PRUDENTIAL

# We do life.

HK Stock Code: 2378

**Prudential plc**
2019 Half Year Financial Report

# Prudential helps people de-risk their lives and deal with their biggest financial concerns.

## Summary financials

| | Half year 2019 | Half year 2018 | Change on an actual exchange rate basis[8] | Change on a constant exchange rate basis[8] |
|---|---|---|---|---|
| Adjusted IFRS operating profit from continuing operations[1] | **£2,024m** | £1,669m | 21% | 14% |
| Adjusted IFRS operating profit from discontinued operations[1] | **£687m** | £736m | (7)% | (7)% |
| Operating free surplus generated from continuing operations[2] | **£1,502m** | £1,173m | 28% | 22% |
| Life new business profit from continuing operations[3] | **£1,643m** | £1,588m | 3% | (2)% |
| Life new business profit from discontinued operations[3] | **£152m** | £179m | (15)% | (15)% |
| IFRS profit after tax[4] | **£1,540m** | £1,356m | 14% | 7% |
| Net cash remittances from business units (both continuing and discontinued operations)[5] | **£1,212m** | £1,111m | 9% | – |

| | 30 June 2019 | 31 December 2018 | Change on an actual exchange rate basis[8] |
|---|---|---|---|
| IFRS shareholders' funds per share | **757p** | 665p | 14% |
| EEV shareholders' funds per share | **2,055p** | 1,920p | 7% |
| Group Solvency II cover ratio[6,7] | **222%** | 232% | (10)pp |

**First interim ordinary dividend**

| | | |
|---|---|---|
| **2019** | **16.45 pence** | **+5%** |
| 2018 | 15.67 pence | |

**UK and Europe**
**Throughout this report we use M&GPrudential to refer to the Group's discontinued UK and Europe operations. M&GPrudential has announced that it will change its name in preparation for listing to M&G plc, providing a single corporate identity while retaining its two customer-facing brands of Prudential and M&G Investments.**

**Notes**

1 This alternative performance measure is reconciled to IFRS profit for the period in note B1.1 of the IFRS financial statements. Continuing operations relate to Asia, US and central operations (including Africa). It excludes M&GPrudential which met the criteria to be classified as held for distribution at 30 June 2019 and hence is shown as discontinued.

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 period. Restructuring costs are presented separately from the underlying business unit amount. The amount is for continuing operations only (ie M&GPrudential is excluded). Further information is set out in note 9 of the EEV basis results.

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

4 IFRS profit after tax reflects the combined effects of operating results determined on the basis of longer-term investment returns, together with short-term investment variances, which in half year 2019 were driven by those arising in the US, results attaching to disposal of businesses and corporate transactions, amortisation of acquisition accounting adjustments and the total tax charge for the period.

5 Net cash remitted by business units are included in the Holding company cash flow, which is disclosed in detail in note I(iii) of the Additional financial information.

6 The Group shareholder capital position covers continuing and discontinued operations and excludes the contribution to own funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date.

7 Estimated before allowing for first interim ordinary dividend (31 December 2018: second interim ordinary dividend).

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

# Contents

# Sustained operational improvement and continued investment

I am pleased with our performance during the first half of the year. By focusing on key areas of sustained operational improvement and continued investment we have both delivered growth over the half year and positioned ourselves to deliver further growth, despite an uncertain geopolitical and macroeconomic outlook.

We have passed a number of important milestones on our way to demerging M&GPrudential from the Group, which will result in two separately listed companies. We believe that the demerger will enable both businesses to maximise their potential performance. Both will have experienced management teams better able to focus on their strategic priorities and distinct investment prospects, as well as improved allocation of resources and greater flexibility in execution. We expect to complete the demerger in the fourth quarter of 2019. We are also preparing the Prudential plc Group for life beyond the demerger, and intend to enhance our effectiveness, efficiency and alignment with stakeholders. Throughout the process of preparing for demerger, I am pleased to report that all of our businesses and people have worked hard on delivering value and service for our customers and this, in turn, has contributed to our performance.

In Asia, we are continuing to grow at pace, while benefiting from high-quality recurring income. We continue to invest in Asia. Over the 18 month period since the start of 2018 this has included the acquisition, in 2018, of our initial 65 per cent interest in TMB Asset Management Co., Ltd. in Thailand for £197 million[1], the renewal of our regional strategic bancassurance alliance with UOB for an initial fee of £662 million[9] (£230 million[9] of which was paid in the first half of 2019) and a total investment over this period of £738 million[1] of free surplus in new business. In the US, we are diversifying the product mix and building new distributor relationships.

Across the Group, we are well placed to continue fulfilling our purpose of helping people plan for the future with confidence by removing the uncertainty from life's big financial events. In Asia, we are focused on serving the health, protection and savings needs of the region's rapidly growing and increasingly affluent population, and we have intensified our drive to strengthen and deepen our operational capabilities through innovative product design, broadened distribution, including via non-traditional partners, and differentiated value-added services for our customers. In the US, we are continuing to target the growing asset pool in the world's largest retirement market, while M&GPrudential is addressing the compelling retirement and savings opportunity in the UK and internationally.

## Operating environment

This positive performance has been achieved against the background of a geopolitical and macroeconomic environment that remains uncertain. During the first half of 2019, major equity markets performed strongly, notably with the S&P 500 index up 17 per cent and the MSCI Asia excluding Japan index up 9 per cent, while in the second half to date they have been more volatile.

Economic growth moderated but was still respectable in the US and China, with GDP[2] up 1.3 per cent and 3.0 per cent in the period, respectively, while Europe was subdued and the UK was affected by continued Brexit uncertainty. Longer-term yields fell in the US, the UK and in Asia markets and credit conditions remained benign.

Sterling weakened moderately compared with most of the currencies in our major international markets over the first half of 2019, and has weakened further in the second half. To aid comparison of underlying progress, we continue to express and comment on the performance trends of our international businesses on a constant exchange rate basis.

## Financial performance

Our adjusted IFRS operating profit based on longer-term investment returns[3] (operating profit) from continuing operations – that is, excluding M&GPrudential – was 14 per cent[4] higher at £2,024 million (21 per cent higher on an actual exchange rate basis). APE sales[5] from continuing operations were up 5 per cent[4] (10 per cent on an actual exchange rate basis), while new business profit[6] from continuing operations was 2 per cent[4] lower at £1,643 million (3 per cent higher on an actual exchange rate basis), with Asia up 10 per cent[4]. EEV basis operating profit[6] from continuing operations increased 1 per cent[4] (7 per cent on an actual exchange rate basis) to £2,641 million. Operating free surplus generation[7] from continuing operations, our preferred measure of cash generation, from our life and asset management businesses increased by 22 per cent[4] to £1,502 million (28 per cent on an actual exchange rate basis), including a £274 million benefit following the integration of the recently acquired US John Hancock business, and after financing £516 million (2018: £461 million) of new business investment.

Our performance was led by our Asia business, which delivered double-digit growth in operating profit (up 14 per cent[4]), new business profit (up 10 per cent[4]) and operating free surplus generation (up 13 per cent[4]). In the US, Jackson's operating profit increased by 14 per cent[4], while new business profit decreased by 30 per cent[4], reflecting the adverse effect of lower US interest rates and lower sales of variable annuities during the period. Despite challenging external macroeconomic and political conditions, M&GPrudential's total funds under management[8] grew by 6 per cent in the six months to 30 June 2019 to £341.1 billion (31 December 2018: £321.2 billion), reflecting favourable investment markets.

Over the period, IFRS shareholders' funds increased by 14 per cent to £19.7 billion (31 December 2018: £17.2 billion), reflecting profit after tax of £1,540 million (2018: £1,356 million on an actual exchange rate basis). Other movements in shareholders' funds include positive net unrealised valuation movements on US investments classified as available-for-sale of £1,726 million, offset by dividend payments to shareholders of £870 million. EEV shareholders' funds increased by 7 per cent to £53.4 billion (31 December 2018: £49.8 billion), equivalent to 2,055 pence per share[6].

Our Group Solvency II surplus[10,11] is estimated at £16.7 billion, equivalent to a cover ratio of 222 per cent (31 December 2018: £17.2 billion; 232 per cent).

We have increased our first interim ordinary dividend by 5 per cent to 16.45 pence per share, in line with our existing dividend policy.

## Asia

Our broad portfolio of life insurance and asset management businesses, high-quality products with distinctive value-added services and multi-channel strategy ensured that we continue to benefit from growing demand for the health, protection and savings solutions we provide. Our APE sales[5] in Asia reached £1,978 million in the first half, up 10 per cent[4] (up 14 per cent on an actual exchange rate basis), leading to growth in new business profit of 10 per cent[4] to £1,295 million (up 15 per cent on an actual exchange rate basis).

Our multi-platform distribution in the region, with strong agency forces and bank partnerships, and growing digital channels, is continuing to drive our performance. We have continued to grow on a broad base in the region, with APE sales[5] growth in 11 markets in the first half. APE sales[5] in Hong Kong increased by 5 per cent[4] to £830 million, in Singapore by 8 per cent[4] to £231 million and in Malaysia by 3 per cent[4] to £122 million. In Hong Kong, 63 per cent of our sales came from visitors from Mainland China.

We are also seeing a stabilisation in sales in Indonesia following the refresh of our product line and action in agency force productivity, with a strong performance in the second quarter leading to overall sales growth of 4 per cent[4]. We have formed a strategic partnership with PT Visionet International (OVO), a leading digital payments, rewards and financial services platform in Indonesia, which we expect will enhance our reach in one of Asia's largest insurance markets, with a population that is increasingly embracing digital tools.

Our sales through our joint venture, CITIC-Prudential, are up 45 per cent[4] in the half year to £270 million, and we have received approval to open our 20th branch in Mainland China, in Shaanxi province.

Through our joint venture, we now have a comprehensive network of 231 sales offices in 89 cities, with access to regions accounting for 80 per cent of Mainland China's GDP.

Our Asian asset manager, Eastspring, has grown operating profit by 12 per cent, supported by disciplined expense management and the acquisition of TMB Asset Management in the second half of 2018. Its assets under management grew to £169.5 billion, with positive external net flows in the first half of 2019 of £3.1 billion, excluding money market funds (2018: net outflows of £0.9 billion on an actual exchange rate basis), driven by strong retail bond flows in Thailand and equity flows in Korean pensions.

We are continuing to develop our distribution reach in Asia, including through the renewal of our successful regional strategic bancassurance alliance with United Overseas Bank Limited, through which APE sales[5] increased by 27 per cent[4] in the first half. To ensure that we provide our solutions as widely as possible across the region, we have also been actively tailoring our propositions to suit digital sales channels. In the first half of 2019 we have activated our partnership with O bank, our digital bank partner in Taiwan, and will look to build on this success through UOB's new digital bank, TMRW.

We are continuing to build partnerships in Asia in a number of areas. We are committed to improving access to healthcare, and have launched Pulse by Prudential, a digital health app that is the first of its kind to offer holistic health management to consumers. The health technology and services company Tictrac has become one of our partners in Pulse, joining Babylon Health as part of our health ecosystem. Earlier this month, we also announced partnerships with Halodoc, Indonesia's homegrown healthcare start-up, to help deliver digital solutions that will meet a critical need for affordable and accessible healthcare, and with MyDoc, which offers consumers access to health services on their mobile phones. Following its launch in Singapore in 2018, we expanded PRUworks, our digital ecosystem designed to help small and medium-sized enterprises (SMEs) grow their businesses, to Indonesia. We have also entered into an agreement with specialist technology provider HǣlthTech, whose cloud-computing technology will be integrated into PRUworks and will facilitate the platform in offering one-stop access to insurance products, employee benefits and business services to small and medium-sized enterprises across Asia. At the same time, we are making good progress with our tailored offering for high net worth clients in Singapore, Opus by Prudential, which is designed to address the unfulfilled wealth protection needs of this fast-growing sector. All of these initiatives enable us to offer improved services to more customers.

## US

Our approach in this market has been to proceed with discipline. Consumer regulation in the US, while now starting to become clearer, has been uncertain for some time, and has resulted in an industry-wide slowdown in variable annuity sales. APE sales[5] in the US were down 4 per cent[4] at £831 million. Importantly, consistent with our intent to diversify our US product mix, fixed-index annuity APE sales[5], at £93 million, rose as a share of APE sales[5] from 2 per cent for the first six months of 2018 to 11 per cent in 2019. In addition, we successfully integrated last year's John Hancock paid-up annuities bolt-on transaction, which increased diversification and contributed materially to the US statutory capital generation in the period.

Jackson has a strong record of product innovation, exceptional distribution relationships, trust and credibility. During the period we added to our products in the fixed-annuity space, which we expect to contribute to sales later in the year. We have a leading position in the annuities industry, with strong long-term economics, and our operating platform has industry-leading cost advantages and is highly digital and scalable. We are in the process of driving a more diversified product mix and developing relationships with new distributors. We are actively exploring options to support the acceleration of this diversification, for example through reinsurance and third-party financing.

## Africa

We have also continued to expand our presence in Africa, one of the world's most dynamic and promising regions. In July, we completed our acquisition of a 51 per cent stake in the leading life insurer, Group Beneficial, operating in West and Central Africa, enabling us to enter Cameroon, Côte d'Ivoire and Togo. Combined with our launch over the last five years of businesses in Ghana, Kenya, Uganda, Zambia and Nigeria, this latest step means we now operate in markets in Africa with a total population of almost 400 million. In the first half of 2019, before this acquisition, our APE sales[5] in the region rose by 73 per cent[4] to £30 million.

## Demerger of M&GPrudential (reported as discontinued operations)

We expect to complete the demerger of M&GPrudential as planned. Preparations are complete for the Hong Kong Insurance Authority to be the Group-wide supervisor of the Prudential plc Group, and M&GPrudential's Board is in place. We expect to complete the demerger in the fourth quarter of 2019, subject to shareholder approval. At the same time, M&GPrudential is strongly focused on its internal merger and transformation programme and preparing for entry to the market as a separately listed independent company. It has also announced that it will change its name in preparation for listing to M&G plc, providing a single corporate identity while retaining its two customer-facing brands of Prudential and M&G Investments.

M&GPrudential is an asset manager and asset owner, operating in attractive, growing markets underpinned by long-term favourable trends, in particular ageing populations and the shift of responsibility for retirement to the private sector. Total funds under management[8] grew by 6 per cent in the period to £341.1 billion, including PruFund positive net flows of £3.5 billion, leading to total PruFund assets under management of £49.6 billion as at 30 June 2019. M&G's external assets under management were up 4 per cent in the first half of 2019 to £153.0 billion, with market impacts more than offsetting net outflows in the period. The slowdown in industry-defined benefit pension transfers, compared with the elevated volumes in the prior year, contributed to reductions in APE sales[5] of 8 per cent and new business profit of 15 per cent in the period. M&GPrudential's savings and asset management operations are well positioned in with-profits savings, retail asset management and institutional asset management, while its annuity and other insurance operations have a large customer base with long-duration products.

## Outlook

We believe our performance for the first half of the year and our continuing operational improvements leave us well positioned as we move forward. We are innovating and investing to grow the range of products and solutions we can offer our clients.

The long-term underlying demographic and economic trends in Asia remain positive and strong, notwithstanding short-term macro volatility, and we expect our broad portfolio to continue to expand. We are carefully monitoring developments in Hong Kong. The strategic focus of the Asia business on recurring premium health and protection businesses, reflected in IFRS earnings through growth in insurance margin, is expected to continue.

In the US, we have recently entered a period of greater regulatory clarity than has been the case in recent years, and expect a process of normalisation in the sales environment for our products. At the same time, we are seeing significant shifts across the market towards fixed and fixed-index annuities. We will continue to follow an active portfolio approach to our business and focus on execution and operational delivery. US IFRS earnings are expected to remain sensitive at an operating level to the impact of equity markets on separate account balances, which drive fee revenues, and on the acceleration and deceleration of deferred acquisition costs (DAC) amortisation.

Interest rates have declined in 2019, and if this trend continues it could influence the level of income from our interest-bearing instruments. Equity market and interest movements will also impact shareholders' returns through hedging positions held for risk management purposes, the valuations of bonds held and changes to associated liability valuations, for which there is a degree of accounting mismatch with the assets held to support them.

The strength of our opportunities and our diversification in terms of geographies, products and distribution platforms leave us well positioned to deal with the protectionist developments and political uncertainties currently affecting the global economy and driving volatility in markets.

We expect to complete the demerger of M&GPrudential in the fourth quarter of 2019. We have refined our strategy as Prudential plc to be Asia-led, focused on structural growth markets, aiming for our US business to deliver enhanced cash returns through the accelerated diversification of its book and we are actively exploring options to achieve this. I am confident that, while managing risks conservatively, we will continue to deliver important benefits for our customers and profitable growth for our shareholders.

**Mike Wells**
Group Chief Executive

**Notes**

1 On an actual exchange rate basis.
2 Source: OECD Quarterly National Accounts, Quarterly Growth Rates of real GDP, change on previous quarter, combined for Q1 and Q2 2019.
3 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 period is set out in note B1 of the IFRS financial statements.
4 Period-on-period percentage increases are stated on a constant exchange rate basis unless otherwise stated.
5 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 period 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 financial information for further explanation.
6 Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of EEV basis results. See note II of the Additional financial information for further explanation.
7 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 period. Restructuring costs are presented separately from the underlying business unit amount. Amount is for continuing operations only (ie M&GPrudential is excluded). Further information is set out in note 9 of the EEV basis results.
8 Represents M&GPrudential asset management external funds under management and internal funds included on the M&GPrudential long-term insurance business balance sheet.
9 Translated using a Singapore dollar: Sterling foreign exchange rate of 1.7360.
10 The Group shareholder capital position covers continuing and discontinued operations and excludes the contribution to own funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date.
11 Estimated before allowing for first interim ordinary dividend (31 December 2018: second interim ordinary dividend).

# 02 Business performance

# Continued focus on driving growth

I am pleased to report that Prudential's financial performance in the first half of 2019 reflects our continued focus on driving growth across our Asian markets, products and distribution channels, and the early results of our strategic initiatives to diversify our US business mix.

In preparation for the intended demerger of M&GPrudential from Prudential plc, the results presented within my report are identified as being derived from continuing or discontinued operations. Continuing operations comprise our Asia, US, Africa and central operations. Discontinued operations comprise UK and Europe operations, and are also referred to as M&GPrudential within this report. Results for the comparative period have been restated accordingly. Under IFRS, comparative balance sheet amounts are not re-presented for discontinued operations.

## IFRS profit

| | Actual exchange rate | | | Constant exchange rate | |
|---|---|---|---|---|---|
| | **Half year 2019** £m | **Half year 2018** £m | **Change %** | **Half year 2018** £m | **Change %** |
| **Adjusted IFRS operating profit based on longer-term investment returns before tax (operating profit) from continuing operations** | | | | | |
| **Asia** | | | | | |
| Long-term business | **1,095** | 927 | 18 | 963 | 14 |
| Asset management | **103** | 89 | 16 | 92 | 12 |
| Total | **1,198** | 1,016 | 18 | 1,055 | 14 |
| **US** | | | | | |
| Long-term business | **1,203** | 1,001 | 20 | 1,064 | 13 |
| Asset management | **12** | 1 | n/a | 1 | n/a |
| Total | **1,215** | 1,002 | 21 | 1,065 | 14 |
| **Total segment profit from continuing operations** | **2,413** | 2,018 | 20 | 2,120 | 14 |
| Other income and expenditure | **(366)** | (329) | (11) | (331) | (11) |
| Total operating profit based on longer-term investment returns before tax and restructuring costs | **2,047** | 1,689 | 21 | 1,789 | 14 |
| Restructuring costs | **(23)** | (20) | (15) | (20) | (15) |
| **Total operating profit based on longer-term investment returns before tax from continuing operations** | **2,024** | 1,669 | 21 | 1,769 | 14 |
| Non-operating items: | | | | | |
| Short-term fluctuations in investment returns on shareholder-backed business | **(1,124)** | 9 | n/a | 8 | n/a |
| Amortisation of acquisition accounting adjustments | **(17)** | (22) | 23 | (23) | 26 |
| Gain (loss) on disposal of businesses and corporate transactions | **13** | (57) | n/a | (60) | n/a |
| **Profit from continuing operations before tax attributable to shareholders' returns** | **896** | 1,599 | (44) | 1,694 | (47) |
| Tax charge attributable to shareholders' returns | **(1)** | (326) | 100 | (343) | 100 |
| **Profit for the period from continuing operations** | **895** | 1,273 | (30) | 1,351 | (34) |
| **Profit for the period from discontinued operations, net of related tax** | **645** | 83 | n/a | 83 | n/a |
| **Profit for the period** | **1,540** | 1,356 | 14 | 1,434 | 7 |

### IFRS earnings per share

| | Actual exchange rate | | | Constant exchange rate | |
|---|---|---|---|---|---|
| | **Half year 2019** pence | **Half year 2018** pence | **Change** % | **Half year 2018** pence | **Change** % |
| Basic earnings per share based on operating profit after tax | | | | | |
| From continuing operations | 65.3 | 53.7 | 22 | 57.0 | 15 |
| Basic earnings per share based on total profit after tax | | | | | |
| From continuing operations | 34.4 | 49.5 | (31) | 52.6 | (35) |
| From discontinued operations | 25.0 | 3.2 | 681 | 3.2 | 681 |
| | 59.4 | 52.7 | 13 | 55.8 | 6 |

**Operating profit from continuing operations** in the first half of 2019 increased by 14 per cent (21 per cent on an actual exchange rate basis) to £2,024 million. Profit after tax for the period from continuing operations was £895 million, a decrease of 34 per cent (30 per cent on an actual exchange rate basis), reflecting negative short-term fluctuations. Higher equity market levels resulted in equity hedge losses, which were only partly offset by movements in associated liabilities, as the full benefit of higher equity markets was limited by lower long-term interest rates and accounting mismatch effects.

The profits attributable to M&GPrudential have been classified as discontinued operations, although operating profit from continuing operations still includes the total other income and expenditure that relates to the existing, pre-demerger Group structure, as well as the profits from our Asia and US businesses. For example, debt costs are expected to be rebalanced between continuing operations and discontinued operations from the point of demerger, but are currently incurred in full in continuing operations. Total segment profit from continuing operations, which excludes other income and expenditure, increased by 14 per cent (20 per cent on an actual exchange rate basis).

### Segmental commentary

**Asia total operating profit** of £1,198 million was 14 per cent higher than the previous year (18 per cent on an actual exchange rate basis). Operating profit from life insurance operations increased by 14 per cent to £1,095 million (18 per cent on an actual exchange rate basis), reflecting the continued growth of our in-force book of recurring premium business, with renewal insurance premiums[1] up 12 per cent reaching £7,093 million (17 per cent on an actual exchange rate basis). Insurance margin was up 14 per cent, driven by our continued focus on health and protection business, now contributing to 71 per cent of Asia life insurance revenues[2] (2018: 70 per cent).

The development of our Asia businesses' operating profit is broad-based and at increasing scale. Eight of our 12 life markets reported growth of 10 per cent or above. Operating profit growth was led by Hong Kong (up 29 per cent to £260 million), China JV (up 28 per cent on a post-tax basis), Vietnam (up 24 per cent), the Philippines (up 24 per cent), Singapore (up 18 per cent) and Malaysia (up 10 per cent). Indonesia remains a significant contributor to Asia's operating profit (£200 million), but was 6 per cent lower compared with the prior period, reflecting the impact of sales declines in the recent past.

Eastspring's operating profit increased by 12 per cent (up 16 per cent on an actual exchange rate basis) to £103 million. This was a result of revenue growth of 5 per cent, driven by the acquisition of TMB Asset Management in the second half of 2018 and higher funds under management, with costs increasing at a slower rate of 2 per cent. Disciplined cost management has led to an improvement in its cost-income ratio[1] to 51 per cent (2018: 54 per cent on an actual exchange rate basis).

Eastspring's external assets under management, excluding money market funds, increased by 14 per cent in the six months to 30 June 2019 (on an actual exchange rate basis) to £56.5 billion in the period, reflecting positive net flows and favourable market movements. Higher internal assets under management, driven by inflows into the life business, lifted Eastspring's total assets under management[3] by 12 per cent to £169.5 billion (31 December 2018: £151.3 billion an actual exchange rate basis).

**US total operating profit** at £1,215 million increased by 14 per cent (21 per cent on an actual exchange rate basis). Broadly stable fee income was supported by favourable deferred acquisition costs (DAC) deceleration compared with unfavourable DAC acceleration in the prior period.

Fee income development reflects an essentially stable average separate account balance compared with the prior period. The evolution of separate account balances in the first half of the year reflects strongly positive investment performance offset by marginally negative net flows. Weak market performance in the latter part of 2018 reduced the level of account balance at the start of the period compared with the prior period.

Spread income was 27 per cent lower reflecting the combination of lower core spread income and lower swap income. The reduction in core spread reflects the effect of lower invested asset yields. The decline in swap income is a result of the unfavourable impact of higher short-term interest rates over much of the period. The associated decline in margin to 106 basis points from 162 basis points at half year 2018 in relation to average spread-related general account assets also reflects the full consolidation of the assets acquired with the John Hancock transaction in November 2018 in the current period. Assuming business mix and market interest rates remain stable at 30 June 2019 levels, the overall spread margin is expected to remain in the region of 100 basis points.

The favourable development of £148 million in DAC deceleration (2018: £45 million unfavourable acceleration on a constant exchange rate basis) is a function of significant outperformance of the separate account return in the period compared with that assumed within the mean reversion formula.

**Analysis of long-term insurance business pre-tax adjusted IFRS operating profit based on longer-term investment returns by driver from continuing operations**

| | Actual exchange rate | | | | Constant exchange rate | |
|---|---|---|---|---|---|---|
| | Half year 2019 | | Half year 2018 | | Half year 2018 | |
| | Operating profit £m | Margin bps | Operating profit £m | Margin bps | Operating profit £m | Margin bps |
| Spread income | 349 | 107 | 407 | 150 | 429 | 150 |
| Fee income | 1,349 | 171 | 1,293 | 172 | 1,370 | 173 |
| With-profits | 41 | 19 | 30 | 18 | 31 | 17 |
| Insurance margin | 1,401 | | 1,186 | | 1,241 | |
| Other income | 1,207 | | 1,074 | | 1,115 | |
| Total life income from continuing operations | 4,347 | | 3,990 | | 4,186 | |
| Expenses including DAC adjustments* | (2,049) | | (2,062) | | (2,159) | |
| **Long-term insurance business pre-tax adjusted IFRS operating profit based on longer-term investment returns from continuing operations** | 2,298 | | 1,928 | | 2,027 | |

* Expenses including DAC adjustments includes share of related tax charges from joint ventures and associate, see note I(iv) of the Additional financial information.

Insurance margin increased by 13 per cent (up 18 per cent on an actual exchange rate basis) supported by growth in health and protection in our Asia business, while fee income decreased by 2 per cent (up 4 per cent on an actual exchange rate basis) largely reflecting the development in average US separate account balances and associated fee margins. Spread income decreased by 19 per cent (down 14 per cent on an actual exchange rate basis) as a result of a lower contribution from the US business. Administration expenses increased to £1,184 million (2018: £1,143 million on a constant exchange rate basis) as the Asian business continues to expand, alongside higher asset-based commissions within the US business, which are treated as an administrative expense in this analysis.

**Other income and expenditure and restructuring costs from continuing operations**

Other income and expenditure consists of interest payable on core structural borrowings, corporate expenditure and other income. These items, together with restructuring costs of £23 million, increased 11 per cent to a net charge of £389 million (2018: £351 million). Total interest costs in the period were £226 million. This included £85 million for subordinated debt that is capable of being transferred to M&GPrudential. The annualised interest cost of core structural borrowings held at 30 June 2019 which cannot be substituted to M&GPrudential is estimated at £234 million[4].

Total Group head office and regional head office costs were £164 million for the six months to 30 June 2019. We are assessing the efficiency and effectiveness of our Group-wide functions to ensure that they better reflect the future needs of the business. Updates on this process and an overview of expected benefits and costs to be incurred will be given in due course. Implementation and preparation for IFRS 17 continues with activity likely to increase in the second half of 2019 onward.

**IFRS basis non-operating items from continuing operations**

Non-operating items consist of short-term fluctuations in investment returns on shareholder-backed business of negative £1,124 million (2018: positive £8 million), the results attaching to corporate transactions of positive £13 million (2018: negative £60 million), and the amortisation of acquisition accounting adjustments of negative £17 million (2018: negative £23 million) arising mainly from the REALIC business acquired by Jackson in 2012.

In the first half of 2019, the total short-term fluctuations in investment returns on shareholder-backed business were negative £1,124 million (2018: positive £9 million on an actual exchange rate basis). This comprised positive £420 million (2018: negative £326 million on an actual exchange rate basis) for Asia, negative £1,521 million (2018: positive £244 million on an actual exchange rate basis) in the US and negative £23 million (2018: positive £91 million on an actual exchange rate basis) in other operations.

Falling interest rates in many parts of Asia led to unrealised bond gains in the period, with varying liability accounting treatment in each market leading to differing liability revaluation effects. In the US, higher equity market levels resulted in equity hedge losses, which were only partly offset by a reduction in policyholder liabilities, as the full benefit of the uplift in equity markets was limited by lower long-term interest rates and accounting mismatch effects. During the period, Jackson incurred net derivative losses of £2,033 million on equity and interest rate hedge instruments used to manage the market exposure of Jackson's products. These were offset partly by £227 million of accounting movements in variable and fixed index annuity liabilities and £284 million of guarantee fee assessments, net of claims, earned in the period[5].

Outside of the income statement, as part of other comprehensive income, interest rate falls have given rise to a gain of £1.7 billion on US available-for-sale debt securities. These gains more than offset the non-operating losses in the US, leading to an increase in shareholders' equity of the US business since the end of 2018.

The £13 million benefit of corporate transactions reflects gains from disposals in the period offset by the £(196) million incurred in the period in connection with the preparation for the proposed demerger of M&GPrudential from Prudential plc. Further information is set out in note D1.1 to the financial statements.

The total costs of the demerger transaction, consisting of fees paid to debt holders to facilitate rebalancing of debt between the two entities, costs associated with the separation of the two businesses and adviser fees, is expected to be circa £330 million to £355 million. £227 million has been incurred to 30 June 2019 (including £31 million incurred in 2018). Subject to the completion of the transactions on the expected timetable and the absence of unforeseen circumstances and excluding the expected costs in respect of improvements to the efficiency and effectiveness of our Group-wide functions referred to above, the remaining costs of circa £100 million to £125 million are expected to be incurred in the second half of 2019.

**IFRS profit for the period from discontinued operations**
***IFRS profit from discontinued operations***

| | Actual exchange rate | | |
|---|---|---|---|
| | **Half year 2019** £m | **Half year 2018** £m | **Change** % |
| **Operating profit based on longer-term investment returns before tax** | | | |
| Long-term business | 496 | 487 | 2 |
| General insurance commission | 2 | 19 | (89) |
| Asset management | 239 | 272 | (12) |
| Head office costs | (21) | – | n/a |
| **Operating profit based on longer-term investment returns before restructuring costs** | 716 | 778 | (8) |
| Restructuring costs | (29) | (42) | 31 |
| **Total operating profit based on longer-term investment returns before tax** | 687 | 736 | (7) |
| Non-operating profit (loss) | 130 | (635) | n/a |
| **Profit before tax attributable to shareholders** | 817 | 101 | n/a |
| Tax charge attributable to shareholders' returns | (172) | (18) | n/a |
| **Profit for the period** | 645 | 83 | n/a |

**M&GPrudential operating profit**, before restructuring costs, was 8 per cent lower at £716 million. Life insurance operating profit increased by 2 per cent to £496 million (2018: £487 million). Within this total, the contribution from our core[6] with-profits and in-force annuity business was £345 million (2018: £255 million), including higher annuity income (mainly driven by higher asset related gains) and an increased transfer to shareholders from the with-profits funds of £161 million (2018: £157 million). These transfers included a 20 per cent increase in the contribution from the PruFund business of £30 million (2018: £25 million).

The balance of the life insurance result reflects the contribution from other elements which are not expected to recur at the same level. This includes the £127 million benefit (2018: £nil) of updates to annuitant mortality assumptions, which reflect a recent slowdown in life expectancy improvements, and the adoption of the Continuous Mortality Investigation (CMI) 2017 model, albeit with an uplift to the calibration such that additional liabilities are held to cover potential differences in experience between the PAC policyholder portfolio and the England and Wales population.

The non-core result in the prior period included a one-off £166 million insurance recovery, related to the costs of reviewing internally vesting annuities sold without advice after July 2008.

The reduction in general insurance commissions reflects the planned termination of a distribution agreement and replacement with a brand sharing arrangement.

Asset management operating profit decreased 12 per cent to £239 million as a result of lower revenues following net fund outflows during the second half of 2018 and 2019 which reduced the average level of funds managed by M&G Investments to £263.8 billion (2018: £285.3 billion). The cost-income ratio of 57 per cent (2018: 54 per cent) was also affected by the lower revenues. Costs were flat in absolute terms.

Overall assets under management were £341.1 billion at 30 June 2019, up from £321.2 billion at 31 December 2018. External funds under management were up 4 per cent from 31 December 2018 to £153.0 billion at 30 June 2019, as a result of positive market developments. These positive effects were offset partially by institutional net outflows of £0.3 billion and wholesale and direct net outflows of £4.3 billion over the period. Overall, investor risk aversion remains high amid political uncertainties including Brexit. Internal assets under management increased moderately over the period to £188.1 billion at 30 June 2019 (31 December 2018: £174.3 billion). Net flows to PruFund remain positive at £3.5 billion, although below the prior period level due to the lower level of defined benefit pension transfers seen across the market generally.

