Represents the amount that could be offset under master netting or similar arrangements where the Group does not satisfy the full criteria to offset in the balance sheet.
(iii) Excludes initial margin amounts for exchange-traded derivatives.
(iv) In the tables above, the amounts of assets or liabilities included in the balance sheet would be offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables.

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.

C3 Policyholder liabilities and unallocated surplus continued

C3.1 Group overview continued

(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.

(iv) Reinsurers' share of insurance contract liabilities

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. The treatment of any gains or losses arising on the purchase of reinsurance contracts is dependent on the underlying accounting basis of the entity concerned.

	31 Dec 2020 $m				31 Dec 2019 $m
	Asia note (b)	**US** note (c)	**Unallocated to a segment**	**Total**	**Total**
Insurance contract liabilities note (a)	11,186	33,881	1	45,068	12,762
Claims outstanding	173	1,351	3	1,527	1,094
Total	11,359	35,232	4	46,595	13,856

Notes

(a) The increase in the reinsurers' share of insurance contract liabilities in 2020 compared to 2019 primarily relates to the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd.

(b) The reinsurers' share of insurance contract liabilities for Asia primarily relates to protection business written in Hong Kong.

(c) The reinsurers' share of insurance contract liabilities for Jackson as shown in the table above primarily relates to the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd and certain fully collateralised former REALIC business retained by Swiss Re through 100 per cent reinsurance agreements. Apart from these reinsurance transactions, the principal reinsurance ceded by Jackson outside the Group is on term-life insurance, direct and assumed accident and health business and GMIB variable annuity guarantees.

The Group cedes certain business to other insurance companies. Although the ceding of insurance does not relieve the Group from its liability to its policyholders, the Group participates in such agreements largely for the purpose of managing its loss exposure. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk from similar geographic regions, activities or economic characteristics of the reinsurers to minimise its exposure from reinsurer insolvencies. Of the reinsurers' share of insurance contract liabilities balance of $46,595 million at 31 December 2020 (31 December 2019: $13,856 million), 99 per cent (31 December 2019: 97 per cent) was from reinsurers with rating A- and above by Standard & Poor's or other external rating agencies.

During 2020, net commissions received on ceded business for Asia totalled $1,005 million (2019: $355 million) and claims incurred ceded to external reinsurers totalled $432 million (2019: $552 million). The 2020 net commissions received includes $770 million in respect of the reinsurance transaction entered into by the Hong Kong business as discussed in note D1.1. There was $1 million (2019: nil) of deferred gains in the year.

Net commissions received on ceded business for Jackson totalled $1,223 million (2019: $20 million) and claims incurred ceded to external reinsurers totalled $1,663 million (2019: $630 million). The 2020 net commissions received includes $1,203 million in respect of the Athene reinsurance transaction entered into by Jackson as discussed in note D1.1. There was no deferred gains in the year (2019: nil).

C3 Policyholder liabilities and unallocated surplus continued

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

(iii) Policyholder liabilities and unallocated surplus by business unit

The table below shows the policyholder liabilities and unallocated surplus, excluding joint ventures and associates and net of external reinsurance by business unit:

	31 Dec 2020 $m	31 Dec 2019 $m
Hong Kong	73,338	58,800
Indonesia	4,617	4,933
Malaysia	8,756	7,725
Singapore	32,264	27,427
Taiwan	8,178	6,801
Other Asia insurance operations	11,176	9,549
Total Asia	138,329	115,235

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

Group overview | Strategic report | Governance | Directors' remuneration report | **Financial statements** | European Embedded Value (EEV) basis results | Additional information

C3 Policyholder liabilities and unallocated surplus continued

C3.3 US insurance operations continued

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

(iii) Aggregate account values

The table below shows the distribution of account values for fixed annuities (fixed interest rate and fixed index), the fixed account portion of variable annuities, and interest-sensitive life business within the range of minimum guaranteed interest rates as described in note C3.4(b). The table below excludes, in 2020, the liabilities that were fully reinsured to Athene in June 2020. As at 31 December 2020, approximately 90 per cent (31 December 2019: 87 per cent) of Jackson's fixed annuities, variable annuity fixed account options and interest-sensitive life business account values have a current crediting rate that is at the lowest level allowed for under the terms of the policy.

	Fixed annuities and the fixed account portion of variable annuities		Interest-sensitive life business	
Minimum guaranteed interest rate	31 Dec 2020* $m	31 Dec 2019 $m	31 Dec 2020 $m	31 Dec 2019 $m
> 0% – 1.0%	6,758	6,952	–	–
> 1.0% – 2.0%	302	12,994	–	–
> 2.0% – 3.0%	4,709	13,701	270	270
> 3.0% – 4.0%	623	1,561	2,819	3,018
> 4.0% – 5.0%	280	2,236	2,488	2,597
> 5.0% – 6.0%	73	278	2,045	2,031
Total	12,745	37,722	7,622	7,916

* The decrease in 2020 compared to 2019 primarily relates to 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.

C3.4 Products and determining contract liabilities

Classification of insurance and investment contracts

IFRS 4 requires contracts written by insurers to be classified as either 'insurance' contracts or 'investment' contracts. The classification of the contract determines its accounting.

Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. This judgement is applied in considering whether the material features of a contract gives rise to the transfer of significant insurance risk, which is made at the point of contract inception and not revisited.

For the majority of the Group's contracts, classification is based on a readily identifiable scenario that demonstrates a significant difference in cash flows if the covered event occurs (as opposed to does not occur) reducing the level of judgement involved.

Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts. Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4. Investment contracts without such discretionary participation features are accounted for as financial instruments under IAS 39.

Insurance business units	Insurance contracts and investment contracts with discretionary participation features	Investment contracts without discretionary participation features
Asia	— With-profits contracts — Unit-linked policies — Health and protection policies — Non-participating term contracts — Whole life contracts	— Minor amounts for a number of small categories of business
US	— Variable annuity contracts — Fixed annuity contracts — Fixed index annuity contracts — Group pay-out annuity contracts — Life insurance contracts	— Guaranteed investment contracts (GICs) — Minor amounts of 'annuity certain' contracts

C3.4(a) Asia

Contract type	*Description and material features*	*Determination of liabilities*
With-profits and participating contracts	Provides savings and/or protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the local business unit. Participating products often offer a guaranteed maturity or surrender value. Declared regular bonuses are guaranteed once vested. Future bonus rates and cash dividends are not guaranteed. Market value adjustments and surrender penalties are used for certain products where the law permits such adjustments. Guarantees are predominantly supported by the segregated funds and their estates.	As explained in note A3.1, with-profits contracts are predominantly sold in Hong Kong, Malaysia and Singapore. The total value of the with-profits funds is driven by the underlying asset valuation with movements reflected principally in the accounting value of policyholder liabilities and unallocated surplus.
Unit-linked	Combines savings with protection, the cash value of the policy primarily depends on the value of the underlying unitised funds.	The attaching liabilities largely reflect the unit value obligation driven by the value of the investments of the unit fund. Additional contract liabilities are held for guaranteed benefits beyond the unit fund value, generally using a gross premium valuation method, as discussed below for health and protection business. These additional provisions are recognised as a component of other business liabilities.

C3 Policyholder liabilities and unallocated surplus continued

C3.4 Products and determining contract liabilities continued

C3.4(a) Asia continued

Contract type	*Description and material features*	*Determination of liabilities*
Health and protection	Health and protection features are offered as supplements to the products listed above or sold as standalone products. Protection covers mortality and/or morbidity benefits including health, disability, critical illness and accident coverage.	The approach to determine the contract liabilities is generally driven by the local solvency basis. The discount rates used to determine the contract liabilities are derived in line with the measurement basis applied in each local business unit and are generally based on the risk-free rates applicable to the underlying contacts, including appropriate margins. A gross premium valuation (GPV) method is typically used in those local businesses where a risk-based capital framework is adopted for local solvency. Under the GPV method, all cash flows are valued explicitly using best estimate assumptions with a suitable margin for prudence. This is achieved either through adding an explicit allowance above best estimate to the assumptions, or by applying an overlay constraint such that on day one no negative reserves (ie where future premium inflows are expected to exceed future claims and outflows) are derived at an individual policyholder level, or at a product/fund level, or a combination of both. The margin for prudence is released to profit over the life of the contract. The Hong Kong business unit applies a net premium valuation method (NPV) to determine the future policyholder benefit provisions, subject to minimum floors at the policyholder's asset share or guaranteed cash surrender value as appropriate. For India and Taiwan, US GAAP is applied for measuring insurance liabilities. For these businesses, the future policyholder benefit provisions for non-linked business are determined using the net level premium method, with an allowance for surrenders, maintenance and claims expenses. In Vietnam, an estimation basis to determine the contract liabilities is aligned substantially to that used by the local business units applying the GPV method.
Non-participating term contracts, whole life and endowment assurance	Non-participating savings and/or protection where the benefits are guaranteed, determined by a set of defined market-related parameters, or determined at the discretion of the local business unit. These products often offer a guaranteed maturity and/or surrender value. It is common in Asia for regulations or market-driven demand and competition to provide some form of capital value protection and minimum crediting interest rate guarantees. This is reflected within the guaranteed maturity and surrender values. Guarantees are supported by shareholders.	The approach to determining the contract liabilities is generally driven by the local solvency basis, as discussed for health and protection business above.

C3.4(b) US

Contract type	*Description and material features*	*Determination of liabilities*
Variable annuities At 31 December 2020, variable annuities accounted for 80 per cent (31 December 2019: 78 per cent) of Jackson's policy and contract liabilities.	Variable annuities are deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement, and have certain tax advantages. The rate of return depends upon the performance of the selected fund portfolio. Policyholders may allocate their investment to either the fixed account or a selection of variable accounts. Most variable annuities are subject to early surrender charges for up to the first nine years of the contract. Jackson offers some fully liquid variable annuity products that have no surrender charges. Subject to benefit guarantees, investment risk on the variable account is borne by the policyholder, while investment risk on the fixed account is borne by Jackson through guaranteed minimum fixed rates of interest. At 31 December 2020, 5 per cent (31 December 2019: 4 per cent) of variable annuity funds were in fixed accounts, with an average guaranteed rate of 1.7 percent (31 December 2019: 2.2 per cent). Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which can be elected for additional fees. These guaranteed benefits might be expressed as the return of either: (a) 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 that contract anniversary.	As explained in note A3.1, all of Jackson's insurance liabilities are based on US GAAP. Capitalised acquisition costs and deferred income for these contracts are amortised over the life of the book of contracts, are also explained in note A3.1. For the variable annuities business, the policyholder liabilities are based on the value of the separate account (which is directly reflective of the underlying asset value movements), the value of the fixed account and provision for benefit guarantees in the general account which are measured on a combination of fair value and other US GAAP derived principles. For the fixed account allocations, the principles for fixed annuity and fixed index annuity below also apply to variable annuities. The benefit guarantee types are further set out below: **Benefits that are payable in the event of death (guaranteed minimum death benefit (GMDB))** The liability for GMDBs is determined by estimating the expected value of benefits in excess of the projected account balance and recognising the excess rateably over the life of the contract based on total expected assessments. At 31 December 2020, these liabilities were valued using a series of stochastic investment performance scenarios, a mean investment return of 7.15 per cent (31 December 2019: 7.4 per cent) net of external fund management fees, and assumptions for policyholder behaviour, mortality and expense. **Benefits that are payable upon the depletion of funds (guaranteed minimum withdrawal benefit (GMWB))** The liability for the GMWB 'for life' portion is determined similarly to GMDB above. Provisions for benefits under GMWB 'not for life' features are recognised at fair value under US GAAP. Non-performance risk is incorporated into the fair value calculation through the use of discount rates that allow for estimates of Jackson's own credit risk based on observable market data. The value of future fees to offset payments made under the guarantees are established so that no gain arises on day one. **Benefits that are payable at annuitisation (guaranteed minimum income benefit (GMIB))** This feature is no longer offered and existing coverage is substantially reinsured, subject to deductibles and annual claim limits. **Benefits that are payable at the end of a specified period (guaranteed minimum accumulation benefit (GMAB))** This feature is no longer offered. Provisions for GMAB are recognised at fair value under US GAAP. Volatility and non-performance risk is considered as per GMWB above.

C3 Policyholder liabilities and unallocated surplus continued

C3.4 Products and determining contract liabilities continued

C3.4(b) US continued

Contract type	*Description and material features*	*Determination of liabilities*
Fixed interest rate and fixed index annuities At 31 December 2020, fixed interest rate and fixed index annuities accounted for 10 per cent (31 December 2019: 11 per cent) of Jackson's policy and contract liabilities. Following the reinsurance transaction with Athene Life Re Ltd in June 2020, these contracts are substantially fully reinsured as at 31 December 2020.	Fixed interest rate and fixed index annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. Under a fixed interest rate annuity contract, the policyholder's account is periodically credited with a certain interest rate, generally set at Jackson's discretion subject to a guaranteed minimum in line with state regulations. When the annuity matures, Jackson either pays the contract holder the account value or a series of payments in the form of an immediate annuity product. Fixed index annuities vary in structure and generally enable policyholders to obtain a portion of an equity-linked return (based on participation rates, caps and spreads), and provide a guaranteed minimum return. Jackson offers an optional lifetime income rider, which can be elected for an additional fee. Jackson also offers fixed interest accounts on some fixed index annuity products.	With minor exceptions, the following is applied to most of Jackson's contracts. Contracts are accounted for as investment contracts as defined for US GAAP purposes by applying a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by: — Any amounts that have been assessed to compensate the insurer for services to be performed over future periods (ie deferred income); — Any amounts previously assessed against policyholders that are refundable on termination of the contract; and — Any probable future loss on the contract (ie premium deficiency). The liability for policyholder benefits that represent the guaranteed minimum return is determined similarly to the general principles for the liabilities of the variable annuities above. The interest guarantees are not explicitly valued but are reflected as they are earned in the current account liability value. The equity-linked return option within the fixed index annuity contract is treated as an embedded derivative liability under US GAAP and therefore this element of the liability is recognised at fair value. The liability for the lifetime income rider on the fixed index annuity contract is determined each period end by estimating the expected value of benefits in excess of the projected account balance and recognising the excess on a prorated basis over the life of the contract, based on total expected assessments.
Group pay-out annuities At 31 December 2020, group pay-out annuities accounted for 2 per cent (31 December 2019: 2 per cent) of Jackson's policy and contract liabilities.	Group pay-out annuities consist of a block of defined benefit annuity plans assumed from John Hancock USA and John Hancock New York. A single premium payment from an employer (contract holder) funds the pension benefits for its employees (participants). The contracts provide annuity payments that meet the requirements of the specific pension plan being covered, including pre-retirement death and/or withdrawal benefits, pre-retirement surviving spouse benefits, and/or subsidised early retirement benefits in some cases. This is a closed block of business from two standpoints: (1) John Hancock USA and John Hancock New York are no longer selling new contracts, and (2) contract holders (companies) are no longer adding additional participants to these defined benefit pension plans.	The liability for future benefits is determined under US GAAP methodology for limited-payment contracts, using assumptions at the acquisition date for mortality and expense, plus provisions for adverse deviation.

Contract type	*Description and material features*	*Determination of liabilities*
Life insurance At 31 December 2020, life insurance products accounted for 6 per cent (31 December 2019: 7 per cent) of Jackson's policy and contract liabilities.	Jackson discontinued new sales of life insurance products in 2012. Life products include term life, traditional life and interest-sensitive life (universal life and variable universal life). — Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. — Traditional life provides protection for either a defined period or until a stated age and includes a predetermined cash value. — Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. — Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the policyholder to be invested in separate account funds. Excluding the business that is subject to the retrocession treaties at 31 December 2020, Jackson had interest-sensitive life business in force with total account value of $7.6 billion (31 December 2019: $7.9 billion), with a 4.7 per cent average guaranteed rate (31 December 2019: 4.7 per cent).	For term and traditional life insurance contracts, provisions for future policy benefits are determined under US GAAP using the net level premium method and assumptions at the issue or acquisition date for mortality, interest, policy lapses and expenses, plus provisions for adverse deviation. For universal life and variable universal life a retrospective deposit method is used to determine the liability for policyholder benefits. This is then augmented by additional liabilities to account for no-lapse guarantees, profits followed by losses, contract features such as persistency bonuses, and cost of interest rate guarantees.
Institutional products At 31 December 2020, institutional products accounted for 1 per cent (31 December 2019: 1 per cent) of Jackson's policy and contract liabilities.	Institutional products are: guaranteed investment contracts (GICs), funding agreements (including agreements issued in conjunction with Jackson's participation in the US Federal Home Loan Bank programme) and Medium Term Note funding agreements. GICs feature a lump sum policyholder deposit on which interest is paid at a rate fixed at inception. Market value adjustments are made to the value of any early withdrawals. Funding agreements feature either lump sum or periodic policyholder deposits. Interest is paid at a fixed or index linked rate. Funding agreements have a duration of between one and 30 years. In 2020 and 2019, there were no funding agreements terminable by the policyholder with less than 90 days' notice.	Institutional products are classified as investment contracts, and are accounted for as financial liabilities at amortised cost. The currency risk on contracts that represent currency obligations other than USD are hedged using cross-currency swaps.

C4 Intangible assets

C4.1 Goodwill

Business combination

Business acquisitions are accounted for by applying the purchase method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The excess of the acquisition consideration over the fair value of the assets and liabilities of the acquired business is recorded as goodwill. The Group chooses the full goodwill method or the partial goodwill method to calculate goodwill on an acquisition by acquisition basis. Expenses related to acquiring new subsidiaries are charged to the income statement in the period in which they are incurred and not included in goodwill. Income and expenses of acquired businesses are included in the income statement from the date of acquisition.

Where the Group writes a put option, which if exercised triggers the purchase of non-controlling interests as part of its business acquisition, the put option is recognised as a financial liability at the acquisition date. Where risks and rewards remain with the non-controlling interests, a corresponding amount is deducted from equity. Any subsequent changes to the carrying amount of the put option liability are also recognised within equity.

Goodwill

Goodwill is capitalised and carried on the Group consolidated statement of financial position as an intangible asset at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment.

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

Impairment testing

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash-generating units for the purposes of impairment testing. These cash-generating units (CGUs) are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis. Of the carrying value at 31 December 2020, $513 million relates to asset management business in Thailand. Other goodwill amounts are allocated across CGUs in Asia and Africa operations, which are not individually material.

Goodwill is tested for impairment by comparing the CGU's carrying amount, including any goodwill, with its recoverable amount. The Group's methodology of assessing whether goodwill may be impaired for acquired life and asset management operations is discussed below.

For acquired life businesses, the Group routinely compares the aggregate of net asset value and acquired goodwill on an IFRS basis of the acquired life business with the value of the current in-force business as determined using the EEV methodology. Any excess of IFRS value over EEV carrying value is then compared with EEV basis value of current and projected future new business to determine whether there is any indication that the goodwill in the IFRS statement of financial position may be impaired. The methodology and assumptions underpinning the Group's EEV basis of reporting are included in the EEV basis supplementary information in this Annual Report.

The goodwill in respect of asset management businesses comprises mainly the goodwill arising from the acquisition of Thanachart Fund Management Co., Ltd (TFund) in 2019 and TMB Asset Management Co., Ltd (TMBAM) in Thailand in 2018. At 31 December 2020, the recoverable amount of these businesses has been determined by calculating the value in use of combined business given the business units are planned to be merged and future forecasts prepared by management assume the combination has been completed, and hence have been prepared as a single CGU. The value in use for Thailand asset management businesses has been calculated using a discounted cash flow valuation.