M&GPrudential remains on track to deliver the announced annual shareholder cost savings of circa £145 million by 2022 for a shareholder investment of circa £250 million. Restructuring costs of £29 million (2018: £42 million) include investment spend of £26 million in relation to its merger and transformation programme and bring the cumulative cost to £169 million, on an IFRS basis, since the project began.

Profit after tax for the period was £645 million (2018: £83 million), a result of a substantial positive swing in non-operating profit. Non-operating profit over the first half of 2019 was £130 million, reflecting favourable revaluation effects on fixed income assets supporting the capital of the shareholder-backed annuity business. This compares with a loss of £635 million in the prior period, which included a loss of £513 million arising from the reinsurance of a portfolio of annuity contracts with Rothesay Life, and negative revaluation movements on shareholder assets.

**IFRS effective tax rates**
In the first half of 2019, the effective tax rate on IFRS operating profit based on longer-term investment returns from continuing operations was 16 per cent (2018: 17 per cent). This reflects a lower effective tax rate in Asia as a result of investment returns in the first half of 2019 which are not taxable. The effective tax rate on the total IFRS profit from continuing operations was less than 1 per cent in the first half of 2019 (2018: 20 per cent). The lower rate is mainly due to non-operating taxable losses arising in the US.

The effective tax rate on IFRS operating profit based on longer-term investment returns from discontinued operations was 21 per cent (2018: 19 per cent). The effective tax rate on the total IFRS profit from discontinued operations was 21 per cent in the first half of 2019 (2018: 18 per cent).

## New business performance

**Life EEV new business profit and APE new business sales (APE sales) from continuing operations**

| | Actual exchange rate | | | | | | Constant exchange rate | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Half year 2019 £m | | Half year 2018 £m | | Change % | | Half year 2018 £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 |
| Asia | 1,978 | 1,295 | 1,736 | 1,122 | 14 | 15 | 1,806 | 1,178 | 10 | 10 |
| US | 831 | 348 | 816 | 466 | 2 | (25) | 868 | 495 | (4) | (30) |
| Total continuing operations | 2,809 | 1,643 | 2,552 | 1,588 | 10 | 3 | 2,674 | 1,673 | 5 | (2) |

**Life insurance new business APE sales** from continuing operations increased by 5 per cent (10 per cent on an actual exchange rate basis) to £2,809 million, and **life insurance new business profit** from continuing operations was down 2 per cent (up 3 per cent on an actual exchange rate basis) to £1,643 million, driven in part by lower interest rates. Excluding the effect of lower interest rates and other economic factors, new business profit would have been 4 per cent higher than the prior period.

In **Asia**, new business profit was 10 per cent higher at £1,295 million (15 per cent on an actual exchange rate basis), in line with the increase in APE sales. The increase in new business profit of £117 million, on a constant exchange rate basis, reflects the £138 million positive movement attributable to sales volume together with the combined positive effect of business and product mix and other items, offset partly by the negative £21 million effect of changes in interest rates and other economic assumptions. Regular premium contracts, which provide a high level of recurring income, continue to account for 93 per cent of APE sales, and the proportion of new sales represented by health and protection products, that has an earnings profile that is significantly less correlated to investment markets, remains high at 27 per cent (2018: 28 per cent).

APE sales were up 10 per cent in the period, and 13 per cent higher excluding Hong Kong, which had exceptional growth in the second quarter of 2018 following the launch of two new insurance products. Eleven life markets reported positive APE growth in the period, led by 45 per cent growth in China JV, which reflects higher levels of bancassurance sales. In Indonesia, while market conditions remain challenging, APE sales improved in the second quarter supported by enhanced product initiatives, contributing to growth of 4 per cent in the first half of the year.

New business profit growth was broad-based, with 10 markets achieving positive growth. In Hong Kong, new business profit was 6 per cent higher at £826 million, led by a strong agency performance. In China JV, new business profits increased by 29 per cent to £98 million as a result of higher sales. In Singapore, new business profit was 13 per cent higher, reflecting increased regular premium and retail protection sales volumes. In Indonesia, new business profit increased by 8 per cent to £66 million, reflecting higher APE sales, product mix and favourable interest rate movements. Other markets also delivered strong expansion in the first half of 2019, with total Asia new business profit up 10 per cent.

In the **US**, new business profit decreased by 30 per cent to £348 million (down 25 per cent on an actual exchange rate basis). This decline in new business profit reflects a 4 per cent reduction in overall APE sales, the unfavourable impact of £75 million from changes in interest rates and other economic assumptions, and a more diverse retail product mix with materially higher fixed index annuity sales alongside lower sales of higher margin variable annuity products.

### Life EEV new business profit and APE new business sales (APE sales) from discontinued operations

| | Actual exchange rate | | | | | |
|---|---|---|---|---|---|---|
| | Half year 2019 £m | | Half year 2018 £m | | Change % | |
| | APE sales | New business profit | APE sales | New business profit | APE sales | New business profit |
| Discontinued operations | 705 | 152 | 770 | 179 | (8) | (15) |

In **M&GPrudential**, new business profit decreased to £152 million, down 15 per cent as a result of an 8 per cent reduction in APE sales and a slightly lower APE margin. The decline in APE sales reflects reduced individual pension production particularly related to lower levels of defined benefit transfers compared with particularly high volumes in the prior period. The reduction in new business margin reflects the impact of £7 million from lower interest rates in the period combined with the effect of changes in product mix.

## Post-tax profit – EEV

| | Actual exchange rate | | | Constant exchange rate | |
|---|---|---|---|---|---|
| | Half year 2019 £m | Half year 2018 £m | Change % | Half year 2018 £m | Change % |
| **Post-tax operating profit based on longer-term investment returns from continuing operations** | | | | | |
| **Asia** | | | | | |
| Long-term business | 2,127 | 1,753 | 21 | 1,834 | 16 |
| Asset management | 91 | 77 | 18 | 79 | 15 |
| Total | 2,218 | 1,830 | 21 | 1,913 | 16 |
| **US** | | | | | |
| Long-term business | 793 | 1,005 | (21) | 1,068 | (26) |
| Asset management | 11 | (2) | 650 | (2) | 650 |
| Total | 804 | 1,003 | (20) | 1,066 | (25) |
| Other income and expenditure | (361) | (340) | (6) | (341) | (6) |
| Restructuring costs | (20) | (18) | (11) | (18) | (11) |
| **Post-tax operating profit based on longer-term investment returns from continuing operations** | 2,641 | 2,475 | 7 | 2,620 | 1 |
| Non-operating items: | | | | | |
| Short-term fluctuations in investment returns | 2,229 | (965) | n/a | (1,021) | n/a |
| Effect of changes in economic assumptions | (1,371) | 610 | n/a | 656 | n/a |
| Mark-to-market value movements on core structural borrowings | (492) | 579 | n/a | 580 | n/a |
| Loss attaching to corporate transactions | (24) | (48) | n/a | (50) | n/a |
| **Post-tax profit for the period from continuing operations** | 2,983 | 2,651 | 13 | 2,785 | 7 |
| **Post-tax profit for the period from discontinued operations** | 1,281 | 317 | 304 | 317 | 304 |
| **Post-tax profit for the period** | 4,264 | 2,968 | 44 | 3,102 | 37 |

### EEV earnings per share

| | Actual exchange rate | | | Constant exchange rate | |
|---|---|---|---|---|---|
| | Half year 2019 pence | Half year 2018 pence | Change % | Half year 2018 pence | Change % |
| Basic earnings per share based on post-tax operating profit | | | | | |
| From continuing operations | 102.1 | 96.2 | 6 | 101.8 | – |
| Basic earnings per share based on post-tax total profit | | | | | |
| From continuing operations | 115.3 | 103.0 | 12 | 108.2 | 7 |
| From discontinued operations | 49.6 | 12.3 | 303 | 12.3 | 303 |
| | 164.9 | 115.3 | 43 | 120.5 | 37 |

**EEV operating profit from continuing operations**
On an EEV basis, Group post-tax operating profit based on longer-term investment returns from continuing operations increased 1 per cent (7 per cent on an actual exchange rate basis) to £2,641 million in the first half of 2019.

EEV operating profit includes new business profit from the Group's life business, which decreased by 2 per cent (up 3 per cent on an actual exchange rate basis) to £1,643 million. It also includes in-force life business profit of £1,277 million, which was 4 per cent higher than prior year (up 9 per cent on an actual exchange rate basis).

In **Asia**, EEV life operating profit was up 16 per cent to £2,127 million, driven by 10 per cent growth in new business profit and in-force profit growth of 27 per cent, which reflects a growing in-force base and includes the beneficial effect of assumption changes and ongoing positive experience variances.

**Jackson's** EEV life operating profit was down 26 per cent to £793 million. This reflects a 30 per cent decrease in new business profit to £348 million and lower expected returns from the in-force business in part due to a lower discount rate applied, following the decline in interest rates in the period.

**EEV non-operating items from continuing operations**
Positive short-term fluctuations of £2,229 million primarily reflect higher than expected returns on equities and other investments held by the Group's US separate accounts and by the with-profits and unit-linked funds businesses in Asia. These positive effects have been offset partly by losses on equity derivatives held by the US business to manage market exposures arising from the guarantees provided on its annuity products.

Offsetting short-term fluctuations is a £1,371 million adverse effect from economic assumption changes in the period, principally reflecting the impact of lower interest rates on the projected future fund growth rates for the variable annuity business in the US and for participating businesses in Hong Kong and Singapore. These projected lower growth rates reduce the expected growth in fund values for policyholders and hence the expected profitability for shareholders.

**EEV post-tax profit for the period from discontinued operations**
Post-tax profit from discontinued operations of £1,281 million (2018: £317 million) increased over the prior year primarily driven by higher than expected returns on equities and investments held by the UK with-profits fund and unrealised gains on the bonds backing the shareholder annuity business, following falls in interest rates in the period.

## Free surplus generation from continuing operations[7]

| | Actual exchange rate | | | Constant exchange rate | |
|---|---|---|---|---|---|
| | Half year 2019 £m | Half year 2018 £m | Change % | Half year 2018 £m | Change % |
| Asia | 935 | 850 | 10 | 876 | 7 |
| US | 1,097 | 773 | 42 | 822 | 33 |
| Operating free surplus generated from in-force life business and asset management before restructuring costs | 2,032 | 1,623 | 25 | 1,698 | 20 |
| Restructuring costs | (14) | (10) | (40) | (10) | (40) |
| Operating free surplus generated from in-force life business and asset management | 2,018 | 1,613 | 25 | 1,688 | 20 |
| Investment in new business | (516) | (440) | (17) | (461) | (12) |
| Operating free surplus generated | 1,502 | 1,173 | 28 | 1,227 | 22 |
| Non-operating profit (loss) | 268 | (656) | | | |
| Net cash flows to parent company | (851) | (733) | | | |
| Exchange movements on foreign operations, timing differences and other items | 109 | (347) | | | |
| Total movement in free surplus from continuing operations | 1,028 | (563) | | | |
| Free surplus at 1 January from continuing operations | 4,201 | 4,398 | | | |
| Free surplus at 30 June from continuing operations | 5,229 | 3,835 | | | |

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 our life businesses operate. For life insurance operations, it represents amounts emerging from the in-force business during the period, net of amounts reinvested in writing new business. For asset management businesses, it equates to post-tax operating profit for the period.

In the first half of 2019, operating free surplus generation from our continuing life insurance and asset management business, before investment in new business, increased by 20 per cent to £2,018 million (increased by 25 per cent on an actual exchange rate basis). In Asia, growth in the in-force life portfolio, combined with post-tax asset management profit from Eastspring, contributed to free surplus generation of £935 million, up 7 per cent. After allowing for investment in new business, Asia free surplus generation was £685 million, up 13 per cent. In the US, in-force free surplus generation increased by 33 per cent reflecting a £274 million benefit following the integration of the recently acquired John Hancock business. After allowing for investment in new business, US free surplus generation was £831 million, up 32 per cent.

Although new business profit decreased by 2 per cent, the amount of free surplus invested in writing new life business in the period was higher at £516 million (2018: £461 million). This reflects increased new business investment in the US as a result of a more diversified new business mix, notably driven by substantial growth in fixed index annuities, which represented 11 per cent of total US APE sales in the period, up from 2 per cent in the first six months of 2018.

After funding cash remittances from the business units to the Group, recognition of the profit attaching to the disposal of businesses, and other movements, which includes market movements, the closing value of free surplus in our continuing life and asset management operations was £5.2 billion at 30 June 2019.

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient remittances are made to service central requirements (including paying the external dividend) and maximising value to shareholders through retention and reinvestment of capital in business opportunities.

**Cash remitted by the business units to the Group[8]**

| | Actual exchange rate | |
|---|---|---|
| | **Half year 2019** £m | **Half year 2018** £m |
| **From continuing operations** | | |
| Asia | 451 | 391 |
| US | 400 | 342 |
| Other UK (including Prudential Capital) | 5 | 37 |
| **From discontinued operations** | | |
| M&GPrudential | 356 | 341 |
| Net cash remitted by business units | 1,212 | 1,111 |
| Holding company cash at 30 June | 2,365 | 2,210 |

Cash remitted to the Group by business units in the first half of 2019 amounted to £1,212 million. Higher remittances of £451 million from Asia include the £191 million of proceeds from the reduction in the Group's shareholding in ICICI Prudential. US remittances increased to £400 million from £342 million in the prior period with the full remittance from Jackson received in the first half of the year. Going forwards, a more balanced cash remittance profile, between the first half and second half of the year, is under consideration. The remittance from M&GPrudential of £356 million was 4 per cent higher than the equivalent remittance in the first half of 2018.

Cash remitted to the Group in the first half of 2019 was used to meet central costs of £222 million (2018: £219 million) and pay the 2018 second interim dividend of £870 million. Corporate activities and other cash flows were negative £999 million (2018: negative £106 million), driven by net debt redemption of £400 million within the period, cash costs paid in respect of the demerger of £166 million and other transactions including payments for bancassurance distribution agreements. This led to holding company cash decreasing from £3,236 million to £2,365 million over the first half of 2019.

Reflecting the rebalancing of holding company cash stock pre-demerger, potential Asian investment opportunities and demerger related costs, holding company cash is anticipated to reduce in the second half of 2019 from the level at 30 June 2019.

Post-demerger, a lower level of holding company cash will be held centrally, commensurate with the reduced size of the Group post-demerger and ensuring sufficient resources are available to provide a buffer to support the retained businesses in stress scenarios and to provide liquidity to service debt, other central expenses and dividends.

## Capital position, financing and liquidity

### Capital position

***Analysis of movement in Group shareholder Solvency II surplus[9]***

| | 2019 £bn | 2018 £bn | |
|---|---|---|---|
| | **Half year** | **Half year** | **Full year** |
| **Solvency II surplus at 1 January** | **17.2** | 13.3 | 13.3 |
| Operating experience | **2.1** | 1.8 | 4.2 |
| Non-operating experience (including market movements) | **(1.5)** | – | (1.2) |
| M&GPrudential transactions | – | 0.1 | 0.4 |
| Other capital movements: | | | |
| Net subordinated debt (redemption)/issuance | **(0.4)** | – | 1.2 |
| Foreign currency translation impacts | – | 0.1 | 0.5 |
| Dividends paid | **(0.9)** | (0.8) | (1.2) |
| Model changes | **0.2** | (0.1) | – |
| **Estimated Solvency II surplus at end of period** | **16.7** | 14.4 | 17.2 |

The Group Shareholder Solvency II position shown relates to the Group's pre-demerger structure, and includes the discontinued M&GPrudential business.

The Group's shareholders' Solvency II capital surplus[10,11] was estimated at £16.7 billion at 30 June 2019 (equivalent to a solvency ratio of 222 per cent), compared with £17.2 billion (232 per cent) at 31 December 2018. Operating experience of £2.1 billion (31 December 2018: £4.2 billion) which included £0.3 billion related to the recently acquired John Hancock business, was more than offset by non-operating experience of £1.5 billion, including the effect of distribution deals of £0.6 billion, dividends to shareholders in the period of £0.9 billion and net debt redemption of £0.4 billion.

***Local Capital Summation Method***

Following the proposed demerger of M&GPrudential from Prudential plc, the Hong Kong Insurance Authority (IA) will assume the role of the Group-wide supervisor for the retained Group (excluding M&GPrudential). The retained Group will no longer be subject to Solvency II capital requirements. Ultimately, Prudential plc will become subject to the Group Wide Supervision (GWS) framework which is currently under development by the Hong Kong IA for the industry and is not expected to come into force until the second half of 2020 (subject to the legislative process) at the earliest.

Until Hong Kong's GWS framework comes into force, Prudential will apply 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 retained Group will be used to determine Group regulatory capital requirements, with no allowance for diversification between business operations. The Group available capital will be determined by the summation of available capital across local solvency regimes for regulated entities and IFRS net assets (with adjustments) for non-regulated entities. The Hong Kong IA has yet to make any final decisions regarding the GWS framework for the industry and it continues to consider and consult on the proposed legislation and related guidelines. The amounts below should not therefore be interpreted as representing the results or requirements under the industry-wide GWS framework and are not intended to provide a forecast of the eventual position. For further information see note I(i)(b) of the Additional financial information.

The Prudential Group shareholder LCSM surplus of available capital over the Group minimum capital requirement at 30 June 2019, excluding M&GPrudential, was £7.4 billion before allowing for the payment of the first interim ordinary dividend, as shown in the table below. The table also shows the adjustments needed to that position to estimate the pro forma shareholder LCSM capital position assuming the proposed demerger of M&GPrudential from Prudential plc had completed as at 30 June 2019.

***Estimated Prudential Group shareholder LCSM capital position***

| | 30 June 2019 £bn | | |
|---|---|---|---|
| | **As reported** | **Adjustments** | **Pro forma** |
| Available Capital[12] | 10.6 | +0.3 | 10.9 |
| Minimum Required Capital | 3.2 | – | 3.2 |
| LCSM surplus | 7.4 | +0.3 | 7.7 |
| LCSM ratio (%) | 332% | +8% | 340% |

The adjustments as shown in the table above, which result in an increase in surplus of £0.3 billion, represent the estimated impact on the retained Prudential Group shareholder LCSM capital position of the proposed demerger. The adjustments are based on current indicative estimates and are subject to change, which include:

— A reduction of £2.9 billion for the expected impact of the transfer of subordinated debt to M&GPrudential by substituting M&GPrudential in the place of Prudential as issuer of such debt. The £2.9 billion represents debt capable of being substituted that was held at 30 June 2019. A further £0.3 billion was raised in July bringing the total of subordinated debt expected to be transferred to £3.2 billion;

— An increase for the expected proceeds of £3.0 billion from a pre-demerger dividend to be paid by M&GPrudential to Prudential plc shortly before demerger, together with planned dividends of £0.3 billion expected to be paid earlier. All dividends are subject to the customary legal and governance considerations required before approval by the M&GPrudential Board; and

— A reduction of £0.1 billion for expected directly attributable transaction costs associated with the proposed demerger that have yet to be incurred at 30 June 2019. Total demerger costs are discussed above in IFRS basis non-operating items from continuing operations.

No account has been taken of any trading and other changes in financial position of the Prudential Group after 30 June 2019, thus the pro forma shareholder LCSM capital position does not reflect the actual shareholder LCSM capital position of the retained Prudential Group following the completion of the proposed demerger.

***Local statutory capital***
All of our subsidiaries continue to hold appropriate capital levels on a local regulatory basis.

In the **US**, total adjusted capital was £3.9 billion[13] at 30 June 2019 (US$4.9 billion), a £0.5 billion[13] (US$0.6 billion) reduction over the period, mainly reflecting £0.6 billion[13] (US$0.8 billion) of operating capital generation, offset by the payment of an increased £400 million[13] (US$525 million) remittance to the Group alongside £0.8 billion[13] (US$1.0 billion) of hedging losses net of reserve movements. Jackson's risk-based capital (RBC) ratio was estimated at above 400 per cent at 30 June 2019, which under the local regulator's 'permitted practice', excludes gains attributable to the valuation of interest rate swaps (if these were included the RBC ratio would be approximately 45 percentage points higher). Operating capital generation includes a favourable reserve release of £0.3 billion[13] (US$0.4 billion) net of tax resulting from the block of business acquired from John Hancock in 2018.

The M&GPrudential Group has requested approval from the Prudential Regulatory Authority (PRA) to amend the group internal model to apply at the level of the M&GPrudential Group, rather than at the level of the existing Prudential Group. The decision is pending and is expected to be provided shortly before the planned demerger, such that the Prudential Group internal model remains in place until the demerger with M&GPrudential's model commencing from this point. The results set out below should not be interpreted as representing the Pillar I output from an approved Solvency II internal model for M&GPrudential and are subject to change. Based on the assumptions that underpin the current approved Group internal model, the estimated shareholder Solvency II surplus for the M&GPrudential Group at 30 June 2019 was £3.9 billion. The estimated pro forma position, assuming that the proposed demerger of M&GPrudential from Prudential plc had been completed as at 30 June 2019 based on the operating environment and economic conditions as at that date, was £3.9 billion[19] (equivalent to a cover ratio[14] of 169 per cent). Further information can be found in note I(i)(a) of the Additional financial information section.

***Debt portfolio***
The Group continues to maintain a high-quality defensively positioned debt portfolio. Shareholders' exposure to credit is concentrated in the UK and Europe annuity portfolio and the US general account, mainly attributable to Jackson's fixed annuity portfolio. The credit exposure is well diversified and 97 per cent of our M&GPrudential portfolio and 96 per cent of our US portfolio are investment grade[15]. 10 per cent of the US portfolio is in US treasuries (31 December 2018: 10 per cent). During the first half of 2019, default losses were minimal and reported impairments in the US portfolio were £1 million (2018: £2 million).

**Financing and liquidity**
***Shareholders' net core structural borrowings***

| | 30 June 2019 £m | | | 30 June 2018 £m | | | 31 December 2018 £m | | |
|---|---|---|---|---|---|---|---|---|---|
| | IFRS basis | Mark-to-market value | EEV basis | IFRS basis | Mark-to-market value | EEV basis | IFRS basis | Mark-to-market value | EEV basis |
| Subordinated debt that is capable of being substituted to M&GPrudential (as at 30 June 2019) | 3,089 | 209 | 3,298 | 1,287 | 80 | 1,367 | 2,919 | 64 | 2,983 |
| Other core structural borrowings | 4,352 | 402 | 4,754 | 5,080 | 71 | 5,151 | 4,745 | 119 | 4,864 |
| Total borrowings of shareholder-financed businesses | 7,441 | 611 | 8,052 | 6,367 | 151 | 6,518 | 7,664 | 183 | 7,847 |
| Less: Holding company cash and short-term investments | (2,365) | – | (2,365) | (2,210) | – | (2,210) | (3,236) | – | (3,236) |
| Net core structural borrowings of shareholder-financed businesses | 5,076 | 611 | 5,687 | 4,157 | 151 | 4,308 | 4,428 | 183 | 4,611 |
| Gearing ratio* | 21% | | | 21% | | | 20% | | |

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

The Group had central cash resources of £2.4 billion at 30 June 2019 (31 December 2018: £3.2 billion). Total core structural borrowings decreased by £0.2 billion, from £7.6 billion to £7.4 billion in the first half of 2019, following the redemption of £400 million 11.375 per cent tier 2 Subordinated Notes in May 2019, offset partly by a £169 million increase in the IFRS debt value as a result of the agreement in the first half of 2019 of holders of two tranches of bonds to permit substitution of M&GPrudential as the issuer of these bonds in place of Prudential plc at demerger (see note C.6.1(vi) of the IFRS financial statements for further information).

Prior to the proposed demerger, the Group expects to rebalance its debt capital across Prudential plc and M&GPrudential. This will include the ultimate holding company of M&GPrudential becoming an issuer of debt following substitution from Prudential plc. Based on the operating environment and economic conditions as at 30 June 2019, the total debt expected to be transferred valued at original proceeds less unamortised transaction costs is £3.2 billion, compared with the circa £3.5 billion as previously indicated. Of the £3.2 billion, £2.9 billion was held by Prudential plc at 30 June 2019 (IFRS value of £3.1 billion), with a further £0.3 billion raised in July 2019. Following the substitution Prudential plc is expected to have core structural borrowings valued under IFRS at £4.4 billion at 30 June 2019. As set out in the 'local statutory capital' section above, the shareholder Solvency II ratio of M&GPrudential at 30 June 2019, assuming the demerger had taken place at this date and hence the debt described above had been substituted, was 169 per cent. This is based on assumptions at 30 June 2019 and does not allow for any further trading or change in environment and economic conditions, material changes in which may lead to a different outcome.

In addition to its net core structural borrowings of shareholder-financed businesses set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 30 June 2019, we had issued commercial paper under this programme totalling US$828 million, to finance non-core borrowings.

As at 31 December 2018, the Group had a total of £2.6 billion of undrawn committed facilities, expiring in 2023. In preparation for the demerger of M&GPrudential from Prudential plc, since the year end, these facilities have been replaced with two separate committed facilities totalling £3.5 billion expiring in 2024. Of this amount, £2.0 billion of committed facilities are held by Prudential plc and £1.5 billion of facilities are held by M&GPrudential. Up to the point of demerger, Prudential plc has access to the whole amount through an internal committed facility. No amounts have been drawn under these facilities and there were no amounts outstanding at 30 June 2019. Access to further liquidity is available through the debt capital markets and a commercial paper programme in place, and Prudential plc has maintained a consistent presence as an issuer in the market for the past decade. The medium-term note programme, the US shelf programme (platform for issuance of SEC registered public bonds in the US market), the commercial paper programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential's holding company, and are intended to maintain a flexible funding capacity.

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 secured by collateral posted by Jackson. Given the wide range of Jackson's product set and breadth of its customer base including retail, corporate and institutional, further sources of liquidity also include premiums and deposits.

## Shareholders' funds

| | IFRS | | | EEV | | |
|---|---|---|---|---|---|---|
| | 2019 £m | 2018 £m | | 2019 £m | 2018 £m | |
| | Half year | Half year | Full year | Half year | Half year | Full year |
| **Profit after tax for the period[16]** | 1,535 | 1,355 | 3,010 | 4,259 | 2,967 | 4,585 |
| Exchange movements, net of related tax | 98 | 69 | 348 | 225 | 523 | 1,706 |
| Unrealised gains and losses on US fixed income securities classified as available-for-sale[17] | 1,726 | (908) | (1,083) | – | – | – |
| Dividends | (870) | (840) | (1,244) | (870) | (840) | (1,244) |
| Mark-to-market value movements on Jackson assets backing surplus and required capital | – | – | – | 137 | (32) | (95) |
| Other | (66) | 119 | 131 | (117) | 127 | 132 |
| **Net increase (decrease) in shareholders' funds** | 2,423 | (205) | 1,162 | 3,634 | 2,745 | 5,084 |
| Shareholders' funds at beginning of the period | 17,249 | 16,087 | 16,087 | 49,782 | 44,698 | 44,698 |
| **Shareholders' funds at end of the period** | 19,672 | 15,882 | 17,249 | 53,416 | 47,443 | 49,782 |
| **Shareholders' value per share[1,18]** | 757p | 613p | 665p | 2,055p | 1,830p | 1,920p |

Group IFRS shareholders' funds in the six months to 30 June 2019 increased by 14 per cent to £19.7 billion (31 December 2018: £17.2 billion on an actual exchange rate basis), driven by the strength of the operating result, offset by dividend payments of £870 million. During the period, UK sterling has weakened relative to the US dollar and various Asian currencies, which generated a positive exchange rate movement on the net assets in the period. In addition, the decrease in US long-term interest rates between the start and the end of the reporting period produced unrealised gains on fixed income securities held by Jackson accounted for through other comprehensive income.

If the demerger had occurred at 30 June 2019, shareholders' equity would have been reduced by £5.1 billion to £14.6 billion[19]. For further information see note I(vii) of the Additional financial information.

The Group's EEV basis shareholders' funds also increased by 7 per cent to £53.4 billion (31 December 2018: £49.8 billion on an actual exchange rate basis). On a per share basis, the Group's embedded value at 30 June 2019 equated to 2,055 pence[18], up from 1,920 pence[18] at 31 December 2018.

## Financial implications of corporate transactions

### Renewal and expansion of regional strategic bancassurance alliance with UOB

In January 2019, Prudential and UOB renewed their regional bancassurance alliance until 2034, extending the scope to include a fifth market, Vietnam, alongside our existing footprint across Singapore, Malaysia, Thailand and Indonesia. Under the terms of the renewal, Prudential's life insurance products will be distributed through UOB's extensive network of more than 400 branches in five markets, providing access to over four million UOB customers. In addition, Prudential will use its digital capabilities to deliver protection-focused propositions to aid UOB's digital bank expansion and customer acquisition aspirations. An initial fee of £662 million[20] will be paid under the agreement which will be funded through internal resources. This amount will be paid in three instalments. £230 million[20] was paid in February 2019 with £331 million[20] to be paid in January 2020 and £101 million[20] to be paid in January 2021.

### Partnership with OVO in Indonesia

In June 2019, Prudential announced a strategic partnership with PT Visionet International (OVO), a leading digital payments, rewards and financial services platform in Indonesia. Prudential and OVO will develop jointly new and comprehensive digital propositions for customers encompassing wellness, health and wealth products and services. Prudential and OVO customers will have the convenience of transacting online with electronic underwriting, e-payments, e-claims and access to Prudential's wide hospital network, complementing the face-to-face service from Prudential's financial consultants in 160 cities. We believe the partnership enhances Prudential's reach in one of Asia's largest insurance markets with a digitally-savvy population.

### Acquisition of majority stake in Group Beneficial

In July 2019, Prudential plc completed its acquisition of a 51 per cent stake in Group Beneficial (Beneficial), one of the leading life insurers in Cameroon, Côte d'Ivoire and Togo. Beneficial provides savings and protection products to over 300,000 customers through 41 branches and more than 2,000 agents. The acquisition enhances Prudential's growing scale in Africa.

### Partial disposal of India life insurance associate

In March 2019, the Group reduced its shareholding in ICICI Prudential Life Insurance Company, an Indian associate, from 25.8 per cent to 22.1 per cent. The proceeds from the sale of shares were £191 million resulting in a gain of £150 million before tax. ICICI Prudential Life Insurance Company remains an associate of the Group.

### Disposal of Vietnam consumer finance business

In June 2019, the Group completed the sale of Prudential Vietnam Finance Company Limited, its Vietnam consumer finance subsidiary for proceeds of £119 million, resulting in a profit on disposal of £55 million before tax.

### Acquisition of majority stake in Thanachart Fund Management

In August 2019, the Group announced that it had entered into a binding memorandum of understanding with Thanachart Bank to acquire a controlling stake in Thanachart Fund Management Co., Ltd. (TFUND) and expects to enter into definitive agreements by the end of the year. TFUND is the 9th largest mutual fund manager in Thailand, with total assets under management of over £5 billion as at 31 December 2018. The proposed acquisition will be subject to local regulatory approvals.

**Mark FitzPatrick**
Group Chief Financial Officer and Chief Operating Officer

**Notes**

**1** See note II of the Additional financial information for definition and reconciliation to IFRS balances.
**2** Asia insurance revenues include spread income, fee income, with-profits, insurance margin and expected return on shareholder assets.
**3** Includes money market funds.
**4** Annualised interest cost is calculated based on core structural borrowings held at 30 June 2019, using exchange rates at 30 June 2019, and therefore excludes interest costs relating to bonds redeemed in the period.
**5** All figures for net derivative losses and related movements are net of deferred acquisition costs.
**6** Core refers to the underlying profit of the M&GPrudential insurance business, excluding the effect of, for example, management actions to improve solvency and material assumption changes. Details of these are set out in note I(vi) of the Additional financial information.
**7** 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 period. Restructuring costs are presented separately from the underlying business unit amount. Further information is set out in note 9 of the EEV basis results.
**8** Net cash remitted by business units are included in the Holding company cash flow, which is disclosed in detail in note I(iii) of the Additional financial information. This comprises dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
**9** The methodology and assumptions used in calculating the Solvency II capital results are set out in note I(i) of the Additional financial information.
**10** The Group shareholder capital position covers continuing and discontinued operations and excludes the contribution to own funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which as at 31 December 2018 reflected the approved regulatory position.
**11** Estimated before allowing for first interim ordinary dividend (31 December 2018: second interim ordinary dividend).
**12** Includes £2.9 billion of subordinated debt that is expected to be transferred to M&GPrudential pre-demerger and hence has not been 'grandfathered' with the Hong Kong IA.
**13** Movements in the period have been translated at the average exchange rates for the period ended 30 June 2019, apart from remittances to the Group which reflect the exchange rate applied to the transaction. The closing balance has been translated at the closing spot rates as at 30 June 2019.
**14** The M&GPrudential shareholder Solvency II ratio is measured as the ratio of Solvency II own funds to the Solvency Capital Requirement. It excludes the contribution to own funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus and includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date.
**15** Based on hierarchy of Standard & Poor's, Moody's and Fitch, where available and if unavailable, NAIC and internal ratings have been used.
**16** Excluding profit for the year attributable to non-controlling interests.
**17** Net of related charges to deferred acquisition costs and tax.
**18** For EEV shareholders' value per share, see note II of the Additional financial information.
**19** No account has been taken of any trading and other changes in financial position of the Prudential Group after 30 June 2019, thus the pro forma financial position does not reflect the actual financial position of the retained Prudential Group following the completion of the proposed demerger.
**20** Translated using a Singapore dollar: Sterling foreign exchange rate of 1.7360.

# Successful control of our risk exposure

Our Group Risk Framework and risk appetite have allowed us to control our risk exposure successfully throughout the year. Our governance, processes and controls enable us to deal with uncertainty effectively, which is critical to the achievement of our strategy of 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 M&GPrudential is considered a discontinued operation and is approaching life as a fully independent business with its board and management in place, until the demerger is effected M&GPrudential's risks (as with those of the Group's other business units) are managed within the Group Risk Framework and this report reflects this position.

## 1. Introduction

### Group structure

The activity ongoing at M&GPrudential to combine its asset management and UK and Europe insurance businesses, and M&GPrudential's proposed demerger from the rest of the Group (announced in March 2018), requires significant and complex changes. These have continued to progress apace in 2019. The Risk function has been embedded within key work streams and with a number of important milestones in the demerger activity now completed, a clear view exists of the remaining activities and associated risks and dependencies in order to execute these changes.

A mature and well-embedded risk framework is in place and, during this period of transition, the Group Risk function has performed a defined role in providing oversight, support and risk management, as well as objective challenge to ensure the Group remains within its risk appetite. During 2019, these activities have been in the form of risk opinions, guidance and assurance on critical transformation and demerger activity for the Group and at M&GPrudential, as well as assessments and ongoing monitoring of the financial and execution risks to the demerger from external events. These include the potential market disruption from the UK's exit from the EU and the current situation in Hong Kong.

A key objective is that post-demerger there are two strong, standalone risk functions in M&GPrudential and Prudential plc that are more closely aligned to their respective key stakeholders. Planning and delivery of operational separation for the risk functions remain on track. Throughout this process, the Risk function has kept its focus on managing the risks of the growing business, in an environment which remains uncertain from a geopolitical and macroeconomic perspective.

### Societal developments

Investor focus in developed economies continues to shift from the goods and services which businesses deliver to customers towards the way in which such business is conducted and how this impacts on the wider society. Developments in the business environments in which the Group operates are continually monitored to ensure that the environmental, social and governance (ESG) issues that are important to the Group's brand, reputation and long-term strategy are understood and managed, and this includes stakeholder and regulatory expectations. Technological developments continue and there is a growing expectation from consumers that the services they receive, and the manner in which they are delivered, keeps pace. Regulatory developments such as the EU General Data Protection Regulation (GDPR), and similar regulations in the US and Asia, have underlined that personal data must be held securely and its use must be transparent to the data owner. Risks around the security and use of personal data are actively managed by the Group, and regulations in data protection have been incorporated into the principles against which the business requirements are defined.

### The world economy

Economic growth worldwide has been slowing since the beginning of the year, with global manufacturing contracting in May and June, led by the Eurozone, UK and some Asian economies, although the US continued to see some expansion. Services and consumption data have remained fairly robust over the first half and this has provided support to the extent of economic growth seen. Various factors have exerted downward pressure on global GDP growth over the year to date, including political tensions (in particular those related to trade policies), efforts in China to deleverage and tightened financial conditions in the US. Faced with the prospect of a slowdown in the global economy, continued subdued inflation and the potential impacts from trade tensions, the major central banks across North America, Europe and Asia have signalled a change in position towards further easing in monetary policy. Although the continuation of accommodative monetary conditions is expected to provide support for the global economy, the outlook over the rest of 2019 is likely to remain highly uncertain.

**Financial markets**
Financial markets suffered broadly as 2018 came to an end, driven by the substantial weakening of growth in world trade and the tightening in monetary policy being effected by central banks at that time. In the first half of 2019, most assets responded positively to the US Federal Reserve's then-indications of a potential move back towards accommodative monetary policy, which ultimately manifested in a 0.25 per cent cut in the US central bank's benchmark interest rate in early August. Bond valuations have also rallied on the back of the significant fall in interest rates over the first quarter. The announcement in early July 2019 of a resumption in trade talks between the US and China has contributed further to the increase in risk asset values. Headwinds to a continuation of positive financial market performance remain in place, in particular given that market turbulence and reduced liquidity tend to exacerbate increases in volatility. Markets remain highly susceptible to any abrupt change in risk sentiment and in particular to the signals of central banks in respect of the direction of travel in monetary policy.

**(Geo)political landscape**
Events in 2019 continue to show that the world is experiencing a period of global geopolitical transition and increasing uncertainty. Popular discontent has been one of the driving factors of political change, and the role of multilateral rules-based institutions that underpin global order, such as the United Nations (UN), the North Atlantic Treaty Organisation (NATO) and the World Trade Organisation (WTO) do not appear as certain as they once were. It is clear that the full long-term impacts of these global changes remain to be seen. Across the Group's key geographies we continue to see national protectionism in trade and economic policies. The UK's exit from the EU and the nature of the future relationship persists as a key uncertainty. Rising tensions in the Gulf region and China's relationship with both the US and Hong Kong remain sources of geopolitical uncertainty. As a global organisation, the Group develops plans to mitigate business risks arising against this backdrop and engages with national bodies where it can in order to ensure its policyholders, employees and other key stakeholders are not adversely impacted.

**Regulations**
Prudential operates in highly regulated markets across the globe, and the nature and focus of regulation and laws remains 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 risks and macroprudential policy. Such 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. Prudential announced in August 2018 that the Hong Kong Insurance Authority would be the Group-wide supervisor following the demerger of M&GPrudential, and constructive engagement continued in 2019 on the future Group-wide regulatory framework that will apply to the Group immediately after the demerger and the framework that will apply in the longer term. Similarly, M&GPrudential has been engaging closely with the PRA and FCA on the application of the existing regulatory framework in the UK to the demerged business.

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

| | | | |
|---|---|---|---|
| Q3 2018 | ● In August, the Group announces that the Hong Kong Insurance Authority will become the Group-wide supervisor for Prudential plc after the demerger of M&GPrudential, and constructive engagement on the future regulatory relationship begins. | ● In July, the International Association of Insurance Supervisors (IAIS) releases consultation documents for both the Common Framework for the Supervision of Insurers (ComFrame) and Insurance Capital Standard (ICS) v2.0. The Group submits ICS field results to the PRA in August 2018. | ● In September, PRA and FCA request from major banks and insurers, details of preparations and actions being undertaken to manage transition from London Inter-Bank Offered Rate (LIBOR) to alternative interest rate benchmarks. |
| ● Emerging market equities decline rapidly in August as tightening financial conditions impact economies with external funding vulnerabilities. | ● The US imposes tariffs on Chinese exports worth US$50 billion in July, prompting Beijing to respond in kind. Despite a temporary truce agreed at the G20 summit on 1 December, trade tensions between the two nations remains high. | ● The Bank of England raises rates for the second time since the 2008 financial crisis to 0.75 per cent in August, while highlighting significant Brexit-driven uncertainties to the economy. | Q4 2018 |
| ● The IAIS launches a consultation for the Holistic Framework (HF) in November, which aims to assess and mitigate systemic risk in the insurance sector and is intended to replace the current Global Systemically Important Insurer (G-SII) measures, with the aim of adoption in November 2019. | ● In November, the International Accounting Standards Board (IASB) tentatively delays the effective date of IFRS 17 by one year to periods beginning on or after 1 January 2022. The introduction of further amendments to this new standard will be considered. | ● The reduction in global accommodative monetary policy continues, with the European Central Bank (ECB) confirming that net asset purchases would cease at the end of 2018, and the US Federal Reserve raises rates for the fourth time in 2018 in December. | ● China reports a large manufacturing decline in December, prompting concerns of a global growth slowdown. Additional stimulus measures from the People's Bank of China are enacted. |

**Key:** ● Prudential ● Regulatory ● (Geo)political ● Markets/economies

## Q4 2018 continued

- Fears of tightening financial conditions and a global economic slowdown trigger a sharp sell-off in US equity markets, which had remained resilient through the first three quarters of 2018, while global equities fall further. The S&P 500 ends 2018 with an annual decline of circa 6 per cent. In early 2019 risk sentiment improves, contributing to a broad rally in equity markets.
- In November, Jackson announces the acquisition of the group payout annuity business of John Hancock Life Insurance Company, a closed book of circa 200,000 in-force certificates representing IFRS reserves of approximately US$5.5 billion.
- PPM America (PPMA) becomes the fourth Prudential Group signatory to the UN Principles for Responsible Investment in October 2018.
- Democrats win control of the House of Representatives in the November US midterm elections, while the Republicans retain control of the Senate. As bipartisan disputes increase, the US government partially shuts down between late December 2018 and January 2019.
- In December, the UK Parliament rejects the negotiated agreement on the UK's withdrawal from the EU. Uncertainty on the nature of the UK's exit from the EU persists as the UK government seeks to renegotiate the agreement in early 2019.

## Q1 2019

- On 25 March, the Hong Kong IA and Prudential plc sign the Regulatory Letter specifying the supervisory framework immediately following the demerger of M&GPrudential. The Group has since agreed with the supervisor to apply the Local Capital Summation Method (LCSM) to determine Group regulatory capital requirements and related governance requirements until the Hong Kong IA's Group-wide Supervision Framework is finalised.
- Over Q1 signs continue of a moderation in US growth and a sharper slowdown in the rest of the world, with Europe's growth expectations dropping progressively throughout the quarter. Central bank rhetoric turns dovish, and this is one of the factors driving the S&P 500 to its best quarter since Q2 2009 (rising by 13.6 per cent), along with returning positive risk sentiment. Meanwhile, yields fall sharply in response to the softening economic outlook and dovish turn by central banks. In Q2, China reports its lowest quarterly GDP growth rate in 30 years of 6.2 per cent.
- In Indonesia, the Otoritas Jasa Keuangan (OJK) approves 'grandfathering' of Prudential's existing 94.6 per cent shareholding in P.T. Prudential Life Assurance, our Indonesian subsidiary, although any future capital will be subject to the 80 per cent foreign ownership limit.
- In March, the Group announces further expansion in West Africa via the acquisition of a majority stake in Group Beneficial, a leading life insurer operating in Cameroon, Côte d'Ivoire and Togo. The acquisition completes in Q3.
- In February, in a summit in Hanoi, the US and North Korea fail to reach an agreement on nuclear disarmament and a lifting of US-led international sanctions. However, in June the two countries agree to resume talks as Donald Trump becomes the first sitting US president to enter North Korea.
- On 29 March, EIOPA releases a discussion paper on systemic risk and macroprudential policy in insurance, setting out its thinking on how this area should be addressed in the 2020 Solvency II review. The paper suggests a range of potential macroprudential tools and measures.
- The UK Parliament fails to pass the negotiated Withdrawal Agreement by the then Article 50 notice period deadline of 29 March, resulting in an agreed extension until 31 October 2019. Prime Minister Theresa May resigns from office in May with Boris Johnson selected by the Conservative Party as her successor.

## Q2 2019

- Prudential's Pulse app launches in April in Malaysia, providing affordable digital health and wellness services to consumers. In June, Prudential announces a strategic partnership with OVO to offer customers wellness, health and wealth products and services in Indonesia.
- Several key elections are held across Asia in the first and second quarters. Legislative elections take place in Thailand in March, with the outcome marking the country's return to civilian rule; in April the incumbent President Widodo wins the presidential election in Indonesia; and in May the legislative elections in India see a victory for Prime Minister Narendra Modi. The election results align broadly to consensus polls.
- Over Q2 and into Q3, large-scale demonstrations have taken place in Hong Kong, sparked by an extradition bill proposed by the Hong Kong government.
- The Hong Kong Insurance Authority issues its Guidelines on Enterprise Risk Management in July, setting out objectives and requirements on ERM and the Own Risk Solvency Assessment under Pillar 2 of its proposed RBC regime for solo entities.
- At the G20 summit in June, the US and China agree to resume trade talks, which eases tensions which had contributed to downward pressure on global economic growth. The month-long truce ends abruptly in Q3 when the US announces in August tariffs on US$300 billion of Chinese imports (effective September). In response to the subsequent devaluation of the RMB, the US Treasury designates China a currency manipulator as tensions re-escalate.
- Geopolitical tensions rise in the Middle East as Iran announces a step-up in its production of enriched uranium. This follows the US' withdrawal from the 2015 nuclear deal and its subsequent imposition of economic sanctions. The risk of further escalation remains high.
- In April, the PRA issues Supervisory Statement (SS 3/19) on 'enhancing banks and insurers' approaches to managing the financial risks from climate change' which outlines the regulatory expectations for financial services firms to assess impacts from climate change.
- In June, the PRA and FCA hold a conference to set out their reaction to firms' plans on how to transition away from London Inter-Bank Offered Rate (LIBOR) to alternative interest rate benchmarks.
- Following the end of Q2, the Group submits the results of ICS field-testing for 2019 (launched in April 2019) to the IAIS on 31 July 2019. This will be the last field-testing prior to the finalisation of the ICS 2.0 specifications and the start of a five-year monitoring period next year. This follows the IAIS global seminar which took place in June.

**Key:** ● Prudential ● Regulatory ● (Geo)political ● Markets/economies

## 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 sections 5 and 6.

| *Our strategy* | *Significant risks arising from the delivery of the strategy* | *Risk management focus* |
|---|---|---|
| **Group-wide** We aim to generate attractive returns enabling us to provide financial security to our customers and deliver sustainable growth for our shareholders. Following rigorous review, we believe that this long-term strategy is best served through the demerger of M&GPrudential. | Transformation risks around key change programmes | Managing the inter-connected execution risks from this transformation activity under the Group's transformation risk framework, as well as providing other risk management support and review.<br>Ensuring both M&GPrudential and Prudential plc will have in place two strong standalone risk functions after demerger. |
| | Group-wide regulatory risks | Engagement with regulators and industry groups on macroprudential and systemic risk-related regulatory initiatives, international capital standards, and other initiatives with Group-wide impacts.<br>Engagement with the Hong Kong Insurance Authority on the Group-wide supervisory framework that will apply to the Group after the demerger of M&GPrudential. Engagement with the PRA and FCA on the application of the current UK regulatory framework to M&GPrudential. |
| | Information security and data privacy risks | Continuing the implementation of the Group-wide organisational structure and governance model for cyber security management.<br>Ensuring full compliance with applicable privacy laws across the Group. |
| | Business disruption and third-party risks | Continuing application of the Group-wide business continuity framework and programme.<br>Applying the distinct oversight and risk management required over the Group's third parties, including outsourcing partners and its strategic partnerships. |
| | Conduct risk | Continuing the development and implementation of the Group-wide conduct framework which builds on the Group's Customer Commitments Policy. |
| **Asia** Serving the protection and investment needs of the growing middle class in Asia. | Persistency risk | Implementation of business initiatives to manage persistency risk, including 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. |
| | Regulatory risk (including foreign ownership and conduct) | Proactive engagement with national governments and regulators. |
| **United States** Providing asset accumulation and retirement income products to US baby boomers. | Financial risks | Maintaining, and enhancing where necessary, appropriate risk limits, hedging strategies and Group oversight that is in place. |
| | Policyholder behaviour risk | Continued monitoring of policyholder behaviour experience and review of assumptions. |
| **Africa** | The Group continues to increase its risk management focus on Prudential Africa as its presence there expands and grows in materiality. | |
| **M&GPrudential** Meeting the savings and retirement needs of an ageing UK and continental European population. | M&GPrudential merger and transformation risk | Managing the merger and transformation risks to the delivery of strategic, financial and operational objectives. |
| | Longevity risk | Continued oversight and experience analysis. |
| | Customer risk | Ongoing monitoring of embedded customer outcome indicators.<br>Managing the customer risk implications from: merger and transformation activity; new product propositions and new regulatory requirements. |

## 4. Risk governance

### a. System of governance

Appropriately managed risks allow Prudential to take business opportunities and enable the growth of its business. Effective risk management is therefore fundamental in the execution of the Group's business strategy, now and after demerger. Prudential's approach to risk management must be both well embedded and rigorous, closely aligned with the Group's key stakeholders and its business units and Group-wide. As the economic and political environment in which we operate changes, it should also be sufficiently broad and dynamic to respond to these changes.

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 ensure risks are identified, measured, managed, monitored and reported.

### How 'risk' is defined

Prudential defines 'risk' as the uncertainty that is faced in implementing the Group's strategies and achieving its objectives successfully, and includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the Group. Accordingly, material risks will be 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.

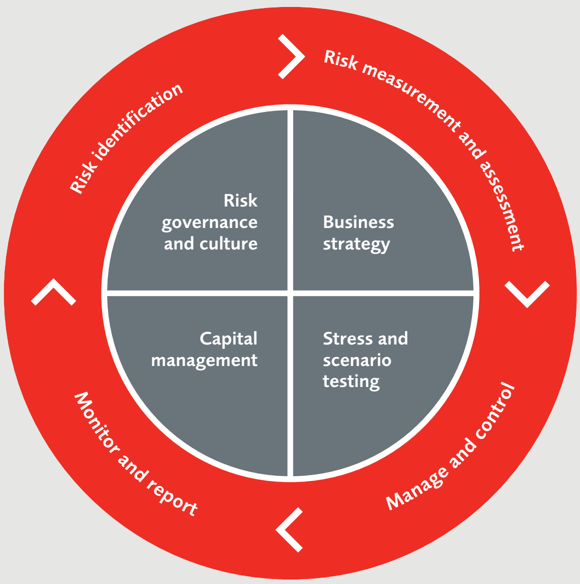
### How risk is managed

Risk management is embedded across the Group through the Group Risk Framework, which is owned by the Board and details Prudential's risk governance, risk management processes and risk appetite. The Framework is based on the concept of the 'three lines of defence', comprising risk taking and management, risk control and oversight, and independent assurance and has been developed to monitor the risks to our business. The aggregate Group exposure to its key risk drivers is monitored and managed by the Group Risk 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.

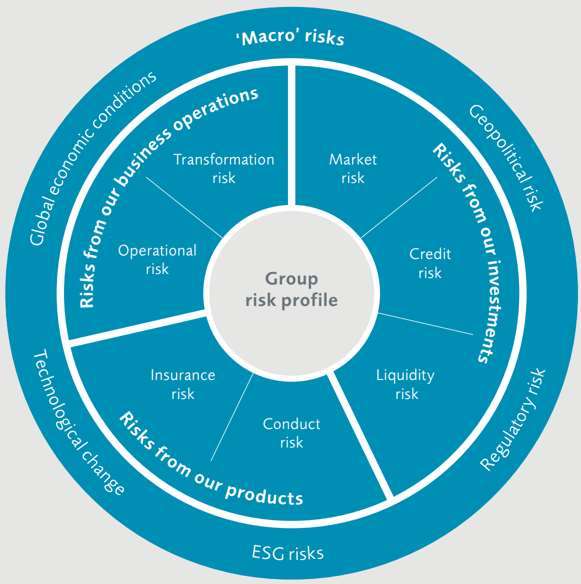
In 2019, the Group continued to update its policies and processes around oversight of model risks. Prudential manages key ESG issues though a multi-disciplinary approach with functional ownership for ESG topics.

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 the Group Head Office and the business units establish to make decisions and control their activities on risk-related matters. It includes individuals, Group-wide functions and committees involved in overseeing and managing risk.

The risk governance structure is led by the Group Risk Committee, supported by independent non-executive directors on risk committees of material subsidiaries. These committees monitor the development of the Group Risk Framework, which includes risk appetite, limits, and policies, as well as risk culture.

The Group Risk Committee reviews the Group Risk Framework and recommends changes to the Board to ensure that it remains effective in identifying and managing the risks faced by the Group. A number of core risk policies and standards support the Framework to ensure that risks to the Group are identified, assessed, managed and reported.

Culture is a strategic priority of the Board, who recognise its importance in the way that the Group does business. Risk culture is a subset of Prudential's broader organisational culture, which shapes the organisation-wide values that we use to prioritise risk management behaviours and practices.

An evaluation of risk culture forms part of the Group Risk Framework and in particular seeks to identify evidence that:

— Senior management in business units articulate the need for effective risk management as a way to realise long-term value and continuously support this through their actions;

— Employees understand and care about their role in managing risk – they are aware of and discuss risk openly as part of the way they perform their role; and

— Employees invite open discussion on the approach to the management of risk.

The Group Risk Committee also 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 Code of 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 policies which require that the Group act in a responsible manner. These include, but are not limited to, policies covering anti-money laundering, financial crime and anti-bribery and corruption. The Group's third-party supply policy ensures 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.

### *ii. The risk management cycle*

The risk management cycle comprises processes to identify, measure and assess, manage and control, and monitor and report on our risks.

**Risk identification**

Group-wide risk identification takes place throughout the year as the Group's businesses undertake a comprehensive bottom-up process to identify, assess and document its risks. This concludes with an annual top-down identification of the Group's key risks, which considers those risks that have the greatest potential to impact the Group's operating results and financial condition and is used to inform risk reporting to the risk committees and the Board for the year.

Our risk identification process also includes the Group's Own Risk and Solvency Assessment (ORSA), as required under Solvency II, and horizon-scanning performed as part of our emerging risk management process.

In accordance with provision 28 of the UK Corporate Governance Code, the Board performs a robust assessment of the principal and emerging risks facing the Company through the Group-wide risk identification process, Group ORSA report and the risk assessments undertaken as part of the business planning review, including how they are managed and mitigated. An emerging risk process has been developed to support the identification, analysis, and decision-making with respect to such risks and combines both top-down and bottom-up views of risks at the level of the Group and its business units.

Reverse stress testing, which requires the Group to ascertain the point of business model failure, is another tool that helps us 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 key risks are 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 capital requirements under Solvency II and our own economic capital basis. Governance arrangements are in place to support the internal model, including independent validation and processes and controls around model changes and limitations.

**Risk management and control**

The control procedures and systems established within the Group are designed to manage the risk of failing to meet business objectives and are detailed in the Group risk policies. These 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.

The management and control of risks are set out in the Group risk policies, and form part of the holistic risk management approach under the Group's ORSA. These risk policies 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; and

— The flows of management information required to support the measurement and management of the Group's material risks.

The methods and risk management tools we employ to mitigate each of our major categories of risks are detailed in the further risk information section below.

**Risk monitoring and reporting**

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

### *iii. Risk appetite, limits and triggers*

The extent to which Prudential is willing to take risk in the pursuit of its business strategy and objective to create shareholder value is defined by a number of qualitative and quantitative expressions of risk appetite, operationalised through measures such as limits, triggers and indicators. The Group Risk function is responsible for reviewing the scope and operation of these risk appetite measures at least annually to determine that they remain relevant. The Board approves all changes made to the Group's aggregate risk appetite and has delegated authority to the Group Risk Committee to approve changes to the system of limits, triggers and indicators.

Group risk appetite is set with reference to economic and regulatory capital, liquidity and earnings volatility which is aimed at ensuring that an appropriate level of aggregate risk is taken across the Group. Appetite is also defined for the Group's financial and non-financial risks. Further detail is included in sections 5 and 6, as well as 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 further constraint and defined points for escalation.

**Capital requirements**

Limits on capital requirements aim to ensure that the Group meets its internal economic capital requirements, achieves its desired target rating to meet its business objectives, and ensures that supervisory intervention is not required. The two measures currently in use at the Group level are Solvency II capital requirements and internal economic capital (ECap) requirements. In addition, capital requirements are monitored on local statutory bases.

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 Group Risk function, which uses submissions from local business units to calculate the Group's aggregated position (allowing for diversification effects between local business units) relative to the aggregate risk limits.

**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 regulatory and economic capital models.

**Manage and control**

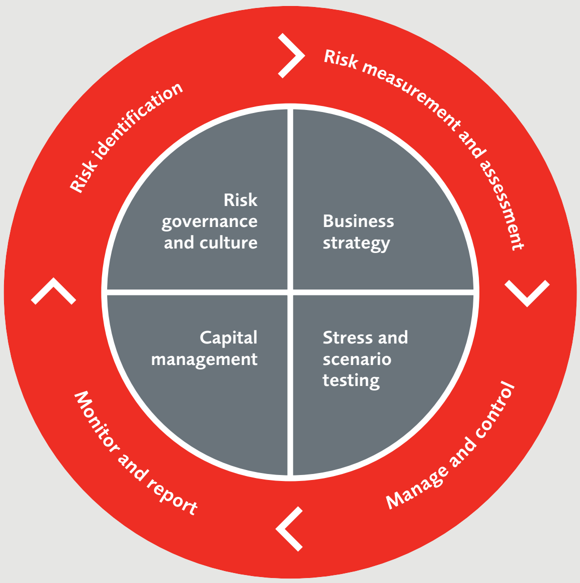
Risk appetite and limits allow for the controlled growth of our business, in line with business strategy and plan.

Processes that support the oversight and control of risks include:

- The Own Risk and Solvency Assessment (ORSA)
- Group approved limits and early warning triggers
- Large risk approval process
- Global counterparty limit framework
- Financial incidents procedures
- 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 risk 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. Risk culture is a subset of broader organisational culture, and shapes the organisation-wide values used to prioritise risk management behaviours.

**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 Group Risk 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.

**Liquidity**
The objective of the Group's liquidity risk appetite is to ensure that the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business-as-usual and stressed scenarios. Risk appetite with respect to liquidity risk is measured using a Liquidity Coverage Ratio (LCR) which considers the sources of liquidity against liquidity requirements under stress scenarios.

**Earnings volatility**
The objectives of the Group's appetite and aggregate risk limits on earnings volatility seek to ensure that variability is consistent with the expectations of stakeholders; that the Group has adequate earnings (and cash flows) to service debt and expected dividends and to withstand unexpected shocks; and that earnings (and cash flows) are managed properly across geographies and are consistent with funding strategies. The volatility of earnings is measured and monitored on operating profit and EEV operating profit bases, although IFRS and EEV total profits are also considered.

## 5. Summary risks

Broadly, the risks assumed across the Group can be categorised as those which arise as a result of our business operations, our investments and those arising from the nature of our products. Prudential is also exposed to those broad risks which apply because of the global environment in which it operates. These risks, where they materialise, may have a financial impact on the Group, and could also impact on the performance of its products or the services it provides to our customers and distributors, which gives rise to potential risks to its brand and reputation and have conduct risk implications. These risks, which are not exhaustive, are summarised 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 can be found at the end of this document.

**'Macro' risks**
Some of the risks that the Group is exposed to are necessarily broad given the external influences which may impact on the business. These risks include:

**Global economic 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 our customers. Changes in economic conditions 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. This is a risk which is considered material at the level of the Group.

**Geopolitical risk**
The geopolitical environment may have direct or indirect impacts on the Group and has seen varying levels of volatility in recent years as seen by political developments in the UK following its decision to leave the EU, and in the US and China. Uncertainty in these regions, combined with the continued threat of further conflict in the Middle East and unpredictability in East Asia, Hong Kong and the Korean peninsula underline that geopolitical risks have potentially wide-ranging impacts; for example, through increased regulatory, operational and business resilience risks, and changes to the economic environment. Developments in Hong Kong are being closely monitored by the Group to ensure that any potential impact to the business, our employees and customers are managed within our existing business resilience processes.

**Regulatory risk**
Prudential operates under the ever-evolving requirements set out by diverse regulatory, legal and tax regimes. The increasing shift towards macroprudential regulation and the number of regulatory changes underway across Asia (in particular focusing on consumer protection) are key areas of focus, while both Jackson and M&GPrudential operate in highly regulated markets. Regulatory reforms can have a material impact on Prudential's businesses. The proposed demerger of M&GPrudential will result in a change in Prudential's Group-wide supervisor to the Hong Kong Insurance Authority. Prudential has agreed to apply the Local Capital Summation Method (LCSM) to determine Group regulatory capital requirements, together with related governance requirements, immediately following the demerger of M&GPrudential. The Group is proactively engaging with the supervisor-elect on the supervisory framework that will apply to the Group in the longer term. This is intended to be the Hong Kong IA's Group-wide Supervision (GWS) Framework which is currently under development and is not expected to be enacted until the second half of 2020.

**Technological change**
The emergence of advanced technologies is continuing to provide an impetus for companies to rethink their existing operating models and how they interact with their customers. These developments are already influencing changes to the competitor and regulatory landscape. Technological change is considered from both an external and internal view. The external view considers the risks that emerge from the rise of new technologies (including the risk that the Group does not identify these) and how this may impact on the insurance industry and Prudential's competitiveness within it. The internal view considers the risks associated with the Group's internal developments in meeting digital change challenges and opportunities. Prudential is embracing the opportunities from new technologies, and any risks which arise from them are closely monitored.

**ESG risks**
As a Group, responding effectively to those material risks with ESG implications is crucial in maintaining Prudential's brand and reputation, and in turn its financial performance and its long-term strategy. Policies and procedures to support how the Group operates in relation to certain ESG issues are included in the Group Governance Manual.

## Risks from our investments

### Market risk
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.

In the Asia business, the main market risks arise from the value of fees from its fee-earning products. In the US, Jackson's fixed and variable annuity books are exposed to a variety of market risks due to the assets backing these policies.

M&GPrudential's asset management business invests in a broad range of asset classes and its income is subject to the price volatility of global financial and currency markets. The UK business's market risk exposure predominantly arises from the valuation of the shareholders' proportion of the with-profits fund's future profits, which depends on equity, property and bond values.

### Credit risk
The Group's asset portfolio gives rise to invested credit risk, being the potential for a reduction in the value of Prudential's investments driven by the lowering of credit quality and likelihood of defaults. The assets backing the annuity business in the UK, Jackson's general account portfolio and the Asia shareholder business means credit risk is considered a material risk for all business units.

The Group is also exposed to counterparty default risk through activities such as reinsurance and derivative hedging as well as the operational management of cash.

### Liquidity risk
Is the risk of not having sufficient liquid assets to meet obligations as they fall due, and we look at this under both normal and stressed conditions. This is a risk which is considered material at the level of the Group.

## Risks from our products

### Insurance risks
The nature of the products offered by Prudential exposes it to insurance risks, which form a significant part of the overall Group risk profile.

The insurance risks that the business is exposed to by virtue of its products include **longevity risk** (policyholders living longer than expected); **mortality risk** (higher number of policyholders with life protection dying than expected); **morbidity risk** (more policyholders with health protection becoming ill than expected) and **persistency risk** (customers lapsing their policies at different levels than expected, and a type of policyholder behaviour risk). The medical insurance business in Asia is also exposed to **medical inflation risk** (the increasing cost of medical treatments being higher than expected).

The pricing of Prudential's products requires it to make a number of assumptions, and deviations from these may impact its reported profitability and capital position. Across its business units, some insurance risks are more material than others.

Persistency and morbidity risks are among the most material insurance risks for the Asia business given the focus on health and protection products in the region.

The Jackson business is most exposed to policyholder behaviour risk, including persistency, which impacts the profitability of the variable annuity business and is influenced by market performance and the value of policy guarantees.

For M&GPrudential the most material insurance risk is longevity risk, arising from its legacy annuity business.

### 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 is owned by the first line which drives a more forward-looking approach and means that achieving good customer outcomes is at the centre of our business activity.

## Risks from our business operations

### Transformation risk
A number of significant change programmes are currently running to effect both the Group's strategy and to comply with emerging regulatory changes. The breadth of these activities, and the consequences, including the reputational impact, to the Group should they fail to meet their objectives, mean that these risks are material at the level of the Group.

### Operational risks
A combination of the complexity of the Group, its activities and the extent of transformation in progress creates a challenging operating environment.

Operational risk is the risk of loss or unintended gain from inadequate or failed processes, personnel, systems and external events, and can arise through business transformation; introducing new products; new technologies; and entering into new markets and geographies. Implementing the business strategy and processes for ensuring regulatory compliance (including those relating to the conduct of its business) requires interconnected change initiatives across the Group, the pace of which introduces further complexity. The Group's outsourcing and third-party relationships introduce their own distinct risks. Such operational risks, if they materialise, could result in financial loss and/or reputational damage. Operational risk is considered to be material at the level of the Group.

Business disruption risks may impact on Prudential's ability to meet its key objectives and protect its brand and reputation. The Group's business resilience is a core part of a well-embedded business continuity management programme.

Information security and data privacy risks are significant considerations for Prudential and the cyber security threat continues to evolve globally in sophistication and potential significance. This includes the continually evolving risk of malicious attack on its systems, network disruption and risks relating to data security, integrity, privacy and misuse. The scale of the Group's IT infrastructure and network (and resources 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.

As with all financial services firms, the nature of the Group's business and its operations means that it is exposed to risks relating to money laundering, fraud, sanctions compliance and bribery and corruption.

## 6. Further risk information

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 Company and its shareholders assume. Examples of the latter include those risks arising from assets held directly by and for the Company 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 our policyholder exposures.

### 6.1 'Macro' risks

***a. Global regulatory and political risks***

Regulatory and political risks may impact on 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, new regulations at either national or international level, and specific regulator interventions or actions. Following the proposed demerger of M&GPrudential from the rest of the Group, the Hong Kong Insurance Authority will become Prudential's Group-wide supervisor. Constructive engagement with the supervisor-elect began in 2018 and has continued into 2019. In particular, Prudential continues to engage with the supervisor on the proposed framework for Group-wide supervision that will apply to the Group following the demerger. In the longer term this is intended to be the Hong Kong IA's Group-wide Supervision (GWS) Framework which is currently under development and is not expected to be enacted until the second half of 2020. Until the GWS is finalised, Prudential has agreed to apply the Local Capital Summation Method (LCSM) to determine Group regulatory capital requirements immediately following the demerger of M&GPrudential, together with related governance requirements.

Recent shifts in 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.

Efforts to curb systemic risk and promote financial stability are also underway. 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 two key developments.