For the combined Thailand asset management business, the valuation is based on a number of key assumptions as follows:

- Cash flow projections based on the latest five-year business plan/forecast;
- A constant growth rate of 2.3 per cent on forecast cash flows beyond the terminal year of the cash flow projection period (31 December 2019: 2.3 per cent);
- The risk discount rate applied in accordance with the nature of the businesses. The pre-tax discount rate applied at 31 December 2020 is 9 per cent (31 December 2019: 9 per cent); and
- The continuation of asset management contracts on similar terms.

Management believes that any reasonable change in the key assumptions would not cause the recoverable amount of the asset management businesses acquired to fall below its carrying amount.

C4.2 Deferred acquisition costs and other intangible assets

Intangible assets acquired on the purchase of a subsidiary or portfolio of contracts are measured at fair value on acquisition. DAC are accounted for as described in note A3.1(c). Other intangible assets, such as distribution rights and software, are valued initially at the price paid to acquire them and are subsequently carried at cost less amortisation and any accumulated impairment losses. For intangibles other than DAC, amortisation follows the pattern in which the future economic benefits are expected to be consumed. If the pattern cannot be determined reliably, a straight-line method is applied. For software, the amortisation generally represents the licence period of the software acquired. Amortisation of intangible assets is charged to the 'acquisition costs and other expenditure' line in the consolidated income statement. Impairment testing is conducted when there is an indication of impairment.

	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

(i) DAC and other intangible assets attributable to shareholders

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 [note (ii)]	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 [note (iii)]	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		PVIF and other intangibles† note (iii)	Total	Total
	Asia	US* note (b)			
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.

C4 Intangible assets continued

C4.2 Deferred acquisition costs and other intangible assets continued

(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 (described in note A3.1) 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.

(ii) DAC related to insurance and investment contracts

The movements in DAC relating to insurance and investment contracts are as follows:

	2020 $m		2019 $m	
	Insurance contracts	Investment contracts	Insurance contracts	Investment contracts
Balance at 1 Jan	14,206	33	12,758	99
Removal of discontinued UK and Europe operations	–	–	(62)	(72)
Additions	1,354	3	1,411	11
Amortisation	85	(4)	699	(5)
Exchange differences	43	2	31	–
Change in shadow DAC related to movement in unrealised appreciation of debt securities classified as available-for-sale	494	–	(631)	–
Balance at 31 Dec	16,182	34	14,206	33

Note

All of the additions for investment contracts are through internal development. The carrying amount of the DAC balance comprises the following gross and accumulated amortisation amounts:

	31 Dec 2020 $m	31 Dec 2019 $m
Gross amount	39	34
Accumulated amortisation	(5)	(1)
Carrying amount	34	33

(iii) PVIF and other intangibles attributable to shareholders

	2020 $m				2019 $m			
	PVIF note (a)	Distribution rights note (b)	Other intangibles (including software)	Total	PVIF note (a)	Distribution rights note (b)	Other intangibles (including software)	Total
Balance at 1 Jan								
Cost	175	3,783	379	4,337	295	2,546	399	3,240
Accumulated amortisation	(137)	(812)	(218)	(1,167)	(252)	(587)	(250)	(1,089)
	38	2,971	161	3,170	43	1,959	149	2,151
Removal of discontinued UK and Europe operations	–	–	–	–	(1)	–	(8)	(9)
Additions	–	1,047	67	1,114	–	1,110	69	1,179
Amortisation charge	(5)	(180)	(45)	(230)	(5)	(196)	(42)	(243)
Disposals and transfers	–	–	(12)	(12)	–	–	(11)	(11)
Exchange differences and other movements	1	13	3	17	1	98	4	103
Balance at 31 Dec	34	3,851	174	4,059	38	2,971	161	3,170
Comprising:								
Cost	177	4,845	424	5,446	175	3,783	379	4,337
Accumulated amortisation	(143)	(994)	(250)	(1,387)	(137)	(812)	(218)	(1,167)
	34	3,851	174	4,059	38	2,971	161	3,170

Notes

(a) All of the net PVIF balances relate to insurance contracts. The PVIF attaching to investment contracts have been fully amortised.

(b) Distribution rights relate to fees paid in relation to the bancassurance partnership arrangements for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels.

C5 Borrowings

Although initially recognised at fair value (net of transaction costs), borrowings are subsequently accounted for on an amortised cost basis using the effective interest method, with the exception of liabilities of consolidated collateralised debt obligations which continue to be carried at fair value. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the income statement to the date of maturity or for hybrid debt, over the expected life of the instrument.

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 audited sections of 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, which is described in note C2.3(ii), 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.

C6 Risk and sensitivity analysis continued

C6.1 Group overview continued

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:

	Asia insurance $m		US insurance $m	
31 December 2020	**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:

	Asia insurance $m		US insurance $m	
31 December 2019	**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 Risk and sensitivity analysis continued

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

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:

	31 Dec 2020 $m	**31 Dec 2019** $m
Mutual fund type:		
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 Risk and sensitivity analysis continued

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.

Note A3.1 describes the methodology applied by Jackson to amortise DAC. 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

Accounting policies on deferred tax are included in note B3.

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)

Of the short-term temporary differences of $4,662 million relating to deferred tax assets, $3,274 million for US insurance operations is expected to be recovered in line with the run off of the in-force book, and the majority of the remaining balances are expected to be recovered within five years.

The deferred tax balances are further analysed as follows:

	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2020 $m	31 Dec 2019 $m	31 Dec 2020 $m	31 Dec 2019 $m
Asia operations	316	270	(2,552)	(2,146)
US operations	4,542	3,804	(3,523)	(3,091)
Other operations	–	1	–	–
Total Group	4,858	4,075	(6,075)	(5,237)

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. The following tax benefits and losses have not been recognised for the years shown:

	31 Dec 2020 $m		31 Dec 2019 $m	
	Tax benefits	Losses	Tax benefits	Losses
Trading losses	191	991	36	175
Capital losses	2	7	1	5

Of the benefit from unrecognised trading losses, $26 million will expire within the next 10 years and the rest have no expiry date.

Some of the Group's businesses are located in jurisdictions in which a withholding tax charge is incurred upon the distribution of earnings. At 31 December 2020, deferred tax liabilities of $323 million (31 December 2019: $247 million) have not been recognised in respect of such withholding taxes as the Group is able to control the timing of the distributions and it is probable that the timing differences will not reverse in the foreseeable future.

C8 Share capital, share premium and own shares

Shares are classified as equity when their terms do not create an obligation to transfer assets. Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of the shares, net of share issue costs, and the nominal value of the shares issued, is credited to share premium. Where the Company purchases shares for the purposes of employee incentive plans, the consideration paid, net of issue costs, is deducted from retained earnings. Upon issue or sale any consideration received is credited to retained earnings net of related costs.

	2020			2019		
Issued shares of 5p each fully paid	**Number of ordinary shares**	**Share capital** $m	**Share premium** $m	**Number of ordinary shares**	**Share capital** $m	**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				2019			
	Number of shares	**Share price Low** £	**Share price High** £	**Cost*** $	**Number of shares**	**Share price Low** £	**Share price High** £	**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.

C9 Provisions

	31 Dec 2020 $m	31 Dec 2019 $m
Staff benefits provisions note (i)	328	408
Other provisions	22	58
Total provisions note (ii)	350	466

Notes

(i) Provisions for staff benefits are generally expected to be paid out within the next three years.

(ii) Analysis of movement in total provisions is shown below:

	2020 $m	2019 $m
Balance at 1 Jan	466	1,373
Removal of discontinued UK and Europe operations	–	(946)
Charged (credited) to income statement:		
Additional provisions	128	188
Unused amounts released	(13)	(7)
Utilisation during the year	(241)	(154)
Exchange differences	10	12
Balance at 31 Dec	350	466

C10 Capital

C10.1 Group objectives, policies and processes for managing capital

(i) Capital measure

The Group manages its Group LCSM capital resources as its measure of capital. At 31 December 2020, estimated Group shareholder LCSM capital resources is $15.8 billion (31 December 2019: $14.0 billion).

(ii) External capital requirements

The Hong Kong Insurance Authority (IA) assumed the role of the group-wide supervisor for the Prudential Group following the demerger of M&G plc in October 2019. Ultimately, Prudential plc 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, were 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.

Until Hong Kong's GWS Framework comes 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 GWS Framework 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. 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. The LCSM surplus represents the summation of capital resources across local solvency regimes for regulated entities of the Group and IFRS net assets (with some adjustments) for non-regulated entities less the summation of local statutory capital requirements across the Group, with no allowance for diversification between business operations.

(iii) Meeting of capital management objectives

The Group minimum capital requirement has been met during 2020.

As well as holding sufficient capital to meet LCSM requirements at Group level, the Group also closely manages the cash it holds within its central holding companies so that it can:

- Fund new opportunities;
- Maintain flexibility and absorb shock events;
- Cover central costs; and
- Fund dividends.

More details on holding company cash flows and balances are given in section I(iii) in the Additional unaudited financial information section.

Reserve adequacy testing under a range of scenarios and dynamic solvency testing is carried out, including under certain scenarios mandated by the Asia and US regulators.

The Group manages its assets, liabilities and capital locally, in accordance with local regulatory requirements and reflecting the different types of liabilities in each business unit. As a result of the diversity of products offered by Prudential and the different regulatory regimes under which it operates, the Group employs differing methods of asset/liability and capital management, depending on the business concerned.

The sensitivity of liabilities and other components of total capital vary depending upon the type of business concerned and this conditions the approach to asset/liability management.

C10 Capital continued

C10.2 Local capital regulations

(i) Asia insurance operations

The local valuation basis for the assets, liabilities and capital requirements of significant operations in Asia are:

China JV

A risk-based capital, risk management and governance framework, known as the China Risk Oriented Solvency System (C-ROSS), applies in China. Under C-ROSS, insurers are required to maintain a core solvency ratio (core capital over minimum capital) and a comprehensive solvency ratio (capital resources over minimum capital) of not lower than 50 per cent and 100 per cent, respectively. The review of C-ROSS by the China Banking Insurance Regulatory Commission (CBIRC) has resulted in elevating the relevant principles of C-ROSS into regulatory requirements.

The actual capital is the difference between the admitted assets and admitted liabilities with trading and available-for-sale assets marked-to-market and other assets at book value. Policyholder liabilities are based on a gross premium valuation method using best estimate assumptions with a separate risk margin.

Hong Kong

The capital requirements set out in the regulations vary by underlying risk type and duration of liabilities, but are generally determined as a percentage of mathematical reserves and capital at risk.

Mathematical reserves are based on a net premium valuation method using assumptions which include a suitable margin for prudence. The valuation interest rate used to value long-term liabilities reflects a blend between the prudent assessment of the portfolio yield and the reinvestment yield subject to a maximum of the prudent portfolio yield. The approach used to determine the reinvestment yield for reserving allows for average yields thus the impact of movements in interest rates are reflected in the valuation interest rate over time. The basis of calculation was updated in 2020 in line with a circular issued by the Hong Kong IA. The capital resources are based on assets that are marked-to-market. The nature of the current regulatory regime means that the duration of statutory liabilities is longer than would be expected on an economic basis and hence there is an inherent mismatch with the assets that are managed on a more realistic basis. The Hong Kong IA is in the process of developing a risk-based capital framework with several quantitative impact studies performed over the past few years, implementation of this framework is targeted by 2024 but the exact timing is uncertain.

Indonesia

Solvency capital is determined using a risk-based capital approach. The capital resources are based on assets that are marked-to-market, with policyholder liabilities based on a gross premium valuation method using best estimate assumptions with a suitable margin for prudence. Liabilities are zeroised at a policy level (ie negative liabilities are not permitted at a policy level). For unit-linked policies an unearned premium reserve is established.

Malaysia

A risk-based capital framework applies in Malaysia. The local regulator, Bank Negara Malaysia (BNM), has set a Supervisory Target Capital Level of 130 per cent below which supervisory actions of increasing intensity will be taken. Each insurer is also required to set its own Individual Target Capital Level to reflect its own risk profile and this is expected to be higher than the Supervisory Target Capital Level.

The capital resources are based on assets that are marked-to-market, with policyholder liabilities based on a gross premium valuation method using best estimate assumptions with a suitable margin for prudence. Liabilities are zeroised at a fund level (ie negative liabilities are not permitted at a fund level). The BNM has initiated a review of its RBC framework. An exposure draft on Valuation of Insurance and Takaful Liabilities was issued on 24 December 2019 to gather industry feedback by 15 April 2020. The exact timing of implementation of potential revisions remains uncertain.

Market liberalisation measures were introduced by BNM in April 2009, which increases the limit from 49 per cent to 70 per cent on foreign equity ownership for insurance companies and Takaful operators in Malaysia. A higher foreign equity limit beyond 70 per cent for insurance companies will be considered by BNM on a case by case basis, for example, for companies who support expansion of providing insurance coverage to the most vulnerable in Malaysian society.

Singapore

A risk-based capital framework applies in Singapore. The regulator also has the authority to direct that the insurer satisfies additional capital adequacy requirements in addition to those set forth under the Singapore Insurance Act if it considers such additional requirements appropriate. The capital resources are based on assets that are marked-to-market, with policyholder liabilities based on a gross premium valuation method using best estimate assumptions with a suitable margin for prudence. The updated risk-based capital framework (RBC2) came into effect on 31 March 2020 and this permits the recognition of a prudent allowance for negative reserves in the capital resources.

(ii) US insurance operations

The regulatory framework for Jackson is governed by the requirements of the US NAIC-approved Risk-Based Capital standards. Under these requirements life insurance companies report using a formula-based capital standard, which includes components calculated by applying after-tax factors to various asset, premium and reserve items and a separate model-based component for market risk and interest rate risk associated primarily with variable annuity products.

(iii) Asset management operations – regulatory and other surplus

Certain asset management subsidiaries of the Group are subject to local regulatory requirements. The movement in the year of the estimated surplus regulatory capital position of those subsidiaries, combined with the movement in the IFRS basis shareholders' equity for unregulated asset management operations, is as follows:

	2020 $m			2019 $m
Regulatory and other surplus	**Eastspring**	**US**	**Total asset management**	**Total asset management**
Balance at 1 Jan	376	6	382	1,271
Removal of discontinued UK and Europe operations	–	–	–	(846)
Gains (losses) during the year	223	(1)	222	238
Movement in capital requirement	48	–	48	(32)
Capital injection	65	–	65	(10)
Distributions made to the parent company	(204)	–	(204)	(213)
Exchange and other movements	(49)	–	(49)	(26)
Balance at 31 Dec	459	5	464	382

C10.3 Transferability of capital resources

For Asia, the amounts retained within the insurance companies are at levels that provide an appropriate level of capital strength in excess of the local regulatory minimum. The businesses in Asia may, in general, remit dividends to parent entities, provided the statutory insurance fund meets the local regulatory solvency requirements and there are sufficient statutory accounting profits. For with-profits funds, the excess of assets over liabilities is retained within the funds, with distribution to shareholders tied to the shareholders' share of declared bonuses.

Jackson can pay dividends on its capital stock only out of earned surplus unless prior regulatory approval is obtained. Furthermore, dividends that exceed the greater of statutory net gain from operations less net realised investments losses for the prior year or 10 per cent of Jackson's prior year end statutory surplus, excluding any increase arising from the application of permitted practices, require prior regulatory approval.

Capital resources of the non-insurance business units is transferable after taking account of an appropriate level of operating capital, based on local regulatory solvency requirements, where relevant.

C11 Property, plant and equipment

Property, plant and equipment comprise Group occupied properties and tangible assets. Property, plant and equipment also includes right-of-use assets for operating leases of properties occupied by the Group and leases of equipment and other tangible assets. All property, plant and equipment, including the right-of-use assets under operating leases, are held at cost less cumulative depreciation, calculated using the straight-line method, and impairment charge.

The Group does not have any right-of-use assets that would meet the definition of investment property. As at 31 December 2020, total right-of-use assets comprised $429 million (31 December 2019: $569 million) of property and $13 million (31 December 2019: $24 million) of non-property assets. Of the $442 million (31 December 2019: $593 million) total right-of-use assets, $182 million (31 December 2019: $253 million) were held by the Group's with-profits businesses.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. The Group assesses at lease commencement whether it is reasonably certain to exercise the option. This assertion is revisited if there is a material change in circumstances. As at 31 December 2020, the undiscounted value of lease payments beyond the break period not recognised in the lease liabilities is $179 million (31 December 2019: $185 million).

A reconciliation of the carrying amount of the Group's property, plant and equipment from the beginning to the end of the years shown is as follows:

	2020 $m				2019 $m			
	Group occupied property	Tangible assets	Right-of-use assets	Total	Group occupied property	Tangible assets	Right-of-use assets	Total
Balance at 1 Jan								
Cost	351	687	734	1,772	525	2,089	–	2,614
Accumulated depreciation	(76)	(490)	(141)	(707)	(105)	(714)	–	(819)
Opening net book amount	275	197	593	1,065	420	1,375	–	1,795
Removal of discontinued UK and Europe operations	–	–	–	–	(143)	(1,170)	–	(1,313)
Recognition of right-of-use asset on initial application of IFRS 16	–	–	–	–	–	–	527	527
Arising on acquisitions of subsidiaries	–	–	–	–	6	13	1	20
Additions	3	56	21	80	1	63	196	260
Depreciation and impairment charge	(9)	(64)	(145)	(218)	(9)	(77)	(141)	(227)
Disposals and transfers	(3)	(13)	(25)	(41)	–	(11)	1	(10)
Effect of movements in exchange rates	1	8	(2)	7	–	4	9	13
Balance at 31 Dec	267	184	442	893	275	197	593	1,065
Representing:								
Cost	355	707	710	1,772	351	687	734	1,772
Accumulated depreciation	(88)	(523)	(268)	(879)	(76)	(490)	(141)	(707)
Closing net book amount	267	184	442	893	275	197	593	1,065

The Group has non-cancellable property subleases which have been classified as operating leases under IFRS 16. The sublease rental income received in 2020 for the leases is $10.8 million (2019: $11 million from continuing operations).

Tangible assets

At 31 December 2020, of the $184 million (31 December 2019: $197 million) tangible assets, $72 million (31 December 2019: $83 million) were held by the Group's with-profits businesses.

Capital expenditure: property, plant and equipment by segment

The capital expenditure in 2020 of $59 million (2019: $64 million) arose as follows: $30 million (2019: $44 million) in Asia and $2 million (2019: $5 million) in the US, with the remaining balance of $27 million (2019: $15 million) arising from corporate expenditure unallocated to a segment.

D Other information

D1 Corporate transactions

D1.1 Gain (loss) attaching to corporate transactions

Where there is a disposal, income and expenses of entities sold during the year are included in the income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds net of selling costs, less the net assets of the entity at the date of disposal, adjusted for foreign exchange movements attaching to the sold entity that are required to be recycled to the income statement under IAS 21.

	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.

Analysis of assets and liabilities of the US operations is included in note C1 segmental balance sheet. Profit or loss of the US operations is included in note B1.4 segmental income statement. Total net decrease in cash and cash equivalents for the US operations during the year is shown below:

	2020 $m
Cash flows from operating activities	(807)
Cash flows from investing activities	(2)
Cash flows from financing activities	470
Net cash flows in the year	(339)

No dividends were paid to Athene during the year.

D1 Corporate transactions continued

D1.3 Discontinued UK and Europe operations

On 21 October 2019, the Group completed the demerger of its UK and Europe operations (M&G plc), which were classified as discontinued operations in the comparatives included within these consolidated financial statements in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'.