Prudential's designation as a G-SII was last reaffirmed on 21 November 2016. The FSB, in conjunction with the IAIS, did not publish a new list of G-SIIs in 2017 and did not engage in G-SII identification for 2018 following IAIS's launch of the consultation on the Holistic Framework (HF) on 14 November 2018, which aims to assess and mitigate systemic risk in the insurance sector, potentially serving as an alternative approach to the current G-SII model. A further consultation was launched by the IAIS on 14 June 2019 with proposals for revisions to the Insurance Core Principles (ICPs) in relation to the HF. The IAIS intends to implement the HF in 2020 proposing that G-SII identification be suspended from that year. In the interim, the relevant Group-wide supervisors have committed to continue applying existing enhanced G-SII supervisory policy measures with some supervisory discretion, which includes a requirement to submit enhanced risk management plans. In November 2022, the FSB will review the need to either discontinue or re-establish an annual identification of G-SIIs in consultation with the IAIS and national authorities. The Higher Loss Absorbency (HLA) standard (a proposed additional capital measure for G-SII designated firms, planned to apply from 2022) is not part of the proposed HF. However, the HF proposes supervisory monitoring to identify potential vulnerabilities and more supervisory powers of intervention for mitigating systemic risk.

The IAIS is also developing the ICS as part of ComFrame – the Common Framework for the supervision of Internationally Active Insurance Groups (IAIGs). The implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. ComFrame will more generally establish a set of common principles and standards designed to assist supervisors in addressing risks that arise from insurance groups with operations in multiple jurisdictions. The ComFrame proposals, including ICS, could result in enhanced capital and regulatory measures for IAIGs, for which Prudential satisfies the criteria. The Aggregation Method is one of the approaches being considered as part of the ICS and is 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 liaise as necessary with ComFrame on international capital developments and will also consider Group capital developments by the US Federal Reserve Board, both of which may help inform the US regulatory association in its construction of a US Group capital calculation.

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, including the US Dodd-Frank Wall Street Reform and Consumer Protection Act, ongoing FCA reviews and continuing engagement with the PRA. 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.

In May 2017, the International Accounting Standards Board (IASB) published IFRS 17 which will introduce fundamental changes to the IFRS-based reporting of insurance entities that prepare accounts according to IFRS from 2021. In June 2019, the IASB published an exposure draft proposing a number of targeted amendments to this new standard including the deferral of the effective date by one year from 2021 to 2022. The comment deadline for the exposure draft is 25 September 2019. 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.

In the US, various initiatives are underway 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.

The NAIC is targeting a January 2020 effective date for the revised Variable Annuity Framework, which was designed with the aim of reducing the non-economic volatility in the variable annuity statutory balance sheet. Jackson continues to make progress in preparing models for implementation. The NAIC also has an ongoing review of the C-1 bond factors in the required capital calculation, on which further information is expected to be provided in due course. The Group's preparations to manage the impact of these reforms will continue.

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 could have a negative impact on Prudential's business or reported results.

In the UK, there has, in recent years, been regulatory focus on insurance products and market practices which may have adversely impacted customers, including the FCA's Legacy Review and Thematic Review of Annuity Sales Practices. The management of customer risk remains a key focus of management in the UK business. Merger and transformation activity at M&GPrudential and new product propositions may also have customer risk implications which are monitored.

In 2017, the UK submitted the formal notification of its intention to withdraw from the EU pursuant to Article 50 of the Treaty on the European Union, as amended. If no formal withdrawal agreement is reached between the UK and the EU, then it is currently expected that the UK's membership of the EU will automatically terminate on 31 October 2019 unless a further extension is agreed between the UK and EU. Depending on the nature of the UK's exit from the EU, the following effects may be seen. The UK and EU may experience a downturn in economic activity, which is expected to be more pronounced for the UK, particularly in the event of a disorderly exit by the UK from the EU. Market volatility and illiquidity may increase in the period leading up to, and following, the UK's withdrawal, and property values (including the liquidity of property funds, where redemption restrictions may be applied) and interest rates may be impacted. In particular, downgrades in sovereign and corporate debt ratings may occur. In a severe scenario, where the UK's sovereign rating is downgraded by more than one notch, this may also impact on the credit ratings of UK companies, including M&GPrudential's UK business. The legal and regulatory regime in which the Group (and, in particular, M&GPrudential) operates, may also be affected (including the future applicability of the Solvency II regime in the UK), the extent of which remains uncertain. There is also a risk of operational disruption to the business, in particular to M&GPrudential.

As a result of the uncertainty on the nature of the arrangements that will be put in place between the UK and the EU, M&GPrudential has completed the implementation of a range of plans including transfers of business to EU jurisdictions, balance sheet and with-profits fund hedging protection and operational measures (including customer communications) that are designed to mitigate the potential adverse impacts to the Group's UK business. In addition, the business has sought to ensure, through various risk mitigation actions, that it is appropriately prepared for the potential operational and financial impacts of a no-deal withdrawal.

In the EU, the European Commission began a review in late 2016 of some aspects of the Solvency II legislative package, which is expected to continue until 2021 and includes a review of the Long-Term Guarantee Measures.

On 27 July 2017, the UK FCA announced that it will no longer persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR after 2021. The discontinuation of LIBOR in its current form and its replacement with the Sterling Overnight Index Average benchmark (SONIA) in the UK (and other alternative benchmark rates in other countries) 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 LIBOR, 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 and political 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; and
— Ongoing engagement with national regulators, government policy teams and international standard setters.

***b. ESG risks including climate change***

The business environment in which Prudential operates is continually changing and responding effectively to those material risks with ESG implications is crucial in maintaining Prudential's brand and reputation, its ability to attract and retain customers and staff, and in turn its financial performance and its long-term strategy. The Group maintains active engagement with its key stakeholders, including investors, customers, employees, governments, policymakers and regulators in its key markets, as well as with international institutions – all of whom have expectations which the Group must balance, as it responds to ESG-related matters.

Policies and procedures to support how the Group operates in relation to certain ESG issues are included in the Group Governance Manual. Prudential manages key ESG issues though a multi-disciplinary approach with functional ownership for ESG topics. The ESG Executive Committee coordinates these activities and seeks, as one of its aims, to ensure a consistent approach in managing ESG considerations in its business activities, including investment activities. It is supported by senior functional leaders and representatives from the Group's business units, including the chief investment officers of the Group's asset managers.

Climate change is a key ESG theme for the Group and the finance services industry. Recognising the increasing number of regulatory, supervisory and investor-driven sustainable finance and climate-related financial risk initiatives, the Group continues to participate in investor-driven initiatives and collaborative industry forums to assess and consider the risks from climate change to our business. The Group's ESG Executive Committee is focused on the holistic assessment of ESG considerations material to the Group. It raises matters for Board decision-making and oversees the implementation of decisions, supporting the sustainable delivery of the Group's strategy. The management of climate-related risks and opportunities is a Group strategic priority, and one of the ESG Executive Committee's principal responsibilities is to oversee the implementation of the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

### 6.2 Risks from our investments

***a. Market risk***

The main drivers of market risk in the Group are:

- Investment risk, which arises on our holdings of equity and property investments, the prices of which can change depending on market conditions;
- Interest rate risk, which 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 exposes it to the risk of those moving in a way that is detrimental; and
- Foreign exchange risk, through translation of its profits and assets and liabilities denominated in various currencies, given the geographical diversity of the business.

The main investment risk exposure arises from the portion of the profits from the UK and Hong Kong with-profits funds which the shareholders are entitled to receive; the value of the future fees from the fee-earning products in the Asia business; and from the asset returns backing Jackson's variable annuities business. Further detail is provided below.

The Group's interest rate risk is driven by the need to match the duration of its assets and liabilities in the UK and Europe insurance business (including the impact of interest rate movements on the future value of shareholder profits in the UK with-profits fund); and the fixed annuity business in Jackson. Interest rate risk also arises from the guarantees of some non-unit-linked investment products in Asia; and the cost of guarantees in Jackson's fixed index and variable annuity business. Further detail is provided below.

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;
- Our asset and liability management programmes;
- 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.

**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.

In the UK and Europe business, the main investment risk arises from the assets held in the with-profits funds through the shareholders' proportion of the funds' declared bonuses and policyholder net investment gains (future transfers). This investment risk is driven mainly by equities in the funds and some hedging to protect against a reduction in the value of these future transfers is performed outside the funds. The UK with-profits funds' Solvency II own funds, estimated at £11.1 billion as at 30 June 2019, helps to protect against market fluctuations and is protected partially against falls in equity markets through an active hedging programme within the fund.

While accepting the equity exposure that arises on future fees, the Group has limited appetite for exposures to equity price movements to remain unhedged or for volatility within policyholder guarantees after taking into account any natural offsets and buffers within the business.

**Interest rate risk**

Some products that Prudential offer are sensitive to movements in interest rates. As part of the Group's 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 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 investment products, including the Hong Kong with-profits business. This exposure exists because of the potential for asset and liability mismatch which, although it is small and managed appropriately, cannot be eliminated.

Jackson is 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. 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.

In the UK and Europe insurance business, interest rate risk arises from the need to match the cash flows of its annuity obligations with those from its investments. The risk is managed by matching asset and liability durations as well as continually assessing the need for use of any derivatives. Under Solvency II rules, interest rate risk also results from the requirement to include a balance sheet risk margin. The with-profits business is also exposed to interest rate risk through some product guarantees. Such risk is largely borne by the with-profits fund itself although shareholder support may be required in extreme circumstances where the fund has insufficient resources to support the risk.

**Foreign exchange risk**

The geographical diversity of Prudential's businesses means that it has some exposure to the risk of foreign exchange rate fluctuations. The operations in the US and Asia, which represent a large proportion of operating profit and shareholders' funds, generally write policies and invest in assets in local currencies. 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 UK sterling. This risk is accepted within our appetite for foreign exchange risk.

In cases where a surplus arises in an overseas operation which is to be used to support Group capital, or where a significant cash payment is due from an overseas subsidiary to the Group, this currency exposure may be hedged where it is believed to be favourable economically 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 non-sterling investments within the with-profits fund. Where foreign exchange risk arises outside appetite, currency swaps and other derivatives are used to manage the exposure.

***b. Credit risk***

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.

Credit risk is the potential for 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 us to suffer loss.

The Group has some appetite to take credit 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.

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 limits that have been defined on issuers, and counterparties;
- Collateral arrangements for derivative, secured lending reverse repurchase and reinsurance transactions;
- 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.

**Debt and loan portfolio**

Credit risk also arises from the debt portfolio in the Asia business comprising the shareholder, with-profit and unit-linked funds, the value of which was £52.6 billion at 30 June 2019. The majority (68 per cent) of the portfolio is in unit-linked and with-profits funds and so exposure of the shareholder to this component is minimal. The remaining 32 per cent of the debt portfolio is held to back the shareholder business.

In the general account of the Group's US business £45.3 billion of fixed income assets are held to support shareholder liabilities including those from our fixed annuities, fixed index annuities and life insurance products.

Prudential's discontinued M&GPrudential operation is exposed to credit risk on fixed income assets in the shareholder-backed portfolio. As at 30 June 2019, this portfolio contained fixed income assets worth £21.7 billion. Credit risk arising from a further £63.5 billion of fixed income assets is borne largely by the with-profits fund, to which the shareholder is not exposed directly although under extreme circumstances shareholder support may be required if the fund is unable to meet payments as they fall due.

The shareholder-owned debt and loan portfolio of the Group's other operations was £1.9 billion as at 30 June 2019.

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 also invests in bonds issued by national governments. This sovereign debt holdings of continuing operations represented 19 per cent or £12.1 billion of the shareholder debt portfolio attributable to continuing operations as at 30 June 2019 (31 December 2018: 20 per cent or £11.7 billion). 1 per cent of this was rated AAA and 90 per cent was considered investment grade (31 December 2018: 84 per cent investment grade).

Sovereign debt holdings of discontinued operations represented 13 per cent or £2.7 billion of the shareholder debt portfolio attributable to discontinued operations as at 30 June 2019 (31 December 2018: 13 per cent or £2.7 billion). 9 per cent of this was rated AAA and 100 per cent was considered investment grade (31 December 2018: 100 per cent investment grade).

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 30 June 2019 are given in note C3.2(f) of the Group's IFRS financial statements for continuing operations and note D2.2(d) of the Group's IFRS financial statements for discontinued operations.

**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 exposures held by the shareholder-backed business and with-profits funds in bank debt securities at 30 June 2019 are given in note C3.2(f) of the Group's IFRS financial statements for continuing operations and note D2.2(d) of the Group's IFRS financial statements for discontinued operations.

The exposure to derivative counterparty and reinsurance counterparty credit risk 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 30 June 2019:

— For continuing operations, 93 per cent of the shareholder portfolio is investment grade rated[1]. In particular, 59 per cent of the portfolio is rated[1] A- and above (or equivalent);

— For discontinued operations, 97 per cent of the shareholder portfolio is investment grade rated[1]. In particular, 86 per cent of the portfolio is rated[1] A- and above (or equivalent); and

— The Group's shareholder portfolio is well diversified: no individual sector[2] makes up more than 15 per cent of the total portfolio (excluding the financial and sovereign sectors).

***c. Liquidity risk***

Prudential's liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due. This incorporates 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 external funds.

Prudential has no appetite for liquidity risk, ie 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 £3.5 billion of undrawn committed facilities, of which £2.0 billion will remain with Prudential plc following the demerger of M&GPrudential, that can be made use of, expiring in 2023. Access to further liquidity is available through the debt capital markets and an extensive commercial paper programme 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.

### 6.3 Risks from our products

***Insurance risk***

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 Group has appetite for retaining insurance risks in order to create shareholder value in the areas where it believes it has expertise and controls to manage the risk and can support such risk with its capital and solvency position.

The principal drivers of the Group's insurance risk vary across its business units. Across Asia, where a significant volume of health protection business is written, the most significant insurance risks are morbidity risk, persistency 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. At M&GPrudential, this is predominantly longevity risk.

In Asia, Prudential writes significant volumes of health 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 claim limits within our policies, either limits per type of claim or in total across a policy. 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.

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 assumption. 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 the value of the product features and market conditions.

The Group manages longevity risk in various ways. Longevity reinsurance is a key tool in managing this risk. In March 2018, the Group's longevity risk exposure was significantly reduced by reinsuring £12 billion in UK annuity liabilities to Rothesay Life. Although Prudential has withdrawn from selling new UK annuity business, given its significant annuity portfolio the assumptions it makes about future rates of improvement in mortality rates remain key to the measurement of its insurance liabilities and to its assessment of any reinsurance transactions. Prudential continues to conduct research into longevity risk using both experience from its annuity portfolio and industry data. Although the general consensus in recent years is that people are living longer, the rate of increase has slowed in recent years, and there is considerable volatility in year-on-year longevity experience, which is why it needs expert judgement in setting its longevity basis.

Prudential's insurance risks are managed and mitigated using the following:

- The Group's insurance and underwriting risk policies;
- The risk appetite statements, limits and triggers;
- Using longevity, morbidity and persistency assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;
- Using reinsurance to mitigate longevity 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 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.

## 6.4 Risks from our business operations

### *a. Transformation risk*

A number of significant change programmes are currently running in order to implement the Group's strategy and the need to comply with emerging regulatory changes. Many of these are interconnected and/or of large scale, and may have financial and non-financial implications if such initiatives fail to meet their objectives. Additionally, 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 strategic initiatives may amplify these risks. Furthermore, these programmes require ongoing oversight, coordinated independent assurance and regular monitoring and consolidated reporting, as part of the Group Transformation Risk Framework, to mitigate the risks to the business.

The Group's current significant change initiatives include the merger of M&G Investments and Prudential UK and Europe, and the demerger of M&GPrudential. Significant execution risks arise from these initiatives, including in relation to the separation and establishment of standalone governance under relevant regulatory regimes, business functions and processes (data, systems, people) and third party arrangements. The Group's transformation portfolio also includes, but is not limited to, the discontinuation of LIBOR and the implementation of IFRS 17 – see section 6.1a. above for further information.

In the course of doing business, the Group is exposed to non-financial risks arising from its operations, the business environment and its strategy. The main risks across these areas are detailed below.

### *b. Operational risks*

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 includes employee error, model error, system failures, fraud or some other event which disrupts business processes or has a detrimental impact to customers. Processes are established for activities across the scope of our business, including operational activity, regulatory compliance, and those supporting ESG activities more broadly, any of which can expose us to operational risks. A large volume of complex transactions are 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. M&GPrudential outsources several operations, including a significant part of its back office, customer-facing functions and a number of IT functions. In Asia, the Group continues to expand its strategic partnerships and renew bancassurance arrangements. 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 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 in embedded in the Group-wide framework and risk management for operational risk (see below). Third-party management forms part of the Group's operational risk categorisations and a defined qualitative risk appetite statement, limits and triggers are in place.

The performance of the Group's core business activities places reliance on the IT infrastructure that supports day-to-day transaction processing and administration. The 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. The risk that Prudential's IT infrastructure does not meet these requirements is a key area of focus for the Group, particularly the risk that legacy infrastructure supporting core activities/processes affects business continuity or impacts on business growth. Exposure to operational 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. The high rate of global regulatory change, in an already complex regulatory landscape, increases the risk of non-compliance due to a failure to identify, interpret correctly, implement and/or monitor regulatory compliance. The change in Group-wide supervisor, and the supervisory framework, to which Prudential plc will be subject to after the demerger of M&GPrudential, means that additional processes, or changes to existing ones, may be required to ensure ongoing compliance. See the Global regulatory and political risk section above. Legislative developments over recent years, together with enhanced regulatory oversight and increased capability to issue sanctions, have resulted in a complex regulatory environment that may lead to breaches of varying magnitude if the Group's business as usual operations are not compliant. As well as prudential regulation, the Group focuses on conduct regulation, including those related to sales practice and anti-money laundering, bribery and corruption. There is a particular focus on regulations related to the latter in newer/emerging markets.

**Business resilience**

Business resilience is at the core of the Group's well embedded Business Continuity Management (BCM) programme, with BCM being one of a number of activities undertaken by the Group Security function that protect our key stakeholders.

Prudential operates a BCM programme and framework that is linked with its business activities, which considers key areas including business impact analyses, risk assessments, incident management plans, disaster recovery plans, and the exercising and execution of these plans. The programme is designed to achieve a business continuity capability that meets evolving business needs and is appropriate to the size, complexity and nature of the Group's operations, with ongoing proactive maintenance and improvements to resilience against the disruption of the Group's ability to meet its key objectives and protect its brand and reputation. The BCM programme is supported by Group-wide governance policies and procedures and is based on industry standards that meet legal and regulatory obligations.

Business disruption risks are monitored by the Group Security function, with key operational effectiveness metrics and updates on specific activities being reported to the Group Risk Committee where required and discussed by cross-functional working groups.

**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 of 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 or with a higher concentration of exposure to politically exposed persons.

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. Across Asia, 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 regularly undertaken at higher risk locations. 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.

**Information security risk and data privacy**

Information security risk remains an area of heightened focus after a number of recent high-profile attacks and data losses across industries. Criminal capability in this area is maturing and industrialising, with an increased level of understanding of complex financial transactions which increases the risks to the financial services industry. The threat landscape is continuously evolving, and the systemic risk of sophisticated but untargeted attacks is rising, particularly during times of heightened geopolitical tensions.

Developments in data protection worldwide (such as GDPR that came into force in May 2018) have increased the financial and reputational implications for Prudential in the event of a breach of its (or third-party suppliers') IT systems. As well as data protection, stakeholder expectations are now that companies and organisations use personal information transparently and appropriately. 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.

In 2018, the organisational structure and governance model for cyber security management was revised with the appointment of a Group Chief Information Security Officer, and a repositioning of the function to allow increased focus on execution. This organisational change will increase the Group's efficiency and agility in responding to cyber security related incidents and will facilitate increased collaboration between business units and leverage their respective strengths in delivering the Group-wide Information Security Programme.

The objectives of the programme include achieving consistency in the execution of security disciplines across the Group and improving visibility across the Group's businesses; deployment of automation to detect and address threats; and achieving security by design by aligning subject matter expertise to the Group's digital and business initiatives to embed security controls across platforms and ecosystems.

The Board receives periodic updates on information security risk management throughout the year. Group functions work with the business units to address risks locally within the national and regional context of each business following the strategic direction of the Group-wide information security function.

**Group-wide framework and risk management for operational risk**

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

- Application of a risk and control assessment (RCA) process, where operational risk exposures are identified and assessed as part of a periodical cycle. The RCA 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 Group 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, 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 RCA, 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.

**James Turner**
**Group Chief Risk and Compliance Officer**

**Notes**

1 Based on hierarchy of Standard & Poor's, Moody's and Fitch, where available and if unavailable, NAIC and internal ratings have been used.

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

# 03

# International Financial Reporting Standards (IFRS) basis results




01 Group overview
02 Business performance
03 IFRS basis results
04 EEV basis results
05 Additional information

# Index to Group IFRS financial results

# Condensed consolidated income statement

| | Note | 2019 £m | 2018* £m | |
|---|---|---|---|---|
| | | Half year | Half year | Full year |
| **Profit from continuing operations:** | | | | |
| Gross premiums earned | | 16,293 | 14,786 | 34,163 |
| Outward reinsurance premiums | | (520) | (363) | (886) |
| Earned premiums, net of reinsurance | | 15,773 | 14,423 | 33,277 |
| Investment return | | 24,633 | 1,381 | (6,829) |
| Other income | | 199 | 215 | 398 |
| Total revenue, net of reinsurance | B1.4 | 40,605 | 16,019 | 26,846 |
| Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance | | (36,671) | (10,928) | (17,545) |
| Acquisition costs and other expenditure | B2 | (2,711) | (3,285) | (6,386) |
| Finance costs: interest on core structural borrowings of shareholder-financed businesses | | (226) | (189) | (410) |
| Gain (loss) on disposal of businesses and corporate transactions | D1 | 13 | (57) | (80) |
| Total charges, net of reinsurance and gain (loss) on disposal of businesses | | (39,595) | (14,459) | (24,421) |
| Share of profits from joint ventures and associates, net of related tax | | 106 | 82 | 239 |
| Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i) | | 1,116 | 1,642 | 2,664 |
| Less tax charge attributable to policyholders' returns | | (220) | (43) | (80) |
| Profit before tax attributable to shareholders | B1.1 | 896 | 1,599 | 2,584 |
| Total tax charge attributable to policyholders and shareholders | B4 | (221) | (369) | (506) |
| Adjustment to remove tax charge attributable to policyholders' returns | | 220 | 43 | 80 |
| Tax charge attributable to shareholders' returns | B4 | (1) | (326) | (426) |
| **Profit from continuing operations for the period** | | 895 | 1,273 | 2,158 |
| **Profit from discontinued operations for the period, net of related tax** note (ii) | D2.1 | 645 | 83 | 855 |
| **Profit for the period** | | 1,540 | 1,356 | 3,013 |
| **Attributable to:** | | | | |
| Equity holders of the Company: | | | | |
| From continuing operations | | 890 | 1,272 | 2,155 |
| From discontinued operations | | 645 | 83 | 855 |
| Non-controlling interests from continuing operations | | 5 | 1 | 3 |
| **Profit for the period** | | 1,540 | 1,356 | 3,013 |

| | | 2019 | 2018* | |
|---|---|---|---|---|
| **Earnings per share (in pence)** | Note | Half year | Half year | Full year |
| Based on profit attributable to the equity holders of the Company: | | | | |
| Basic | B5 | | | |
| Based on profit from continuing operations | | 34.4p | 49.5p | 83.7p |
| Based on profit from discontinued operations note (ii) | | 25.0p | 3.2p | 33.2p |
| | | 59.4p | 52.7p | 116.9p |
| Diluted | B5 | | | |
| Based on profit from continuing operations | | 34.4p | 49.4p | 83.6p |
| Based on profit from discontinued operations note (ii) | | 25.0p | 3.2p | 33.2p |
| | | 59.4p | 52.6p | 116.8p |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

| Dividends per share (in pence) | Note | 2019 Half year | 2018 Half year | 2018 Full year |
|---|---|---|---|---|
| Dividends relating to reporting period: | B6 | | | |
| First interim ordinary dividend | | **16.45p** | 15.67p | 15.67p |
| Second interim ordinary dividend | | **–** | – | 33.68p |
| Total | | **16.45p** | 15.67p | 49.35p |
| Dividends paid in reporting period: | B6 | | | |
| Current year first interim ordinary dividend | | **–** | – | 15.67p |
| Second interim ordinary dividend for prior year | | **33.68p** | 32.50p | 32.50p |
| Total | | **33.68p** | 32.50p | 48.17p |

**Notes**

(i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is principally because the corporate taxes of the Group include 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 profit before all taxes measure is not representative of pre-tax profits attributable to shareholders. Profit before all taxes is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits funds after adjusting for taxes borne by policyholders.

(ii) Profit from discontinued operations represents the post-tax profit contributed by the UK and Europe operations which are classified as held for distribution at 30 June 2019 (a line-by-line analysis of profit for the period for the discontinued UK and Europe operations is included in note D2.1). The 2018 comparative results have been re-presented from those previously published accordingly (as described in note A2).

# Condensed consolidated statement of comprehensive income

| | Note | 2019 £m Half year | 2018* £m Half year | 2018* £m Full year |
|---|---|---|---|---|
| **Profit for the period from continuing operations** | | 895 | 1,273 | 2,158 |
| **Other comprehensive income (loss) from continuing operations:** | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Exchange movements on foreign operations and net investment hedges: | | | | |
| Exchange movements arising during the period | | 95 | 70 | 344 |
| Related tax | | 1 | 2 | 5 |
| | | 96 | 72 | 349 |
| Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale: | | | | |
| Net unrealised holding gains (losses) arising in the period | | 2,636 | (1,392) | (1,606) |
| Deduct net gains included in the income statement on disposal and impairment | | (19) | (29) | (11) |
| | | 2,617 | (1,421) | (1,617) |
| Related change in amortisation of deferred acquisition costs | C5.2 | (432) | 272 | 246 |
| Related tax | | (459) | 241 | 288 |
| | | 1,726 | (908) | (1,083) |
| Total items that may be reclassified subsequently to profit or loss | | 1,822 | (836) | (734) |
| 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)/gains on defined benefit pension schemes | | (86) | 3 | 20 |
| Related tax | | 14 | (1) | (4) |
| Total items that will not be reclassified to profit or loss | | (72) | 2 | 16 |
| **Other comprehensive income (loss) from continuing operations for the period, net of related tax** | | 1,750 | (834) | (718) |
| **Total comprehensive income for the period from continuing operations** | | 2,645 | 439 | 1,440 |
| Profit for the period from discontinued operations | D2.1 | 645 | 83 | 855 |
| Other comprehensive income from discontinued operations | D2.1 | 4 | 62 | 57 |
| **Total comprehensive income for the period from discontinued operations** | | 649 | 145 | 912 |
| **Total comprehensive income for the period** | | 3,294 | 584 | 2,352 |
| **Attributable to:** | | | | |
| Equity holders of the Company | | | | |
| From continuing operations | | 2,640 | 438 | 1,436 |
| From discontinued operations | | 649 | 145 | 912 |
| Non-controlling interests from continuing operations | | 5 | 1 | 4 |
| **Total comprehensive income for the period** | | 3,294 | 584 | 2,352 |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

# Condensed consolidated statement of changes in equity

| | Note | Period ended 30 June 2019 £m | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital note C9 | Share premium note C9 | Retained earnings | Translation reserve | Available-for-sale securities reserves | Share-holders' equity | Non-controlling interests | Total equity |
| **Reserves** | | | | | | | | | |
| Profit from continuing operations for the period | | – | – | 890 | – | – | 890 | 5 | 895 |
| Other comprehensive income (loss) from continuing operations | | – | – | (72) | 96 | 1,726 | 1,750 | – | 1,750 |
| Total comprehensive income from continuing operations for the period | | – | – | 818 | 96 | 1,726 | 2,640 | 5 | 2,645 |
| Total comprehensive income from discontinued operations for the period | | – | – | 647 | 2 | – | 649 | – | 649 |
| **Total comprehensive income (loss) for the period** | | – | – | 1,465 | 98 | 1,726 | 3,289 | 5 | 3,294 |
| Dividends | B6 | – | – | (870) | – | – | (870) | – | (870) |
| Reserve movements in respect of share-based payments | | – | – | 2 | – | – | 2 | – | 2 |
| **Share capital and share premium** | | | | | | | | | |
| New share capital subscribed | C9 | – | 10 | – | – | – | 10 | – | 10 |
| **Treasury shares** | | | | | | | | | |
| Movement in own shares in respect of share-based payment plans | | – | – | (9) | – | – | (9) | – | (9) |
| Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS | | – | – | 1 | – | – | 1 | – | 1 |
| Net increase (decrease) in equity | | – | 10 | 589 | 98 | 1,726 | 2,423 | 5 | 2,428 |
| At beginning of period | | 130 | 1,964 | 14,206 | 1,188 | (239) | 17,249 | 18 | 17,267 |
| **At end of period** | | 130 | 1,974 | 14,795 | 1,286 | 1,487 | 19,672 | 23 | 19,695 |

| | Note | Period ended 30 June 2018* £m | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital note C9 | Share premium note C9 | Retained earnings | Translation reserve | Available-for-sale securities reserves | Share-holders' equity | Non-controlling interests | Total equity |
| **Reserves** | | | | | | | | | |
| Profit from continuing operations for the period | | – | – | 1,272 | – | – | 1,272 | 1 | 1,273 |
| Other comprehensive income (loss) from continuing operations | | – | – | 2 | 72 | (908) | (834) | – | (834) |
| Total comprehensive income (loss) from continuing operations for the period | | – | – | 1,274 | 72 | (908) | 438 | 1 | 439 |
| Total comprehensive income (loss) from discontinued operations for the period | | – | – | 148 | (3) | – | 145 | – | 145 |
| **Total comprehensive income (loss) for the period** | | – | – | 1,422 | 69 | (908) | 583 | 1 | 584 |
| Dividends | B6 | – | – | (840) | – | – | (840) | – | (840) |
| Reserve movements in respect of share-based payments | | – | – | (9) | – | – | (9) | – | (9) |
| **Share capital and share premium** | | | | | | | | | |
| New share capital subscribed | C9 | – | 6 | – | – | – | 6 | – | 6 |
| **Treasury shares** | | | | | | | | | |
| Movement in own shares in respect of share-based payment plans | | – | – | 28 | – | – | 28 | – | 28 |
| Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS | | – | – | 27 | – | – | 27 | – | 27 |
| Net increase (decrease) in equity | | – | 6 | 628 | 69 | (908) | (205) | 1 | (204) |
| At beginning of period | | 129 | 1,948 | 12,326 | 840 | 844 | 16,087 | 7 | 16,094 |
| **At end of period** | | 129 | 1,954 | 12,954 | 909 | (64) | 15,882 | 8 | 15,890 |

* The half year 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

| | | Year ended 31 December 2018* £m | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital note C9 | Share premium note C9 | Retained earnings | Translation reserve | Available-for-sale securities reserves | Share-holders' equity | Non-controlling interests | Total equity |
| **Reserves** | | | | | | | | | |
| Profit from continuing operations for the year | | – | – | 2,155 | – | – | 2,155 | 3 | 2,158 |
| Other comprehensive income (loss) from continuing operations | | – | – | 16 | 348 | (1,083) | (719) | 1 | (718) |
| Total comprehensive income (loss) from continuing operations for the year | | – | – | 2,171 | 348 | (1,083) | 1,436 | 4 | 1,440 |
| Total comprehensive income from discontinued operations for the year | | – | – | 912 | – | – | 912 | – | 912 |
| **Total comprehensive income (loss) for the year** | | – | – | 3,083 | 348 | (1,083) | 2,348 | 4 | 2,352 |
| Dividends | B6 | – | – | (1,244) | – | – | (1,244) | – | (1,244) |
| Reserve movements in respect of share-based payments | | – | – | 69 | – | – | 69 | – | 69 |
| Change in non-controlling interests | | – | – | – | – | – | – | 7 | 7 |
| Movements in respect of option to acquire non-controlling interests | | – | – | (109) | – | – | (109) | – | (109) |
| **Share capital and share premium** | | | | | | | | | |
| New share capital subscribed | C9 | 1 | 16 | – | – | – | 17 | – | 17 |
| **Treasury shares** | | | | | | | | | |
| Movement in own shares in respect of share-based payment plans | | – | – | 29 | – | – | 29 | – | 29 |
| Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS | | – | – | 52 | – | – | 52 | – | 52 |
| Net increase (decrease) in equity | | 1 | 16 | 1,880 | 348 | (1,083) | 1,162 | 11 | 1,173 |
| At beginning of year | | 129 | 1,948 | 12,326 | 840 | 844 | 16,087 | 7 | 16,094 |
| **At end of year** | | 130 | 1,964 | 14,206 | 1,188 | (239) | 17,249 | 18 | 17,267 |

* The full year 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

# Condensed consolidated statement of financial position

| | Note | 2019 £m | 2018 £m | |
|---|---|---|---|---|
| | Note | **30 Jun** | **30 Jun** | **31 Dec** |
| **Assets** | | | | |
| Goodwill | C5.1 | 510 | 1,620 | 1,857 |
| Deferred acquisition costs and other intangible assets | C5.2 | 12,659 | 11,359 | 11,923 |
| Property, plant and equipment note (i) | | 785 | 951 | 1,409 |
| Reinsurers' share of insurance contract liabilities | | 10,151 | 9,620 | 11,144 |
| Deferred tax assets | C7 | 2,762 | 2,435 | 2,595 |
| Current tax recoverable | | 371 | 626 | 618 |
| Accrued investment income | | 1,332 | 2,574 | 2,749 |
| Other debtors | | 2,011 | 3,519 | 4,088 |
| Investment properties | | 11 | 17,605 | 17,925 |
| Investment in joint ventures and associates accounted for using the equity method | | 1,030 | 1,554 | 1,733 |
| Loans | C3.3 | 12,513 | 16,922 | 18,010 |
| Equity securities and portfolio holdings in unit trusts note (ii) | | 183,670 | 229,707 | 214,733 |
| Debt securities note (ii) | C3.2 | 99,675 | 160,305 | 175,356 |
| Derivative assets | | 1,222 | 3,428 | 3,494 |
| Other investments note (ii) | | 958 | 6,059 | 6,512 |
| Deposits | | 1,491 | 12,412 | 11,796 |
| Assets held for distribution note (iii) | C1 | 218,324 | – | – |
| Assets held for sale | | – | 12,024 | 10,578 |
| Cash and cash equivalents | | 5,208 | 8,450 | 12,125 |
| **Total assets** | C1 | 554,683 | 501,170 | 508,645 |
| **Equity** | | | | |
| Shareholders' equity | | 19,672 | 15,882 | 17,249 |
| Non-controlling interests | | 23 | 8 | 18 |
| **Total equity** | | 19,695 | 15,890 | 17,267 |
| **Liabilities** | | | | |
| Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) | C4.1 | 285,168 | 405,482 | 409,301 |
| Unallocated surplus of with-profits funds | C4.1 | 2,944 | 17,283 | 15,845 |
| Core structural borrowings of shareholder-financed businesses | C6.1 | 7,441 | 6,367 | 7,664 |
| Operational borrowings attributable to shareholder-financed businesses note (i) | C6.2 | 1,664 | 1,618 | 998 |
| Borrowings attributable to with-profits businesses note (i) | C6.2 | 238 | 3,589 | 3,940 |
| Obligations under funding, securities lending and sale and repurchase agreements | | 6,756 | 7,128 | 6,989 |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | | 3,482 | 9,358 | 11,651 |
| Deferred tax liabilities | C7 | 3,701 | 4,443 | 4,022 |
| Current tax liabilities | | 319 | 415 | 568 |
| Accruals, deferred income and other liabilities | | 10,597 | 13,551 | 15,248 |
| Provisions | | 254 | 920 | 1,078 |
| Derivative liabilities | | 1,037 | 3,149 | 3,506 |
| Liabilities held for distribution note (iii) | C1 | 211,387 | – | – |
| Liabilities held for sale | | – | 11,977 | 10,568 |
| **Total liabilities** | C1 | 534,988 | 485,280 | 491,378 |
| **Total equity and liabilities** | | 554,683 | 501,170 | 508,645 |

**Notes**

(i) As at 1 January 2019, the Group applied IFRS 16, *'Leases'*, using the modified retrospective approach. Under this approach, comparative information is not restated. The application of the standard has resulted in the recognition of an additional lease liability and a corresponding 'right-of-use' asset of a similar amount as at 1 January 2019. See note A3 for further details. As at 30 June 2019, right-of-use assets recognised in property, plant and equipment for continuing operations amounted to £425 million.

(ii) Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8 million of lent securities as at 30 June 2019 (30 June 2018: £8,993 million; 31 December 2018: £8,278 million).

(iii) Assets and liabilities held for distribution relate to the Group's UK and Europe operations, which have been classified as discontinued operations at 30 June 2019 and are presented above after the elimination of intra-Group balances with the continuing operations (see note C1). A line-by-line analysis of assets and liabilities for the discontinued UK and Europe operations before elimination of such intra-Group balances, is included in note D2.2. The 2018 comparative results for the assets and liabilities at 30 June 2018 and 31 December 2018 are as published and not re-presented on a basis consistent with half year 2019 (as described in note A2).

# Condensed consolidated statement of cash flows

| | Note | 2019 £m Half year | 2018* £m Half year | 2018* £m Full year |
|---|---|---|---|---|
| **Cash flows from continuing operations:** | | | | |
| **Cash flows from operating activities** | | | | |
| Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i) | | 1,116 | 1,642 | 2,664 |
| Adjustments to profit before tax for non-cash movements in operating assets and liabilities: | | | | |
| Investments | | (29,889) | (3,439) | 1,675 |
| Other non-investment and non-cash assets | | (2,075) | (58) | (1,495) |
| Policyholder liabilities (including unallocated surplus) | | 26,820 | 2,186 | (1,229) |
| Other liabilities (including operational borrowings) | | 3,147 | 292 | 644 |
| Other items note (ii) | | 97 | 357 | 201 |
| Net cash flows from operating activities | | (784) | 980 | 2,460 |
| **Cash flows from investing activities** | | | | |
| Net cash flows from purchases and disposals of property, plant and equipment | | (16) | (59) | (100) |
| Net cash flows from corporate transactions note (iii) | | (72) | (132) | (331) |
| Net cash flows from investing activities | | (88) | (191) | (431) |
| **Cash flows from financing activities** | | | | |
| Structural borrowings of the Group: | | | | |
| Shareholder-financed operations: note (iv) | C6.1 | | | |
| Issue of subordinated debt, net of costs | | – | – | 1,630 |
| Redemption of subordinated debt | | (400) | – | (434) |
| Fees paid to modify terms and conditions of debt issued by the Group note (v) | | (141) | – | (33) |
| Interest paid | | (229) | (187) | (376) |
| Equity capital: | | | | |
| Issues of ordinary share capital | | 10 | 6 | 17 |
| Dividends paid | B6 | (870) | (840) | (1,244) |
| Net remittances from discontinued operations | D2.3 | 356 | 341 | 654 |
| Net cash flows from financing activities | | (1,274) | (680) | 214 |
| Net increase in cash and cash equivalents from continuing operations | | (2,146) | 109 | 2,243 |
| Net cash flows from discontinued operations note (vi) | D2.3 | (124) | (2,380) | (1,112) |
| Cash and cash equivalents at beginning of period | | 12,125 | 10,690 | 10,690 |
| Effect of exchange rate changes on cash and cash equivalents | | (23) | 31 | 304 |
| Cash and cash equivalents at end of period | | 9,832 | 8,450 | 12,125 |
| *Comprising:* | | | | |
| *Cash and cash equivalents from continuing operations* | | 5,208 | 5,030 | 7,376 |
| *Cash and cash equivalents from discontinued operations* | | 4,624 | 3,420 | 4,749 |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

**Notes**

(i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders, as explained in footnote (i) of the 'Condensed consolidated income statement'.

(ii) The adjusting items to profit before tax included within other items are adjustments in respect of non-cash items together with operational interest receipts and payments, dividend receipts and tax paid.

(iii) Net cash flows from corporate transactions include amounts paid for distribution rights and cash flows arising from the acquisitions and disposals of businesses.

(iv) 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 are analysed as follows:

| | | Cash movements £m | | | Non-cash movements £m | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance at beginning of period | Issue of debt | Redemption of debt | Change to terms of debt | Foreign exchange movement | Change to terms of debt note (v) | Other movements | Balance at end of period |
| **Half year 2019** | 7,664 | – | (400) | – | 8 | 169 | – | 7,441 |
| Half year 2018 | 6,280 | – | – | – | 83 | – | 4 | 6,367 |
| Full year 2018 | 6,280 | 1,630 | (434) | (33) | 210 | – | 11 | 7,664 |

(v) In the first half of 2019, the Group agreed with the holders of two subordinated debt instruments to alter the terms and conditions of these instruments in exchange for an upfront fee and an increase in the coupon of the instruments. The upfront fee and increase in coupon rates represent a significant change in the cash flows of each instrument and therefore, in accordance with IAS 39, has resulted in an extinguishment of the old debt and recognition of a new debt at fair value, the net effect of which is a non-cash movement in debt of £169 million. The upfront fee paid of £141 million has been expensed and is shown in the cash flow statement above (see note C6.1 for further details).

(vi) Net cash flows from discontinued operations represents the movement in cash and cash equivalents from the UK and Europe operations, which are classified as held for distribution at 30 June 2019. A detailed analysis of cash flows for the period for the discontinued UK and Europe operations is included in note D2.3. The 2018 comparative results have been re-presented from those previously published accordingly (as described in note A2).

# A Background

## A1 Basis of preparation, audit status and exchange rates

These condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or amended IFRS and other policy improvements. EU-endorsed IFRS may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 30 June 2019, there were no unendorsed standards effective for the period ended 30 June 2019 which impacted the condensed consolidated financial statements of the Group, and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group.

The IFRS basis results for half year 2019 and half year 2018 are unaudited. Except for re-presenting the results for UK and Europe operations as discontinued operations, the 2018 full year IFRS basis results have been derived from the 2018 statutory accounts. The auditors have reported on the 2018 statutory accounts which have been delivered to the Registrar of Companies. The auditors' report was: (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The exchange rates applied for balances and transactions in currencies other than the presentational currency of the Group, pounds sterling (GBP), were:

| | Closing rate at 30 Jun 2019 | Average for the 6 months to 30 Jun 2019 | Closing rate at 30 Jun 2018 | Average for the 6 months to 30 Jun 2018 | Closing rate at 31 Dec 2018 | Average for the 12 months to 31 Dec 2018 |
|---|---|---|---|---|---|---|
| Local currency: £ | | | | | | |
| Hong Kong | 9.94 | 10.15 | 10.36 | 10.78 | 9.97 | 10.46 |
| Indonesia | 17,980.07 | 18,364.05 | 18,919.18 | 18,938.64 | 18,314.37 | 18,987.65 |
| Malaysia | 5.26 | 5.33 | 5.33 | 5.42 | 5.26 | 5.38 |
| Singapore | 1.72 | 1.76 | 1.80 | 1.83 | 1.74 | 1.80 |
| China | 8.74 | 8.78 | 8.75 | 8.76 | 8.74 | 8.82 |
| India | 87.85 | 90.62 | 90.46 | 90.37 | 88.92 | 91.25 |
| Vietnam | 29,660.27 | 30,087.11 | 30,310.96 | 31,329.01 | 29,541.15 | 30,732.53 |
| Thailand | 39.06 | 40.91 | 43.74 | 43.66 | 41.47 | 43.13 |
| US | 1.27 | 1.29 | 1.32 | 1.38 | 1.27 | 1.34 |

Certain notes to the financial statements present half year 2018 comparative information at constant exchange rates (CER), in addition to the reporting at actual exchange rates (AER) used throughout the condensed consolidated financial statements. AER are 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 statement of financial position. CER results are calculated by translating prior period results using the current period foreign exchange rate, ie current period average rates for the income statement and current period closing rates for the statement of financial position.

The accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2018, as disclosed in the 2018 statutory accounts, aside from those discussed in note A3.

## A2 Discontinued operations

The Group is planning to demerge its UK and Europe operations, M&GPrudential, from the Prudential plc group in the fourth quarter of 2019. Following an assessment at 30 June 2019, in accordance with IFRS 5, *'Non-current assets held for sale and discontinued operations'*, the results of M&GPrudential have been classified as held for distribution and as discontinued operations at 30 June 2019 in these condensed consolidated financial statements.

In order to present the results of the continuing operations on a comparable basis and consistent with IFRS 5 requirements, results attributable to the discontinued UK and Europe operations in half year 2019 have been shown in a single line in the income statement with 2018 comparatives being restated accordingly. Notes B1 to B5 have been prepared on a consistent basis.

IFRS 5 requires the assets and liabilities of the UK and Europe operations at 30 June 2019 to be presented as single line 'assets held for distribution' and 'liabilities held for distribution' on the statement of financial position but does not permit the comparative 30 June 2018 and 31 December 2018 assets and liabilities to be re-presented as the UK and Europe operations were not classified as held for distribution at these dates. In the related balance sheet notes, prior period balances have been presented to show the amounts from discontinued operations separately from continuing operations. Additionally, in the analysis of movements in Group assets and liabilities between the beginning and end of periods, the balances of the discontinued UK and Europe operations are removed from the opening balances to show the underlying movements from continuing operations.

## A2 Discontinued operations continued

The profit from the discontinued UK and Europe operations is presented in the condensed consolidated income statement before the elimination of intragroup transactions with continuing operations in order to provide a more meaningful presentation of the position of the Group immediately after the proposed demerger.

The condensed consolidated statement of financial position has been presented after the elimination of all intragroup balances.

A detailed analysis of the earnings performance, financial position and cash flows in the periods from the discontinued UK and Europe operations is provided in note D2, with supplementary analysis on adjusted IFRS operating profit based on longer-term investment returns by driver provided in note I(vi) within the additional financial information.

## A3 New accounting pronouncements in 2019

### IFRS 16, 'Leases'

The Group has adopted IFRS 16, *'Leases'* from 1 January 2019. The new standard brings most leases on-balance-sheet for lessees under a single model, eliminating the distinction between operating and finance leases.

IFRS 16 applies primarily to operating leases of major properties occupied by the Group's businesses where Prudential is a lessee. Under IFRS 16, these leases are brought onto the Group's statement of financial position with a 'right-of-use' asset being established and a corresponding liability representing the obligation to make lease payments. The rental accrual charge in the income statement under IAS 17 is replaced with a depreciation charge for the 'right-of-use' asset and an interest expense on the lease liability leading to a more front-loaded operating lease cost profile compared to IAS 17.

As permitted by IFRS 16, the Group has chosen to adopt the modified retrospective approach upon transition to the new standard. Under the approach adopted, there is no adjustment to the Group's retained earnings at 1 January 2019 and the Group's 2018 comparative information is not restated. The right-of-use asset and lease liability at 1 January 2019 is set at an amount equal to the discounted remaining lease payments adjusted by any prepaid or accrued lease payment balance immediately before the date of initial application of the standard.

When measuring lease liabilities on adoption, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 3.4 per cent. The aggregate effect of the adoption of the standard on the statement of financial position at 1 January 2019 is shown in the tables below:

**Consolidated statement of financial position**

| **Effect of adoption of IFRS 16 at 1 January 2019** £m | Continuing operations | Discontinued operations* | Total Group |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment (Right-of-use assets) | 414 | 289 | 703 |
| **Total assets** | 414 | 289 | 703 |
| **Liabilities** | | | |
| Operational borrowings attributable to shareholder-financed businesses (Lease liability) | 206 | 304 | 510 |
| Borrowings attributable to with-profits businesses (Lease liability) | 219 | 21 | 240 |
| Accruals, deferred income and other liabilities (Accrued lease payment balance under IAS 17) | (11) | (36) | (47) |
| **Total liabilities** | 414 | 289 | 703 |

* Presented within assets and liabilities held for distribution at 30 June 2019.

The Group has applied the practical expedient to grandfather the definition of a lease on transition. This means that IFRS 16 has been applied to all contracts, which were identified as leases in accordance with IAS 17 and IFRIC 4, *'Determining whether an Arrangement contains a Lease'*, entered into before 1 January 2019. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

The Group has used the following practical expedients, in addition to the aforementioned when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

— Applied a single discount rate to a portfolio of leases with similar characteristics. Accordingly, for such portfolios, the incremental borrowing rates used to discount the future lease payments will be determined based on market specific risk-free rates adjusted with a margin/spread to reflect the Group's credit standing, lease term and the outstanding lease payments.
— Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

## Other new accounting pronouncements

In addition to the above, the IASB has also issued the following new accounting pronouncements to be effective from 1 January 2019:

— IFRIC Interpretation 23, 'Uncertainty over income tax treatments';
— Amendments to IAS 28, 'Long-term Interests in Associates and Joint Ventures';
— Amendments to IFRS 9, 'Prepayment features with negative compensation';
— Annual Improvements to IFRSs 2015-2017 cycle; and
— Amendments to IAS 19, 'Plan Amendment, Curtailment or Settlement'.

The Group has applied the principles within the Amendments to IAS 19, *'Plan Amendment, Curtailment or Settlement'*, when accounting for the changes to the pension benefits of its UK defined benefit schemes during the period. The other pronouncements have had no significant impact on the Group financial statements.

# B Earnings performance

## B1 Analysis of performance by segment

### B1.1 Segment results

| | | 2019 £m | 2018* £m | | % | | 2018* £m |
|---|---|---|---|---|---|---|---|
| | Note | Half year | AER Half year notes (i),(v) | CER Half year note (i) | Half year 2019 vs half year 2018* AER note (i) | Half year 2019 vs half year 2018* CER note (i) | AER Full year note (i) |
| **Asia:** | | | | | | | |
| Insurance operations | | 1,095 | 927 | 963 | 18% | 14% | 1,982 |
| Asset management | | 103 | 89 | 92 | 16% | 12% | 182 |
| Total Asia | | 1,198 | 1,016 | 1,055 | 18% | 14% | 2,164 |
| **US:** | | | | | | | |
| Jackson (US insurance operations) | | 1,203 | 1,001 | 1,064 | 20% | 13% | 1,911 |
| Asset management | | 12 | 1 | 1 | n/a | n/a | 8 |
| Total US | | 1,215 | 1,002 | 1,065 | 21% | 14% | 1,919 |
| **Total segment profit from continuing operations** | | 2,413 | 2,018 | 2,120 | 20% | 14% | 4,083 |
| **Other income and expenditure:** | | | | | | | |
| Investment return and other income | | 24 | 33 | 33 | (27)% | (27)% | 52 |
| Interest payable on core structural borrowings note (ii) | | (226) | (189) | (189) | (20)% | (20)% | (410) |
| Corporate expenditure note (iii) | | (164) | (173) | (175) | 5% | 6% | (367) |
| Total other income and expenditure | | (366) | (329) | (331) | (11)% | (11)% | (725) |
| Restructuring costs | | (23) | (20) | (20) | (15)% | (15)% | (56) |
| **Adjusted IFRS operating profit based on longer-term investment returns from continuing operations** | B1.3 | 2,024 | 1,669 | 1,769 | 21% | 14% | 3,302 |
| Short-term fluctuations in investment returns on shareholder-backed business | B1.2 | (1,124) | 9 | 8 | n/a | n/a | (592) |
| Amortisation of acquisition accounting adjustments note (iv) | | (17) | (22) | (23) | 23% | 26% | (46) |
| Gain (loss) on disposal of businesses and corporate transactions | D1 | 13 | (57) | (60) | n/a | n/a | (80) |
| **Profit from continuing operations before tax attributable to shareholders** | | 896 | 1,599 | 1,694 | (44)% | (47)% | 2,584 |
| Tax charge attributable to shareholders' returns | B4 | (1) | (326) | (343) | 100% | 100% | (426) |
| Profit from continuing operations for the period | | 895 | 1,273 | 1,351 | (30)% | (34)% | 2,158 |
| Profit from discontinued operations for the period, net of related tax note (v) | D2.1 | 645 | 83 | 83 | n/a | n/a | 855 |
| **Profit for the period** | | 1,540 | 1,356 | 1,434 | 14% | 7% | 3,013 |
| **Attributable to:** | | | | | | | |
| Equity holders of the Company | | | | | | | |
| From continuing operations | | 890 | 1,272 | 1,350 | (30)% | (34)% | 2,155 |
| From discontinued operations | | 645 | 83 | 83 | n/a | n/a | 855 |
| Non-controlling interests from continuing operations | | 5 | 1 | 1 | 400% | 400% | 3 |
| | | 1,540 | 1,356 | 1,434 | 14% | 7% | 3,013 |

| Basic earnings per share (in pence) | Note B5 | 2019 Half year | 2018* AER Half year notes (i),(v) | 2018* CER Half year note (i) | % Half year 2019 vs half year 2018* AER note (i) | % Half year 2019 vs half year 2018* CER note (i) | 2018* AER Full year note (i) |
|---|---|---|---|---|---|---|---|
| Based on adjusted IFRS operating profit based on longer-term investment returns, net of tax, from continuing operations note (vi) | | 65.3p | 53.7p | 57.0p | 22% | 15% | 108.7p |
| Based on profit for the period from continuing operations | | 34.4p | 49.5p | 52.6p | (31)% | (35)% | 83.7p |
| Based on profit for the period from discontinued operations | | 25.0p | 3.2p | 3.2p | 681% | 681% | 33.2p |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

**Notes**

(i) For definitions of AER and CER refer to note A1. The difference between 'Profit for the period attributable to shareholders' in the prior half year 2018 on an AER basis and a CER basis is £78 million, arising from the retranslation of the prior period results of the Group's foreign subsidiaries into GBP using the exchange rates applied to the equivalent current period results.

(ii) Interest charged to the income statement on debt that is capable of being substituted to M&GPrudential for the six months ended 30 June 2019 was £(85) million (see note C6.1 for further details).

(iii) Corporate expenditure as shown above is primarily for Group Head Office and Asia Regional Head Office.

(iv) Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson which was acquired in 2012.

(v) Profit from discontinued operations represents the post-tax profit contributed by the UK and Europe operations which are classified as held for distribution at 30 June 2019 (a line-by-line analysis of profit for the period for the discontinued UK and Europe operations is included in note D2.1, with supplementary analysis on adjusted IFRS operating profit based on longer-term investment returns by driver provided in note I(vi) within the additional financial information). The 2018 comparative results have been re-presented from those previously published accordingly (as described in note A2).

(vi) Tax charges have been reflected as operating and non-operating in the same way as for the pre-tax items. Further details on tax charges are provided in note B4.

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

| | 2019 £m Half year | 2018* £m Half year | 2018* £m Full year |
|---|---|---|---|
| Asia operations note (i) | 420 | (326) | (512) |
| US operations note (ii) | (1,521) | 244 | (100) |
| Other operations note (iii) | (23) | 91 | 20 |
| Total | (1,124) | 9 | (592) |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

**Notes**

(i) *Asia operations*
In Asia, the positive short-term fluctuations of £420 million (half year 2018: negative £(326) million; full year 2018: negative £(512) million) principally reflect net value movements on shareholders' assets and related liabilities following decrease in bond yields during the period.

(ii) *US operations*
The short-term fluctuations in investment returns for US insurance operations are reported net of the related credit for amortisation of deferred acquisition costs of £476 million as shown in note C5.2 (half year 2018: charge of £(199) million; full year 2018: charge of £(114) million) and comprise amounts in respect of the following items:

| | 2019 £m Half year | 2018 £m Half year | 2018 £m Full year |
|---|---|---|---|
| Net equity hedge result note (a) | (1,955) | 383 | (58) |
| Other than equity-related derivatives note (b) | 433 | (183) | (64) |
| Debt securities note (c) | 11 | 6 | (31) |
| Equity-type investments: actual less longer-term return | (7) | 31 | 38 |
| Other items | (3) | 7 | 15 |
| Total | (1,521) | 244 | (100) |

01 Group overview
02 Business performance
03 IFRS basis results
04 EEV basis results
05 Additional information

## B1 Analysis of performance by segment continued

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

**Notes**

(a) Net equity hedge result

The purpose of the inclusion of this item in short-term fluctuations in investment returns is to segregate the amount included in pre-tax profit that relates to the accounting effect of market movements on both the value of guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. The level of fees recognised in non-operating profit 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 (formerly FAS 157) or ASC Topic 944, Financial Services – Insurance (formerly SOP 03-01) 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 FAS 157 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 non-operating profit to match the corresponding movement in the guarantee liability. As the Group applies US GAAP for the measured value of the product guarantees this item also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ.

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:

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Fair value movements on equity hedge instruments* | (2,466) | (375) | 299 |
| Accounting value movements on the variable and fixed index annuity guarantee liabilities | 227 | 505 | (894) |
| Fee assessments net of claim payments | 284 | 253 | 537 |
| Total | (1,955) | 383 | (58) |

* Held to manage equity exposures of the variable annuity guarantees and fixed index annuity options.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

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

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

(c) Short-term fluctuations related to debt securities

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| (Charges) credits in the period: | | | |
| Losses on sales of impaired and deteriorating bonds | (19) | (1) | (4) |
| Bond write-downs | (1) | (2) | (4) |
| Recoveries/reversals | 1 | 18 | 19 |
| Total (charges) credits in the period | (19) | 15 | 11 |
| Risk margin allowance deducted from adjusted IFRS operating profit based on longer-term investment returns* | 42 | 38 | 77 |
| | 23 | 53 | 88 |
| Interest-related realised (losses) gains: | | | |
| Gains (losses) arising in the period | 33 | 8 | (8) |
| Amortisation of gains and losses arising in current and prior periods to adjusted IFRS operating profit based on longer-term investment returns | (46) | (57) | (116) |
| | (13) | (49) | (124) |
| Related amortisation of deferred acquisition costs | 1 | 2 | 5 |
| Total short-term fluctuations related to debt securities | 11 | 6 | (31) |

* 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 IFRS operating profit based on longer-term investment returns with variations from period to period included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in adjusted IFRS operating profit based on longer-term investment returns of Jackson for half year 2019 is based on an average annual risk margin reserve of 18 basis points (half year 2018: 19 basis points; full year 2018: 18 basis points) on average book values of US$60.0 billion (half year 2018: US$54.9 billion; full year 2018: US$57.1 billion) as shown below:

| | Half year 2019 | | | | Half year 2018 | | | | Full year 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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** | | **Average book value** | **RMR** | **Annual expected loss** | |
| | US$m | % | US$m | £m | US$m | % | US$m | £m | US$m | % | US$m | £m |
| A3 or higher | 34,318 | 0.10 | (36) | (28) | 26,260 | 0.11 | (29) | (21) | 29,982 | 0.10 | (31) | (23) |
| Baa1, 2 or 3 | 24,385 | 0.23 | (55) | (42) | 27,337 | 0.20 | (57) | (41) | 25,814 | 0.21 | (55) | (40) |
| Ba1, 2 or 3 | 1,008 | 0.93 | (10) | (7) | 978 | 1.01 | (10) | (7) | 1,042 | 0.98 | (10) | (8) |
| B1, 2 or 3 | 246 | 2.62 | (6) | (5) | 309 | 2.61 | (8) | (6) | 289 | 2.64 | (8) | (6) |
| Below B3 | 37 | 3.42 | (1) | (1) | 11 | 3.71 | – | – | 11 | 3.69 | – | – |
| Total | 59,994 | 0.18 | (108) | (83) | 54,895 | 0.19 | (104) | (75) | 57,138 | 0.18 | (104) | (77) |
| Related amortisation of deferred acquisition costs | | | 18 | 14 | | | 22 | 15 | | | 22 | 15 |
| Risk margin reserve charge to adjusted IFRS operating profit for longer-term credit-related losses | | | (90) | (69) | | | (82) | (60) | | | (82) | (62) |

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

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit of £2,185 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (half year 2018: charge of £(1,149) million for net unrealised losses; full year 2018: charge of £(1,371) million for net unrealised losses). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(c).

(iii) *Other operations*

Short-term fluctuations in investment returns for other operations of negative £(23) million (half year 2018: positive £91 million; full year 2018: positive £20 million) include unrealised value movements on financial instruments held outside of the main life operations.

## B1 Analysis of performance by segment continued

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

**Operating segments**

The Group's operating segments 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 Prudential Corporation Asia, the North American Business Unit and M&GPrudential 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 three business segments. These operating segments derive revenue from both long-term insurance and asset management activities. In light of the proposed demerger, the segment analysis for the discontinued UK and Europe operations is provided in note D2, separate from those for the continuing operations.

Operations which do not form part of any business unit are reported as 'Unallocated to a segment'. These include Group Head Office and Asia Regional Head Office costs. The Group's existing treasury company, Prudential Capital, and the 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. Prudential Capital and Africa operations are therefore also reported as 'Unallocated to a segment'.

**Performance measure**

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

- Short-term fluctuations in investment returns on shareholder-backed business;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
- Gain or loss on corporate transactions, such as disposals undertaken in the period and the costs related to the preparation for the proposed demerger of M&GPrudential from Prudential plc.

The determination of adjusted IFRS operating profit based on longer-term investment returns for investment and liability movements is as described in note B1.3 of the Group's consolidated financial statements for the year ended 31 December 2018.

For Group debt securities at 30 June 2019 held by the continuing insurance operations in Asia and US, the level of unamortised interest-related realised gains and losses related to previously sold bonds and which have yet to be amortised to adjusted IFRS operating profit based on longer-term investment returns for continuing operations was a net gain of £580 million (30 June 2018: net gain of £800 million; 31 December 2018: net gain of £609 million).

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

- For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £2,282 million as at 30 June 2019 (30 June 2018: £1,622 million; 31 December 2018: £2,146 million). The rates of return applied for 2019 ranged from 5.2 per cent to 17.6 per cent (30 June 2018: 5.1 per cent to 17.2 per cent; 31 December 2018: 5.3 per cent to 17.6 per cent) with the rates applied varying by business unit.
- For US insurance operations, at 30 June 2019, the equity-type securities for non-separate account operations amounted to £1,178 million (30 June 2018: £1,187 million; 31 December 2018: £1,359 million). The longer-term rates of return for income and capital applied in 2019 and 2018, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums, are as follows:

| | 2019 | 2018 | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds | 6.0% to 6.7% | 6.7% to 7.0% | 6.7% to 7.2% |
| Other equity-type securities such as investments in limited partnerships and private equity funds | 8.0% to 8.7% | 8.7% to 9.0% | 8.7% to 9.2% |

## B1.4 Additional segmental analysis of revenue from continuing operations

| | Half year 2019 – continuing operations £m | | | | |
|---|---|---|---|---|---|
| | Asia | US | Total segment | Unallocated to a segment (central operations) | Group total |
| Gross premiums earned | 8,856 | 7,410 | 16,266 | 27 | 16,293 |
| Outward reinsurance premiums | (386) | (131) | (517) | (3) | (520) |
| Earned premiums, net of reinsurance | 8,470 | 7,279 | 15,749 | 24 | 15,773 |
| Other income note (i) | 176 | 11 | 187 | 12 | 199 |
| Total external revenue | 8,646 | 7,290 | 15,936 | 36 | 15,972 |
| Intra-group revenue | 16 | 24 | 40 | (40) | – |
| Interest income | 622 | 1,128 | 1,750 | 21 | 1,771 |
| Other investment return | 6,821 | 16,023 | 22,844 | 18 | 22,862 |
| Total revenue, net of reinsurance note (ii) | 16,105 | 24,465 | 40,570 | 35 | 40,605 |

| | Half year 2018* – continuing operations £m | | | | |
|---|---|---|---|---|---|
| | Asia | US | Total segment | Unallocated to a segment (central operations) | Group total |
| Gross premiums earned | 7,736 | 7,036 | 14,772 | 14 | 14,786 |
| Outward reinsurance premiums | (222) | (141) | (363) | – | (363) |
| Earned premiums, net of reinsurance | 7,514 | 6,895 | 14,409 | 14 | 14,423 |
| Other income note (i) | 157 | 44 | 201 | 14 | 215 |
| Total external revenue | 7,671 | 6,939 | 14,610 | 28 | 14,638 |
| Intra-group revenue | 20 | 32 | 52 | (52) | – |
| Interest income | 513 | 940 | 1,453 | 26 | 1,479 |
| Other investment return | (1,703) | 1,486 | (217) | 119 | (98) |
| Total revenue, net of reinsurance note (ii) | 6,501 | 9,397 | 15,898 | 121 | 16,019 |

| | Full year 2018* – continuing operations £m | | | | |
|---|---|---|---|---|---|
| | Asia | US | Total segment | Unallocated to a segment (central operations) | Group total |
| Gross premiums earned | 16,469 | 17,656 | 34,125 | 38 | 34,163 |
| Outward reinsurance premiums | (575) | (309) | (884) | (2) | (886) |
| Earned premiums, net of reinsurance | 15,894 | 17,347 | 33,241 | 36 | 33,277 |
| Other income note (i) | 309 | 50 | 359 | 39 | 398 |
| Total external revenue | 16,203 | 17,397 | 33,600 | 75 | 33,675 |
| Intra-group revenue | 42 | 50 | 92 | (92) | – |
| Interest income | 1,086 | 2,016 | 3,102 | 51 | 3,153 |
| Other investment return | (3,240) | (6,804) | (10,044) | 62 | (9,982) |
| Total revenue, net of reinsurance note (ii) | 14,091 | 12,659 | 26,750 | 96 | 26,846 |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

**Notes**

(i) Other income comprises income from external customers and consists primarily of revenue from the Group's continuing asset management business of £153 million (half year 2018: £108 million; full year 2018: £216 million). The remaining other income consists primarily of policy fee revenue from external customers.

(ii) Total revenue from continuing operations excludes the contribution from the discontinued UK and Europe operations which are classified as held for distribution at 30 June 2019 (a line-by-line analysis of revenue for the period for the discontinued UK and Europe operations is included in note D2.1). The 2018 comparative results have been re-presented from those previously published accordingly (as described in note A2).

## B2 Acquisition costs and other expenditure from continuing operations

| | 2019 £m | 2018* £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Acquisition costs incurred for insurance policies | (1,630) | (1,538) | (3,230) |
| Acquisition costs deferred less amortisation of acquisition costs note (i) | 774 | (61) | 44 |
| Administration costs and other expenditure note (ii) | (1,771) | (1,625) | (2,903) |
| Movements in amounts attributable to external unit holders of consolidated investment funds | (84) | (61) | (297) |
| Total acquisition costs and other expenditure from continuing operations | (2,711) | (3,285) | (6,386) |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

**Notes**

(i) The components of 'acquisition costs deferred less amortisation of acquisition costs' of £774 million in half year 2019 are set out in note C5.2.

(ii) Included in total administration costs and other expenditure for half year 2019 is depreciation of property, plant and equipment of £(83) million (half year 2018: £(34) million; full year 2018: £(69) million). Out of the £(83) million of depreciation of property, plant and equipment for half year 2019, £(51) million relates to the right-of-use assets recognised under IFRS 16 adopted in 2019 (as described in note A3).

## B3 Effect of changes and other accounting matters on insurance assets and liabilities

The following matters are relevant to the determination of the half year 2019 results:

### (a) Asia insurance operations

In half year 2019, the adjusted IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £76 million (half year 2018: £69 million; full year 2018: £94 million) representing a small number of items that are not expected to reoccur, including the impact of a refinement to the run-off of the allowance for prudence within technical provisions.

### (b) US insurance operations

There has been no material change in assumptions underpinning insurance assets and liabilities since full year 2018.

### (c) UK and Europe insurance operations

Changes in the allowance for credit risk for annuity business, mortality and other assumptions are discussed in note D2.2 following the classification of the Group's UK and Europe operations as discontinued at 30 June 2019.