The results and cash flows for the discontinued UK and Europe operations presented in the consolidated financial statements for the period of ownership up to the demerger are analysed below. The profit and other comprehensive income for the period from the discontinued UK and Europe operations were wholly attributable to the equity holders of the Company.

Total comprehensive income

	2019 $m
Total revenue, net of reinsurance	33,212
Total charges, net of reinsurance	(31,118)
Profit before tax	2,094
Re-measurement on demerger	188
Cumulative exchange loss recycled from other comprehensive income	(2,668)
Total (loss) profit before tax	(386)
Tax (charge) credit	(775)
(Loss) profit for the year	(1,161)
Other comprehensive income:	
Cumulative exchange loss recycled through profit or loss	2,668
Other items, net of related tax	203
Other comprehensive income (loss) for the year, net of related tax	2,871
Total comprehensive income for the year	1,710

Cash flows

	2019 $m
Cash flows from operating activities	2,375
Cash flows from investing activities	(454)
Cash and cash equivalents divested on demerger	(7,611)
Net cash flows in the year	(5,690)
Net cash flows between discontinued and continuing operations*	(436)
Cash and cash equivalents at beginning of year	6,048
Effect of exchange rate changes on cash and cash equivalents	78
Cash and cash equivalents at end of year	–

*The net cash flows between discontinued and continuing operations of $(436) million primarily represented dividends of $(4,525) million, offset by payment for the transfer of debt to M&G plc from Prudential plc prior to the demerger of $4,161 million.

D2 Contingencies and related obligations

Litigation and regulatory matters

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.

Guarantees

Guarantee funds in the US and certain markets in Asia provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and type of business. The estimated reserve for future guarantee fund assessments is not significant. For the majority of the markets in Asia, the insurance company's obligation is limited to the amount paid based on a fixed percentage of premiums. The Directors believe that sufficient provision has been made on the balance sheet for all anticipated payments.

The Group has provided other guarantees and commitments to third parties entered into in the normal course of business but the Group does not consider that the amounts involved are significant.

Intra-group capital support arrangements

Prudential has put in place intra-group arrangements to formalise undertakings by Prudential to the regulators of the Hong Kong subsidiaries regarding their solvency levels.

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.

D4 Related party transactions

Transactions between the Company and its subsidiaries are eliminated on consolidation.

The Company has transactions and outstanding balances with collective investment schemes, collateralised debt obligations and similar entities that are not consolidated and where a Group company acts as manager, which are regarded as related parties for the purposes of IAS 24. The balances are included in the Group's statement of financial position at fair value or amortised cost in accordance with IAS 39 classifications with the corresponding amounts included in the income statement. The transactions include amounts paid on issue of shares or units, amounts received on cancellation of shares or units and amounts paid in respect of the periodic charge and administration fee.

In addition, there are no material transactions between the Group's joint ventures and associates, which are accounted for on an equity method basis, and other Group companies.

Key management personnel of the Company, as described in note B2.3, may from time to time purchase insurance, asset management or annuity products marketed by Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

In 2020 and 2019, other transactions with key management personnel were not deemed to be significant both by virtue of their size and in the context of the individuals' financial positions. All of these transactions were on terms broadly equivalent to those that prevailed in arm's-length transactions.

Additional details on the Directors' interests in shares, transactions or arrangements are given in the Directors' remuneration report. Key management remuneration is disclosed in note B2.3.

D5 Commitments

The Group has provided, from time to time, certain guarantees and commitments to third parties.

At 31 December 2020, Asia operations had $1,913 million unfunded commitments (31 December 2019: $2,013 million) primarily related to investments in infrastructure funds and alternative investment funds. At 31 December 2020, Jackson had unfunded commitments of $831 million (31 December 2019: $889 million) related to investments in limited partnerships and $185 million (31 December 2019: $796 million) related to commercial mortgage loans and other fixed income securities. These commitments were entered into in the normal course of business and a material adverse impact on the operations is not expected to arise from them.

D6 Investments in subsidiary undertakings, joint ventures and associates

D6.1 Basis of consolidation

The Group consolidates those investees it is deemed to control. The Group has control over an investee if all three of the following are met: (1) it has power over an investee; (2) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (3) it has ability to use its power over the investee to affect its own returns.

(i) Subsidiaries

Subsidiaries are those investees that the Group controls. The majority of the Group's subsidiaries are corporate entities, but the Group's insurance operations also invest in a number of limited partnerships.

The Group performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee. Where the Group is deemed to control an entity it is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity, with no control over the entity, the investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

(ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In a number of these arrangements, the Group's share of the underlying net assets may be less than 50 per cent but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party. Associates are entities over which the Group has significant influence, but it does not control. Generally it is presumed that the Group has significant influence if it holds between 20 per cent and 50 per cent voting rights of the entity.

With the exception of those referred to below, the Group accounts for its investments in joint ventures and associates by using the equity method of accounting. The Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. The equity method of accounting does not apply to investments in associates and joint ventures held by the Group's insurance or investment funds. This includes venture capital business, mutual funds and unit trusts and which, as allowed by IAS 28, 'Investments in Associates and Joint Ventures', are carried at fair value through profit or loss.

(iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- Collective investment schemes;
- Limited partnerships;
- Variable interest entities;
- Investment vehicles within separate accounts offered through variable annuities;
- Collateralised debt obligations;
- Mortgage-backed securities; and
- Similar asset-backed securities.

Collective investment schemes

The Group invests in collective investment schemes, which invest mainly in equities, bonds, cash and cash equivalents, and properties. The Group's percentage ownership in these entities can fluctuate on a daily basis according to the participation of the Group and other investors in them.

- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity exceeds 50 per cent, the Group is judged to have control over the entity.
- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is between 20 per cent and 50 per cent, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity.
- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is less than 20 per cent, the Group is judged to not have control over the entity.
- Where the entity is managed by an asset manager outside the Group, an assessment is made of whether the Group has existing rights that gives it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors.

Where the Group is deemed to control these entities, they are treated as a subsidiary and are consolidated, with the interests of investors other than the Group being classified as liabilities, and appear as net asset value attributable to unit holders of consolidated investment funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Where the Group's asset manager sets up investment funds as part of asset management operations, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with investment funds. For these investment funds, the Group is not deemed to control the entities but to be acting as an agent.

The Group generates returns and retains the ownership risks in investment vehicles commensurate to its participation and does not have any further exposure to the residual risks of these investment vehicles.

Jackson's separate account assets

These are investment vehicles that invest contract holders' premiums in equity, fixed income, bonds and money market mutual funds. The contract holder retains the underlying returns and the ownership risks related to the underlying investments. The shareholder's economic interest in separate accounts is limited to the administrative fees charged. The separate accounts are set up as separate regulated entities governed by a Board of Governors or trustees for which the majority of the members are independent of Jackson or any affiliated entity. The independent members are responsible for any decision making that impacts contract holders' interest and govern the operational activities of the entities' advisers, including asset managers. Accordingly, the Group does not control these vehicles. These investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Limited partnerships

The Group's insurance operations invest in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity. Such interest in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities in which limited partnerships are engaged in. Accounting for the limited partnerships as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the shareholdings in the general partners.

Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities, the majority of which are actively traded in a liquid market.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements.

The majority of such vehicles are not consolidated. In these cases, the Group is not the sponsor of the vehicles in which it holds investments and has no administrative rights over the vehicles' activities. The Group generates returns and retains the ownership risks commensurate to its holding and its exposure to the investments and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments. Accordingly, the Group does not have power over the relevant activities of such vehicles and all are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

The table below provides aggregate carrying amounts of the investments in unconsolidated structured entities reported in the Group's statement of financial position:

	31 Dec 2020 $m			31 Dec 2019 $m		
Statement of financial position line items	**Investment funds**	**Separate account assets**	**Other structured entities**	**Investment funds**	**Separate account assets**	**Other structured entities**
Equity securities and holdings in collective investment schemes	27,192	219,062	–	23,622	195,070	–
Debt securities	–	–	3,414	–	–	6,573
Total	27,192	219,062	3,414	23,622	195,070	6,573

As at 31 December 2020 and 2019, the Group does not have an agreement, contractual or otherwise, or intention to provide financial support to structured entities that could expose the Group to a loss.

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.2 Dividend restrictions and minimum capital requirements

Certain Group subsidiaries and joint ventures are subject to restrictions on the amount of funds they may transfer in the form of cash dividends or otherwise to the parent company.

Under UK company law, UK companies can only declare dividends if they have sufficient distributable reserves.

Jackson is subject to state laws that limit the dividends payable to its parent company based on statutory capital, surplus and prior year earnings. Dividends in excess of these limitations require prior regulatory approval.

The Group's subsidiaries, joint ventures and associates in Asia may remit dividends to the Group, in general, provided the statutory insurance fund meets the capital adequacy standard required under local statutory regulations and has sufficient distributable reserves. For further details on local capital regulations in Asia please refer to note C10.2.

D6.3 Investments in joint ventures and associates

The Group has shareholder-backed joint venture insurance and asset management businesses in China with CITIC Group and a joint venture asset management business in India with ICICI Bank. In addition, there is an asset management joint venture in Hong Kong with Bank of China International Holdings Limited (BOCI) and Takaful insurance joint venture in Malaysia.

For the Group's joint ventures that are accounted for by using the equity method, the net of tax results of these operations are included in the Group's profit before tax.

The Group's associates, which are also accounted for under the equity method, include the Indian insurance entity (with the majority shareholder being ICICI Bank). In addition, the Group has investments in collective investment schemes, funds holding collateralised debt obligations, property funds where the Group has significant influence. As allowed under IAS 28, these investments are accounted for on a fair value through profit or loss basis. The aggregate fair value of associates accounted for at fair value through profit or loss, where there are published price quotations, is approximately $0.7 billion at 31 December 2020 (31 December 2019: $0.7 billion).

For joint ventures and associates accounted for using the equity method, the 12 months financial information of these investments for the years ended 31 December 2020 and 2019 (covering the same period as that of the Group) has been used in these consolidated financial statements.

The Group's share of the profits for shareholder-backed business (including short-term fluctuations in investment returns), net of related tax, in joint ventures and associates, which are equity accounted as shown in the consolidated income statement at 31 December 2020, comprises the following:

Share of profits from joint ventures and associates, net of related tax	**2020** $m	**2019** $m
Asia insurance operations	400	291
Asia asset management operations	117	106
Total segment and Group total	517	397

There is no other comprehensive income in the joint ventures and associates. There has been no unrecognised share of losses of a joint venture or associate that the Group has stopped recognising in total comprehensive income.

The Group's interest in joint ventures gives rise to no contingent liabilities or capital commitments that are material to the Group.

Key to share classes:

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
MFS	Mutual Fund Shares
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

D6.4 Related undertakings

In accordance with Section 409 of the Companies Act 2006, a list of Prudential Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20 per cent) is disclosed below, along with the classes of shares held, the registered office address and the effective percentage of equity owned at 31 December 2020.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS Standards. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. The Group's consolidation policy is described in note D6.1. The Group also operates through branches. At 31 December 2020, there was no significant branch outside the UK.

Direct subsidiary undertakings of the parent company, Prudential plc (shares held directly or via nominees)

Name of entity	Classes of shares held	Proportion held	Registered office address
Prudential Corporation Asia Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential Group Holdings Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees

The table below represents the list of entities within the Group excluding the entities within the US business, which are shown in a separate table below.

Name of entity	Classes of shares held	Proportion held	Registered office address
Aberdeen Standard Cash Creation Fund	U	31.40%	28th Floor Bangkok City Tower, 179 South Sathorn Road, Thungmahamek, Sathorn, Bangkok 10120, Thailand
Aberdeen Standard Global Opportunities Fund	U	32.24%	20 Collyer Quay, #01-01, Singapore 049319
Aberdeen Standard Singapore Equity – SGD class	U	57.89%	
Aberdeen Standard Singapore Equity Fund – USD class	U	42.67%	21 Church Street, #01-01, Capital Square Two, Singapore 049480
Allianz Global Investors Greater China Fund	U	43.06%	5F, No.378, Fu Xing N. Rd. Taipei, Taiwan
Alternatives North America Ltd.	U	100.00%	c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, Cayman Islands KY1-1102
AMUNDI FTSE China A50 Index ETF	U	58.20%	90, boulevard Pasteur, 75015 Paris – France
BOCHK Aggressive Growth Fund	U	44.20%	27th Floor, Bank of China Tower, 1 Garden Road, Hong Kong
BOCHK Balanced Growth Fund	U	38.00%	
BOCHK China Equity Fund	U	61.53%	
BOCHK Conservative Growth Fund	U	38.26%	
BOCHK US Dollar Money Market Fund	U	24.23%	
BOCI-Prudential Asset Management Limited	OS	36.00%	
BOCI-Prudential Trustee Limited	OS	36.00%	12th Floor and 25th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong
Capital Asian Bond Fund	U	40.72%	15F., No.69, Sec. 2, Dunhua South. Rd. Da-an District, Taiwan
CBRE European Industrial Fund	U	23.40%	2100 McKinney Avenue, 12th Floor, Dallas, TX 75201, USA
CITIC-CP Asset Management Co., Ltd.	MI	26.95%	Room 101-2, No.128 North Zhangjiabang Road, Pudong District, Shanghai, China
CITIC-Prudential Fund Management Company Limited	MI	49.00%	Level 9, HSBC Building, Shanghai IFC, 8 Century Avenue, Pudong, Shanghai, China
CITIC-Prudential Life Insurance Company Limited	MI	50.00%	0507-0510, 1601-1616, East Tower, World Financial Centre, No.1 East Third Ring Middle Road, Chaoyang District, Beijing, 100020, China
Eastspring Al-Wara' Investments Berhad	OS	100.00%	Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia
Eastspring Asset Management Korea Co. Ltd.	OS	100.00%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Global Smart Beta Baby Investment Trust H	U	60.00%	Goodmorning Shinhan Tower 15F Yeoido Dong 23-2, Youngdungpo-gu, Seoul 150-010, Korea
Eastspring Global Smart Beta Baby Investment Trust USD	U	100.00%	

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.4 Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees continued

Name of entity	Classes of shares held	Proportion held	Registered office address
Eastspring Infrastructure Debt Fund L.P.	PI	90.68%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Investment Asia Real Estate Multi Asset Income Fund	U	80.65%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investment Asia Sustainable Bond Fund	U	99.99%	
Eastspring Investment K-Short Term Bond Alpha Securities Investment Trust (Bond Balanced)	U	20.41%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Investment Management (Shanghai) Company Limited	MI	100.00%	Unit 306-308, 3rd Floor, Azia Center, 1233 Lujiazui Ring Road, China (Shanghai) Pilot Free Trade Zone, China
Eastspring Investments – Global Growth Equity Fund	U	73.87%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Global Low Volatility Equity Fund	U	99.48%	
Eastspring Investments – Global Technology Fund	U	81.38%	
Eastspring Investments – Pan European Fund	U	64.88%	
Eastspring Investments – US High Yield Bond Fund	U	41.33%	
Eastspring Investments (Hong Kong) Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Eastspring Investments (Luxembourg) S.A.	OS	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments (Singapore) Limited	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
Eastspring Investments Asia Oceania High Dividend Equity Fund	U	100.00%	Eastspring Investments Limited, Marunouchi Park Bldg., 2-6-1 Marunochi, Chiyoda-ku, Tokyo, Japan 100-6905
Eastspring Investments Asia Oceania U&I Bond Fund	U	99.92%	
Eastspring Investments Asia Pacific Equity Fund	U	99.97%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	U	39.08%	
Eastspring Investments Asian Dynamic Fund	U	90.00%	
Eastspring Investments Asian Equity Fund	U	99.17%	
Eastspring Investments Asian Equity Income Fund	U	80.97%	
Eastspring Investments Asian High Yield Bond Fund	U	29.28%	
Eastspring Investments Asian High Yield Bond MY Fund	U	67.90%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments Asian Infrastructure Equity Fund	U	71.48%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Investment Grade Bond Fund	U	92.65%	
Eastspring Investments Asian Low Volatility Equity Fund	U	99.11%	
Eastspring Investments Asian Multi Factor Equity Fund	U	100.00%	
Eastspring Investments Asian Property Securities Fund	U	97.70%	
Eastspring Investments Berhad	OS	100.00%	Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia
Eastspring Investments China A Shares Growth Fund	U	91.25%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Dragon Peacock Fund	U	90.95%	

Key to share classes:

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
MFS	Mutual Fund Shares
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address
Eastspring Investments Emerging Markets Star Players	U	41.15%	Eastspring Investments Limited, Marunouchi Park Bldg., 2-6-1 Marunochi, Chiyoda-ku, Tokyo, Japan 100-6905
Eastspring Investments Equity Income Fund	U	29.20%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments European Inv Grade Bond Fund	U	99.73%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Fund Management Limited Liability Company	MI	100.00%	23rd Floor, Saigon Trade Center, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Eastspring Investments Global Emerging Markets Bond Fund	U	99.96%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Global Equity Navigator Fund	U	98.43%	
Eastspring Investments Global Market Navigator Fund	U	99.63%	
Eastspring Investments Global Multi Asset Income Plus Growth Fund	U	99.99%	
Eastspring Investments Greater China Equity Fund	U	94.66%	
Eastspring Investments Group Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
Eastspring Investments Incorporated	OS	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
Eastspring Investments India Consumer Equity Open Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene, 72201, Mauritius
Eastspring Investments India Equity Fund	U	77.64%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments India Equity Open Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene, 72201, Mauritius
Eastspring Investments India Infrastructure Equity Open Limited	OS	100.00%	
Eastspring Investments Japan Dynamic MY Fund	U	37.02%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments Limited	OS	100.00%	Marunouchi Park Building, 6-1 Marunouchi 2-chome, Chiyoda-Ku, Tokyo, Japan
Eastspring Investments MY Focus Fund	U	26.11%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments Services Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
Eastspring Investments SICAV-FIS – Alternative Investments Fund	U	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS – Asia Pacific Loan Fund	U	90.92%	
Eastspring Investments Unit Trust – Dragon Peacock Fund	U	97.74%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments US Corporate Bond Fund	U	60.63%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments US High Inv Grade Bond Fund	U	90.09%	
Eastspring Investments US Investment Grade Bond Fund	U	40.83%	
Eastspring Investments UT Singapore ASEAN Equity Fund	U	98.74%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments UT Singapore Select Bond Fund	U	75.14%	
Eastspring Investments Vietnam Navigator Fund	U	76.45%	23rd Floor, Saigon Trade Center, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Eastspring Investments World Value Equity Fund	U	95.42%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Overseas Investment Fund Management (Shanghai) Company Limited	MI	100.00%	Unit 306-308, 3rd Floor, 1233 Lujiazui Ring Road, China (Shanghai) Pilot Free Trade Zone, China
Eastspring Real Assets Partners	OS	100.00%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Securities Investment Trust Co., Ltd.	OS	99.54%	4th Floor, No.1 Songzhi Road, Taipei 110, Taiwan

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.4 Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees continued