## B4 Tax charge from continuing operations

### B4.1 Total tax charge by nature of expense from continuing operations

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

| Tax charge | 2019 £m | | | 2018* £m | |
|---|---|---|---|---|---|
| | Current tax | Deferred tax | Half year Total | Half year Total | Full year Total |
| Attributable to shareholders: | | | | | |
| Asia operations | (139) | (49) | (188) | (139) | (277) |
| US operations | (130) | 241 | 111 | (216) | (255) |
| Other operations | 84 | (8) | 76 | 29 | 106 |
| Tax (charge) credit attributable to shareholders' returns | (185) | 184 | (1) | (326) | (426) |
| Attributable to policyholders: | | | | | |
| Asia operations | (54) | (166) | (220) | (43) | (80) |
| **Total tax (charge) credit** | (239) | 18 | (221) | (369) | (506) |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

The principal reason for the decrease in the tax charge attributable to shareholders' returns from continuing operations is the result of the tax credit on US derivative losses largely eliminating the tax charge on Asia profits.

### B4.2 Shareholder profit and tax charge from continuing operations

The shareholder profit, tax charge (credit) and effective tax rate for continuing operations are as follows:

| | Half year 2019 £m | | | |
|---|---|---|---|---|
| | Asia operations | US operations | Other operations | Total attributable to shareholders |
| Adjusted IFRS operating profit (loss) based on longer-term investment returns | 1,198 | 1,215 | (389) | 2,024 |
| Non-operating profit (loss) | 627 | (1,536) | (219) | (1,128) |
| Profit (loss) before tax | 1,825 | (321) | (608) | 896 |
| **Tax charge (credit) on:** | | | | |
| Adjusted IFRS operating profit (loss) based on longer-term investment returns | 168 | 203 | (39) | 332 |
| Non-operating profit (loss) | 20 | (314) | (37) | (331) |
| Total actual tax charge (credit) | 188 | (111) | (76) | 1 |
| **Actual tax rate on:** | | | | |
| Adjusted IFRS operating profit based on longer-term investment returns | 14% | 17% | 10% | 16% |
| Profit before tax | 10% | 35% | 13% | 0% |

| | Half year 2018* £m | | | |
|---|---|---|---|---|
| | Asia operations | US operations | Other operations | Total attributable to shareholders |
| Adjusted IFRS operating profit (loss) based on longer-term investment returns | 1,016 | 1,002 | (349) | 1,669 |
| Non-operating (loss) profit | (338) | 184 | 84 | (70) |
| Profit (loss) before tax | 678 | 1,186 | (265) | 1,599 |
| **Tax charge (credit) on:** | | | | |
| Adjusted IFRS operating profit (loss) based on longer-term investment returns | 151 | 177 | (41) | 287 |
| Non-operating (loss) profit | (12) | 39 | 12 | 39 |
| Total actual tax charge (credit) | 139 | 216 | (29) | 326 |
| **Actual tax rate on:** | | | | |
| Adjusted IFRS operating profit based on longer-term investment returns | 15% | 18% | 12% | 17% |
| Profit before tax | 21% | 18% | 11% | 20% |

* The half year 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations (as described in note A2).

## B4 Tax charge from continuing operations continued

### B4.2 Shareholder profit and tax charge from continuing operations continued

| | Full year 2018* £m | | | |
|---|---|---|---|---|
| | Asia operations | US operations | Other operations | Total attributable to shareholders |
| Adjusted IFRS operating profit (loss) based on longer-term investment returns | 2,164 | 1,919 | (781) | 3,302 |
| Non-operating (loss) profit | (527) | (180) | (11) | (718) |
| Profit (loss) before tax | 1,637 | 1,739 | (792) | 2,584 |
| **Tax charge (credit) on:** | | | | |
| Adjusted IFRS operating profit (loss) based on longer-term investment returns | 308 | 301 | (110) | 499 |
| Non-operating (loss) profit | (31) | (46) | 4 | (73) |
| Total actual tax charge (credit) | 277 | 255 | (106) | 426 |
| **Actual tax rate on:** | | | | |
| Adjusted IFRS operating profit based on longer-term investment returns | 14% | 16% | 14% | 15% |
| Profit before tax | 17% | 15% | 13% | 16% |

* The full year 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations (as described in note A2).

### B4.3 Reconciliation of shareholder effective tax rate from continuing operations

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

| | 2019 | | 2018 | | | |
|---|---|---|---|---|---|---|
| | Half year | | Half year | | Full year | |
| | £m | % note (i) | £m note (iv) | % note (iv) | £m note (iv) | % note (iv) |
| **Profit before tax** | 896 | | 1,599 | | 2,584 | |
| **Expected tax rate (ETR)** | 20% | | 22% | | 22% | |
| **Tax at the expected rate** | 179 | 20.0% | 352 | 22.0% | 568 | 22.0% |
| **Effects of recurring tax reconciliation items and percentage impact on ETR:** | | | | | | |
| Income not taxable or taxable at concessionary rates | (54) | (6.0)% | (19) | (1.2)% | (53) | (2.1)% |
| Deductions not allowable for tax purposes | 23 | 2.6% | 25 | 1.6% | 52 | 2.0% |
| Items related to taxation of life insurance businesses note (ii) | (138) | (15.4)% | (36) | (2.3)% | (96) | (3.7)% |
| Deferred tax adjustments | (9) | (1.0)% | (17) | (1.1)% | (41) | (1.6)% |
| Effect of results of joint ventures and associates | (27) | (3.0)% | (20) | (1.3)% | (61) | (2.4)% |
| Irrecoverable withholding taxes | 21 | 2.3% | 26 | 1.8% | 47 | 1.8% |
| Other | 4 | 0.4% | – | – | 6 | 0.3% |
| Total | (180) | (20.1)% | (41) | (2.5)% | (146) | (5.7)% |
| **Effects of non-recurring tax reconciliation items and percentage impact on ETR:** | | | | | | |
| Adjustments to tax charge in relation to prior years | 15 | 1.7% | 7 | 0.4% | (3) | (0.1)% |
| Movements in provisions for open tax matters note (iii) | 6 | 0.7% | 8 | 0.5% | 7 | 0.3% |
| Adjustments in relation to business disposals | (19) | (2.2)% | – | – | – | – |
| Total | 2 | 0.2% | 15 | 0.9% | 4 | 0.2% |
| **Total actual tax charge** | 1 | 0.1% | 326 | 20.4% | 426 | 16.5% |

**Notes**

(i) The main driver of the Group's effective tax rate is the relative mix of the profits between jurisdictions with higher tax rates (such as Indonesia and Malaysia), jurisdictions with lower tax rates (such as Hong Kong and Singapore) and jurisdictions with rates in between (such as the UK and the US). At half year 2019, the reduction in the effective tax rate is a result of the loss before tax in US operations.

(ii) The £138 million reconciling item related to taxation of life insurance businesses for half year 2019 (half year 2018: £36 million; full year 2018: £96 million) mainly reflects £82 million in the Hong Kong business in relation to investment gains which are not subject to tax due to the taxable profit being computed as 5 per cent of net insurance premiums.

(iii) The statement of financial position contains the following provisions in relation to open tax matters:

| | £m |
|---|---|
| At 31 December 2018 | (149) |
| Movements in the current period included in tax charge attributable to shareholders | (6) |
| Other movements* | (1) |
| At 30 June 2019 | (156) |

* 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.

(iv) The Group's UK and Europe operations are classified as held for distribution at 30 June 2019. The 2018 comparative results have been re-presented from those previously published accordingly (as described in note A2).

## B5 Earnings per share

| | | Half year 2019 | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Before tax £m B1.1 | Tax £m B4 | Non-controlling interests £m | Net of tax and non-controlling interests £m | Basic earnings per share pence | Diluted earnings per share pence |
| Based on adjusted IFRS operating profit based on longer-term investment returns | | 2,024 | (332) | (5) | 1,687 | 65.3p | 65.3p |
| Short-term fluctuations in investment returns on shareholder-backed business | B1.2 | (1,124) | 314 | – | (810) | (31.4)p | (31.4)p |
| Amortisation of acquisition accounting adjustments | | (17) | 3 | – | (14) | (0.5)p | (0.5)p |
| Gain (loss) on disposal of businesses and corporate transactions | | 13 | 14 | – | 27 | 1.0p | 1.0p |
| Based on profit for the period from continuing operations | | 896 | (1) | (5) | 890 | 34.4p | 34.4p |
| Based on profit for the period from discontinued operations | D2.1 | 817 | (172) | – | 645 | 25.0p | 25.0p |
| Based on profit for the period | | 1,713 | (173) | (5) | 1,535 | 59.4p | 59.4p |

## B5 Earnings per share continued

| | Note | Half year 2018* Before tax £m B1.1 | Tax £m B4 | Non-controlling interests £m | Net of tax and non-controlling interests £m | Basic earnings per share pence | Diluted earnings per share pence |
|---|---|---|---|---|---|---|---|
| Based on adjusted IFRS operating profit based on longer-term investment returns | | 1,669 | (287) | (1) | 1,381 | 53.7p | 53.6p |
| Short-term fluctuations in investment returns on shareholder-backed business | B1.2 | 9 | (51) | – | (42) | (1.6)p | (1.6)p |
| Amortisation of acquisition accounting adjustments | | (22) | 4 | – | (18) | (0.7)p | (0.7)p |
| Gain (loss) on disposal of businesses and corporate transactions | | (57) | 8 | – | (49) | (1.9)p | (1.9)p |
| Based on profit for the period from continuing operations | | 1,599 | (326) | (1) | 1,272 | 49.5p | 49.4p |
| Based on profit for the period from discontinued operations | D2.1 | 101 | (18) | – | 83 | 3.2p | 3.2p |
| Based on profit for the period | | 1,700 | (344) | (1) | 1,355 | 52.7p | 52.6p |

| | Note | Full year 2018* Before tax £m B1.1 | Tax £m B4 | Non-controlling interests £m | Net of tax and non-controlling interests £m | Basic earnings per share pence | Diluted earnings per share pence |
|---|---|---|---|---|---|---|---|
| Based on adjusted IFRS operating profit based on longer-term investment returns | | 3,302 | (499) | (3) | 2,800 | 108.7p | 108.6p |
| Short-term fluctuations in investment returns on shareholder-backed business | B1.2 | (592) | 52 | – | (540) | (21.0)p | (21.0)p |
| Amortisation of acquisition accounting adjustments | | (46) | 9 | – | (37) | (1.4)p | (1.4)p |
| Gain (loss) on disposal of businesses and corporate transactions | | (80) | 12 | – | (68) | (2.6)p | (2.6)p |
| Based on profit for the year from continuing operations | | 2,584 | (426) | (3) | 2,155 | 83.7p | 83.6p |
| Based on profit for the year from discontinued operations | D2.1 | 1,051 | (196) | – | 855 | 33.2p | 33.2p |
| Based on profit for the year | | 3,635 | (622) | (3) | 3,010 | 116.9p | 116.8p |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations at 30 June 2019 (as described in note A2).

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

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

| | 2019 | 2018 | |
|---|---|---|---|
| | Half year | Half year | Full year |
| **Weighted average number (in millions) of shares for calculation of:** | | | |
| Basic earnings per share | 2,583 | 2,573 | 2,575 |
| Diluted earnings per share | 2,584 | 2,574 | 2,576 |

## B6 Dividends

| | Half year 2019 | | Half year 2018 | | Full year 2018 | |
|---|---|---|---|---|---|---|
| | Pence per share | £m | Pence per share | £m | Pence per share | £m |
| Dividends relating to reporting period: | | | | | | |
| First interim ordinary dividend | 16.45p | 428 | 15.67p | 406 | 15.67p | 406 |
| Second interim ordinary dividend | – | – | – | – | 33.68p | 873 |
| Total | 16.45p | 428 | 15.67p | 406 | 49.35p | 1,279 |
| Dividends paid in reporting period: | | | | | | |
| Current year first interim ordinary dividend | – | – | – | – | 15.67p | 404 |
| Second interim ordinary dividend for prior year | 33.68p | 870 | 32.50p | 840 | 32.50p | 840 |
| Total | 33.68p | 870 | 32.50p | 840 | 48.17p | 1,244 |

### Dividend per share

The 2019 first interim dividend of 16.45 pence per ordinary share will be paid on 26 September 2019 in sterling to shareholders in the UK, and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on 26 September 2019. The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 13 August 2019. Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 3 October 2019. The exchange rate at which the dividend payable to the US Shareholders will be translated into US dollars will be determined by the depositary agent. The second interim dividend will be paid on or about 3 October 2019 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The exchange rate at which the dividend payable to the SG Shareholders will be translated from Hong Kong dollars into Singapore dollars, will be determined by CDP.

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

# C Balance sheet notes

## C1 Analysis of Group statement of financial position by segment

To explain the assets, liabilities and capital of the Group's businesses more comprehensively, it is appropriate to provide analyses of the Group's statement of financial position by operating segment and type of business.

| By operating segment | Note | 30 Jun 2019 £m Asia C2.1 | 30 Jun 2019 £m US C2.2 | 30 Jun 2019 £m Unallocated to a segment (central operations) note (i) | Before elimination of intra-group debtors and creditors: Total Continuing operations | Before elimination of intra-group debtors and creditors: Discontinued UK and Europe operations note (v) | Elimination of intra-group debtors and creditors | 30 Jun 2019 £m Group Total | 30 Jun 2018 £m Group Total note (v) | 31 Dec 2018 £m Group Total note (v) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Goodwill | C5.1 | 510 | – | – | 510 | – | – | 510 | 1,620 | 1,857 |
| Deferred acquisition costs and other intangible assets | C5.2 | 3,624 | 8,990 | 45 | 12,659 | – | – | 12,659 | 11,359 | 11,923 |
| Reinsurers' share of insurance contract liabilities note (ii) | | 3,621 | 6,527 | 3 | 10,151 | – | – | 10,151 | 9,620 | 11,144 |
| Other assets note (iii) | | 4,319 | 3,908 | 2,525 | 10,752 | – | (3,491) | 7,261 | 10,105 | 11,459 |
| Investment properties | | 5 | 6 | – | 11 | – | – | 11 | 17,605 | 17,925 |
| Investment in joint ventures and associates accounted for using the equity method | | 1,030 | – | – | 1,030 | – | – | 1,030 | 1,554 | 1,733 |
| Financial investments | | 93,476 | 203,898 | 2,155 | 299,529 | – | – | 299,529 | 428,833 | 429,901 |
| Assets held for distribution | D2.2 | – | – | – | – | 221,126 | (2,802) | 218,324 | – | – |
| Assets held for sale | | – | – | – | – | – | – | – | 12,024 | 10,578 |
| Cash and cash equivalents | | 2,222 | 1,184 | 1,802 | 5,208 | – | – | 5,208 | 8,450 | 12,125 |
| **Total assets** | | 108,807 | 224,513 | 6,530 | 339,850 | 221,126 | (6,293) | 554,683 | 501,170 | 508,645 |
| **Total equity** | | 7,656 | 6,752 | (2,993) | 11,415 | 8,280 | – | 19,695 | 15,890 | 17,267 |
| **Liabilities** | | | | | | | | | | |
| Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) | C4.1(i) | 84,077 | 202,152 | 47 | 286,276 | – | (1,108) | 285,168 | 405,482 | 409,301 |
| Unallocated surplus of with-profits funds | C4.1(i) | 3,034 | – | – | 3,034 | – | (90) | 2,944 | 17,283 | 15,845 |
| Core structural borrowings of shareholder-financed businesses | C6.1 | – | 196 | 7,245 | 7,441 | – | – | 7,441 | 6,367 | 7,664 |
| Operational borrowings attributable to shareholder-financed businesses | C6.2(i) | 137 | 800 | 727 | 1,664 | – | – | 1,664 | 1,618 | 998 |
| Borrowings attributable to with-profits businesses | C6.2(ii) | 238 | – | – | 238 | – | – | 238 | 3,589 | 3,940 |
| Other liabilities note (iv) | | 13,665 | 14,613 | 1,504 | 29,782 | – | (3,636) | 26,146 | 38,964 | 43,062 |
| Liabilities held for distribution | D2.2 | – | – | – | – | 212,846 | (1,459) | 211,387 | – | – |
| Liabilities held for sale | | – | – | – | – | – | – | – | 11,977 | 10,568 |
| **Total liabilities** | | 101,151 | 217,761 | 9,523 | 328,435 | 212,846 | (6,293) | 534,988 | 485,280 | 491,378 |
| **Total equity and liabilities** | | 108,807 | 224,513 | 6,530 | 339,850 | 221,126 | (6,293) | 554,683 | 501,170 | 508,645 |

**Notes**

(i) Unallocated to a segment includes central operations, the Group's existing treasury company, Prudential Capital, and Africa operations as per note B1.3.

(ii) Reinsurers' share of contract liabilities of £10,151 million at 30 June 2019 includes the reinsurance ceded in respect of the acquired REALIC business by the Group's US insurance operations. In addition to this REALIC reinsurance, the balances in 2018 also included the reinsurance of part of the UK shareholder-backed annuity portfolio.

(iii) 'Other assets' at 30 June 2019 included property, plant and equipment of £785 million relating to continuing operations (30 June 2018: £951 million, of which £363 million related to continuing operations; 31 December 2018: £1,409 million, of which £378 million related to continuing operations). On 1 January 2019, £414 million of right-of-use assets was recognised for continuing operations upon adoption of IFRS 16 (see note A3). During the period, the Group made additions of £82 million for continuing operations of which £66 million relates to right-of-use assets.
Contained within 'Other assets' is premiums receivable of £564 million, of which 91 per cent are due within one year (30 June 2018: premiums receivable for total continuing and discontinued operations of £595 million, of which 89 per cent are due within one year; 31 December 2018: premiums receivable for total continuing and discontinued operations of £672 million, of which 73 per cent are due within one year).

(iv) Within 'Other liabilities' at 30 June 2019 is accruals, deferred income and other liabilities of £10,597 million for continuing operations (30 June 2018: £13,551 million for continuing and discontinued operations; 31 December 2018: £15,248 million for continuing and discontinued operations), of which £6,722 million (30 June 2018: £8,435 million; 31 December 2018: £9,968 million) are due within one year.

(v) Assets and liabilities held for distribution relate to the Group's UK and Europe operations classified as discontinued operations at 30 June 2019. A line-by-line analysis of assets and liabilities for the discontinued UK and Europe operations (before elimination of intra-group balances with continuing operations) is included in note D2.2. The 2018 comparative results for the assets and liabilities at 30 June 2018 and 31 December 2018 are as published and not restated (as described in note A2).

## C2 Analysis of segment statement of financial position by business type

To show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business, the analysis below is structured to show the assets and liabilities of each segment by business type.

### C2.1 Asia

| | | 30 Jun 2019 £m | | | | | | | 2018 £m | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Total insurance | | | | | | | | |
| | Note | With-profits business* | Unit-linked assets and liabilities | Other business | Total | Asset manage-ment | Elimin-ations | Total | 30 Jun Total | 31 Dec Total |
| **Assets** | | | | | | | | | | |
| Goodwill | | – | – | 252 | 252 | 258 | – | 510 | 306 | 498 |
| Deferred acquisition costs and other intangible assets | | 58 | – | 3,554 | 3,612 | 12 | – | 3,624 | 2,614 | 2,937 |
| Reinsurers' share of insurance contract liabilities | | 83 | – | 3,538 | 3,621 | – | – | 3,621 | 2,258 | 2,777 |
| Other assets | | 2,526 | 315 | 1,357 | 4,198 | 156 | (35) | 4,319 | 3,298 | 3,916 |
| Investment properties | | – | – | 5 | 5 | – | – | 5 | 5 | 5 |
| Investment in joint ventures and associates accounted for using the equity method | | – | – | 859 | 859 | 171 | – | 1,030 | 867 | 991 |
| Financial investments | | 54,687 | 18,492 | 20,134 | 93,313 | 163 | – | 93,476 | 75,913 | 80,886 |
| Cash and cash equivalents | | 534 | 400 | 1,179 | 2,113 | 109 | – | 2,222 | 2,177 | 2,189 |
| **Total assets** | | 57,888 | 19,207 | 30,878 | 107,973 | 869 | (35) | 108,807 | 87,438 | 94,199 |
| **Total equity** | | – | – | 7,077 | 7,077 | 579 | – | 7,656 | 5,741 | 6,428 |
| **Liabilities** | | | | | | | | | | |
| Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) | C4.2 | 48,041 | 17,594 | 18,442 | 84,077 | – | – | 84,077 | 66,821 | 73,216 |
| Unallocated surplus of with-profits funds | C4.2 | 3,034 | – | – | 3,034 | – | – | 3,034 | 3,766 | 2,511 |
| Operational borrowings attributable to shareholder-financed businesses | | – | 36 | 88 | 124 | 13 | – | 137 | 17 | 61 |
| Borrowings attributable to with-profits businesses | | 238 | – | – | 238 | – | – | 238 | 32 | 19 |
| Other liabilities | | 6,575 | 1,577 | 5,271 | 13,423 | 277 | (35) | 13,665 | 11,061 | 11,964 |
| **Total liabilities** | | 57,888 | 19,207 | 23,801 | 100,896 | 290 | (35) | 101,151 | 81,697 | 87,771 |
| **Total equity and liabilities** | | 57,888 | 19,207 | 30,878 | 107,973 | 869 | (35) | 108,807 | 87,438 | 94,199 |

* The statement of financial position for with-profits business 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.

## C2.2 US

| | Note | 30 Jun 2019 £m | | | | | | 2018 £m | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total insurance | | | | | | | |
| | Note | Variable annuity separate account assets and liabilities | Fixed annuity, GICs and other business | Total | Asset manage-ment | Elimin-ations | Total | 30 Jun Total | 31 Dec Total |
| **Assets** | | | | | | | | | |
| Goodwill | | – | – | – | – | – | – | – | – |
| Deferred acquisition costs and other intangible assets | | – | 8,990 | 8,990 | – | – | 8,990 | 8,503 | 8,747 |
| Reinsurers' share of insurance contract liabilities | | – | 6,527 | 6,527 | – | – | 6,527 | 6,436 | 6,662 |
| Other assets | | – | 3,834 | 3,834 | 143 | (69) | 3,908 | 3,381 | 3,588 |
| Investment properties | | – | 6 | 6 | – | – | 6 | 5 | 6 |
| Financial investments | | 145,295 | 58,585 | 203,880 | 18 | – | 203,898 | 183,501 | 182,910 |
| Cash and cash equivalents | | – | 1,130 | 1,130 | 54 | – | 1,184 | 1,174 | 3,005 |
| **Total assets** | | 145,295 | 79,072 | 224,367 | 215 | (69) | 224,513 | 203,000 | 204,918 |
| **Total equity** | | – | 6,702 | 6,702 | 50 | – | 6,752 | 5,100 | 5,624 |
| **Liabilities** | | | | | | | | | |
| Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) | C4.3 | 145,295 | 56,857 | 202,152 | – | – | 202,152 | 185,150 | 185,600 |
| Core structural borrowings of shareholder-financed businesses | | – | 196 | 196 | – | – | 196 | 189 | 196 |
| Operational borrowings attributable to shareholder-financed businesses | | – | 767 | 767 | 33 | – | 800 | 262 | 328 |
| Other liabilities | | – | 14,550 | 14,550 | 132 | (69) | 14,613 | 12,299 | 13,170 |
| **Total liabilities** | | 145,295 | 72,370 | 217,665 | 165 | (69) | 217,761 | 197,900 | 199,294 |
| **Total equity and liabilities** | | 145,295 | 79,072 | 224,367 | 215 | (69) | 224,513 | 203,000 | 204,918 |

## C3 Assets and liabilities

### C3.1 Group assets and liabilities – measurement

**(a) Determination of fair value**

The fair values of the financial instruments for which fair valuation is required under IFRS 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 loans and receivables have been shown net of provisions for impairment. The fair value of loans has been 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 investment properties is based on market values as assessed by professionally qualified external valuers or by the Group's qualified surveyors.

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 derivative financial instruments) is determined using discounted cash flows of the amounts expected to be paid.

**(b) Fair value measurement hierarchy of Group assets and liabilities**

***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.

The analysis of the fair value measurement hierarchy of the Group's assets and liabilities at 30 June 2019 below excludes the analysis for the Group's UK and Europe operations which are classified as held for distribution. A separate fair value measurement hierarchy analysis at 30 June 2019 for the UK and Europe is presented in note D2.2. In line with the IFRS requirements, the comparatives have not been re-presented for the assets and liabilities classified for held for distribution in the current period.

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £44,178 million (30 June 2018: £35,860 million; 31 December 2018: £40,849 million) of debt securities in the US operations classified as available-for-sale. All assets and liabilities held at fair value are measured on a recurring basis. As of 30 June 2019, the Group does not have any financial instruments that are measured on a non-recurring basis.

## Financial instruments at fair value

| Analysis of financial investments, net of derivative liabilities by business type from continuing operations | 30 Jun 2019 £m | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| | Quoted prices (unadjusted) in active markets | Valuation based on significant observable market inputs | Valuation based on significant unobservable market inputs | Total |
| **With-profits** | | | | |
| Loans | – | – | – | – |
| Equity securities and portfolio holdings in unit trusts | 19,318 | 1,906 | 153 | 21,377 |
| Debt securities | 28,964 | 3,093 | 6 | 32,063 |
| Other investments (including derivative assets) | 107 | 81 | – | 188 |
| Derivative liabilities | (34) | (11) | – | (45) |
| Total financial investments, net of derivative liabilities | 48,355 | 5,069 | 159 | 53,583 |
| Percentage of total (%) | 90% | 10% | 0% | 100% |
| **Unit-linked and variable annuity separate account** | | | | |
| Equity securities and portfolio holdings in unit trusts | 159,462 | 230 | – | 159,692 |
| Debt securities | 2,840 | 763 | – | 3,603 |
| Other investments (including derivative assets) | – | – | – | – |
| Derivative liabilities | (11) | (6) | – | (17) |
| Total financial investments, net of derivative liabilities | 162,291 | 987 | – | 163,278 |
| Percentage of total (%) | 99% | 1% | 0% | 100% |
| **Non-linked shareholder-backed** | | | | |
| Loans | – | – | 2,799 | 2,799 |
| Equity securities and portfolio holdings in unit trusts | 2,580 | 4 | 17 | 2,601 |
| Debt securities | 16,726 | 47,283 | – | 64,009 |
| Other investments (including derivative assets) | 42 | 988 | 962 | 1,992 |
| Derivative liabilities | (7) | (513) | (455) | (975) |
| Total financial investments, net of derivative liabilities | 19,341 | 47,762 | 3,323 | 70,426 |
| Percentage of total (%) | 27% | 68% | 5% | 100% |
| **Group total analysis, including other financial liabilities held at fair value from continuing operations** | | | | |
| Loans | – | – | 2,799 | 2,799 |
| Equity securities and portfolio holdings in unit trusts | 181,360 | 2,140 | 170 | 183,670 |
| Debt securities | 48,530 | 51,139 | 6 | 99,675 |
| Other investments (including derivative assets) | 149 | 1,069 | 962 | 2,180 |
| Derivative liabilities | (52) | (530) | (455) | (1,037) |
| Total financial investments, net of derivative liabilities | 229,987 | 53,818 | 3,482 | 287,287 |
| Investment contract liabilities without discretionary participation features held at fair value | – | (666) | – | (666) |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | (3,482) | – | – | (3,482) |
| Other financial liabilities held at fair value | – | (5) | (3,081) | (3,086) |
| Total financial instruments at fair value | 226,505 | 53,147 | 401 | 280,053 |
| Percentage of total (%) | 81% | 19% | 0% | 100% |

## C3 Assets and liabilities continued

### C3.1 Group assets and liabilities – measurement continued

| | 30 Jun 2018 £m | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| **Analysis of financial investments, net of derivative liabilities by business type** | Quoted prices (unadjusted) in active markets | Valuation based on significant observable market inputs | Valuation based on significant unobservable market inputs | Total |
| **With-profits** | | | | |
| Loans | – | – | 1,848 | 1,848 |
| Equity securities and portfolio holdings in unit trusts | 59,025 | 4,748 | 490 | 64,263 |
| Debt securities | 29,680 | 45,952 | 355 | 75,987 |
| Other investments (including derivative assets) | 76 | 3,185 | 3,866 | 7,127 |
| Derivative liabilities | (40) | (1,003) | – | (1,043) |
| Total financial investments, net of derivative liabilities | 88,741 | 52,882 | 6,559 | 148,182 |
| Percentage of total (%) | 60% | 36% | 4% | 100% |
| **Unit-linked and variable annuity separate account** | | | | |
| Equity securities and portfolio holdings in unit trusts | 162,698 | 494 | 18 | 163,210 |
| Debt securities | 5,162 | 5,145 | – | 10,307 |
| Other investments (including derivative assets) | 3 | 4 | 7 | 14 |
| Derivative liabilities | (9) | (4) | – | (13) |
| Total financial investments, net of derivative liabilities | 167,854 | 5,639 | 25 | 173,518 |
| Percentage of total (%) | 97% | 3% | 0% | 100% |
| **Non-linked shareholder-backed** | | | | |
| Loans | – | – | 2,935 | 2,935 |
| Equity securities and portfolio holdings in unit trusts | 2,215 | 9 | 10 | 2,234 |
| Debt securities | 17,918 | 55,795 | 298 | 74,011 |
| Other investments (including derivative assets) | 34 | 1,403 | 909 | 2,346 |
| Derivative liabilities | (1) | (1,692) | (400) | (2,093) |
| Total financial investments, net of derivative liabilities | 20,166 | 55,515 | 3,752 | 79,433 |
| Percentage of total (%) | 25% | 70% | 5% | 100% |
| **Group total analysis, including other financial liabilities held at fair value** | | | | |
| Loans | – | – | 4,783 | 4,783 |
| Equity securities and portfolio holdings in unit trusts | 223,938 | 5,251 | 518 | 229,707 |
| Debt securities | 52,760 | 106,892 | 653 | 160,305 |
| Other investments (including derivative assets) | 113 | 4,592 | 4,782 | 9,487 |
| Derivative liabilities | (50) | (2,699) | (400) | (3,149) |
| Total financial investments, net of derivative liabilities | 276,761 | 114,036 | 10,336 | 401,133 |
| Investment contract liabilities without discretionary participation features held at fair value | – | (16,713) | – | (16,713) |
| Borrowings attributable to with-profits businesses | – | – | (1,746) | (1,746) |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | (5,184) | (3,407) | (767) | (9,358) |
| Other financial liabilities held at fair value | – | – | (3,159) | (3,159) |
| Total financial instruments at fair value | 271,577 | 93,916 | 4,664 | 370,157 |
| Percentage of total (%) | 74% | 25% | 1% | 100% |
| Analysed as: | | | | |
| Total from continuing operations | | | | |
| With-profits | 37,521 | 1,960 | 160 | 39,641 |
| Unit-linked and variable annuity separate account | 150,528 | (253) | – | 150,275 |
| Non-linked shareholder-backed | 15,956 | 38,070 | 403 | 54,429 |
| | 204,005 | 39,777 | 563 | 244,345 |
| Percentage of total continuing operations (%) | 84% | 16% | 0% | 100% |
| Total from discontinued UK and Europe operations* | 67,572 | 54,139 | 4,101 | 125,812 |
| Percentage of total discontinued operations (%) | 54% | 43% | 3% | 100% |

* Classified as discontinued operations at 30 June 2019 (as described in note A2).

| Analysis of financial investments, net of derivative liabilities by business type | 31 Dec 2018 £m Level 1 Quoted prices (unadjusted) in active markets | Level 2 Valuation based on significant observable market inputs | Level 3 Valuation based on significant unobservable market inputs | Total |
|---|---|---|---|---|
| **With-profits** | | | | |
| Loans | – | – | 1,703 | 1,703 |
| Equity securities and portfolio holdings in unit trusts | 52,320 | 5,447 | 488 | 58,255 |
| Debt securities | 31,210 | 48,981 | 811 | 81,002 |
| Other investments (including derivative assets) | 143 | 3,263 | 4,325 | 7,731 |
| Derivative liabilities | (85) | (1,231) | – | (1,316) |
| Total financial investments, net of derivative liabilities | 83,588 | 56,460 | 7,327 | 147,375 |
| Percentage of total (%) | 57% | 38% | 5% | 100% |
| **Unit-linked and variable annuity separate account** | | | | |
| Equity securities and portfolio holdings in unit trusts | 152,987 | 505 | 9 | 153,501 |
| Debt securities | 4,766 | 9,727 | – | 14,493 |
| Other investments (including derivative assets) | 6 | 3 | 6 | 15 |
| Derivative liabilities | (2) | (3) | – | (5) |
| Total financial investments, net of derivative liabilities | 157,757 | 10,232 | 15 | 168,004 |
| Percentage of total (%) | 94% | 6% | 0% | 100% |
| **Non-linked shareholder-backed** | | | | |
| Loans | – | – | 3,050 | 3,050 |
| Equity securities and portfolio holdings in unit trusts | 2,957 | 2 | 18 | 2,977 |
| Debt securities | 17,687 | 61,803 | 371 | 79,861 |
| Other investments (including derivative assets) | 61 | 1,258 | 941 | 2,260 |
| Derivative liabilities | (2) | (1,760) | (423) | (2,185) |
| Total financial investments, net of derivative liabilities | 20,703 | 61,303 | 3,957 | 85,963 |
| Percentage of total (%) | 24% | 71% | 5% | 100% |

| Group total analysis, including other financial liabilities held at fair value | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Loans | – | – | 4,753 | 4,753 |
| Equity securities and portfolio holdings in unit trusts | 208,264 | 5,954 | 515 | 214,733 |
| Debt securities | 53,663 | 120,511 | 1,182 | 175,356 |
| Other investments (including derivative assets) | 210 | 4,524 | 5,272 | 10,006 |
| Derivative liabilities | (89) | (2,994) | (423) | (3,506) |
| Total financial investments, net of derivative liabilities | 262,048 | 127,995 | 11,299 | 401,342 |
| Investment contract liabilities without discretionary participation features held at fair value | – | (16,054) | – | (16,054) |
| Borrowings attributable to with-profits businesses | – | – | (1,606) | (1,606) |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | (6,852) | (3,811) | (988) | (11,651) |
| Other financial liabilities held at fair value | – | (2) | (3,404) | (3,406) |
| Total financial instruments at fair value | 255,196 | 108,128 | 5,301 | 368,625 |
| Percentage of total (%) | 70% | 29% | 1% | 100% |
| Analysed as: | | | | |
| Total from continuing operations | | | | |
| With-profits | 39,191 | 3,928 | 159 | 43,278 |
| Unit-linked and variable annuity separate account | 143,556 | (64) | – | 143,492 |
| Non-linked shareholder-backed | 16,549 | 43,948 | 266 | 60,763 |
| | 199,296 | 47,812 | 425 | 247,533 |
| Percentage of total continuing operations (%) | 81% | 19% | 0% | 100% |
| Total from discontinued UK and Europe operations* | 55,900 | 60,316 | 4,876 | 121,092 |
| Percentage of total discontinued operations (%) | 46% | 50% | 4% | 100% |

* Classified as discontinued operations at 30 June 2019 (as described in note A2).

## C3 Assets and liabilities continued

### C3.1 Group assets and liabilities – measurement continued

***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, excluding those held for distribution. 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.

| | 30 Jun 2019 £m | | 30 Jun 2018 £m | | 31 Dec 2018 £m | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| **Assets** | | | | | | |
| Loans | 9,714 | 10,010 | 12,139 | 12,710 | 13,257 | 13,666 |
| **Liabilities** | | | | | | |
| Investment contract liabilities without discretionary participation features | (3,132) | (3,140) | (3,001) | (3,003) | (3,168) | (3,157) |
| Core structural borrowings of shareholder-financed businesses | (7,441) | (8,052) | (6,367) | (6,518) | (7,664) | (7,847) |
| Operational borrowings (excluding lease liabilities) attributable to shareholder-financed businesses | (1,435) | (1,435) | (1,618) | (1,618) | (998) | (998) |
| Borrowings (excluding lease liabilities) attributable to the with-profits funds | (25) | (24) | (1,843) | (1,768) | (2,334) | (2,103) |
| Obligations under funding, securities lending and sale and repurchase agreements | (6,756) | (6,890) | (7,128) | (7,126) | (6,989) | (7,008) |
| Total financial instruments carried at amortised cost | (9,075) | (9,531) | (7,818) | (7,323) | (7,896) | (7,447) |
| | | | | | | |
| Analysed as: | | | | | | |
| Total from continuing operations | | | (7,921) | (7,989) | (7,848) | (8,040) |
| Total from discontinued UK and Europe operations* | | | 103 | 666 | (48) | 593 |
| | | | (7,818) | (7,323) | (7,896) | (7,447) |

* Classified as discontinued operations at 30 June 2019 (as described in note A2).

### (c) 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. For further detail on the valuation approach for level 2 fair valued assets and liabilities please refer to note C3.1 of the Group IFRS financial statements for the year ended 31 December 2018.

### (d) Fair value measurements for level 3 fair valued assets and liabilities

***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 2019 to that presented at 30 June 2019.

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 within Jackson and foreign exchange movements arising from the retranslation of the Group's overseas subsidiaries and branches.

| **Reconciliation of movements in level 3 assets and liabilities measured at fair value** | **Half year 2019** £m | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Loans** | **Equity securities and portfolio holdings in unit trusts** | **Debt securities** | **Other investments (including derivative assets)** | **Derivative liabilities** | **Borrowings attributable to with-profits businesses** | **Net asset value attributable to unit holders of consolidated unit trusts and similar funds** | **Other financial liabilities** | **Total** |
| At 1 January 2019 | 4,753 | 515 | 1,182 | 5,272 | (423) | (1,606) | (988) | (3,404) | 5,301 |
| Reclassification to held for distribution | (1,970) | (345) | (1,177) | (4,333) | – | 1,606 | 988 | 355 | (4,876) |
| Total gains (losses) in income statement: | | | | | | | | | |
| Net realised gains (losses) | 91 | – | 5 | (25) | – | – | – | (94) | (23) |
| Net unrealised gains (losses) on financial instruments held at the end of period | – | (2) | – | 40 | (15) | – | – | (14) | 9 |
| Total gains (losses) recorded in other comprehensive income | 4 | – | 1 | (5) | (17) | – | – | (11) | (28) |
| Purchases | – | 2 | – | 127 | – | – | – | – | 129 |
| Sales | – | – | (5) | (114) | – | – | – | – | (119) |
| Issues | 26 | – | – | – | – | – | – | (35) | (9) |
| Settlements | (105) | – | – | – | – | – | – | 122 | 17 |
| **At 30 June 2019** | 2,799 | 170 | 6 | 962 | (455) | – | – | (3,081) | 401 |

| **Reconciliation of movements in level 3 assets and liabilities measured at fair value** | **Half year 2018** £m | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Loans** | **Equity securities and portfolio holdings in unit trusts** | **Debt securities** | **Other investments (including derivative assets)** | **Derivative liabilities** | **Borrowings attributable to with-profits businesses** | **Net asset value attributable to unit holders of consolidated unit trusts and similar funds** | **Other financial liabilities** | **Total** |
| At 1 January 2018 | 4,837 | 371 | 654 | 4,424 | (512) | (1,887) | (413) | (3,031) | 4,443 |
| Total gains (losses) in income statement: | | | | | | | | | |
| Net realised gains (losses) | 82 | – | – | 79 | – | – | – | (82) | 79 |
| Net unrealised gains (losses) on financial instruments held at the end of period | (23) | 43 | (10) | 109 | 57 | (2) | 38 | (2) | 210 |
| Total gains (losses) recorded in other comprehensive income | 65 | (7) | – | 46 | – | – | – | (68) | 36 |
| Purchases | 2 | 112 | 55 | 550 | – | – | – | – | 719 |
| Sales | – | (1) | (46) | (426) | – | – | – | – | (473) |
| Issues | 43 | – | – | – | – | – | (414) | (79) | (450) |
| Settlements | (223) | – | – | – | – | 143 | 22* | 103 | 45 |
| Transfers out of level 3 | – | – | – | – | 55 | – | – | – | 55 |
| At 30 June 2018 | 4,783 | 518 | 653 | 4,782 | (400) | (1,746) | (767) | (3,159) | 4,664 |

## C3 Assets and liabilities continued

### C3.1 Group assets and liabilities – measurement continued

| Reconciliation of movements in level 3 assets and liabilities measured at fair value | Full year 2018 £m Loans | Equity securities and portfolio holdings in unit trusts | Debt securities | Other investments (including derivative assets) | Derivative liabilities | Borrowings attributable to with-profits businesses | Net asset value attributable to unit holders of consolidated unit trusts and similar funds | Other financial liabilities | Total |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | 4,837 | 371 | 654 | 4,424 | (512) | (1,887) | (413) | (3,031) | 4,443 |
| Total gains (losses) in income statement: | | | | | | | | | |
| Net realised gains (losses) | (7) | – | 9 | 35 | – | – | – | (1) | 36 |
| Net unrealised gains (losses) on financial instruments held at the end of the year | (71) | 38 | (16) | 370 | 27 | (23) | 67 | 6 | 398 |
| Total gains (losses) recorded in other comprehensive income | 162 | 8 | – | 54 | (1) | – | 31 | (170) | 84 |
| Purchases | 62 | 125 | 666 | 1,202 | – | – | – | – | 2,055 |
| Sales | (178) | (35) | (131) | (813) | – | – | – | – | (1,157) |
| Issues | 279 | – | – | – | – | – | (697) | (481) | (899) |
| Settlements | (331) | – | – | – | – | 304 | 57 | 273 | 303 |
| Transfers into level 3 | – | 8 | – | – | – | – | – | – | 8 |
| Transfers out of level 3 | – | – | – | – | 63 | – | (33) | – | 30 |
| At 31 December 2018 | 4,753 | 515 | 1,182 | 5,272 | (423) | (1,606) | (988) | (3,404) | 5,301 |

* Includes distributions to third-party investors by subsidiaries held by the UK with-profits funds for investment purposes. These distributions vary period to period depending on the maturity of the subsidiaries and the gains realised by those entities in the period.

***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. For further detail on the valuation approach for level 3 fair valued assets and liabilities, please refer to note C3.1 of the Group's consolidated financial statements for the year ended 31 December 2018.

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.

At 30 June 2019, the Group held £401 million of net financial instruments at fair value within level 3. This represents less than 0.5 per cent of the total fair valued financial assets net of financial liabilities of the continuing operations.

Included within these net assets and liabilities are policy loans of £2,799 million at 30 June 2019 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 £2,953 million at 30 June 2019 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 broadly offset and therefore their movements have minimal impact on shareholders' profit and equity.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £154 million, the level 3 fair valued financial assets net of financial liabilities were a net asset of £555 million, which are all externally valued and comprise the following:

— Other financial investments of £1,006 million consisting primarily of private equity limited partnerships held by Jackson, which are externally valued in accordance with International Private Equity and Venture Capital Association guidelines using management information available for these investments; and
— Offset by net derivative liabilities of £451 million, which are valued externally using the discounted cash flow method in line with standard market practices but are subject to a further independent assessment against external counterparties' valuations.

Of the net asset of £555 million referred to above:

— A net asset of £159 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 £396 million is held to support non-linked shareholder-backed business. All of these instruments are externally valued and are therefore inherently less subjective than internal valuations. If the value of all these Level 3 financial instruments decreased by 10 per cent, the change in valuation would be £40 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 IFRS operating profit based on longer-term investment returns.

#### (e) Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year 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 half year 2019, the transfers between levels within the Group's portfolio, excluding those held by the Group's discontinued UK and Europe operations, were primarily transfers from level 1 to level 2 of £131 million and transfers from level 2 to level 1 of £618 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 no transfers into and out of level 3 in the period.

### C3.2 Debt securities

This note provides analysis of the Group's debt securities, including asset-backed securities and sovereign debt securities.

With the exception of certain debt securities for US insurance operations classified as 'available-for-sale' under IAS 39 as disclosed in notes C3.2 (b) to (d) below, the Group's debt securities are carried at fair value through profit or loss.

The analysis of the Group's debt securities at 30 June 2019 below excludes those of the Group's UK and Europe operations which are classified as held for distribution. In line with IFRS requirements, the comparatives have not been re-presented for the assets and liabilities classified for held for distribution in the current period. An analysis of the credit ratings of the debt securities held by the UK and Europe operations at 30 June 2019 is provided in note D2.2.

#### (a) Credit rating

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available, if this isn't the case Moody's and then Fitch have been used as alternatives. For the US, NAIC ratings have also been used where relevant (as shown in 'Other' in the tables below). 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-.

| | 30 Jun 2019 £m | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | Below BBB- | Other (including NAIC rated) | Total |
| Asia | | | | | | | |
| With-profits | 3,131 | 14,977 | 4,688 | 4,621 | 2,016 | 2,630 | 32,063 |
| Unit-linked | 405 | 196 | 458 | 1,502 | 378 | 664 | 3,603 |
| Non-linked shareholder-backed | 1,072 | 4,155 | 4,458 | 3,287 | 2,493 | 1,371 | 16,836 |
| Asset management | 12 | – | 37 | – | – | – | 49 |
| US | | | | | | | |
| Non-linked shareholder-backed | 1,189 | 7,984 | 11,527 | 15,068 | 1,579 | 7,917 | 45,264 |
| Other operations | 510 | 1,144 | 129 | 20 | 50 | 7 | 1,860 |
| Total debt securities | 6,319 | 28,456 | 21,297 | 24,498 | 6,516 | 12,589 | 99,675 |

## C3 Assets and liabilities continued

### C3.2 Debt securities continued

| | 30 Jun 2018 £m | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | Below BBB- | Other (including NAIC rated) | Total |
| Asia | | | | | | | |
| With-profits | 2,496 | 11,425 | 3,983 | 3,351 | 1,768 | 1,900 | 24,923 |
| Unit-linked | 726 | 147 | 489 | 1,326 | 441 | 642 | 3,771 |
| Non-linked shareholder-backed | 948 | 3,138 | 3,234 | 3,063 | 2,040 | 1,099 | 13,522 |
| Asset management | 12 | – | 28 | – | – | – | 40 |
| US | | | | | | | |
| Non-linked shareholder-backed | 442 | 6,338 | 9,439 | 13,148 | 1,035 | 5,713 | 36,115 |
| Other operations | 673 | 1,237 | 177 | 39 | 45 | 19 | 2,190 |
| Total continuing operations | 5,297 | 22,285 | 17,350 | 20,927 | 5,329 | 9,373 | 80,561 |
| Total discontinued UK and Europe operations* | 10,722 | 17,118 | 18,438 | 16,488 | 3,788 | 13,190 | 79,744 |
| Total debt securities | 16,019 | 39,403 | 35,788 | 37,415 | 9,117 | 22,563 | 160,305 |

| | 31 Dec 2018 £m | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | Below BBB- | Other (including NAIC rated) | Total |
| Asia | | | | | | | |
| With-profits | 2,873 | 12,379 | 4,142 | 3,760 | 1,747 | 2,303 | 27,204 |
| Unit-linked | 817 | 100 | 492 | 1,431 | 426 | 715 | 3,981 |
| Non-linked shareholder-backed | 1,034 | 3,552 | 3,717 | 2,934 | 2,202 | 1,144 | 14,583 |
| Asset management | 11 | – | 60 | – | – | – | 71 |
| US | | | | | | | |
| Non-linked shareholder-backed | 678 | 7,383 | 10,286 | 14,657 | 1,429 | 7,161 | 41,594 |
| Other operations | 619 | 1,089 | 151 | 41 | 49 | 18 | 1,967 |
| Total continuing operations | 6,032 | 24,503 | 18,848 | 22,823 | 5,853 | 11,341 | 89,400 |
| Total discontinued UK and Europe operations* | 10,938 | 18,204 | 18,645 | 19,728 | 3,444 | 14,997 | 85,956 |
| Total debt securities | 16,970 | 42,707 | 37,493 | 42,551 | 9,297 | 26,338 | 175,356 |

* Classified as discontinued operations at 30 June 2019 (as described in note A2).

Securities for continuing operations with credit ratings classified as 'Other' can be further analysed as follows. Refer to note D2.2 for details on securities with ratings classified as 'Other' for discontinued operations.

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| **Asia** | 30 Jun | 30 Jun | 31 Dec |
| Government bonds | 37 | 23 | 36 |
| Corporate bonds – rated as investment grade by local external ratings agencies | 1,215 | 1,006 | 978 |
| Other | 119 | 70 | 130 |
| Total Asia non-linked shareholder-backed other debt securities | 1,371 | 1,099 | 1,144 |

| US | 2019 £m Mortgage-backed securities | Other securities | 30 Jun | 2018 £m 30 Jun | 31 Dec |
|---|---|---|---|---|---|
| Implicit ratings of other US debt securities based on NAIC* valuations (see below) | | | | | |
| NAIC 1 | 2,184 | 3,337 | 5,521 | 3,903 | 5,006 |
| NAIC 2 | – | 2,357 | 2,357 | 1,781 | 2,118 |
| NAIC 3-6 | 3 | 36 | 39 | 29 | 37 |
| Total US other debt securities† | 2,187 | 5,730 | 7,917 | 5,713 | 7,161 |

* The Securities Valuation Office of the NAIC classifies debt securities into six quality categories ranging from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5 and securities in or near default are designated Class 6.

† Mortgage-backed securities totalling £2,003 million at 30 June 2019 have credit ratings issued by Standard & Poor's of BBB- or above and hence are designated as investment grade. Other securities totalling £5,694 million at 30 June 2019 with NAIC ratings 1 or 2 are also designated as investment grade.

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### (b) Additional analysis of US insurance operations debt securities

| | 2019 £m 30 Jun | 2018 £m 30 Jun | 31 Dec |
|---|---|---|---|
| Corporate and government security and commercial loans: | | | |
| Government | 6,094 | 4,737 | 5,465 |
| Publicly traded and SEC Rule 144A securities* | 27,419 | 23,346 | 26,196 |
| Non-SEC Rule 144A securities | 7,293 | 4,659 | 6,329 |
| Asset backed securities (see note (e)) | 4,458 | 3,373 | 3,604 |
| Total US debt securities† | 45,264 | 36,115 | 41,594 |

* 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.

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

| | 2019 £m 30 Jun | 2018 £m 30 Jun | 31 Dec |
|---|---|---|---|
| Available-for-sale | 44,178 | 35,860 | 40,849 |
| Fair value through profit and loss | 1,086 | 255 | 745 |
| | 45,264 | 36,115 | 41,594 |

Realised gains and losses, including impairments, recorded in the income statement are as shown in note B1.2 of this report.

## C3 Assets and liabilities continued

### C3.2 Debt securities continued

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

The movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised loss of £414 million to a net unrealised gain of £2,247 million as analysed in the table below.

| | 30 Jun 2019 | Foreign exchange translation† | Changes in unrealised appreciation | 31 Dec 2018 |
|---|---|---|---|---|
| | | Reflected as part of movement in other comprehensive income | | |
| | £m | £m | £m | £m |
| Assets fair valued at below book value | | | | |
| Book value* | 2,339 | | | 25,330 |
| Unrealised gain (loss) | (49) | 14 | 862 | (925) |
| Fair value (as included in statement of financial position) | 2,290 | | | 24,405 |
| Assets fair valued at or above book value | | | | |
| Book value* | 39,592 | | | 15,933 |
| Unrealised gain (loss) | 2,296 | 30 | 1,755 | 511 |
| Fair value (as included in statement of financial position) | 41,888 | | | 16,444 |
| Total | | | | |
| Book value* | 41,931 | | | 41,263 |
| Net unrealised gain (loss) | 2,247 | 44 | 2,617 | (414) |
| Fair value (as included in the footnote above in the overview table and the statement of financial position) | 44,178 | | | 40,849 |

* Book value represents cost/amortised cost of the debt securities.
† Translated at the average rate of US$1.2939: £1.00.

#### (d) US debt securities classified as available-for-sale in an unrealised loss position

*(i) Fair value of securities as a percentage of book value*

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

| | 30 Jun 2019 £m | | 30 Jun 2018 £m | | 31 Dec 2018 £m | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealised loss | Fair value | Unrealised loss | Fair value | Unrealised loss |
| Between 90% and 100% | 2,221 | (32) | 22,187 | (729) | 23,662 | (809) |
| Between 80% and 90% | 38 | (5) | 195 | (29) | 707 | (104) |
| Below 80% | 31 | (12) | 15 | (4) | 36 | (12) |
| Total | 2,290 | (49) | 22,397 | (762) | 24,405 | (925) |

*(ii) Unrealised losses by maturity of security*

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| 1 year to 5 years | (2) | (65) | (72) |
| 5 years to 10 years | (10) | (348) | (436) |
| More than 10 years | (19) | (297) | (372) |
| Mortgage-backed and other debt securities | (18) | (52) | (45) |
| Total | (49) | (762) | (925) |

### *(iii) Age analysis of unrealised losses for the periods 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:

| | 30 Jun 2019 £m | | | 30 Jun 2018 £m | | | 31 Dec 2018 £m | | |
|---|---|---|---|---|---|---|---|---|---|
| **Age analysis** | **Non-investment grade** | **Investment grade*** | **Total** | **Non-investment grade** | **Investment grade*** | **Total** | **Non-investment grade** | **Investment grade*** | **Total** |
| Less than 6 months | (1) | (4) | (5) | (14) | (418) | (432) | (20) | (141) | (161) |
| 6 months to 1 year | (1) | (13) | (14) | (7) | (148) | (155) | (22) | (440) | (462) |
| 1 year to 2 years | (1) | (9) | (10) | (1) | (148) | (149) | (10) | (142) | (152) |
| 2 years to 3 years | – | (10) | (10) | – | (1) | (1) | – | (123) | (123) |
| More than 3 years | – | (10) | (10) | (1) | (24) | (25) | (2) | (25) | (27) |
| | (3) | (46) | (49) | (23) | (739) | (762) | (54) | (871) | (925) |

* For Standard and Poor, 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 whose fair values were below 80 per cent of the book value:

| | 30 Jun 2019 £m | | 30 Jun 2018 £m | | 31 Dec 2018 £m | |
|---|---|---|---|---|---|---|
| **Age analysis** | **Fair value** | **Unrealised loss** | **Fair value** | **Unrealised loss** | **Fair value** | **Unrealised loss** |
| Less than 3 months | 26 | (10) | 13 | (3) | 32 | (10) |
| 3 months to 6 months | 5 | (2) | – | – | 2 | (1) |
| More than 6 months | – | – | 2 | (1) | 2 | (1) |
| | 31 | (12) | 15 | (4) | 36 | (12) |

### (e) Asset-backed securities

The Group's holdings in asset-backed securities (ABS), which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities, at 30 June 2019 are as follows:

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | **30 Jun** | **30 Jun** | **31 Dec** |
| Asia operations: note (i) | | | |
| Shareholder-backed business | 126 | 97 | 121 |
| With-profits business | 256 | 192 | 235 |
| US operations note (ii) | 4,458 | 3,373 | 3,604 |
| Other operations note (iii) | 315 | 507 | 445 |
| Total for continuing operations | 5,155 | 4,169 | 4,405 |
| Total for discontinued UK and Europe operations* | | 6,374 | 6,676 |
| Group total | | 10,543 | 11,081 |

* Classified as discontinued operations at 30 June 2019 (as described in note A2).

## C3 Assets and liabilities continued

### C3.2 Debt securities continued

**Notes**

(i) The Asia operations' exposure to asset-backed securities for the shareholder-backed business and with-profits business at 30 June 2019, is 100 per cent (30 June 2018: 100 per cent; 31 December 2018: 99.8 per cent) investment grade.

(ii) US operations' exposure to asset-backed securities comprises:

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| RMBS | | | |
| Sub-prime (30 Jun 2019: 2% AAA, 5% AA, 2% A) | 88 | 105 | 96 |
| Alt-A (30 Jun 2019: 17% AAA, 34% A) | 101 | 117 | 105 |
| Prime including agency (2019: 39% AAA, 45% AA, 7% A) | 579 | 425 | 441 |
| CMBS (30 Jun 2019: 78% AAA, 16% AA, 3% A) | 2,266 | 1,638 | 1,945 |
| CDO funds (30 Jun 2019: 37% AAA, 33% AA, 30% A), including £nil exposure to sub-prime | 353 | 11 | 13 |
| Other ABS (30 Jun 2019: 15% AAA, 16% AA, 52% A), including £59 million exposure to sub-prime | 1,071 | 1,077 | 1,004 |
| Total (30 Jun 2019: 52% AAA, 21% AA, 18% A) | 4,458 | 3,373 | 3,604 |

(iii) Other operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £315 million held at 30 June 2019, 100 per cent (30 June 2018: 99 per cent; 31 December 2018: 99 per cent) are graded AAA.

#### (f) Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 30 June 2019 are analysed as follows:

***Exposure to sovereign debts***

| | 30 Jun 2019 £m | | 30 Jun 2018 £m | | 31 Dec 2018 £m | |
|---|---|---|---|---|---|---|
| | Shareholder-backed business | With-profits funds | Shareholder-backed business | With-profits funds | Shareholder-backed business | With-profits funds |
| Total Eurozone | – | – | 799 | 429 | 378 | 440 |
| United Kingdom | 988 | – | 3,482 | 3,130 | 3,226 | 3,013 |
| United States* | 6,410 | 12,925 | 5,243 | 10,519 | 5,647 | 11,858 |
| Indonesia | 295 | – | 262 | – | 282 | – |
| Singapore | 132 | 1,719 | 128 | 1,278 | 164 | 1,658 |
| Thailand | 1,106 | – | 965 | – | 921 | – |
| Vietnam | 1,186 | – | 1,794 | – | 1,871 | – |
| Other Asia | 1,925 | 944 | 1,651 | 730 | 1,779 | 866 |
| Other | 98 | 25 | 123 | 306 | 125 | 221 |
| Total | 12,140 | 15,613 | 14,447 | 16,392 | 14,393 | 18,056 |
| Analysed as: | | | | | | |
| Total from continuing operations | | | 11,180 | 11,824 | 11,658 | 13,144 |
| Total from discontinued UK and Europe operations† | | | 3,267 | 4,568 | 2,735 | 4,912 |
| | | | 14,447 | 16,392 | 14,393 | 18,056 |

* The exposure to the United States sovereign debt comprises holdings of the US and Asia insurance operations.
† Classified as discontinued operations at 30 June 2019 (as described in note A2).

### *Exposure to bank debt securities*

| Shareholder-backed business | 30 Jun 2019 £m | | | | | 2018 £m | |
|---|---|---|---|---|---|---|---|
| | Senior debt | Subordinated debt | | | | | |
| | Total | Tier 1 | Tier 2 | Total | Group total | 30 Jun Group total | 31 Dec Group total |
| Italy | – | – | – | – | – | – | – |
| Spain | 70 | – | – | – | 70 | 78 | 106 |
| France | 142 | – | 9 | 9 | 151 | 81 | 156 |
| Germany | 30 | – | 12 | 12 | 42 | 119 | 125 |
| Netherlands | 56 | – | 3 | 3 | 59 | 51 | 73 |
| Other Eurozone | – | – | – | – | – | 15 | 17 |
| **Total Eurozone** | 298 | – | 24 | 24 | 322 | 344 | 477 |
| United Kingdom | 598 | 8 | 95 | 103 | 701 | 1,289 | 1,346 |
| United States | 2,354 | 1 | 31 | 32 | 2,386 | 2,495 | 2,667 |
| Asia | 248 | 114 | 312 | 426 | 674 | 572 | 592 |
| Other | 470 | – | 75 | 75 | 545 | 639 | 645 |
| **Total** | 3,968 | 123 | 537 | 660 | 4,628 | 5,339 | 5,727 |
| Analysed as: | | | | | | | |
| Total from continuing operations | | | | | | 4,172 | 4,640 |
| Total from discontinued UK and Europe operations* | | | | | | 1,167 | 1,087 |
| | | | | | | 5,339 | 5,727 |
| **With-profits funds** | | | | | | | |
| Italy | – | – | – | – | – | 38 | 38 |
| Spain | 2 | – | – | – | 2 | 21 | 17 |
| France | 7 | – | 27 | 27 | 34 | 318 | 352 |
| Germany | – | – | 47 | 47 | 47 | 207 | 229 |
| Netherlands | 8 | – | 10 | 10 | 18 | 227 | 266 |
| Other Eurozone | – | – | – | – | – | 27 | 74 |
| **Total Eurozone** | 17 | – | 84 | 84 | 101 | 838 | 976 |
| United Kingdom | 31 | 2 | 82 | 84 | 115 | 2,032 | 2,194 |
| United States | 16 | 1 | 3 | 4 | 20 | 2,533 | 2,730 |
| Asia | 279 | 363 | 299 | 662 | 941 | 906 | 1,015 |
| Other | 59 | – | 142 | 142 | 201 | 1,882 | 1,810 |
| **Total** | 402 | 366 | 610 | 976 | 1,378 | 8,191 | 8,725 |
| Analysed as: | | | | | | | |
| Total from continuing operations | | | | | | 1,264 | 1,287 |
| Total from discontinued UK and Europe operations* | | | | | | 6,927 | 7,438 |
| | | | | | | 8,191 | 8,725 |

* Classified as discontinued operations at 30 June 2019 (as described in note A2).

The tables above exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

## C3 Assets and liabilities continued

### C3.3 Loans portfolio

#### (a) Overview of loans portfolio

Loans are principally accounted for at amortised cost, net of impairment except for certain policy loans of the US insurance operations that are held to back liabilities for funds withheld under reinsurance arrangements and are also accounted on a fair value basis.

The analysis of the Group's loan portfolio at 30 June 2019 below excludes those of the Group's UK and Europe operations which are classified as held for distribution. An analysis of the loan portfolio held by the UK and Europe operations at 30 June 2019 is provided in note D2.2. In line with IFRS requirements, the comparatives have not been re-presented for the assets and liabilities classified for held for distribution in the current period.

The amounts included in the statement of financial position are analysed as follows:

| | 30 Jun 2019 £m | | | | 30 Jun 2018 £m | | | | 31 Dec 2018 £m | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mortgage loans note (i) | Policy loans note (ii) | Other loans | Total | Mortgage loans note (i) | Policy loans note (ii) | Other loans | Total | Mortgage loans note (i) | Policy loans note (ii) | Other loans | Total |
| Asia | | | | | | | | | | | | |
| With-profits | – | 783 | 63 | 846 | – | 652 | 105 | 757 | – | 727 | 65 | 792 |
| Non-linked shareholder-backed | 140 | 233 | 15 | 388 | 170 | 217 | 193 | 580 | 156 | 226 | 203 | 585 |
| US | | | | | | | | | | | | |
| Non-linked shareholder-backed | 7,587 | 3,686 | – | 11,273 | 6,292 | 3,523 | – | 9,815 | 7,385 | 3,681 | – | 11,066 |
| Other operations | – | – | 6 | 6 | – | – | 106 | 106 | – | – | – | – |
| Total continuing operations | 7,727 | 4,702 | 84 | 12,513 | 6,462 | 4,392 | 404 | 11,258 | 7,541 | 4,634 | 268 | 12,443 |
| Total discontinued UK and Europe operations note (iii) | | | | | 3,953 | 4 | 1,707 | 5,664 | 4,116 | 3 | 1,448 | 5,567 |
| Total loans securities | | | | | 10,415 | 4,396 | 2,111 | 16,922 | 11,657 | 4,637 | 1,716 | 18,010 |

**Notes**

(i) All mortgage loans are secured by properties.

(ii) In the US, £2,799 million of policy loans held at 30 June 2019 (30 June 2018: £2,638 million; 31 December 2018: £2,783 million) are backing liabilities for funds withheld under reinsurance arrangements and are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

(iii) The amounts held by the UK and Europe operations were transferred to assets held for distribution at 30 June 2019 (see note D2.2).

#### (b) Additional information on US mortgage loans

In the US, mortgage loans 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 £14.7 million (30 June 2018: £13.3 million; 31 December 2018: £14.0 million). The portfolio has a current estimated average loan to value of 53 per cent (30 June 2018: 55 per cent; 31 December 2018: 53 per cent).

Jackson had no mortgage loans where the contractual terms of the agreements had been restructured for all periods shown.

## C4 Policyholder liabilities and unallocated surplus

The note provides information of policyholder liabilities and unallocated surplus of with-profits funds held on the Group's statement of financial position.

The analysis below excludes the movement for UK and Europe operations which are classified as held for distribution as at 30 June 2019. The balances of the discontinued UK and Europe operations are removed from the opening balance. An analysis of the movement in policyholder liabilities and unallocated surplus of with-profits funds held by the UK and Europe operations at 30 June 2019 is provided in note D2.2.

### C4.1 Group overview

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

| | Half year 2019 £m | | | |
|---|---|---|---|---|
| | **Asia** note C4.2 | **US** note C4.3 | **UK and Europe** note D2.2 | **Total** |
| **At 1 January 2019** | 82,763 | 185,600 | 164,889 | 433,252 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position (excludes £39 million classified as unallocated to a segment)* note (a) | 72,107 | 185,600 | 151,555 | 409,262 |
| *– Unallocated surplus of with-profits funds on the consolidated statement of financial position* | 2,511 | – | 13,334 | 15,845 |
| *– Group's share of policyholder liabilities of joint ventures and associate* note (b) | 8,145 | – | – | 8,145 |
| Reclassification of UK and Europe liabilities as held for distribution | – | – | (164,889) | (164,889) |
| Net flows: | | | | |
| Premiums | 7,574 | 7,060 | – | 14,634 |
| Surrenders | (1,531) | (6,398) | – | (7,929) |
| Maturities/deaths | (989) | (1,348) | – | (2,337) |
| Net flows | 5,054 | (686) | – | 4,368 |
| Shareholders' transfers post tax | (38) | – | – | (38) |
| Investment-related items and other movements | 6,142 | 16,838 | – | 22,980 |
| Foreign exchange translation differences | 676 | 400 | – | 1,076 |
| **At 30 June 2019** | 94,597 | 202,152 | – | 296,749 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position (excludes £47 million classified as unallocated to a segment)* note (a) | 82,969 | 202,152 | – | 285,121 |
| *– Unallocated surplus of with-profits funds on the consolidated statement of financial position* | 2,944 | – | – | 2,944 |
| *– Group's share of policyholder liabilities of joint ventures and associate* note (b) | 8,684 | – | – | 8,684 |

## C4 Policyholder liabilities and unallocated surplus continued

### C4.1 Group overview continued

| | Half year 2018 £m | | | |
|---|---|---|---|---|
| | **Asia** note C4.2 | **US** note C4.3 | **UK and Europe** note D2.2 | **Total** |
| At 1 January 2018 | 73,839 | 180,724 | 181,066 | 435,629 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position (excludes £32 million classified as unallocated to a segment)* | 62,898 | 180,724 | 167,589 | 411,211 |
| *– Unallocated surplus of with-profits funds on the consolidated statement of financial position* | 3,474 | – | 13,477 | 16,951 |
| *– Group's share of policyholder liabilities of joint ventures and associate* note (b) | 7,467 | – | – | 7,467 |
| Reclassification of reinsured UK annuity contracts as held for sale | – | – | (12,002) | (12,002) |
| Net flows: | | | | |
| Premiums | 6,247 | 7,111 | 6,964 | 20,322 |
| Surrenders | (1,547) | (5,953) | (3,446) | (10,946) |
| Maturities/deaths | (838) | (1,076) | (3,499) | (5,413) |
| Net flows | 3,862 | 82 | 19 | 3,963 |
| Shareholders' transfers post tax | (27) | – | (127) | (154) |
| Investment-related items and other movements | (1,349) | (103) | (801) | (2,253) |
| Foreign exchange translation differences | 690 | 4,447 | 17 | 5,154 |
| At 30 June 2018 | 77,015 | 185,150 | 168,172 | 430,337 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position (excludes £37 million classified as unallocated to a segment)* note (a) | 65,640 | 185,150 | 154,655 | 405,445 |
| *– Unallocated surplus of with-profits funds on the consolidated statement of financial position* | 3,766 | – | 13,517 | 17,283 |
| *– Group's share of policyholder liabilities of joint ventures and associate* note (b) | 7,609 | – | – | 7,609 |
| Average policyholder liability balances note (c) | | | | |
| **Half year 2019** | **85,953** | **193,876** | **–** | **279,829** |
| Half year 2018 | 71,807 | 182,937 | 161,122 | 415,866 |

**Notes**

(a) The policyholder liabilities of the Asia insurance operations at 30 June 2019 of £82,969 million (30 June 2018: £65,640 million; 31 December 2018: £72,107 million) are after deducting the intra-group reinsurance liabilities ceded by the UK and Europe insurance operations of £1,108 million (30 June 2018: £1,181 million; 31 December 2018: £1,109 million) to the Hong Kong with-profits business. Including this amount, total Asia policyholder liabilities are £84,077 million (30 June 2018: £66,821 million; 31 December 2018: £73,216 million).