Name of entity	Classes of shares held	Proportion held	Registered office address
First Sentier Global Property Securities Fund	U	56.08%	38 Beach Road, #06-11 South Beach Tower, Singapore 189767
First State China Focus Fund	U	71.78%	70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland
FRANK TP ASIA GR-A-ACC-SGD	U	28.03%	8A, rue Albert Borschette, L-1246 Luxembourg
Fubon China Bond Umbrella Fund	U	37.09%	8F., No.108, Sec.1, Dunhua South. Rd. Taipei, Taiwan
Fubon Global Investment Grade Bond Fund	U	41.28%	
Fuh Hwa Emerging Market RMB Fixed Income Fund	U	24.51%	8F & 9F., No.308, Sec. 2, Bade Rd., Da-an District
Furnival Insurance Company PCC Limited	OS	100.00%	PO Box 155, Mill Court, La Charroterie, St Peter Port, GY1 4ET, Guernsey
GS Twenty Two Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Hyde Holdco 1 Limited (In Liquidation)	OS	100.00%	c/o Mazars LLP, 45 Church Street, Birmingham, B3 2RT, United Kingdom
ICICI Prudential Asset Management Company Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
ICICI Prudential Life Insurance Company Limited	OS	22.11%	ICICI PruLife Towers, 1089 Appasaheb Marathe Marg, Prabhadevi, Mumbai 400025, India
ICICI Prudential Pension Funds Management Company Limited	OS	22.11%	
ICICI Prudential Trust Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
Invesco Fixed Maturity Selective Emerging Market Bonds 2024	U	100.00%	8F, No 122, Tung Hua N. Rd. Taipei, Taiwan
Invesco Select 6 Year Maturity Global Bond Fund	U	100.00%	
iShares Core MSCI Asia	U	72.07%	16/F Champion Tower, 3 Garden Road, Central, Hong Kong
iShares Edge MSCI USA Minimum Volatility ESG UCITS Fund	U	78.95%	J.P. Morgan, 200 Capital, 79 Sir John Rogerson's Quay, Dublin 2, D02 RK57, Ireland
iShares Edge MSCI USA Momentum Factor UCITS Fund	U	37.14%	
iShares Fallen Angels High Yield Corporate Bond UCITS ETF Wing	U	38.11%	79 Sir John Rogerson's Quay, Dublin 2, D02 RK 57, Ireland
JPMorgan Investment Funds – Global Select Equity Fund	U	28.59%	JPMorgan Asset Management (Europe) S.à r.l., 6, route de Trèves, L-2633 Senningerberg, Luxembourg
JPMorgan Liquidity Funds – SGD Liquidity LVNAV Fund	U	21.21%	
KKP Active Equity Fund	U	22.04%	19/F Muang Thai-Phatra Complex, Building Tower, A, 252/25 Ratchadapisek Road, Huaykwang, Bangkok 10310, Thailand
Krungsri Greater China Equity Hedged Dividend Fund	U	25.64%	12th, 18th Zone B Floor, Ploenchit Tower 898 Ploenchit Road, Lumpini Pathumwan, Bangkok 10330, Thailand
Lasalle Property Securities SICAV-FIS	U	100.00%	11-13 Boulevard de la Foire, L-1528 Luxembourg
M&G Asia Property Trust	U	100.00%	8 Marina Boulevard, 05-02 Marina Bay, Financial Centre Tower 1, Singapore, 018981
M&G Luxembourg European Strategic Value Fund	U	78.60%	49 Avenue J.F. Kennedy, L-1855, Luxembourg
M&G Real Estate Asia Holding Company Pte. Ltd.	OS	33.00%	10 Marina Boulevard, #31-03, Marina Bay, Financial Centre Tower 2, Singapore, 018983
Manulife Asia Pacific Bond Fund	U	50.85%	9/F, No 89 Son Ren Road, Taipei, Taiwan
Manulife China Dim Sum High Yield Bond Fund	U	65.43%	
Manulife China Offshore Bond Fund	U	66.01%	
Manulife USD High Yield Bond Fund	U	26.54%	

Key to share classes:

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
MFS	Mutual Fund Shares
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address
Neuralbay Pte. Ltd.	OS	100.00%	10 Central Exchange Green, Pixel, Singapore 138649
Nomura Six Years Fixed Maturity Asia Pacific Emerging Market Bond Fund	U	100.00%	101 Tower, 30F, No. 7 Sec. 5, Xinyi Rd., Xinyi Dist., Taipei, Taiwan
Nomura Six Years Fixed Maturity Emerging Market Bond Fund	U	43.03%	
Nomura Six Years Ladder Maturity Asia Pacific Emerging Market Bond Fund	U	100.00%	
North Sathorn Holdings Company Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
PCA IP Services Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PCA Life Assurance Co. Ltd.	OS	99.79%	8th Floor, No.1 Songzhi Road, Taipei City, 11047, Taiwan
PCA Reinsurance Co. Ltd.	OS	100.00%	Unit Level 13(A), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia
Prenetics Limited	PS	12.65%	7th Floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong
Pru Life Insurance Corporation of U.K.	OS	100.00%	9th Floor, Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, 1634 Taguig City, Metro Manila, Philippines
Pru Life UK Asset Management and Trust Corporation	OS	100.00%	2nd Floor, Uptown Parade 2, 36th Street, Uptown Bonifacio, 1634 Taguig City, Metro Manila, Philippines
Prudence Foundation	LBG	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential (Cambodia) Life Assurance Plc	OS	100.00%	20th Floor, #445, Monivong Blvd, Boeung Prolit, 7 Makara, Phnom Penh Tower, Phnom Penh, Cambodia
Prudential (US Holdco 1) Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Africa Holdings Limited	OS	100.00%	
Prudential Africa Services Limited	OS	100.00%	Vienna Court, Ground Floor, State House Crescent, Off State House Avenue, Nairobi, P.O Box 25093, Kenya
Prudential Assurance Company Singapore (Pte) Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Assurance Malaysia Berhad*	OS	51.00%	Level 20, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Prudential Assurance Uganda Limited	OS	100.00%	Zebra Plaza, Plot 23, Kampala Road, P.O. Box 2660, Kampala, Uganda
Prudential BeGeneral Insurance S.A.	OS	51.00%	Immeuble WOODIN Center 1st Floor, Avenue Nogues, Plateaux, Abidjan, Cote d'Ivoire
Prudential BeLife Insurance S.A.	OS	50.93%	
Prudential Beneficial General Insurance Cameroon S.A.	OS	50.04%	1944 Blvd de la République, BP 2328, Douala, Cameroon
Prudential Beneficial Life Insurance Cameroon S.A.	OS	51.00%	
Prudential Beneficial Life Insurance Togo S.A.	OS	50.99%	2963 Rue De La Chance Agbalepedogan, P.B. 1115, Lome, Togo
Prudential BSN Takaful Berhad†	OS	49.00%	Level 8A, Menara Prudential, 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Corporation Australasia Holdings Pty Limited (in liquidation)	OS	100.00%	31 Highgate Circuit, Kellyville, NSW, 2155, Australia
Prudential Corporation Holdings Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential General Insurance Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential Group Secretarial Services HK Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential Group Secretarial Services Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Holdings Limited	OS	100.00%	4th Floor, Saltire Court, 20, Castle Terrace, Edinburgh, EH1 2EN, United Kingdom

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.4 Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees continued

Name of entity	Classes of shares held	Proportion held	Registered office address
Prudential Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential International Treasury Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential IP Services Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Life Assurance (Lao) Company Limited	OS	100.00%	5th Floor, Lao international Business and Tourist Center Project (Vientiane Center), Khouvieng Road, Nongchan Village, Sisattanak District, Vientiane Capital, Lao PDR
Prudential Life Assurance (Thailand) Public Company Limited	OS	99.93%	9/9 @Sathorn Building, 20th–27th Floor, South Sathorn Road, Yannawa, Sahtorn, Bangkok 10120, Thailand
Prudential Life Assurance Kenya Limited	OS	100.00%	Vienna Court, Ground Floor, State House Crescent, Off State House Avenue, Nairobi, P.O Box 25093, Kenya
Prudential Life Assurance Zambia Limited	OS	100.00%	Prudential House, Plot No.32256, Thabo Mbeki Road, P.O. Box 31357, Lusaka, Zambia
Prudential Life Insurance Ghana Limited	OS	100.00%	35 North Street, Tesano, Accra, Accra-North, PO Box AN11549, Ghana
Prudential Life Vault Limited	OS	100.00%	98 Awolowo Road, South-West Ikoyi, Lagos, Nigeria
Prudential Mauritius Holdings Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene, 72201, Mauritius
Prudential Myanmar Life Insurance Limited	OS	100.00%	#15-01, 15th Floor, Sule Square, 221 Sule Pagoda Road, Kyauktada Township, Yangon, Myanmar
Prudential Pensions Management Zambia Limited	OS	49.00%	Prudential House, Plot No.32256, Thabo Mbeki Road, P.O. Box 31357, Lusaka, Zambia
Prudential Services Asia Sdn. Bhd.	OS PS	100.00% 100.00%	Suite 1005, 10th Floor, Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Prudential Services Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Services Singapore Pte. Ltd.	OS	100.00%	1 Wallich Street, #19-01 Guoco Tower, Singapore 078881
Prudential Singapore Holdings Pte. Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Technology and Services India Private Limited	OS	100.00%	EPIP Industrial Area, Whitefield Road, K.R Puram, Near SAP Labs, Hubli, Bangalore, Karnataka, 560066, India
Prudential Vietnam Assurance Private Limited	OS	100.00%	25th Floor, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Prudential Zenith Life Insurance Limited	OS	51.00%	13th Floor, Civic Towers, Ozumba Mbadiwe Avenue, Victoria Island, Lagos, Nigeria
PT. Eastspring Investments Indonesia	OS	100.00%	Prudential Tower, 23rd Floor, Jl. Jend. Sudirman Kav.79, Jakarta 12910, Indonesia
PT. Prudential Life Assurance	OS	94.62%	Prudential Tower, Jl. Jend. Sudirman Kav. 79, Jakarta 12910, Indonesia
Pulse EcoSystems Pte. Ltd.	OS	100.00%	1 Wallich Street, #19-01 Guoco Tower, Singapore 078881
PVFC Financial Limited	OS	100.00%	Suite 509, 5th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

Key to share classes:

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
MFS	Mutual Fund Shares
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address
Reksa Dana Eastspring IDR Fixed Income Fund (NDEIFF)	U	99.64%	Prudential Tower, 23rd Floor, Jl. Jend. Sudirman Kav.79, Jakarta 12910, Indonesia
Reksa Dana Eastspring Investments Alpha Navigator Fund	U	85.85%	
Reksa Dana Eastspring Investments Cash Reserve	U	99.16%	
Reksa Dana Eastspring Investments IDR High Grade	U	21.46%	
Reksa Dana Eastspring Investments Value Discovery	U	88.20%	
Reksa Dana Syariah Eastspring Syariah Equity Islamic Asia Pacific USD	U	86.66%	
Reksa Dana Syariah Eastspring Syariah Fixed Income Amanah	U	59.79%	
Reksa Dana Syariah Eastspring Syariah Money Market Khazanah	U	98.30%	
Reksa Dana Syariah Penyertaan Terbatas Bahana Syariah BUMN Fund	U	99.01%	Graha CIMB Niaga 21st Floor. Jl Jend Sudirman Kav 58, Jakarta-12190, Indonesia
Rhodium Investment Fund	U	99.82%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
SCB Global Income Fund	U	26.65%	7-8th Floor, SCB Park Plaza 1, 18 Ratchadapisek Road, Chatuchak, Bangkok 10900, Thailand
Schroder Asian Investment Grade Credit	U	35.52%	138 Market Street, #23-01 CapitaGreen, Singapore 048946
Schroder Emerging Markets Fund	U	63.91%	
Schroder Multi-Asset Revolution	U	59.60%	
Schroder US Dollar Money Fund	U	37.08%	HSBC Institutional Trust Service (Asia) Limited, 1 Queen's Road Central, Hong Kong
Scotts Spazio Pte. Ltd.	OS	45.00%	30 Cecil Street #23-02 Prudential Tower, Singapore, 049712
Shenzhen Prudential Technology Limited	MI	100.00%	Unit 5, 8th Floor, China Resources Tower, No.2666 Keyuan South Road, Yuehai Street, Nanshan District, Shenzhen, 518054, China
Sri Han Suria Sdn. Bhd.	OS	51.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Staple Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Thanachart Fund Management Co., Ltd.	OS	50.10%	Units 902-908, 9th Floor, Mitrtown Office Tower 944 ,Rama 4 Road, Wangmai, Patumwan, Bangkok, 10330, Thailand
TMB Asset Management Co., Ltd.	OS	65.00%	32nd Floor, Abdulrahim Building, 990 Rama IV Road, Silom, Bangrak, Bangkok 10500, Thailand
UOB Smart Global Healthcare	U	36.67%	23A, 25th Floor, Asia Centre Building, 173/27-30, 32-33 South Sathorn Road, Thungmahamek, Sathorn, Bangkok 10120, Thailand
UOB Smart Millennium Growth Fund	U	34.24%	

* Prudential Assurance Malaysia Berhad is consolidated at 100 per cent in the Group's financial statements reflecting the economic interest to the Group.
† Prudential BSN Takaful Berhad is a joint venture that is accounted for using the equity method, for which the Group has an economic interest of 70 per cent for all business sold up to 23 December 2016 and of 49 per cent for new business sold subsequent to this date.

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.4 Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees continued

The table below represents the list of entities within the Group's US business. On 17 July 2020, the Group completed the equity investment transaction by Athene, under which Athene invested $500 million in the Group's US business in return for an 11.1 per cent economic interest for which the voting interest is 9.9 per cent. The proportion held shown in the table below represents the Prudential's effective percentage of voting interest owned.

Name of entity	Classes of shares held	Proportion held	Registered office address
95th Avenue Retail Building, LLC	MI	90.10%	901 S., Ste. 201, Second St., Springfield, IL, 62704-7909, USA
Allied Life Brokerage Agency, Inc	LPI	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Brier Capital LLC	OS	90.10%	
Brooke Life Insurance Company	OS	90.10%	
Centre Capital Non-Qualified Investors IV AIV-RA, LP	LPI	39.74%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors V AIV-ELS LP	LPI	32.96%	
Centre Capital Non-Qualified Investors V LP	LPI	33.98%	
CEP IV-A CWV AIV LP	LPI	21.60%	615 South Dupont Highway, Dover, DE 19901, USA
CEP IV-A Davenport AIV LP	LPI	21.57%	22 St. Clair Avenue East, Suite 1700, Toronto CA M4T 2S3
CEP IV-A INDY AIV Limited Partnership Canada	LPI	21.57%	
CEP IV-A Indy AIV LP	LPI	21.57%	
CEP IV-A NMR AIV LP	LPI	21.57%	
Hermitage Management LLC	OS	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Jackson Charitable Foundation Inc	NSB	90.10%	
Jackson Finance LLC	OS	90.10%	
Jackson Financial Inc	OS	90.10%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Jackson Holdings LLC	OS	90.10%	
Jackson National Asset Management LLC	OS	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life (Bermuda) Limited	OS	90.10%	Cedar House, Hamilton, Bermuda
Jackson National Life Distributors LLC	OS	90.10%	1209 Orange Street, Wilmington, DE 19801, USA
Jackson National Life Insurance Agency, LLC	OS	90.10%	
Jackson National Life Insurance Company	OS	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life Insurance Company of New York	OS	90.10%	2900 Westchester Avenue, Suite 305, Purchase, NY 10577, USA
Mission Plans of America, Inc	OS	90.10%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
National Planning Holdings, LLC	OS	90.10%	1209 Orange Street, Wilmington, DE 19801, USA
Old Hickory Fund I, LLC	MI	90.10%	874 Walker Road, Suite C, Dover, DE 19904, USA
PGDS (US One) LLC	OS	90.10%	1209 Orange Street, Wilmington, DE 19801, USA
PPM America Capital Partners III, LLC	MI	54.51%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM America Capital Partners IV, LLC	MI	31.08%	
PPM America Capital Partners V, LLC	MI	30.63%	
PPM America Capital Partners VI, LLC	MI	28.83%	
PPM America Private Equity Fund III LP	LPI	45.10%	
PPM America Private Equity Fund IV LP	LPI	45.01%	
PPM America Private Equity Fund V LP	LPI	45.01%	
PPM America Private Equity Fund VI LP	LPI	43.22%	
PPM America Private Equity Fund VII LP	LPI	48.03%	
PPM America, Inc	OS	90.10%	
PPM CLO 2018-1 Ltd.	PS	74.78%	Queensgate House, South Church Street, George Town, Grand Cayman KY1-1102, Cayman Islands
PPM CLO 3 Ltd.	OS	90.10%	PO Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands

Key to share classes:

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
MFS	Mutual Fund Shares
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address
PPM CLO 4 Ltd.	PS	71.18%	PO Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands
PPM Funds – PPM Core plus Fixed Income Fund	MFS	89.96%	84 State Street, 6th Floor, Boston, MA 02109, USA
PPM Funds – PPM High Yield Core Fund	MFS	90.08%	
PPM Funds – PPM Small Cap Value Fund	MFS	53.84%	
PPM Holdings, Inc	OS	90.10%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM Loan Management Company LLC	MI	90.10%	
PPM Loan Management Holding Company LLC	MI	90.10%	
REALIC of Jacksonville Plans, Inc	OS	90.10%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
ROP, Inc	OS	90.10%	1209 Orange Street, Wilmington, DE 19801, USA
Squire Capital I LLC	MI	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Squire Capital II LLC	OS	90.10%	
Squire Reassurance Company II, Inc	OS	90.10%	40600 Ann Arbor Road, East Suite 201, Plymouth, MI 48170, USA
Squire Reassurance Company LLC	OS	90.10%	1 Corporate Way, Lansing, MI 48951, USA
VFL International Life Company SPC, Ltd.	OS	90.10%	171 Elgin Avenue, Grand Cayman, Cayman Islands
Wynnefield Private Equity Partners I, L.P.	LPI	89.09%	1313 North Market Street Ste 5100, Wilmington, DE 19801, USA

Statement of financial position of the parent company

	Note	31 Dec 2020 $m	31 Dec 2019 $m
Non-current assets			
Investments in subsidiary undertakings	5	12,682	10,444
Amounts owed by subsidiary undertakings		–	2,000
		12,682	12,444
Current assets			
Amounts owed by subsidiary undertakings		6,722	6,352
Tax recoverable		–	66
Other debtors		5	4
Cash at bank and in hand		5	54
		6,732	6,476
Liabilities: amounts falling due within one year			
Commercial paper	6	(501)	(520)
Amounts owed to subsidiary undertakings		(149)	(141)
Tax payable		(16)	(14)
Accruals and deferred income		(79)	(78)
		(745)	(753)
Net current assets		5,987	5,723
Total assets less current liabilities		18,669	18,167
Liabilities: amounts falling due after more than one year			
Subordinated liabilities	6	(4,332)	(4,304)
Debenture loans	6	(1,701)	(690)
Other borrowings	6	(350)	–
		(6,383)	(4,994)
Total net assets		12,286	13,173
Capital and reserves			
Share capital	7	173	172
Share premium	7	2,637	2,625
Profit and loss account	8	9,476	10,376
Shareholders' funds		12,286	13,173

	2020 $m	2019 $m
(Loss) profit for the year	(85)	12,255

The financial statements of the parent company on pages 302 to 308 were approved by the Board of Directors on 2 March 2021 and signed on its behalf.

Shriti Vadera
Chair

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

Statement of changes in equity of the parent company

	Share capital $m	Share premium $m	Profit and loss account $m	Total shareholders' funds $m
Balance at 1 Jan 2019	166	2,502	6,820	9,488
Total comprehensive income for the year				
Profit for the year	–	–	12,255	12,255
Actuarial loss recognised in respect of the defined benefit pension scheme	–	–	(75)	(75)
Foreign exchange translation differences due to change in presentation currency at 31 Dec 2019	–	–	393	393
Total comprehensive income for the year	–	–	12,573	12,573
Transactions with owners, recorded directly in equity				
New share capital subscribed	–	22	–	22
Share based payment transactions	–	–	(4)	(4)
Dividend in specie of M&G plc	–	–	(7,379)	(7,379)
Other dividends	–	–	(1,634)	(1,634)
Foreign exchange translation differences due to change in presentation currency at 31 Dec 2019	6	101	–	107
Total contributions by and distributions to owners	6	123	(9,017)	(8,888)
Balance at 31 Dec 2019	172	2,625	10,376	13,173
Balance at 1 Jan 2020	172	2,625	10,376	13,173
Total comprehensive loss for the year	–	–	(85)	(85)
Transactions with owners, recorded directly in equity				
New share capital subscribed	1	12	–	13
Share based payment transactions	–	–	(1)	(1)
Dividends	–	–	(814)	(814)
Total contributions by and distributions to owners	1	12	(815)	(802)
Balance at 31 Dec 2020	173	2,637	9,476	12,286

Notes to the parent company financial statements

1 Nature of operations

Prudential plc ('the Company') together with its subsidiaries (collectively, 'the Group' or 'Prudential') is an international financial services group. The Group currently has operations in Asia, Africa, the US and the UK. The Group helps individuals to get the most out of life by making healthcare accessible and affordable, helping people accumulate wealth through growing their assets and empowering its customers to save for their goals.

2 Basis of preparation

The financial statements of the Company, which comprise the statement of financial position, statement of changes in equity and related notes, are prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and Part 15 of the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in accordance with IFRS Standards as issued by the IASB and the international accounting standards in conformity with the requirements of the Companies Act 2006 but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The Company has also taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Disclosures in respect of transactions with wholly-owned subsidiaries within the Prudential Group;
- Disclosure in respect of capital management; and
- The effects of new but not yet effective IFRS.

As the consolidated financial statements of the Group include the equivalent disclosures, the Company has also applied the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 'Share Based Payments' in respect of Group-settled share-based payments;
- Disclosure required by IFRS 7 'Financial Instrument Disclosures' and IFRS 13 'Fair Value Measurement', except for the consequential amendments to IFRS 7 related to IFRS 9 which have not been adopted by the Group; and
- IFRS 15, 'Revenue from Contracts with Customers' in respect of revenue recognition.

The accounting policies set out in note 3 below have, unless otherwise stated, been applied consistently to both years presented in these financial statements.

The Company and Group manages its cash resources, remittances and financing primarily in US dollars. Accordingly, the functional currency of the Company is US dollars.

3 Significant accounting policies

Investments in subsidiary undertakings

Investments in subsidiary undertakings are shown at cost, less impairment. Investments are assessed for impairment by comparing the net assets of the subsidiary undertakings with the carrying value of the investment.

Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are shown at cost, less provisions. Provisions are determined using the expected credit loss approach under IFRS 9.

Financial Instruments

Under IFRS 9, except for derivative instruments (where applicable) that are mandatorily classified as fair value through profit or loss, all of the financial assets and liabilities of the Company are held at amortised cost. The Company assesses impairment on its loans and receivables using the expected credit loss approach. The expected credit loss on the Company's loans and receivables, the majority of which represent loans to its subsidiaries, have been assessed by taking into account the probability of default on those loans. In all cases, the subsidiaries are expected to have sufficient resources to repay the loan either now or over time based on projected earnings. For loans recallable on demand, the expected credit loss has been limited to the impact of discounting the value of the loan between the balance sheet date and the anticipated recovery date. For loans with a fixed maturity date the expected credit loss has been determined with reference to the historic experience of loans with equivalent credit characteristics.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs, and subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds, net of transaction costs, is amortised through the profit and loss account to the date of maturity or, for subordinated debt, over the expected life of the instrument. Where modifications to borrowings do not result in a substantial difference to the terms of the instrument, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining expected life of the modified instrument. Where modifications to borrowings do result in a substantial difference to the terms of the instrument, the instrument is treated as if it had been extinguished and replaced by a new instrument which is initially recognised at fair value and subsequently accounted for on an amortised cost basis using the effective interest method. Any costs or fees arising from such a modification are recognised as an expense when incurred.

Dividends

Interim dividends are recorded in the period in which they are paid.

Share premium

The difference between the proceeds received on issue of shares and the nominal value of the shares issued is credited to the share premium account.

Foreign currency translation

Transactions not denominated in the Company's functional currency, US dollars, are initially recorded at the functional rate of currency prevailing on the date of the transaction. Monetary assets and liabilities not denominated in the Company's functional currency are translated to the Company's functional currency at year end spot rates. The impact of these currency translations is recorded within the profit and loss account for the year.

Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year. To the extent that losses of an individual UK company are not offset, they can be carried back for one year or carried forward indefinitely to be offset, subject to restrictions based on future taxable profits, against profits arising from the same company or other companies in the same UK tax group.

Deferred tax assets and liabilities are recognised in accordance with the provisions of IAS 12 'Income Taxes'. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that future taxable profits will be available against which these losses can be utilised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Following the demerger of M&G plc, it is unlikely that the UK tax group will have future taxable income which would enable a current tax credit or deferred tax asset to be recognised.

Share-based payments

The Group offers share award and option plans for certain key employees and a Save As You Earn ('SAYE') plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled.

Under IFRS 2 'Share-based payment', where the Company, as the parent company, has the obligation to settle the options or awards of its equity instruments to employees of its subsidiary undertakings, and such share-based payments are accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognised directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions. Cash receipts from business units in respect of newly issued share schemes are treated as returns of capital within investments in subsidiaries.

4 Reconciliation from the FRS 101 parent company results to the IFRS Group results

The parent company financial statements are prepared in accordance with FRS 101 and the Group financial statements are prepared in accordance with 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 tables below provide a reconciliation between the FRS 101 parent company results and the IFRS Group results.

	2020 $m	2019 $m
Profit after tax		
(Loss)/profit for the financial year of the Company in accordance with FRS 101 note (i)	(85)	12,255
Accounting policy difference note (ii)	(18)	15
Share in the IFRS result of the Group, net of distributions to the Company note (iii)	2,221	(11,487)
Profit after tax of the Group attributable to equity holders in accordance with IFRS	2,118	783

	31 Dec 2020 $m	31 Dec 2019 $m
Shareholders' equity		
Shareholders' funds of the Company in accordance with FRS 101	12,286	13,173
Accounting policy difference note (ii)	15	33
Share in the IFRS net equity of the Group note (iii)	8,577	6,271
Shareholders' equity of the Group in accordance with IFRS	20,878	19,477

Notes

(i) The Company's (loss) profit for the financial year includes distributions to the Company from subsidiaries.

(ii) Accounting policy difference represents difference in accounting policy for expected credit losses on loan assets, the Company has adopted IFRS 9 while the Group applies IAS 39.

(iii) The 'share in the IFRS result and net equity of the Group' lines represent the parent company's equity in the earnings and net assets of its subsidiaries and associates.

The (loss) profit for the year of the Company in accordance with IFRS includes dividends received from subsidiary undertakings of $406 million for the year ended 31 December 2020 (2019: $9,599 million). Dividends received in 2019 included dividends from M&G plc prior to demerger of $5,566 million and dividends from US subsidiaries of $2,000 million in the form of non-current debt instruments. This debt instrument was settled in June 2020, in exchange for an issue of equity shares from an immediate subsidiary of the Company.

5 Investments in subsidiary undertakings

	2020 $m	2019 $m
At 1 Jan	10,444	13,787
Capital injections and acquisitions	–	72
Exchange of non-current debt instruments for equity shares note (i)	2,000	–
Equity shares issued in exchange for assuming bank loan liability note (ii)	350	–
Distribution of M&G plc – cost of investment note (iii)	–	(3,730)
Other disposals	–	(13)
Amounts in respect of share based payments note (iv)	(112)	(123)
Other note (v)	–	451
At 31 Dec	12,682	10,444

Notes

(i) On 16 June 2020, the non-current debt instrument of $2,000 million received by the Company in 2019 as a dividend in specie was settled in exchange for the issue of equity instruments from Prudential Corporation Asia Limited, an immediate subsidiary of the Company.

(ii) On 20 June 2020, Prudential Corporation Asia Limited issued equity shares to Company, in exchange for the Company assuming a bank loan liability of $350 million (see note 6).

(iii) On 21 October 2019, the Company distributed its equity shareholding in its subsidiary M&G plc as a dividend in-specie.

(iv) Amounts in respect of share-based payments of $(112) million (2019: $(123) million) comprise of $2 million (2019: $5 million) in respect of share-based payments reflecting the value of payments settled by the Company for employees of its subsidiary undertakings, less $(114) million (2019: $(128) million) relating to cash received from subsidiaries in respect of share awards.

(v) The 2019 comparative included amounts relating to foreign translation differences arising on the retranslation of reserves due to the change in the Company's presentation currency on 31 December 2019.

Investments in subsidiaries held at 31 December 2020 have been assessed for impairment and no impairment was identified.

Subsidiary undertakings of the Company at 31 December 2020 are listed in note D6 of the Group IFRS financial statements.

6 Borrowings

	Core structural borrowings		Other borrowings		Total	
	31 Dec 2020 $m	31 Dec 2019 $m	31 Dec 2020 $m	31 Dec 2019 $m	31 Dec 2020 $m	31 Dec 2019 $m
Core structural borrowings note (i)						
Subordinated liabilities note (ii)	4,332	4,304	–	–	4,332	4,304
Debenture loans	1,701	690	–	–	1,701	690
Bank loan note (iii)	350	–	–	–	350	–
	6,383	4,994	–	–	6,383	4,994
Commercial paper note (iv)	–	–	501	520	501	520
Total borrowings	6,383	4,994	501	520	6,884	5,514
Borrowings are repayable as follows:						
Within 1 year	–	–	501	520	501	520
Between 1 and 5 years	780	414	–	–	780	414
After 5 years	5,603	4,580	–	–	5,603	4,580
	6,383	4,994	501	520	6,884	5,514

Notes

(i) Further details on the core structural borrowings of the Company are provided in note C5.1 of the Group IFRS financial statements.

(ii) The interests of the holders of the subordinated liabilities are subordinate to the entitlements of other creditors of the Company.

(iii) On 20 June 2020, the Company assumed a $350 million bank loan from a subsidiary entity. In November 2020, the $350 million loan was settled, and the Company 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.

(iv) These borrowings support a short-term fixed income securities programme.

7 Share capital and share premium

A summary of the ordinary shares in issue and the options outstanding to subscribe for the Company's shares at 31 December 2020 is set out in note C8 of the Group IFRS financial statements.

8 Retained profit of the Company

Retained profit at 31 December 2020 amounted to $9,476 million (31 December 2019: $10,376 million). The retained profit includes distributable reserves of $3,838 million (31 December 2019: $4,735 million) and non-distributable reserves of $5,638 million (31 December 2019: $5,641 million). The non-distributable reserves of the Company relate to gains on intra-group transactions, in which qualifying consideration was not received, and share-based payment reserves.

Under UK company law, Prudential may pay dividends only if sufficient distributable reserves of the Company are available for the purpose and if the amount of its net assets is greater than the aggregate of its called up share capital and non-distributable reserves (such as the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate.

The retained profit of the Company is substantially generated from dividend income received from subsidiaries. The Group segmental analysis illustrates the generation of profit across the Group (see note B1 of the Group IFRS financial statements). The Group and its subsidiaries are subject to local regulatory minimum capital requirements, as set out in note C10 of the Group IFRS financial statements. A number of the principal risks set out in the 'Group Chief Risk and Compliance Officer's report on the risks facing our business and how these are managed' could impact the generation of profit in the Group's subsidiaries in the future and hence impact their ability to pay dividends in the future.

In determining the dividend payment in any year, the directors follow the Group dividend policy described in the Group Chief Financial Officer and Chief Operating Officer's report section of this Annual Report. The directors consider the Company's ability to pay current and future dividends twice a year by reference to the Company's business plan and certain stressed scenarios.

9 Other information

a Information on key management remuneration is given in note B2.3 of the Group IFRS financial statements. Additional information on directors' remuneration is given in the directors' remuneration report section of this Annual Report.
b Information on transactions of the directors with the Group is given in note D4 of the Group IFRS financial statements.
c The Company employs no staff.
d Fees payable to the Company's auditor for the audit of the Company's annual accounts were $0.1 million (2019: $0.1 million) and for other services were $0.1 million (2019: $0.1 million).
e In certain instances, the Company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

10 Post balance sheet events

Dividends

The second interim ordinary dividend for the year ended 31 December 2020, which was approved by the Board of Directors after 31 December 2020, is described in note B5 of the Group IFRS financial statements.

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.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework. In addition, the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

The directors of Prudential plc, whose names and positions are set out on pages 122 to 127 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Independent auditor's report to the members of Prudential plc

1. Our opinion is unmodified

We have audited the financial statements of Prudential plc ("the Company") for the year ended 31 December 2020 which comprise;

— the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position and consolidated statement of cash flows, and the related notes, including accounting policies in note A3.1; and

— the parent company statements of financial position and of changes in equity, and the related notes, including the significant accounting policies in note 3.

In our opinion:

— The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;

— The Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;

— The parent company financial statements have been properly prepared in accordance with UK Accounting Standards including FRS 101 Reduced Disclosure Framework; and

— The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders in October 1999. The period of total uninterrupted engagement is for the 22 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the Financial Reporting Council ('FRC') Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2019) in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of insurance contract liabilities and investment contract liabilities with discretionary participation features (2020: $437,266 million, 2019: $380,776 million).

The risk compared to the prior year has increased.

Refer to page 150 (Audit Committee report), page 216 (accounting policy) and pages 259 to 269 (financial disclosures)

The risk

The Group has significant insurance contract liabilities and investment contract liabilities with discretionary participation features (policyholder liabilities) representing 88 per cent (2019: 88 per cent) of the Group's total liabilities.

Subjective valuation

This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of these long term policyholder liabilities, and we consider the risk to have increased in the current year in light of the business and economic disruption caused by the Coronavirus pandemic's (COVID-19) potential impact on policyholder behaviour in respect of decisions such as lapses and guarantee utilisation, making historical experience less reliable in setting operating assumptions.

Auditor judgement is required to assess whether the directors' overall estimate, taking into account key economic assumptions, including investment return and associated discount rates, and operating assumptions including mortality, morbidity, expenses, utilisation of guarantees and persistency (including consideration of policyholder behaviour), which are the key inputs used to estimate these long term liabilities, falls within an acceptable range, in addition to the appropriate design and calibration of complex reserving models.

The specific application of these judgements to individual segments is explained below.

For the US insurance segment, the valuation of the guarantees in the variable annuity ('VA') business is complex as it involves exercising significant judgement related to inputs such as expected market rates of return, fund performance, and discount rates, as well as assumptions such as mortality, benefit utilisation, and persistency.

For the Asia insurance segment, the valuation of the policyholder liabilities requires significant judgement over the setting of mortality, morbidity, persistency and expense assumptions.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of policyholder liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements note C6 disclose the sensitivities estimated by the Group.

Our response

We used our own actuarial specialists to assist us in performing our procedures in this area.

Our procedures included:

Methodology choice

We assessed the methodology for selecting assumptions and calculating the policyholder liabilities. This included:

— Assessing the methodology adopted for selecting assumptions by applying our industry knowledge and experience and comparing the methodology used against industry standard actuarial practice;

— Assessing the methodology adopted for calculating the policyholder liabilities by reference to the requirements of the accounting standard and actuarial market practice, and assessing the impact of current year changes in methodology on the calculation of policyholder liabilities, including the discount rate applied to the valuation of insurance contract liabilities with certain guaranteed withdrawal benefits in the US;

— Comparing changes in methodology to our expectations derived from market experience, taking into account the impact of COVID-19 on the observed policyholder experience and the extent to which such impacts are likely to persist; and

— Evaluating the analysis of the movements in policyholder liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted.

Control operation

We used our own IT specialists to assist us in performing our procedures in this area which included testing of the design, implementation and operating effectiveness of key controls over the valuation process. Controls testing in respect of the valuation process included assessment and approval of the methods and assumptions adopted over the calculation of policyholder liabilities as well as appropriate access and change management controls over the actuarial models.

Valuation of insurance contract liabilities and investment contract liabilities with discretionary participation features (2020: $437,266 million, 2019: $380,776 million).

The risk compared to the prior year has increased.

Refer to page 150 (Audit Committee report), page 216 (accounting policy) and pages 259 to 269 (financial disclosures)

The risk	Our response
	Our procedures for the US insurance segment also included: **Historical comparison** — Assessing the assumptions relating to benefit utilisation, persistency, and mortality by comparing to relevant company and industry historical experience data in order to assess whether this supported the year-end assumptions adopted, taking into account the impact of COVID-19 on the observed policyholder experience. **Benchmarking assumptions and sector experience** — Assessing the assumptions for expected market rates of returns and fund performance by comparing to company specific and industry data and for future growth rates by comparing to market trends and market volatility. — Utilising the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of assumptions in relation to policyholder behaviour. **Model evaluation** — Assessing the cash flow projections in the reserving models by reference to the inclusion of relevant product features. We have also assessed the impact of modelling and assumption changes by inspecting pre and post change model runs and comparing the outcomes of the changes to our expectations. — Independently recalculating the liabilities for a selection of individual policies to assess whether the selected model calibration had been appropriately implemented. ***Our procedures for the Asia insurance segment also included:*** **Historical comparison** — Evaluating the experience analysis in respect of the mortality, morbidity, persistency, and expense assumptions by reference to actual experience, taking into account the impact of COVID-19 on the observed experience in order to assess whether this supported the year-end assumptions adopted. **Benchmarking assumptions and sector experience** — Using our sector experience and market knowledge to inform our challenge of the assumptions in the areas noted above. **Model evaluation** — Assessing the reserving models by considering the accuracy of the cash flow projections including by reference to the inclusion of relevant product features. We have also assessed the impact of modelling and assumption changes by inspecting pre and post change model runs and comparing the outcomes of the changes to our expectations. **Assessing transparency** We assessed whether the disclosures in relation to the assumptions used in the valuation of policyholder liabilities are compliant with the relevant accounting requirements. **Our result** We found the valuation of policyholder liabilities to be acceptable (2019: acceptable).

Valuation of certain level 2 and level 3 investments held at fair value (2020: $63,823 million, 2019: $77,203 million).

The risk compared to the prior year has increased.

Refer to page 150 (Audit Committee report), page 220 (accounting policy) and pages 250 to 258 (financial disclosures)

The risk	Our response
The Group's investments portfolio represents 83 per cent (2019: 89 per cent) of the Group's total assets. **Subjective valuation** The area that involved significant audit effort and judgement in 2020 was the valuation of certain level 2 and level 3 positions within the portfolio of financial investments held at fair value. These included unlisted debt securities and unlisted funds that are valued by reference to their Net Asset Value ('NAV funds'). For these positions a reliable third-party price was not readily available and therefore involved the application of expert judgement in the valuations adopted. Auditor judgement is required to assess whether the directors' overall estimate, based on their judgement depending on the observability and significance of the inputs into the valuation and the consequent impact on the classification of those investments, falls within an acceptable range, and further judgement is required in determining the appropriate valuation methodology where external pricing sources are either not readily available or are unreliable. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of certain level 2 and 3 investments held at fair value has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements note C6 disclose the sensitivities estimated by the Group.	We used our own valuation specialists in order to assist us in performing our procedures in this area. Our procedures included: **Methodology choice** We assessed the appropriateness of the pricing methodologies with reference to relevant accounting standards as well as industry practice. **Control operation** We tested the design, implementation and operating effectiveness of key controls over the valuation process, including the Group's review and approval of the estimates and assumptions used for the valuation including key authorisation and data input controls. **Tests of details** For a sample of securities, we used our valuation specialists to assess the Group's classification of assets within Level 2 or Level 3 by evaluating the observability of the inputs used in valuing these securities. For a sample of unlisted debt securities we compared the price adopted to our independently derived price, using our valuation specialists. For a sample of unlisted equity securities, we agreed the valuations for the NAV funds to the most recent NAV statements. To assess reliability of these statements we compared to audited financial statements of the funds, where available, or performed a retrospective test over the NAV valuations for each fund to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time. **Assessing transparency** We assessed whether the disclosures in relation to the valuation of level 2 and 3 investments held at fair value are compliant with the relevant accounting requirements. **Our result** We found the valuation of level 2 and 3 investments held at fair value to be acceptable (2019: acceptable).

Amortisation of US deferred acquisition costs ('DAC') (2020: $13,863 million, 2019: $12,240 million).

The risk compared to the prior year has increased

Refer to page 150 (Audit Committee report), page 219 (accounting policy) and pages 271 to 273 (financial disclosures)

The risk	Our response
DAC represents 3 per cent (2019: 3 per cent) of the Group's total assets. The DAC associated with the US component, which represents 85 per cent (2019: 86 per cent) of the total DAC, involves the greatest judgement in terms of measurement. **Subjective valuation** US DAC related to annuities is amortised in proportion to estimated gross profits. Auditor judgement is required to assess whether the directors' overall estimate, taking into account key assumptions impacting estimated gross profits, which include assumptions such as benefit utilisation, mortality and persistency as well as the assumptions around long-term investment return and future hedge costs, falls within an acceptable range. We consider the risk to have increased in the current year due to the business and economic disruption caused by the Coronavirus pandemic and its impact on policyholder experience, and the prolonged low interest rate environment. The effect of these matters is that, as part of our risk assessment, we determined that the amortisation of US DAC has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements note C6 discloses the sensitivities estimated by the Group.	We used our own actuarial specialists to assist us in performing our audit procedures in this area. Our procedures included: **Historical comparison** Assumptions relating to benefit utilisation, persistency and mortality are also relevant to the calculation of the insurance contract liabilities. See further detail in our response to that risk. We have also assessed the appropriateness of the assumptions used in determining the estimated future profit profile and the extent of the associated adjustment necessary to the amortisation of the US DAC asset. Our work included critically assessing the judgements that determine the future profit profiles in the context of actual historical experience as well as by reference to market trends. **Our sector experience** We challenged the reasonableness of the selected assumptions relating to projected investment return and future hedge costs based on our understanding of developments in the business and the impact of COVID-19 related uncertainty on market performance and volatility. Our work included comparing the projected investment returns against the investment portfolio mix and market return data. Additionally, we evaluated management's modelling approach for deriving the assumption for future hedge costs by reference to actuarial market practice, trends in the historical profile of hedge costs, and our expectations regarding the likely development of interest rates and the associated impact on the hedge costs. **Tests of details** We assessed the appropriateness of the extent of amortisation adjustment in the current period by recalculating the estimated gross profits for a selection of individual policies by reference to the future profiles. **Assessing transparency** We assessed whether the disclosures in relation to the amortisation of US DAC are compliant with the relevant accounting requirements. **Our result** We found the amortisation of US DAC to be acceptable (2019: acceptable).

Recoverability of parent company's investment in subsidiaries – (2020: $12,682 million, 2019: $10,444 million)

The risk compared to the prior year is unchanged. The risk relates to the parent company financial statements.

Refer to page 150 (Audit Committee report), Refer to page 304 (accounting policy) and page 306 (financial disclosures)

The risk	Our response
Low risk, high value The carrying amount of the parent company's investments in subsidiaries represents 65 percent (2019: 55 percent) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: **Tests of details** Comparing the carrying amount of 100% of the investments in subsidiaries with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. **Assessing subsidiary audits** Assessing the work performed by the subsidiary audit teams on all of those subsidiaries and considering the results of that work on those subsidiaries' profits and net assets. **Our result** We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable (2019: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at $250 million (2019: $298 million) determined with reference to a benchmark of IFRS shareholders' equity (of which it represents 1.2 per cent (2019: 1.5 per cent)). We consider IFRS shareholders' equity to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after policyholder assets and corresponding liabilities have been accounted for; we consider that this is the most appropriate measure for the size of the business and that it provides a stable measure year on year. We compared our materiality against other relevant benchmarks (total assets, total revenue and profit before tax) to ensure the materiality selected was appropriate for our audit. We set out below the materiality thresholds that are key to the audit.

Materiality for the parent company financial statements as a whole was set at $60 million (2019: $40 million), determined with reference to a benchmark of parent company's net assets, of which it represents 0.5 per cent (2019: 0.3 per cent). The component materiality, as determined by the Group audit team, applied to the audit of the parent company financial statements as a whole is lower than the materiality we would otherwise have determined by reference to its net assets.

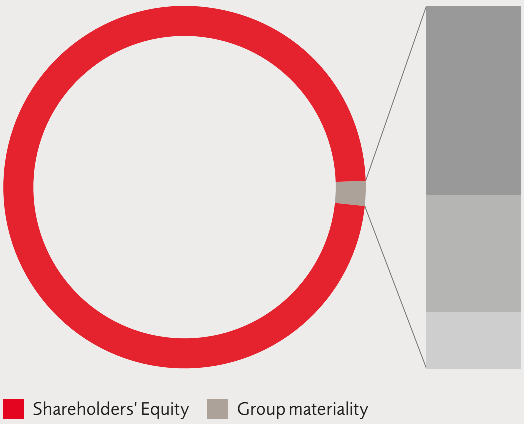
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that detected and undetected immaterial misstatements in individual account balances aggregate up to a material amount across the financial statements as a whole.

Performance materiality for both the group and parent company was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to $187 million (2019: $223 million) and $45 million (2019: $30 million), respectively. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk across the financial statements as a whole.

We agreed to report to the Group audit committee any corrected or uncorrected identified misstatements exceeding $12.5 million (2019: $15 million) in addition to other identified misstatements that warrant reporting on qualitative grounds.

IFRS Shareholders' Equity
$20.88bn (2019: $19.48bn)

Group Materiality
$250m (2019: $298m)



$250m
Whole financial statements materiality
(2019: $298m)

$187m
Whole financial statements performance materiality
(2019: $223m)

$120m
Range of materiality at 13 components ($13m–$120m)
(2019: $55m to $115m)

$12.5m
Misstatements reported to the audit committee
(2019: $15m)

We subjected the Group's operations to audits for group reporting purposes as follows:

Of the 14 (2019:14) reporting components scoped in for the Group audit, we subjected 8 (2019: 10) to full scope audits for group reporting purposes, 4 (2019: 4) to an audit of account balances, 1 (2019: nil) to specified risk-focused audit procedures over cash and debt securities and 1 (2019: nil) to specified risk-focused audit procedures over operational and other borrowings. The components for which we performed work other than full scope audits for group reporting purposes were not individually significant but were included in the scope of our group reporting work as they did present specific individual audit risks that needed to be addressed or in order to provide further coverage over the Group's results.

The components subjected to full scope audits consisted of the parent company and the insurance operations in the US, Hong Kong, Indonesia, Singapore, Malaysia, Vietnam, and mainland China.

The components subjected to an audit of account balances included the insurance operations in Thailand, Taiwan and the Philippines, and the fund management operations of Eastspring Singapore. The account balances audited for Thailand were policyholder liabilities, investments, deferred acquisition costs, intangible assets, premiums and claims; the account balances audited for Taiwan were policyholder liabilities, investments, and deferred acquisition costs, premiums and claims; the account balances audited for Eastspring Singapore were other income and expenses the account balances audited for the Philippines were policyholder liabilities and investments. The components for which we performed specified audit risk-focused procedures over cash and debt securities as well as operational and other borrowings were the Group's treasury operations as well as the US collateralised loan obligation operations, respectively.

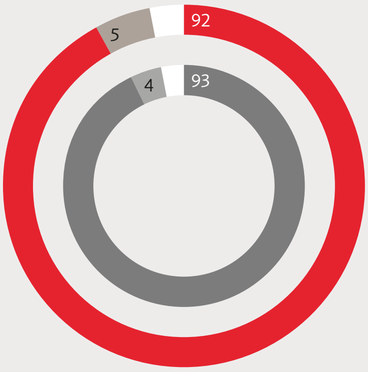
For the remaining operations, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these operations.

These components accounted for the following percentages of the Group's results:

Group revenue

97%

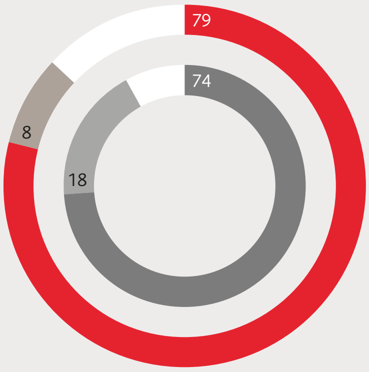
(2019: 97%)



Group profit before tax[1]

87%

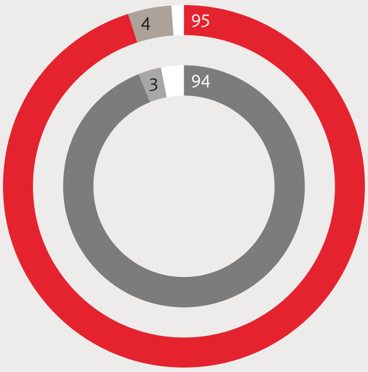
(2019: 92%)



Group total assets

99%

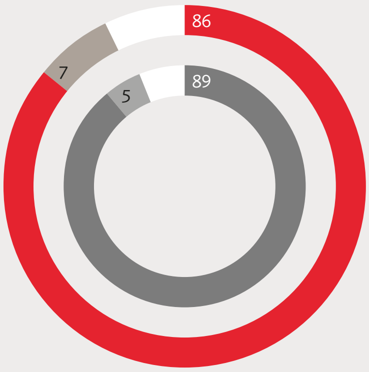
(2019: 97%)



Group shareholders' equity

93%

(2019: 94%)



- Full scope for Group audit purposes 2020
- Audit of account balances and specified risk focused audit procedures 2020
- Full scope for Group audit purposes 2019
- Audit of account balances and specified risk focused audit procedures 2019
- Residual components

Note

1 These percentages represent the total profits and losses that made up group profit before tax

The Group audit team held a global planning conference with component auditors to identify audit risks and decide how each component team should address the identified audit risks. The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported. The Group audit team approved the component materialities, which ranged from $13 million to $120 million (2019: $40 million to $238 million) across the components, having regard to the size and risk profile of the Group across the components. The work on 12 components (2019: 13 components) was performed by component auditors and work on the remaining two components, which included the parent company, was performed by the Group audit team.

Whilst it would be conventional practice to visit component teams, the impact of the Coronavirus restrictions on travel has required an alternative approach this year, which required more extensive use of video and telephone conference meetings with all component auditors. During these video and telephone conference meetings, an assessment was made of audit risk and strategy, the findings reported to the Group audit team were discussed in more detail, key working papers were inspected and any further work required by the Group audit team was then performed by the component auditor.

The Group team also routinely reviews the audit documentation of all component audits. This year for one component in mainland China, a joint venture of the Group, we were unable to perform a file review. As the Coronavirus prevented entry to the country throughout the audit period, and remote access to audit documentation is prohibited, we instead extended our oversight of that component team through extended telephone and video discussions and expanded reporting.

The Senior Statutory Auditor, in conjunction with other senior staff in the Group and component audit teams, also regularly attended Business Unit audit committee meetings and participated in meetings with local components to obtain additional understanding, first hand, of the key risks and audit issues at a component level which may affect the Group financial statements.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group and Company, its industry, and the general economic environment in which it operates to identify the inherent risks to its business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. The risks that were considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Group's investments, wider credit spreads and defaults and valuation of policyholder liabilities due to the impact of these market movements;
- The impact on regulatory capital solvency margins from movements in interest rates; and
- Severely adverse policyholder lapse or claims experience.

We also considered less predictable but realistic second order impacts, such as failure of some of the Group's counterparties (such as banks and reinsurers) to meet commitments, which could give rise to a negative impact on the Group's financial position and liquidity, and wider economic factors such as the Coronavirus pandemic's impact on economic volatility and market uncertainty in the period, and other such macroeconomic events.

We considered whether these risks could plausibly affect the liquidity or solvency in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Group's and Company's cash flow forecasts taking account of severe but plausible adverse effects that could arise from these risks individually and collectively.

We considered whether the going concern disclosure in note A1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group and Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in note A1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note A1 to be acceptable; and
- the related statement under the Listing Rules set out on page 168 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group and the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit, group security, and inspecting key papers provided to those charged with governance as to the high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing" and process for engaging local management to identify fraud risks specific to their business units, as well as whether they have knowledge of any actual, suspected, or alleged fraud.
- Reading board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for directors.
- Consulted with professionals with forensic knowledge to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group team to all component audit teams in scope of relevant fraud risks identified at the Group level and requests to these audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risks of management override of controls, in particular the risk that group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. Accordingly, we identified fraud risks related to both the valuation of insurance contract liabilities and US DAC amortisation. This reflects their direct impact on the Group's profit, the opportunity for management to manipulate assumptions due to the subjectivity involved and given the long-term nature of these assumptions which are more difficult to corroborate, and potential incentives for the group to manipulate the profitability of both the US and Asia businesses given the planned separation of the US business taking into account the potential for any management bias in determining the results for the US business.

On this audit we do not consider there is a fraud risk related to revenue recognition as there is limited management judgement involved in the determination of all material revenue streams as the amounts are contractually derived.

In determining the audit procedures to address the identified fraud risks, we took into account the results of our evaluation and testing of the operating effectiveness of the group-wide anti-fraud risk controls. In order to address the risk of fraud specifically as it relates to the valuation of insurance contract liabilities and amortisation of US DAC, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the appropriateness of the rationale for any changes, the consistency of the selected assumptions across different aspects of the financial reporting process and comparison to our understanding of the product portfolio, trends in experience, policyholder behaviour and economic conditions and also by reference to market practice. Further detail in respect of these is set out in the audit response to the risks associated with these two key audit matters in section 2 of this report.

To address the pervasive risk as it relates to management override, we also performed procedures including:

- Identifying journal entries to test for all in-scope components, other than those only in scope for specified risk-based audit procedures, based on risk criteria and comparing the identified entries to supporting documentation. These include unusual journal entries posted to either cash or borrowings.
- Evaluating the business purpose of non-recurring transactions.
- Assessing significant accounting estimates for bias.

We discussed with the audit committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors, and from inspection of the Group's regulatory and legal correspondence. We discussed with the directors and other management the policies and procedures regarding compliance with laws and regulation.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to all in-scope component audit teams, with the exception of those scoped in only for specified risk-based audit procedures, of relevant laws and regulations identified at the group level, and a request for these teams to report to the group any instances of non-compliance with said laws and regulations, or any identified local laws and regulations, that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the area of regulatory capital as that most likely to have such an effect recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected to breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge. Based on those procedures, we have nothing material to add or draw attention to in relation to:

- The directors' confirmation within the viability statement on page 68, that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

— The emerging and principal risks disclosures on pages 45 to 69 describing these risks and explaining how they are being managed and mitigated; and

— The directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 68, under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

— the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;

— the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how those issues were addressed; and

— the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

— Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

— The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— Certain disclosures of directors' remuneration specified by law are not made; or

— We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 309, the directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Philip Smart

Philip Smart (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

Public Interest Entity Auditor recognised in accordance with the Hong Kong Financial Reporting Council Ordinance

Chartered Accountants
London

2 March 2021

European Embedded Value (EEV) basis results

Contents

Index to European Embedded Value (EEV) basis results

Notes on the EEV basis results

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.

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 Asia	2020 $m US	2020 $m Other note 5	2020 $m Group total	2019 $m 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

Movement in Group EEV shareholders' equity continued

	Note	2020 $m Asia	2020 $m US	2020 $m Other note 5	2020 $m Group total	2019 $m Group total
Contribution to Group EEV:						
At end of year:						
Long-term business	2	42,808	12,076	–	54,884	54,179
Asset management and other	5	635	5	(2,338)	(1,698)	(290)
Goodwill attributable to equity holders		798	–	23	821	822
EEV shareholders' equity ($ 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 Net of tax $m	2020 Non-controlling interests $m	2020 Net of tax and non-controlling interests $m	2020 Basic earnings per share cents	2019 Basic earnings per share cents
Based on operating profit from continuing operations after non-controlling interests	5,220	(133)	5,087	195.5¢	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 2,596 million shares in 2020 (2019: 2,587 million shares).

The supplementary information on pages 323 to 347 was approved by the Board of Directors on 2 March 2021.

Shriti Vadera
Chair

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

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

Movement in Group free surplus continued

	2020 $m					2019 $m
	Asia	US	Total insurance and asset management	Other note 5	Group total	Group total
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

	2020 $m					2019 $m
	Free surplus	Required capital	Net worth	Value of in-force business	Embedded value	Embedded value
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.

2 Analysis of movement in EEV for long-term business operations continued

(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)

3 Sensitivity of results for long-term business operations to alternative assumptions continued

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.

8 Methodology and accounting presentation continued

(i) Methodology continued

(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 hedge 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.

8 Methodology and accounting presentation continued

(i) Methodology continued

(h) Allowance for risk and risk discount rates continued

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).

9 Assumptions continued

(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.

Statement of Directors' responsibilities in respect of the European Embedded Value (EEV) basis supplementary information

The directors have chosen to prepare supplementary information in accordance with the European Embedded Value Principles issued by the European Insurance CFO Forum in 2016 ('the EEV Principles') using the methodology and assumptions set out in the Notes on the EEV basis results.

When compliance with the EEV Principles is stated, those principles require the directors to prepare supplementary information in accordance with the Embedded Value Methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV guidance included in the EEV Principles.

In preparing the EEV supplementary information, the directors have:

- Prepared the supplementary information in accordance with the EEV Principles;
- Identified and described the business covered by the EVM;
- Applied the EVM consistently to the covered business;
- Determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently;
- Made estimates that are reasonable and consistent; and
- Described the basis on which business that is not covered business has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group's financial statements.

Independent auditor's report to Prudential plc on the European Embedded Value (EEV) basis supplementary information

Opinion

We have audited the EEV basis supplementary information of Prudential plc ('the Company') for the year ended 31 December 2020 which comprise the EEV results highlights, movement in Group EEV shareholders' equity, movement in Group free surplus and related notes, including the basis of preparation on page 323. The EEV basis supplementary information should be read in conjunction with the Group financial statements.

In our opinion, the EEV basis supplementary information of the Company for the year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the European Embedded Value Principles issued by the European Insurance CFO Forum in 2016 ('the EEV Principles') using the methodology and assumptions set out in the Notes on the EEV basis results.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and the terms of our engagement. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to page 323 of the EEV basis supplementary information. As explained on that page, the EEV basis supplementary information is prepared to provide additional information to users of the Group financial statements. As a result, the EEV basis supplementary information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going Concern

The Directors have prepared the EEV basis supplementary information on the going concern basis as they do not intend to liquidate the Group or to cease their operations, and as they have concluded that the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the EEV basis supplementary information ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment in which it operates to identify the inherent risks to its business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. The risks that were considered most likely to adversely affect the Group's available financial resources over this period were:

- Adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Group's investments, wider credit spreads and defaults and valuation of EEV shareholders' equity due to the impact of these market movements;
- The impact on regulatory capital solvency margins from movements in interest rates; and
- Severely adverse policyholder lapse or claims experience.

We also considered less predictable but realistic second order impacts, such as failure of some of the Group's counterparties (such as banks and reinsurers) to meet commitments, which could give rise to a negative impact on the Group's financial position and liquidity, and wider economic factors such as the Coronavirus pandemic's impact on economic volatility and market uncertainty in the period, and other such macroeconomic events.

We considered whether these risks could plausibly affect the liquidity or solvency in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Group's cash flow forecasts taking account of severe but plausible adverse effects that could arise from these risks individually and collectively.

We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the EEV basis supplementary information is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure to be acceptable.

However, as we cannot predict future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

— Enquiring of directors, the audit committee, internal audit, group security, and inspecting key papers provided to those charged with governance as to the high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing" and process for engaging local management to identify fraud risks specific to their business units, as well as whether they have knowledge of any actual, suspected, or alleged fraud.

— Reading board and audit committee minutes.

— Considering remuneration incentive schemes and performance targets for directors.

— Consulted with professionals with forensic knowledge to assist us in identifying fraud risks based on discussions of the circumstances of the Group.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group team to all component audit teams in scope of relevant fraud risks identified at the Group level and requests to these audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risks of management override of controls, in particular the risk that group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. Accordingly, we identified a fraud risk related to the selection of EEV operating assumptions given their direct impact on the Group's embedded value, the opportunity for management to manipulate assumptions due to the subjectivity involved and given the long-term nature of these assumptions which are more difficult to corroborate, and potential incentives for the group to manipulate the embedded value of both the US and Asia businesses given the planned separation of the US business.

On this audit we do not consider there is a fraud risk related to revenue recognition as there is limited management judgement involved in the determination of all material revenue streams as the amounts are contractually derived.

In determining the audit procedures to address the identified fraud risks, we took into account the results of our evaluation and testing of the operating effectiveness of the group-wide anti-fraud risk controls. In order to address the risk of fraud specifically as it relates to the EEV operating assumptions, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the appropriateness of the rationale for any changes, the consistency of the selected assumptions across different aspects of the financial reporting process and comparison to our understanding of the product portfolio, trends in experience, policyholder behaviour and economic conditions and also by reference to market practice.

To address the pervasive risk as it relates to management override, we also performed procedures including:

— Identifying journal entries to test for all in-scope components, based on risk criteria and comparing the identified entries to supporting documentation. These include unusual journal entries related to non-recurring transactions.

— Evaluating the business purpose of non-recurring transactions.

— Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the EEV basis supplementary information from our general commercial and sector experience, through discussion with the directors, and from inspection of the Group's regulatory and legal correspondence. We discussed with the directors and other management the policies and procedures regarding compliance with laws and regulation.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to all in-scope component audit teams of relevant laws and regulations identified at the group level, and a request for these teams to report to the group any instances of non-compliance with said laws and regulations, or any identified local laws and regulations, that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the EEV basis supplementary information varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the EEV basis supplementary information including taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related EEV basis supplementary information items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the EEV basis supplementary information, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the area of regulatory capital as that most likely to have such an effect recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the EEV basis supplementary information, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the EEV basis supplementary information, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The directors are responsible for the other information presented in the Annual Report together with the EEV basis supplementary information. Our opinion on the EEV basis supplementary information does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our EEV basis supplementary information audit work, the information therein is materially misstated or inconsistent with the EEV basis supplementary information or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Directors' responsibilities

As explained more fully in their statement set out on page 348, the directors are responsible for: the preparation of the EEV basis supplementary information in accordance with the European Embedded Value Principles issued by the European Insurance CFO Forum in 2016 ('the EEV Principles') using the methodology and assumptions set out in the Notes on the EEV basis results. They are also responsible for: such internal control as they determine is necessary to enable the preparation of EEV basis supplementary information that is free from material misstatement, whether due to fraud or error; determining that the basis of preparation is acceptable in the circumstances; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the EEV basis supplementary information as a whole is free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the EEV basis supplementary information.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Philip Smart

Philip Smart
for and on behalf of KPMG LLP
Chartered Accountants
London

2 March 2021

Additional information

Contents

Index to the Additional unaudited financial information

Additional unaudited financial information

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:

	31 Dec 2020 $bn					
			Shareholder			
Amounts attributable to Prudential plc	**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

	31 Dec 2019 $bn					
			Shareholder			
Amounts attributable to Prudential plc	**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.

I Additional financial information continued

I(i) Group capital position continued

Sensitivity analysis

The estimated sensitivity of the Group shareholder LCSM capital position (based on GMCR) to significant changes in market conditions is as follows:

Impact of market sensitivities note (1)	31 Dec 2020 LCSM surplus $bn	31 Dec 2020 LCSM ratio %	31 Dec 2019 LCSM surplus $bn	31 Dec 2019 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).

I Additional financial information continued

I(i) Group capital position continued

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 Additional financial information continued

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 subordinated 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.

I Additional financial information continued

I(iv) Analysis of adjusted operating profit by driver continued

	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.

I Additional financial information continued

I(iv) Analysis of adjusted operating profit by driver continued

(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.

I Additional financial information continued

I(v) Asia operations – analysis of adjusted operating profit by business unit continued

(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%

I(vi) 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.

I Additional financial information continued

I(vi) Reconciliation of expected transfer of value of in-force business and required capital to free surplus for Asia long-term business operations continued

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

I(vii) Option schemes

The Group presently grants share options through three schemes and exercises of the options are satisfied by the issue of new shares. Executive Directors and eligible employees based in the UK may participate in the Prudential Savings-Related Share Option Scheme. Executives and eligible employees based in Asia can participate in the Prudential International Savings-Related Share Option Scheme, while agents based in certain regions of Asia can participate in the Prudential International Savings-Related Share Option Scheme for Non-Employees. Further details of the schemes and accounting policies are detailed in note B2.2 of the IFRS basis consolidated financial statements.

All options were granted at nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the Prudential International Savings-Related Share Option Scheme for Non-Employees) or in excess of the individual limit for the relevant scheme. The maximum share entitlement of each participant under the relevant scheme for each option granted is limited to the total savings and any bonus or interest accumulated under that participant's savings contract, divided by the exercise price. At 31 December 2020, the maximum number of shares issued or issuable under the schemes, which were approved by shareholders, to all participants would not exceed 1 per cent of the issued share capital of the Company in the preceding 12-month period.

The option schemes will terminate as follows, unless the Directors resolve to terminate the plans at an earlier date:

- Prudential Savings-Related Share Option Scheme: 16 May 2023;
- Prudential International Savings-Related Share Option Scheme: 19 May 2021; and
- Prudential International Savings-Related Share Option Scheme for Non-Employees 2012: 12 May 2022.

The weighted average share price of Prudential plc for the year ended 31 December 2020 was £11.64 (2019: £15.05).

Particulars of options granted to Directors are included in the Directors' remuneration report on page 191.

The closing prices of the shares immediately before the date on which the options were granted during the year were £11.00.

The following analyses show the movement in options for each of the option schemes for the year ended 31 December 2020.

I Additional financial information continued

I(vii) Option schemes continued

Prudential Savings-Related Share Option Scheme

Date of grant	Exercise price £	Exercise period: Beginning	Exercise period: End	Number of options: Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
23 Sep 14	11.55	01 Dec 19	31 May 20	135,963	–	(80,914)	–	–	(55,049)	–
22 Sep 15	11.11	01 Dec 20	31 May 21	103,140	–	(14,180)	–	–	(80,914)	8,046
21 Sep 16	11.04	01 Dec 19	31 May 20	225,802	–	(137,913)	–	(326)	(87,563)	–
21 Sep 16	11.04	01 Dec 21	31 May 22	77,244	–	(8,135)	–	–	(63,731)	5,378
21 Sep 17	14.55	01 Dec 20	31 May 21	502,136	–	(3,283)	(12,568)	(3,731)	(458,646)	23,908
21 Sep 17	14.55	01 Dec 22	31 May 23	92,940	–	–	–	–	(86,593)	6,347
29 Nov 19	11.18	01 Jan 23	30 Jun 23	92,823	–	(692)	(14,814)	(180)	(9,934)	67,203
29 Nov 19	11.18	01 Jan 25	30 Jun 25	21,464	–	–	(10,732)	–	(2,683)	8,049
22 Sep 20	9.64	01 Dec 23	31 May 24	–	74,308	–	–	–	–	74,308
22 Sep 20	9.64	01 Dec 25	31 May 26	–	6,286	–	–	–	–	6,286
				1,251,512	80,594	(245,117)	(38,114)	(4,237)	(845,113)	199,525

The total number of securities available for issue under the scheme is 199,525 which represents 0.008 per cent of the issued share capital at 31 December 2020.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £14.27.

The weighted average fair value of options granted under the plan in the period was £1.91.

Prudential International Savings-Related Share Option Scheme for Non-Employees

Date of grant	Exercise price £	Exercise period: Beginning	Exercise period: End	Number of options: Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
23 Sep 14	10	01 Dec 19	31 May 20	363,751	–	(317,613)	(15,579)	–	(30,559)	–
22 Sep 15	9.62	01 Dec 18	31 May 19	935	–	(935)	–	–	–	–
22 Sep 15	9.62	01 Dec 20	31 May 21	408,255	–	(124,437)	(3,739)	–	–	280,079
21 Sep 16	9.56	01 Dec 19	31 May 20	159,344	–	(157,813)	–	–	(1,531)	–
21 Sep 16	9.56	01 Dec 21	31 May 22	218,293	–	–	(3,448)	–	–	214,845
21 Sep 17	12.59	01 Dec 20	31 May 21	290,365	–	(37,338)	(47,047)	–	–	205,980
21 Sep 17	12.59	01 Dec 22	31 May 23	194,316	–	–	(4,042)	–	–	190,274
18 Sep 18	12.07	01 Dec 21	31 May 22	199,159	–	–	(5,754)	–	–	193,405
18 Sep 18	12.07	01 Dec 23	31 May 24	130,182	–	–	(655)	–	–	129,527
02 Oct 19	9.62	01 Dec 22	31 May 23	355,276	–	–	(24,345)	–	–	330,931
02 Oct 19	9.62	01 Dec 24	31 May 25	234,059	–	–	(10,894)	–	–	223,165
22 Sep 20	9.64	01 Dec 23	31 May 24	–	205,552	–	(6,753)	–	–	198,799
22 Sep 20	9.64	01 Dec 25	31 May 26	–	155,346	–	(1,556)	–	–	153,790
				2,553,935	360,898	(638,136)	(123,812)	–	(32,090)	2,120,795

The total number of securities available for issue under the scheme is 2,120,795 which represents 0.081 per cent of the issued share capital at 31 December 2020.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £12.13.

The weighted average fair value of options granted under the plan in the period was £1.96.

I(viii) Selected historical financial information of Prudential

The following table sets forth Prudential's selected consolidated financial data for the periods indicated, which is derived from Prudential's audited consolidated financial statements.

This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document.

Income statement

IFRS basis results	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Continuing operations:					
Gross premiums earned	42,521	45,064	45,614	39,800	38,865
Outward reinsurance premiums	(32,209)	(1,583)	(1,183)	(1,304)	(1,375)
Earned premiums, net of reinsurance	10,312	43,481	44,431	38,496	37,490
Investment return	44,991	49,555	(9,117)	35,574	13,839
Other income	670	700	531	1,319	1,387
Total revenue, net of reinsurance	55,973	93,736	35,845	75,389	52,716
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(48,205)	(83,905)	(23,426)	(63,808)	(42,881)
Acquisition costs and other expenditure	(5,481)	(7,283)	(8,527)	(8,649)	(7,846)
Finance costs: interest on core structural borrowings of shareholder-financed businesses	(337)	(516)	(547)	(548)	(488)
(Loss) gain attaching to corporate transactions	(48)	(142)	(107)	292	(322)
Total charges, net of reinsurance	(54,071)	(91,846)	(32,607)	(72,713)	(51,537)
Share of profits from joint ventures and associates net of related tax	517	397	319	233	200
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)	2,419	2,287	3,557	2,909	1,379
Tax charges attributable to policyholders' returns	(271)	(365)	(107)	(321)	(210)
Profit before tax attributable to shareholders' returns	2,148	1,922	3,450	2,588	1,169
Tax credit (charges) attributable to shareholders' returns	37	31	(569)	(840)	(119)
Profit from continuing operations	2,185	1,953	2,881	1,748	1,050
(Loss) profit from discontinued operations	–	(1,161)	1,142	1,333	1,552
Profit for the year	2,185	792	4,023	3,081	2,602
Based on profit from continuing operations for the year attributable to the equity holders of the Company:					
Basic earnings per share (in cents)	81.6¢	75.1¢	111.7¢	68.0¢	41.0¢
Diluted earnings per share (in cents)	81.6¢	75.1¢	111.7¢	67.9¢	40.9¢

	2020	2019	2018	2017	2016
Dividend per share declared and paid in reporting period	31.34¢	63.18¢	64.34¢	59.32¢	69.72¢
Interim ordinary dividend/final ordinary dividend	31.34¢	63.18¢	64.34¢	59.32¢	55.20¢
Special dividend					14.52¢

I Additional financial information continued

I(viii) Selected historical financial information of Prudential continued

Supplementary IFRS income statement – continuing operations

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Adjusted operating profit based on longer-term investment returns note (ii)	5,507	5,310	4,409	4,378	4,131
Non-operating items	(3,359)	(3,388)	(959)	(1,790)	(2,962)
Profit before tax attributable to shareholders	2,148	1,922	3,450	2,588	1,169
Operating earnings per share after tax and non-controlling interest (in cents)	175.5¢	175.0¢	145.2¢	134.6¢	126.5¢

Supplementary EEV financial information

EEV income statement – continuing operations

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Operating profit based on longer-term investment returns note (ii)	5,220	6,905	7,866	6,753	6,137
Non-operating items	(5,187)	(2,744)	(2,286)	1,808	(2,278)
Profit attributable to shareholders from continuing operations	33	4,161	5,580	8,561	3,859
Operating earnings per share (in cents)	195.9¢	266.6¢	305.3¢	263.0¢	239.7¢

	2020 $bn	2019 $bn	2018 $bn	2017 $bn	2016 $bn
EEV shareholders' equity, excluding non-controlling interests	54.0	54.7	63.4	60.5	48.2

New business contribution – continuing operations

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Annual premium equivalent (APE) sales	5,619	7,384	7,058	7,046	6,989
EEV new business profit (NBP) (post-tax)	2,802	4,405	4,707	4,220	3,820
NBP margin (% of APE)	50%	60%	67%	60%	55%

Statement of financial position at 31 December

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Total assets	516,097	454,214	647,810	668,203	581,394
Total policyholder liabilities and unallocated surplus of with-profits funds	446,463	390,428	541,466	579,261	498,374
Core structural borrowings of shareholder-financed businesses	6,633	5,594	9,761	8,496	8,400
Total liabilities	493,978	434,545	625,819	646,432	563,270
Total equity	22,119	19,669	21,991	21,771	18,124

Other financial information at 31 December

	2020 $bn	2019 $bn	2018 $bn	2017 $bn	2016 $bn
Funds under management note (iii)	558.3	543.9	455.3	452	374.8
Group shareholder LCSM surplus note (iv)	11.0	9.5	9.7		

Notes

(i) This measure is the formal profit (loss) before tax measure under IFRS. It is not the result attributable to shareholders.

(ii) Adjusted operating profit and EEV operating profit are determined on the basis of including longer-term investment returns, which are stated after excluding the effect of short-term fluctuations in investment returns on shareholder-backed business and gain or loss attaching to corporate transactions. Separately, for IFRS basis results, adjusted operating profit also excludes amortisation of acquisition accounting adjustments arising on the purchase of business. For EEV basis results, operating profit also excludes the effect of changes in economic assumptions and the mark-to-market value movements on core structural borrowings for shareholder-financed operations.

(iii) Funds under management comprise funds of the Group held in the statement of financial position and external funds that are managed by the Group's asset management operations.

(iv) The 2020 and 2019 surplus are estimated under the LCSM regime adopted by the Group in October 2019, with 2018 comparative information re-presented on this basis. Prior to that, the Group was subject to the Solvency II capital requirements.

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 Calculation of alternative performance measures continued

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 Calculation of alternative performance measures continued

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.

II(ix) 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

II Calculation of alternative performance measures continued

II(x) 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 programmes 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, wellbeing, 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.

Glossary

A

Acquisition expenses
Acquisition expenses include the initial expenses and commissions incurred in writing new business less deferred costs.

Actual exchange rates (AER)
Actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates at the balance sheet date for the balance sheet.

Administration expenses
Administration expenses are expenses and renewal commissions incurred in managing existing business.

Alternative performance measures (APMs)
Alternative performance measures (APMs) are non-GAAP measures used by the Prudential Group within its annual reports to supplement disclosures prepared in accordance with widely accepted guideline and principles established by accounting standard setters, such as International Financial Reporting Standards (IFRS). These measures provide useful information to enhance the understanding of the Group's financial performance. A reconciliation of these APMs to IFRS metrics is provided in additional financial information section of the annual report.

American Depositary Receipts (ADRs)
The stocks of most foreign companies that trade in the US markets are traded as American Depositary Receipts (ADRs). US depositary banks issue these stocks. Each ADR represents one or more shares of foreign stock or a fraction of a share. The price of an ADR corresponds to the price of the foreign stock in its home market, adjusted to the ratio of the ADRs to foreign company shares.

Annual premium equivalent (APE)
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 annualised regular premiums from new business and one-tenth of single premiums on new business written during the period for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4.

Asset-backed security (ABS)
A security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.

Assets under management (AUM)
Assets under management represent all assets managed or administered by or on behalf of the Group, including those assets managed by third parties. Assets under management include managed assets that are included within the Group's statement of financial position and those assets belonging to external clients outside the Prudential Group, which are therefore not included in the Group's statement of financial position. These are also referred to as 'funds under management (FUM)'.

Available for sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity. AFS securities are measured at fair value on the statement of financial position with unrealised gains and losses being booked in Other Comprehensive Income instead of the income statement.

B

Bancassurance
An agreement with a bank to offer insurance and investment products to the bank's customers.

Bonuses
Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. These include regular bonus and final bonus and the rates may vary from period to period.

C

Cash remittances
Amounts paid by our business units to the Group comprising dividends and other transfers net of capital injections, which are reflective of emerging earnings and capital generation.

Cash surrender value
The amount of cash available to a policy holder on the surrender of or withdrawal from a life insurance policy or annuity contract.

Ceding commission
In a reinsurance arrangement, an allowance (usually a percentage of the reinsurance premium) can be made by the reinsurer for part or all of a ceding company's acquisition and other costs.

Closed-book life insurance business
A 'closed book' is essentially a group of insurance policies that are no longer sold, but are still featured on the books of a life insurer as a premium-paying policy. The insurance company has 'closed the books' on new sales of these products which will remain in run-off until the policies expire and all claims are settled.

Collective investment schemes (CIS)
CIS is an open-ended investment fund of pooled assets in which an investor can buy and sell units that are issued in the form of shares.

Constant exchange rates (CER)
Prudential plc reports its results at both actual exchange rates (AER) to reflect actual results and also constant exchange rates (CER) to eliminate the impact from exchange translation. 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.

Core structural borrowings
Borrowings which Prudential considers forming part of its core capital structure and excludes operational borrowings.

Credit risk
The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.

Currency risk
The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.

D

Deferred acquisition costs (DAC)
Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. Typically, under IFRS, an element of acquisition costs is deferred ie not expensed in the year incurred, and instead amortised in the income statement in line with the emergence of surpluses on the related contracts.

Discretionary participation features (DPF)
A contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

— That are likely to be a significant portion of the total contractual benefits;

— Whose amount or timing is contractually at the discretion of the issuer; and

— That are contractually based on asset, fund, company or other entity performance.

Dividend cover
Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend.

E

Endowment product
An ordinary individual life insurance product that provides the insured party with various guaranteed benefits if it survives specific maturity dates or periods stated in the policy. Upon the death of the insured party within the coverage period, a designated beneficiary receives the face value of the policy.

European Embedded Value (EEV)
Financial results that are prepared on a supplementary basis to the Group's consolidated IFRS results and which are prepared in accordance with a set of Principles issued by the CFO Forum of European Insurance Companies in 2016. Embedded value is a way of measuring the current value to shareholders of the future profits from life business written based on a set of assumptions.

Environmental, Social and Governance (ESG)
ESG refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business, which is qualitative and non-financial and not readily quantifiable in monetary terms. The key features of Prudential ESG framework are its three strategic pillars: 1) making health and financial security accessible; 2) stewarding the human impacts of climate change; and 3) building social capital.

F

Fixed annuities (FA)
Fixed annuity contracts written in the US which allow for tax-deferred accumulation of funds, are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible pay-out options. The contract holder pays the insurer a premium, which is credited to the contract holders' account. Periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate.

Fixed indexed annuities (FIA)
These are similar to fixed annuities in that the contract holder pays the insurer a premium, which is credited to the contract holders' account and, periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate. An annual minimum interest rate may be guaranteed, although actual interest credited may be higher and is linked to an equity index over its indexed option period.

Funds under management (FUM)
See 'assets under management (AUM)' above.

G

Group free surplus
Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results and IFRS net assets for the asset management and other businesses, excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

Group pay-out annuities
These are a closed block of defined benefit annuity plans assumed from John Hancock USA and John Hancock New York in October 2018, in which a single premium payment from an employer (contract holder) funds the pension benefits for its employees (participants).

Group-wide Supervision (GWS) Framework
Regulatory framework developed by the Hong Kong Insurance Authority (see below) 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 Insurance Authority to exercise direct regulatory powers over the designated holding companies of multinational insurance groups. The GWS Framework is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021. The primary legislation was enacted in July 2020 and will come into operation on 29 March 2021.

Guaranteed annuities
Policies that pay out a fixed amount of benefit for a defined period.

Guaranteed investment contracts (GICs) (US)
Investment contracts between an insurance company and an institutional investor, which provide a stated rate of return on deposits over a specified period of time. They typically provide for partial or total withdrawals at book value if needed for certain liquidity needs of the plan.

H

Health and protection (H&P) products (also referred to as accident and health (A&H) products)
These comprise health and personal accident insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident coverage. Health and protection products are sold both as standalone policies and as riders that can be attached to life insurance products. Health and protection riders are presented together with ordinary individual life insurance products for the purposes of disclosure of financial information.

Hong Kong Insurance Authority (IA)
The Hong Kong IA is an insurance regulatory body responsible for the regulation and supervision of the Hong Kong insurance industry.

I

International Association of Insurance Supervisors (IAIS)
The IAIS is a voluntary membership organisation of insurance supervisors and regulators. It is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector.

In-force
An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.

International Financial Reporting Standards (IFRS Standards)
Accounting standards and practices that are developed and issued by the IFRS Foundation and the International Accounting Standards Board (IASB).

Investment grade
Investments rated BBB- or above for S&P and Baa3 or above for Moody's. Generally, they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.

Investment-linked products or contracts
Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges. These are also referred to as unit-linked products or unit-linked contracts.

K

Key performance indicators (KPIs)
These are measures by which the development, performance or position of the business can be measured effectively. The Group Board reviews the KPIs annually and updates them where appropriate.

L

Liquidity coverage ratio (LCR)
Prudential calculates this as assets and resources available to us that are readily convertible to cash to cover corporate obligations in a prescribed stress scenario. We calculate this ratio over a range of time horizons extending to twelve months.

Liquidity premium
This comprises the premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps and the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

Local Capital Summation Method (LCSM)
LCSM is the methodology used for the calculation of the Group's regulatory capital requirements (both minimum and prescribed levels) together with related governance requirements.

M

Million Dollar Round Table (MDRT)
MDRT is a global, independent association of life insurance and financial services professionals that recognises professional knowledge, strict ethical conduct and outstanding client service. MDRT membership is recognised internationally as the standard of excellence in the life insurance and financial services business.

Money Market Fund (MMF)
An MMF is a type of mutual fund that has relatively low risks compared to other mutual funds and most other investments and historically has had lower returns. MMF invests in high quality, short-term debt securities and pay dividends that generally reflect short-term interest rates. The purpose of an MMF is to provide investors with a safe place to store cash or as an alternative to investing in the stock market.

Mortality rate
Rate of death, varying by such parameters as age, gender and health, used in pricing and computing liabilities for future policyholders of life and annuity products, which contain mortality risks.

Morbidity rate
Rate of sickness, varying by such parameters as age, gender and health, used in pricing and computing liabilities for future policyholders of health products, which contain morbidity risks.

N

National Association of Insurance Commissioners (NAIC)
The NAIC is the US standard setting and regulatory support organisation created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five US territories.

Net premiums
Life insurance premiums, net of reinsurance ceded to third-party reinsurers.

Net worth
Net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

New business margin
New business margin is expressed as the value of new business profit as a percentage of annual premium equivalent (APE) and the present value of new business premiums (PVNBP) expected to be received on an EEV basis.

New business profit
The profits, calculated in accordance with European Embedded Value Principles, from business sold in the financial reporting period under consideration.

Non-participating business
A life insurance policy where the policyholder is not entitled to a share of the company's profits and surplus, but receives certain guaranteed benefits. Examples include pure risk policies (eg fixed annuities, term insurance, critical illness) and unit-linked insurance contracts.

O

Operational borrowings
Borrowings which arise in the normal course of the business, including all lease liabilities under IFRS 16.

P

Participating funds
Distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The insurer may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits. For Prudential the most significant participating funds are for business written in Hong Kong, Malaysia and Singapore.

Participating policies or participating business
Contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on factors such as investment performance, as a supplement to any guaranteed benefits. This is also referred to as with-profits business.

Persistency
The percentage of policies remaining in force from period to period.

Present value of new business premiums (PVNBP)
The present value of new business premiums 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 other assumptions made in determining the EEV new business contribution.

R

Regular premium product
A life insurance product with regular periodic premium payments.

Rider
A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums.

Risk-based capital (RBC) framework
RBC is a method of measuring the minimum amount of capital set by regulators as appropriate for a reporting entity to support its overall business operations in consideration of its size and the level of risk it is faced. RBC limits the amount of risk a company can take and act as a cushion to protect a company from insolvency. RBC is intended to be a minimum regulatory capital standard and not necessarily the full amount of capital that an insurer would want to hold to meet its safety and competitive objectives. In addition, RBC is not designed to be used as a stand-alone tool in determining financial solvency of an insurance company; rather it is one of the tools that give regulators legal authority to take control of an insurance company.

Risk margin reserve (RMR)
An RMR is included within operating profit based on longer-term investment returns and represents a charge for long-term expected defaults of debt securities, determined by reference to the credit quality of the portfolio.

S

Separate account
A separate account is a pool of investments held by an insurance company not in or 'separate' from its general account. The returns from the separate account generally accrue to the policyholder. A separate account allows an investor to choose an investment category according to his individual risk tolerance, and desire for performance.

Single premiums
Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.

Stochastic techniques
Stochastic techniques incorporate results from repeated simulations using key financial parameters which are subject to random variations and are projected into the future.

Subordinated debt
A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest.

Surrender
The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.

Surrender charge or surrender fee
The fee charged to a policyholder when a life insurance policy or annuity contract is surrendered for its cash surrender value prior to the end of the surrender charge period.

T

Takaful
Insurance that is compliant with Islamic principles of mutual assistance and risk sharing.

Term life contracts
These contracts provide protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured.

Time value of options and guarantees (TVOG)
The value of financial options and guarantees comprises two parts, the intrinsic value and the time value. The intrinsic value is given by a deterministic valuation on best estimate assumptions. The time value is the additional value arising from the variability of economic outcomes in the future.

Total shareholder return (TSR)
TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.

U

Unallocated surplus
Unallocated surplus is recorded wholly as a liability and represents the excess of assets over policyholder liabilities for Prudential's with-profits funds. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

Unit-linked products or unit-linked contracts
See 'investment-linked products or contracts' above.

Universal life
An insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of matching assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge.

V

Variable annuity (VA) (US)
An annuity whose value is determined by the performance of underlying investment options that frequently includes securities. A variable annuity's value is not guaranteed and will fluctuate, depending on the value of its underlying investments. The holder of a variable annuity assumes the investment risk and the funds backing a variable annuity are held in the insurance companies separate account.

Value of in-force business (VIF)
The present value of future shareholder cash flows projected to emerge from the assets backing liabilities of the in-force covered business.

W

Whole life contracts
A type of life insurance policy that provides lifetime protection; premiums must usually be paid for life. The sum assured is paid out whenever death occurs. Commonly used for estate planning purposes.

With-profits funds
See 'participating funds' above.

With-profits contracts
For Prudential, the most significant with-profits contracts are written in Hong Kong, Malaysia and Singapore. See 'participating policies or participating business' above.

Y

Yield
A measure of the rate of return received from an investment in percentage terms by comparing annual income (and any change in capital) to the price paid for the investment.

Yield curve
A line graph that shows the relative yields on debt over a range of maturities typically from three months to 30 years. Investors, analysts and economists use yield curves to evaluate bond markets and interest rate expectations.

Shareholder information

Communication with shareholders

The Group maintains a corporate website containing a wide range of information relevant for private and institutional investors, including the Group's financial calendar: www.prudentialplc.com

Shareholder Meetings

The 2021 Annual General Meeting (AGM) will be held on Thursday 13 May 2021 at 11.00am. Arrangements for attendance remain under review given the ongoing restrictions arising from the Covid-19 pandemic. To ensure shareholders are able to participate fully in the AGM this year, we will provide an option to link digitally to the Meeting and would encourage shareholders to make use of this option. The AGM notice will provide more details on arrangements and how to participate. Shareholders are encouraged to watch the Company's website, regulatory news and other published notifications for any further updates in relation to the AGM arrangements.

Prudential will continue its practice of calling a poll on all resolutions and the voting results, including all proxies lodged prior to the meeting, will be displayed during the meeting and subsequently published on the Company's website.

Details of the 2020 AGM, including the major items discussed at the meeting and the results of the voting, can be found on the Company's website.

In accordance with relevant legislation, shareholders holding 5 per cent or more of the fully paid up issued share capital are able to require the Directors to hold a general meeting. Written shareholder requests should be addressed to the Company Secretary at the registered office.

Company constitution

Prudential is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles of Association (Articles). Any change to the Articles must be approved by special resolution of the shareholders. There were no changes to the constitutional documents during 2020. The current Memorandum and Articles are available on the Company's website.

Share capital

Issued share capital

The issued share capital as at 31 December 2020 consisted of 2,609,489,702 (2019: 2,601,159,949) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Stock Exchange. As at 31 December 2020, there were 45,176 (2019: 46,847) accounts on the register. Further information can be found in note C8 on page 282.

Prudential also maintains secondary listings on the New York Stock Exchange (in the form of American Depositary Receipts which are referenced to ordinary shares on the main UK register) and the Singapore Stock Exchange.

Prudential has maintained a sufficiency of public float throughout the reporting period as required by the Hong Kong Listing Rules.

Analysis of shareholder accounts as at 31 December 2020

Size of shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000,001 upwards	315	0.70	2,312,491,466	88.62
500,001–1,000,000	139	0.31	98,178,861	3.76
100,001–500,000	501	1.11	117,828,227	4.52
10,001–100,000	1,377	3.05	41,001,145	1.57
5,001–10,000	1,466	3.25	10,142,436	0.39
1,001–5,000	9,881	21.87	21,528,855	0.83
1–1,000	31,497	69.72	8,318,712	0.32
Total	45,176	100.00	2,609,489,702	100.00

Major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital, as at 31 December 2020, as notified and disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules.

As at 31 December 2020	% of total voting rights
BlackRock, Inc	5.08
Third Point LLC	5.04

On 2 October 2019 Capital Group Companies, Inc notified that its holding had decreased to less than 5 per cent of the Company's issued share capital.

No notifications have been received from year end to 2 March 2021.

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Articles. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

Where, under an employee share scheme, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by the trustee on behalf of the registered owner in accordance with the relevant plan rules. The Trustees would not usually vote any unallocated shares held in trust but they may do so at their discretion provided it would be considered to be in the best interests of the beneficiaries of the trust and permitted under the relevant trust deed.

As at 2 March 2021, Trustees held 0.40 per cent of the issued share capital under the various plans in operation.

Rights to dividends under the various schemes are set out on pages 170 to 205.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and any transfer is not restricted except that the Directors may, in certain circumstances, refuse to register transfers of shares but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the Directors make use of that power, they must send the transferee notice of the refusal within two months.

Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the Financial Conduct Authority and the Hong Kong Stock Exchange, as well as under the rules of some of the Group's employee share plans.

All Directors are required to hold a minimum number of shares under guidelines approved by the Board, which they would also be expected to retain as described on page 197 of the Directors' remuneration report.

Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. Prudential seeks authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. The existing authorities to issue shares, and to do so without observing pre-emption rights, are due to expire at the end of this year's AGM. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM on 13 May 2021.

Details of shares issued during 2020 and 2019 are given in note C8 on page 282.

In accordance with the terms of a waiver granted by the Hong Kong Stock Exchange, Prudential confirms that it complies with the applicable law and regulation in the UK in relation to the holding of shares in treasury and with the conditions of the waiver in connection with the purchase of own shares and any treasury shares it may hold.

Authority to purchase own shares

The Directors also require authority from shareholders in relation to the purchase of the Company's own shares. Prudential seeks authority by special resolution on an annual basis for the buy-back of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. This authority has not been used since it was last granted at the AGM in 2020. This existing authority is due to expire at the end of this year's AGM and a special resolution to renew the authority will be put to shareholders at the AGM on 13 May 2021.

Dividend information

2020 second interim dividend	Shareholders registered on the UK register and Hong Kong branch register	Holders of US American Depositary Receipts	Shareholders with ordinary shares standing to the credit of CDP securities accounts
Ex-dividend date	25 March 2021	–	25 March 2021
Record date	26 March 2021	26 March 2021	26 March 2021
Payment date	14 May 2021	14 May 2021	On or about 21 May 2021

A number of dividend waivers are in place in respect of shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans. The dividends waived represent less than 1 per cent of the value of dividends paid during the year.

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

Register	By post	By telephone
UK register	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, UK.	Tel 0371 384 2035* Textel 0371 384 2255 (for hard of hearing). Lines are open from 8.30am to 5pm (UK), Monday to Friday. *Please use the country code when calling from outside the UK
Hong Kong register	Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.	Tel +852 2862 8555
Singapore register	Shareholders who have shares standing to the credit of their securities accounts with The Central Depository (PTE) Limited (CDP) in Singapore may refer queries to the CDP at 11 North Buona Vista Drive, #01-19/20 The Metropolis Tower 2, Singapore 138589. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.	Tel +65 6535 7511
ADRs	JPMorgan Chase Bank N.A, PO Box 64504, St. Paul, MN 55164-0504, USA.	Tel +1 800 990 1135, or from outside the USA +1 651 453 2128 or log on to www.adr.com

Dividend mandates

Shareholders may have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti and request a Cash Dividend Mandate form. Alternatively, shareholders may download the form from www.prudentialplc.com/investors/shareholder-information/forms

Shareholders on the UK or Hong Kong registers have the option to elect to receive their dividend in US dollars instead of pounds sterling or Hong Kong dollars respectively. More information may be found on our website www.prudentialplc.com/investors/shareholder-information/dividend/dividend-currency-election

Cash dividend alternative

The Company operates a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available at www.shareview.co.uk/4/Info/Portfolio/default/en/home/shareholders/Pages/ReinvestDividends.aspx

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through CDP. Please contact Equiniti if you require any assistance or further information.

Share dealing services

The Company's registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address or telephone 0371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential shares. For telephone sales, call 0345 603 7037 between 8.00am and 5pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be downloaded from our website www.prudentialplc.com/investors/shareholder-information/forms or from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org

How to contact us

Prudential plc
1 Angel Court
London EC2R 7AG

Tel +44 (0)20 7220 7588
www.prudentialplc.com

Media enquiries
Tel +44 (0)20 3977 9760
Email: media.relations@prudentialplc.com

Board

Shriti Vadera
Chair

Non-executive Directors

Philip Remnant
Senior Independent Director

Jeremy Anderson
David Law
Kai Nargolwala
Anthony Nightingale
Alice Schroeder
Tom Watjen
Fields Wicker-Miurin
Amy Yip

Group Executive Committee

Executive Directors

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

James Turner
Group Chief Risk and Compliance Officer

Jolene Chen
Group Human Resources Director

Nic Nicandrou
Chief Executive, Prudential Corporation Asia

Laura Prieskorn
Chief Executive Officer, Jackson Holdings LLC

Al-Noor Ramji
Group Chief Digital Officer

Business units

Prudential Corporation Asia
13th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Tel +852 2918 6300
www.prudentialcorporation-asia.com

Nic Nicandrou
Chief Executive,
Prudential Corporation Asia

Jackson Holdings LLC
1 Corporate Way
Lansing
Michigan 48951
USA

Tel +1 517 381 5500
www.jackson.com

Laura Prieskorn
Chief Executive Officer,
Jackson Holdings LLC

Shareholder contacts

Tel +44 (0)20 3977 9720
Email: investor.relations@prudentialplc.com

UK Register private shareholder enquiries
Tel 0371 384 2035*

*Please use the country code when calling from outside the UK

Hong Kong Branch Register private shareholder enquiries
Tel +852 2862 8555

US American Depositary Receipts holder enquiries
Tel +1 651 453 2128

The Central Depository (Pte) Limited shareholder enquiries
Tel +65 6535 7511

Forward-looking statements

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its 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 time frame 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 document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

Cautionary statements

This document 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.

Prudential public limited company
Incorporated and registered
in England and Wales

Registered office
1 Angel Court
London
EC2R 7AG

Registered number 1397169

www.prudentialplc.com

Principal place of business in Hong Kong
13th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Printed on Revive 100 Silk, a paper made from fibre derived from 100 per cent recycled pre- and post-consumer waste; and Revive 100 Offset, which is made from 100 per cent recycled post-consumer waste. All material used in this report has been independently certified according to the rules of the Forest Stewardship Council (FSC). All pulps used are elemental chlorine free, and the inks used are vegetable oil based. The manufacturing mills and the printer are registered to the Environmental Management System ISO 14001 and are FSC chain-of-custody certified.

Designed by
fhensemblestudio.com
Printed in the UK by CPI Colour

PRUDENTIAL