(b) The Group's investment in joint ventures and associate 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 in China, India and of the Takaful business in Malaysia.

(c) Averages have been based on opening and closing balances, adjusted for acquisitions, disposals and corporate transactions arising in the period, and exclude unallocated surplus of with-profits funds.

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 period but exclude liabilities that have not been allocated to a reporting segment. The items above are shown gross of external reinsurance.

The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, the premiums shown above will exclude any deductions for fees/charges. Claims (surrenders, maturities and deaths) represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

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

| | Half year 2019 £m | | | |
|---|---|---|---|---|
| | Asia | US | UK and Europe | Total |
| **At 1 January 2019** | 40,597 | 185,600 | 40,760 | 266,957 |
| Reclassification of UK and Europe liabilities as held for distribution | – | – | (40,760) | (40,760) |
| Net flows: | | | | |
| Premiums | 3,923 | 7,060 | – | 10,983 |
| Surrenders | (1,324) | (6,398) | – | (7,722) |
| Maturities/deaths | (439) | (1,348) | – | (1,787) |
| Net flows[note] | 2,160 | (686) | – | 1,474 |
| Investment-related items and other movements | 1,623 | 16,838 | – | 18,461 |
| Foreign exchange translation differences | 340 | 400 | – | 740 |
| **At 30 June 2019** | 44,720 | 202,152 | – | 246,872 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position (excludes £47 million classified as unallocated to a segment)* | 36,036 | 202,152 | – | 238,188 |
| *– Group's share of policyholder liabilities relating to joint ventures and associate* | 8,684 | – | – | 8,684 |

| | Half year 2018 £m | | | |
|---|---|---|---|---|
| | Asia | US | UK and Europe | Total |
| **At 1 January 2018** | 37,402 | 180,724 | 56,367 | 274,493 |
| Reclassification of reinsured UK annuity contracts as held for sale | – | – | (12,002) | (12,002) |
| Net flows: | | | | |
| Premiums | 3,266 | 7,111 | 681 | 11,058 |
| Surrenders | (1,383) | (5,953) | (1,200) | (8,536) |
| Maturities/deaths | (420) | (1,076) | (1,294) | (2,790) |
| Net flows[note] | 1,463 | 82 | (1,813) | (268) |
| Investment-related items and other movements | (718) | (103) | (236) | (1,057) |
| Foreign exchange translation differences | 1 | 4,447 | – | 4,448 |
| **At 30 June 2018** | 38,148 | 185,150 | 42,316 | 265,614 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position (excludes £37 million classified as unallocated to a segment)* | 30,539 | 185,150 | 42,316 | 258,005 |
| *– Group's share of policyholder liabilities relating to joint ventures and associate* | 7,609 | – | – | 7,609 |

**Note**
Including net flows of the Group's insurance joint ventures and associate.

## C4 Policyholder liabilities and unallocated surplus continued

### C4.1 Group overview continued

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

Further analysis of the movement in the period 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 associate) is provided below:

| | Contract liabilities £m | Reinsurer's share of insurance contract liabilities £m | Unallocated surplus of with-profits funds £m |
|---|---|---|---|
| **At 1 January 2019** | 409,301 | (11,144) | 15,845 |
| Removal of opening balances relating to the discontinued UK and Europe insurance operations note (a) | (151,555) | 1,703 | (13,334) |
| Income and expense included in the income statement | 26,274 | (680) | 506 |
| Other movements note (b) | 41 | – | (90) |
| Foreign exchange translation differences | 1,107 | (30) | 17 |
| **At 30 June 2019** | 285,168 | (10,151) | 2,944 |

**Notes**

(a) The balances of the discontinued UK and Europe operations are removed from the opening balances to show the underlying movement from continuing operations (as described in note A2). The £1,703 million of reinsurer's share of insurance contract liabilities in the table above excluded the intra-group reinsurance assets of £1,109 million for the with-profits business ceded to the Asia insurance operations, which were eliminated on consolidation at 1 January 2019. An analysis of the movement in policyholder liabilities and unallocated surplus of with-profits funds held by the UK and Europe operations at 30 June 2019 is provided in note D2.2.

(b) Other movements include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the statement of financial position in accordance with IAS 39.

The total charge for benefit and claims shown in the income statement from continuing operations comprises the amounts shown as 'income and expense included in the income statement' in the table above together with claims paid of £11,037 million in the period net of amounts attributable to reinsurers of £(466) million.

### C4.2 Asia insurance operations

| | Half year 2019 £m | | | |
|---|---|---|---|---|
| | With-profits business | Unit-linked liabilities | Other business | Total |
| **At 1 January 2019** | 42,166 | 20,182 | 20,415 | 82,763 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position note (v)* | 39,655 | 16,368 | 16,084 | 72,107 |
| *– Unallocated surplus of with-profits funds on the consolidated statement of financial position* | 2,511 | – | – | 2,511 |
| *– Group's share of policyholder liabilities relating to joint ventures and associate note (i)* | – | 3,814 | 4,331 | 8,145 |
| Premiums: | | | | |
| New business | 594 | 775 | 912 | 2,281 |
| In-force | 3,057 | 932 | 1,304 | 5,293 |
| | 3,651 | 1,707 | 2,216 | 7,574 |
| Surrenders note (ii) | (207) | (1,070) | (254) | (1,531) |
| Maturities/deaths | (550) | (69) | (370) | (989) |
| Net flows | 2,894 | 568 | 1,592 | 5,054 |
| Shareholders' transfers post tax | (38) | – | – | (38) |
| Investment-related items and other movements note (iii) | 4,519 | 582 | 1,041 | 6,142 |
| Foreign exchange translation differences note (iv) | 336 | 172 | 168 | 676 |
| **At 30 June 2019** | 49,877 | 21,504 | 23,216 | 94,597 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position note (v)* | 46,933 | 17,594 | 18,442 | 82,969 |
| *– Unallocated surplus of with-profits funds on the consolidated statement of financial position* | 2,944 | – | – | 2,944 |
| *– Group's share of policyholder liabilities relating to joint ventures and associate note (i)* | – | 3,910 | 4,774 | 8,684 |

| | Half year 2018 £m | | | |
|---|---|---|---|---|
| | With-profits business | Unit-linked liabilities | Other business | Total |
| At 1 January 2018 | 36,437 | 20,027 | 17,375 | 73,839 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position* | 32,963 | 16,263 | 13,672 | 62,898 |
| *– Unallocated surplus of with-profits funds on the consolidated statement of financial position* | 3,474 | – | – | 3,474 |
| *– Group's share of policyholder liabilities relating to joint ventures and associate* note (i) | – | 3,764 | 3,703 | 7,467 |
| Premiums: | | | | |
| New business | 432 | 870 | 435 | 1,737 |
| In-force | 2,549 | 841 | 1,120 | 4,510 |
| | 2,981 | 1,711 | 1,555 | 6,247 |
| Surrenders note (ii) | (164) | (1,071) | (312) | (1,547) |
| Maturities/deaths | (418) | (93) | (327) | (838) |
| Net flows | 2,399 | 547 | 916 | 3,862 |
| Shareholders' transfers post tax | (27) | – | – | (27) |
| Investment-related items and other movements note (iii) | (631) | (652) | (66) | (1,349) |
| Foreign exchange translation differences note (iv) | 689 | (142) | 143 | 690 |
| At 30 June 2018 | 38,867 | 19,780 | 18,368 | 77,015 |
| *Comprising:* | | | | |
| *– Policyholder liabilities on the consolidated statement of financial position* note (v) | 35,101 | 16,094 | 14,445 | 65,640 |
| *– Unallocated surplus of with-profits funds on the consolidated statement of financial position* | 3,766 | – | – | 3,766 |
| *– Group's share of policyholder liabilities relating to joint ventures and associate* note (i) | – | 3,686 | 3,923 | 7,609 |
| Average policyholder liability balances note (vi) | | | | |
| **Half year 2019** | **43,294** | **20,843** | **21,816** | **85,953** |
| Half year 2018 | 34,032 | 19,903 | 17,872 | 71,807 |

**Notes**

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

(ii) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 3.3 per cent in the first half of 2019 (half year 2018: 3.7 per cent).

(iii) Investment-related items and other movements in the first half of 2019 primarily represent equity market gains from the with-profits business and falls in bond yields during the period in a number of business units.

(iv) Movements in the period have been translated at the average exchange rates for the period ended 30 June 2019. The closing balance has been translated at the closing spot rates as at 30 June 2019. Differences upon retranslation are included in foreign exchange translation differences.

(v) The policyholder liabilities at 30 June 2019 is after deducting the intra-group reinsurance liabilities ceded by the UK and Europe insurance operations of £1,108 million (30 June 2018: £1,181 million; 31 December 2018: £1,109 million) for the with-profits business. Including this amount the Asia total policyholder liabilities are £84,077 million (30 June 2018: £66,821 million; 31 December 2018: £73,216 million).

(vi) Averages have been based on opening and closing balances, adjusted for any acquisitions, disposals and corporate transactions arising in the period, and exclude unallocated surplus of with-profits funds.

## C4 Policyholder liabilities and unallocated surplus continued

### C4.3 US insurance operations

| | Half year 2019 £m | | |
|---|---|---|---|
| | Variable annuity separate account liabilities | Fixed annuity, GICs and other business | Total |
| **At 1 January 2019** | 128,220 | 57,380 | 185,600 |
| Premiums | 4,661 | 2,399 | 7,060 |
| Surrenders | (4,643) | (1,755) | (6,398) |
| Maturities/deaths | (604) | (744) | (1,348) |
| Net flows note (ii) | (586) | (100) | (686) |
| Transfers from general to separate account | 492 | (492) | – |
| Investment-related items and other movements note (iii) | 16,800 | 38 | 16,838 |
| Foreign exchange translation differences note (i) | 369 | 31 | 400 |
| **At 30 June 2019** | 145,295 | 56,857 | 202,152 |

| | Half year 2018 £m | | |
|---|---|---|---|
| | Variable annuity separate account liabilities | Fixed annuity, GICs and other business | Total |
| At 1 January 2018 | 130,528 | 50,196 | 180,724 |
| Premiums | 5,528 | 1,583 | 7,111 |
| Surrenders | (4,225) | (1,728) | (5,953) |
| Maturities/deaths | (540) | (536) | (1,076) |
| Net flows note (ii) | 763 | (681) | 82 |
| Transfers from general to separate account | 387 | (387) | – |
| Investment-related items and other movements | 582 | (685) | (103) |
| Foreign exchange translation differences note (i) | 3,286 | 1,161 | 4,447 |
| At 30 June 2018 | 135,546 | 49,604 | 185,150 |
| Average policyholder liability balances note (iv) | | | |
| **Half year 2019** | 136,757 | 57,119 | 193,876 |
| Half year 2018 | 133,037 | 49,900 | 182,937 |

**Notes**

(i) Movements in the period have been translated at an average rate of US$1.29: £1.00 (30 June 2018: US$1.38: £1.00; 31 December 2018: US$1.34: £1.00). The closing balances have been translated at closing rate of US$1.27: £1.00 (30 June 2018: US$1.32: £1.00; 31 December 2018: US$1.27: £1.00). Differences upon retranslation are included in foreign exchange translation differences.

(ii) Net outflows in the first half of 2019 were £686 million (first half of 2018 inflows: £82 million) with net outflows from the variable annuity business following lower sales in the period offset by higher sales of other business in line with the intention to diversify the US product mix. The net outflow for other business in half year 2019 included annuity payments relating to the John Hancock business which was acquired in the fourth quarter of 2018.

(iii) Positive investment-related items and other movements in variable annuity separate account liabilities of £16,800 million for the first half of 2019 represent positive separate account return mainly following the increase in the US equity market in the period.

(iv) Averages have been based on opening and closing balances.

## C5 Intangible assets

The analysis of intangible assets below excludes the UK and Europe operations which are classified as held for distribution as at 30 June 2019. In line with IFRS requirements, the comparatives have not been re-presented. For the analysis of movements during the period, the balances of the discontinued UK and Europe operations are removed from the opening balance.

### C5.1 Goodwill

Goodwill shown on the statement of financial position at 30 June 2019 is wholly attributable to shareholders and represents amounts allocated to entities in Asia in respect of both acquired asset management and life businesses.

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| Carrying value at beginning of period | 1,857 | 1,482 | 1,482 |
| Reclassification to held for distribution note D2.2 | (1,359) | – | – |
| Additions in the period | – | 149 | 376 |
| Disposals/reclassifications to held for sale | – | (10) | (10) |
| Exchange differences | 12 | (1) | 9 |
| **Carrying value at end of period** | 510 | 1,620 | 1,857 |

### C5.2 Deferred acquisition costs and other intangible assets

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| Deferred acquisition costs and other intangible assets attributable to shareholders: | | | |
| From continuing operations | 12,601 | 11,112 | 11,672 |
| From discontinued operations* | – | 98 | 112 |
| Total | 12,601 | 11,210 | 11,784 |
| Other intangible assets, including computer software, attributable to with-profits funds: | | | |
| From continuing operations | 58 | 48 | 56 |
| From discontinued operations* | – | 101 | 83 |
| Total | 58 | 149 | 139 |
| Total of deferred acquisition costs and other intangible assets | 12,659 | 11,359 | 11,923 |

* Classified as discontinued operations at 30 June 2019 (as described in note A2).

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| Deferred acquisition costs related to insurance contracts as classified under IFRS 4 | 10,326 | 9,596 | 10,017 |
| Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4 | 27 | 61 | 78 |
| Deferred acquisition costs related to insurance and investment contracts | 10,353 | 9,657 | 10,095 |
| Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF) | 31 | 35 | 34 |
| Distribution rights and other intangibles | 2,217 | 1,518 | 1,655 |
| Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders | 2,248 | 1,553 | 1,689 |
| Total of deferred acquisition costs and other intangible assets note (a) | 12,601 | 11,210 | 11,784 |

## C5 Intangible assets continued

### C5.2 Deferred acquisition costs and other intangible assets continued

**Notes**

(a) Total deferred acquisition costs and other intangible assets can be further analysed by business operations as follows:

| | 2019 £m | | | | | | 2018 £m | |
|---|---|---|---|---|---|---|---|---|
| | Deferred acquisition costs | | | | | | | |
| | Asia insurance | US insurance* | UK and Europe insurance | All asset management | PVIF and other intangibles† | 30 Jun Total | 30 Jun Total | 31 Dec Total |
| **Balance at 1 January:** | 1,264 | 8,727 | 86 | 18 | 1,689 | 11,784 | 10,866 | 10,866 |
| Reclassification to held for distribution | – | – | (86) | (18) | (8) | (112) | – | – |
| Additions‡ | 198 | 285 | – | – | 652 | 1,135 | 511 | 1,248 |
| Amortisation to the income statement: note (c) | | | | | | | | |
| Adjusted IFRS operating profit based on longer-term investment returns | (91) | (94) | – | – | (102) | (287) | (447) | (1,024) |
| Non-operating profit | – | 476 | – | – | – | 476 | (199) | (118) |
| | (91) | 382 | – | – | (102) | 189 | (646) | (1,142) |
| Disposals and transfers | – | – | – | – | (5) | (5) | (11) | (14) |
| Exchange differences and other movements | 12 | 8 | – | – | 22 | 42 | 218 | 580 |
| Amortisation of DAC related to net unrealised valuation movements on the US insurance operation's available-for-sale securities recognised within other comprehensive income | – | (432) | – | – | – | (432) | 272 | 246 |
| **Balance at 30 June** | 1,383 | 8,970 | – | – | 2,248 | 12,601 | 11,210 | 11,784 |

* 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 deferred acquisition costs 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 7.4 per cent (half year and full year 2018: 7.4 per cent) (gross of asset management fees and other charges to policyholders, but net of external fund management fees). 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 non-operating components of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items.

† PVIF and other intangibles comprise 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 amounts reclassified as held for distribution of negative £6 million, additions of £16 million, amortisation of £15 million, disposals of £2 million and a balance at 30 June 2019 of £55 million.

‡ In January 2019, the Group renewed its regional strategic bancassurance alliance with United Overseas Bank Limited (UOB). The new agreement extends the original alliance, which commenced in 2010, to 2034 and increases the geographical scope to include a fifth market, Vietnam, alongside the existing markets of Singapore, Malaysia, Thailand and Indonesia. As part of this transaction, Prudential has agreed to pay UOB an initial fee of £662 million (translated using a Singapore dollar: £ foreign exchange rate of 1.7360) for distribution rights which are not dependent on future sales volumes. This amount is paid in three instalments of £230 million in February 2019, £331 million in January 2020 and £101 million in January 2021. After allowing for discounting, the amount included in additions in the table above is £630 million.

(b) The DAC amount in respect of US insurance operations comprises amounts in respect of:

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| Variable annuity business | 9,118 | 8,258 | 8,477 |
| Other business | 341 | 241 | 299 |
| Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income)* | (489) | (13) | (49) |
| Total DAC for US operations | 8,970 | 8,486 | 8,727 |

* A loss of £(432) million (30 June 2018: a gain of £272 million; 31 December 2018: a gain of £246 million) for shadow DAC amortisation is booked within other comprehensive income to reflect the impact from the positive unrealised valuation movement for half year 2019 of £2,617 million (30 June 2018: negative unrealised valuation movement of £(1,421) million; 31 December 2018: negative unrealised valuation movement of £(1,617) million). These adjustments reflect the movement from period to period, 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. At 30 June 2019, the cumulative shadow DAC balance as shown in the table above was negative £(489) million (30 June 2018: negative £(13) million; 31 December 2018: negative £(49) million).

(c) Sensitivity of amortisation charge

The amortisation charge to the income statement is reflected in both adjusted IFRS operating profit based on longer-term investment returns and short-term fluctuations in investment returns. The amortisation charge to adjusted IFRS operating profit based on longer-term investment returns in a reporting period 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 feature 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.

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 the first half of 2019, the DAC amortisation charge for adjusted IFRS operating profit based on longer-term investment returns was determined after including a credit for decelerated amortisation of £148 million (half year 2018 charge for accelerated: £(42) million; full year 2018 charge for accelerated: £194 million). The deceleration arising in the first half of 2019 reflects 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 period) the assumed long-term annual separate account return of 7.4 per cent is realised on average over the entire eight-year period. The deceleration in DAC amortisation in the first half of 2019 is driven both by the actual separate account return in the period being higher than that assumed and by the higher than expected return in 2016 falling out of the eight-year period.

The application of the mean reversion formula has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. At 30 June 2019, it would take approximate movements in separate account values of more than either negative 35 per cent or positive 30 per cent for mean reversion assumption to move outside the corridor.

## C6 Borrowings

### C6.1 Core structural borrowings of shareholder-financed businesses

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| **Holding company operations:** note (i) | | | |
| **Subordinated debt with no option to substitute to M&GPrudential:** | | | |
| US$250m 6.75% Notes (Tier 1) note (ii) | 196 | 189 | 196 |
| US$300m 6.5% Notes (Tier 1) note (ii) | 236 | 227 | 235 |
| US$550m 7.75% Notes (Tier 1) | – | 417 | – |
| Perpetual Subordinated Capital Securities (Tier 1) | 432 | 833 | 431 |
| US$700m 5.25% Notes (Tier 2) | 550 | 530 | 550 |
| US$1,000m 5.25% Notes (Tier 2) | 781 | 751 | 780 |
| US$725m 4.375% Notes (Tier 2) | 566 | 544 | 565 |
| US$750m 4.875% Notes (Tier 2) | 584 | 563 | 583 |
| Perpetual Subordinated Capital Securities (Tier 2) | 2,481 | 2,388 | 2,478 |
| €20m Medium Term Notes 2023 (Tier 2) | 18 | 18 | 18 |
| £435m 6.125% Notes 2031 (Tier 2) | 431 | 430 | 431 |
| £400m 11.375% Notes 2039 (Tier 2) note (iii) | – | 398 | 399 |
| Subordinated notes (Tier 2) | 449 | 846 | 848 |
| Subordinated debt total | 3,362 | 4,067 | 3,757 |
| Senior debt: note (iv) | | | |
| £300m 6.875% Bonds 2023 | 295 | 300 | 294 |
| £250m 5.875% Bonds 2029 | 224 | 249 | 223 |
| Bank loan note (v) | 275 | – | 275 |
| Total debt before amounts capable of being substituted to M&GPrudential note (vii) | 4,156 | 4,616 | 4,549 |
| **Subordinated debt capable of being substituted to M&GPrudential as at 30 Jun 2019:** | | | |
| £600m 5.56% (30 Jun and 31 Dec 2018: 5.0%) Notes 2055 (Tier 2) note (vi) | 642 | 591 | 591 |
| £700m 6.34% (30 Jun and 31 Dec 2018: 5.7%) Notes 2063 (Tier 2) note (vi) | 814 | 696 | 696 |
| £750m 5.625% Notes 2051 (Tier 2) | 744 | – | 743 |
| £500m 6.25% Notes 2068 (Tier 2) | 498 | – | 498 |
| US$500m 6.5% Notes 2048 (Tier 2) | 391 | – | 391 |
| Total subordinated debt capable of being substituted to M&GPrudential as at 30 Jun 2019 note (vii) | 3,089 | 1,287 | 2,919 |
| **Holding company total** | 7,245 | 5,903 | 7,468 |
| Prudential Capital bank loan note (v) | – | 275 | – |
| Jackson US$250m 8.15% Surplus Notes 2027 note (viii) | 196 | 189 | 196 |
| **Total (per condensed consolidated statement of financial position)** | 7,441 | 6,367 | 7,664 |

**Notes**

(i) The debt tier classifications used are consistent with the treatment of capital for regulatory purposes under the Solvency II regime.
The Group has designated US$3,725 million (30 June 2018: US$4,275 million; 31 December 2018: US$3,725 million) of its US dollar denominated subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.

(ii) 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.

(iii) In May 2019, the Company redeemed its £400 million 11.375 per cent Tier 2 subordinated notes.

(iv) The senior debt ranks above subordinated debt in the event of liquidation. In 2018, as part of its preparation to demerge M&GPrudential, the Group made certain modifications to the terms and conditions of the senior bonds with bondholders' consent. The amendment to the terms and conditions will avoid an event of a technical default on the bonds, should the proposed demerger proceed. The fees paid to bondholders have been adjusted to the carrying value of the bonds and will be amortised in subsequent periods. No other adjustments were made to the carrying value of the debt as a result of the modification.

(v) The bank loan of £275 million is drawn at a cost of 12-month GBP LIBOR plus 0.33 per cent. The loan, held by Prudential Capital at 30 June 2018, was renewed in December 2018 with Prudential plc being the new holder. The loan matures on 20 December 2022 with an option to repay annually.

(vi) In the first half of 2019, the Group agreed with the holders of these two subordinated debt instruments that, in return for an increase in the coupon of the two instruments and upfront fees totalling £141 million for both instruments, they would permit the substitution of M&GPrudential as the issuer of the instruments, together with other modifications of terms to ensure the debt meet the requirements of Solvency II. In accordance with IAS 39, this has been accounted for as an extinguishment of the old debt and the issuance of new debt, recognised at fair value. The loss arising from this revaluation has been treated as an expense attributable to the M&GPrudential segment (see note D2.1). The £141 million of upfront fees have been paid by Prudential plc and have been treated as a non-operating expense.

(vii) The annualised interest of debt that is not capable of being substituted to M&GPrudential, using coupon rates and exchange rates at 30 June 2019, is £(234) million. The interest charge to the income statement for the six months ended 30 June 2019 for debt that is capable of being substituted to M&GPrudential was £(85) million (half year 2018: £(35) million; full year 2018: £(95) million).

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

## C6 Borrowings continued

### C6.1 Core structural borrowings of shareholder-financed businesses continued

Prior to the proposed demerger, the Group expects to rebalance its debt capital across Prudential plc and M&GPrudential. This will include the ultimate holding company of M&GPrudential becoming an issuer of debt following substitution from Prudential plc. Based on the operating environment and economic conditions as at 30 June 2019, the total debt expected to be transferred valued at original proceeds less unamortised transaction costs is £3.2 billion, of which £2.9 billion was held by Prudential plc at 30 June 2019 (IFRS value of £3.1 billion), with a further £0.3 billion (coupon of 3.875 per cent) raised in July 2019.

**Ratings**

Prudential plc has debt ratings from Standard & Poor's, Moody's and Fitch. Prudential plc's long-term senior debt is rated A2 by Moody's, A by Standard & Poor's and A- by Fitch.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

The financial strength of The Prudential Assurance Company Limited is rated A+ by Standard & Poor's, Aa3 by Moody's and AA- by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA- by Standard & Poor's and Fitch, A1 by Moody's and A+ by A.M. Best.

Prudential Assurance Co. Singapore (Pte) Ltd.'s (Prudential Singapore) financial strength is rated AA- by Standard & Poor's.

All the Group's ratings are on a stable outlook.

### C6.2 Other borrowings

#### (i) Operational borrowings attributable to shareholder-financed businesses

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| Borrowings in respect of short-term fixed income securities programmes | 661 | 1,209 | 472 |
| Lease liability for operating leases note (a) | 229 | – | – |
| Non-recourse borrowings of consolidated investment funds note (b) | 545 | – | 263 |
| Other borrowings note (c) | 229 | 409 | 263 |
| Total | 1,664 | 1,618 | 998 |
| Analysed as: | | | |
| Total from continuing operations | | 1,488 | 892 |
| Total from discontinued UK and Europe operations* | | 130 | 106 |
| | | 1,618 | 998 |

* Classified as discontinued operations at 30 June 2019 (as described in note A2).

**Notes**

(a) The Group adopted IFRS 16 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (as described in note A3).

(b) In all instances, the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

(c) Other borrowings mainly include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

#### (ii) Borrowings attributable to with-profits businesses

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| Non-recourse borrowings of consolidated investment funds note (a) | – | 3,521 | 3,845 |
| Other borrowings (predominantly obligations under leases) note (b) | 238 | 68 | 95 |
| Total | 238 | 3,589 | 3,940 |
| Analysed as: | | | |
| Total from continuing operations | | 32 | 19 |
| Total from discontinued UK and Europe operations* | | 3,557 | 3,921 |
| | | 3,589 | 3,940 |

* Classified as discontinued operations at 30 June 2019 (as described in note A2).

**Notes**

(a) In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

(b) The Group adopted IFRS 16 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. Other borrowings at 30 June 2019 included £213 million relating to lease liabilities (as described in note A3).

## C7 Deferred tax

The analysis below excludes the UK and Europe operations which are classified as held for distribution as at 30 June 2019. The balances of the discontinued UK and Europe operations are removed from the opening balance.

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

| | Half year 2019 £m | | | | | |
|---|---|---|---|---|---|---|
| | At 1 Jan | Reclassification as held for distribution* | Movement in income statement | Movement through other comprehensive income and equity | Other movements including foreign currency movements | At 30 Jun |
| **Deferred tax assets** | | | | | | |
| Unrealised losses or gains on investments | 113 | – | (13) | – | (97) | 3 |
| Balances relating to investment and insurance contracts | 1 | – | – | – | – | 1 |
| Short-term temporary differences | 2,339 | (115) | 392 | (1) | 5 | 2,620 |
| Capital allowances | 15 | (11) | (1) | – | – | 3 |
| Unused tax losses | 127 | – | 8 | – | – | 135 |
| Total | 2,595 | (126) | 386 | (1) | (92) | 2,762 |
| **Deferred tax liabilities** | | | | | | |
| Unrealised losses or gains on investments | (867) | 827 | (40) | (459) | 74 | (465) |
| Balances relating to investment and insurance contracts | (1,002) | – | (189) | – | 2 | (1,189) |
| Short-term temporary differences | (2,097) | 183 | (139) | 16 | (5) | (2,042) |
| Capital allowances | (56) | 51 | – | – | – | (5) |
| Total | (4,022) | 1,061 | (368) | (443) | 71 | (3,701) |

* The Group's UK and Europe operations are classified as discontinued operations at 30 June 2019 (as described in note A2).

The principal reason for the increase in deferred tax assets in continuing operations is an increase in the deferred tax asset for losses on derivatives in the US insurance business, which for US tax purposes are spread across three years, reflecting a higher level of losses in the first half of 2019 (and therefore a higher amount deferred to subsequent periods) compared to prior periods.

## C8 Defined benefit pension schemes

The Group's businesses operate a number of pension schemes. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). The Group also operates two smaller UK defined benefit schemes in respect of Scottish Amicable (SASPS) and M&G (M&GGPS). Historically, all pension surplus and deficits were attributable to subsidiaries of M&GPrudential in line with the Group's allocation policy, with the exception of 30 per cent of the surplus attaching to PSPS, which was allocated to Prudential plc. In preparation for the proposed demerger of M&GPrudential, at 30 June 2019, the 30 per cent of surplus attaching to PSPS was formally reallocated to M&GPrudential Services Limited. Accordingly, at 30 June 2019, the IAS 19 pension assets/liabilities of all the UK schemes of a net deficit of £69 million was included within the held for distribution assets/liabilities of the discontinued UK and Europe operations. In addition to the UK schemes, there are two small defined benefit schemes in Taiwan which have negligible deficits. These other schemes remain with the continuing operations.

## C9 Share capital, share premium and own shares

| Issued shares of 5p each fully paid: | 30 Jun 2019 Number of ordinary shares | 30 Jun 2019 Share capital £m | 30 Jun 2019 Share premium £m | 30 Jun 2018 Number of ordinary shares | 30 Jun 2018 Share capital £m | 30 Jun 2018 Share premium £m | 31 Dec 2018 Number of ordinary shares | 31 Dec 2018 Share capital £m | 31 Dec 2018 Share premium £m |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January** | 2,593,044,409 | 130 | 1,964 | 2,587,175,445 | 129 | 1,948 | 2,587,175,445 | 129 | 1,948 |
| Shares issued under share-based schemes | 6,751,790 | – | 10 | 4,697,422 | – | 6 | 5,868,964 | 1 | 16 |
| **At end of period** | 2,599,796,199 | 130 | 1,974 | 2,591,872,867 | 129 | 1,954 | 2,593,044,409 | 130 | 1,964 |

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At each period end shown below, there were options outstanding under Save As You Earn schemes to subscribe for shares as follows:

| | Number of shares to subscribe for | Share price range from | Share price range to | Exercisable by year |
|---|---|---|---|---|
| **30 Jun 2019** | 3,808,687 | 901p | 1,455p | 2024 |
| 30 Jun 2018 | 5,851,810 | 629p | 1,455p | 2023 |
| 31 Dec 2018 | 4,885,804 | 901p | 1,455p | 2024 |

### 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 via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £179 million at 30 June 2019 (30 June 2018: £197 million; 31 December 2018: £170 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 30 June 2019, 9.5 million (30 June 2018: 9.7 million; 31 December 2018: 9.6 million) Prudential plc shares with a market value of £163 million (30 June 2018: £168 million; 31 December 2018: £135 million) were held in such trusts, all of which are for employee incentive plans. The maximum number of shares held during the period was 14.1 million which was in March 2019.

Within the trust, shares are notionally allocated by business unit reflecting the employees to which the awards were made. On demerger, it is intended that shares allocated to M&GPrudential will be transferred to a separate trust, established by M&GPrudential.

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

| | Number of shares purchased (in millions) | Cost £m |
|---|---|---|
| **Half year 2019** | 3.1 | 49.4 |
| Half year 2018 | 1.8 | 32.2 |
| Full year 2018 | 2.6 | 44.8 |

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 30 June 2019 was 3.0 million (30 June 2018: 4.8 million; 31 December 2018: 3.0 million) and the cost of acquiring these shares of £21 million (30 June 2018: £46 million; 31 December 2018: £20 million) is included in the cost of own shares. The market value of these shares as at 30 June 2019 was £52 million (30 June 2018: £84 million; 31 December 2018: £42 million).

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 half year 2019 or 2018.

# D Other notes

## D1 Gain (loss) on disposal of business and corporate transactions undertaken by continuing operations

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Gain on disposals note (i) | 209 | – | – |
| Other transactions note (ii) | (196) | (57) | (80) |
| | 13 | (57) | (80) |

**Notes**

(i) In half year 2019, the £209 million gain on disposals principally relates to profits arising from a reduction in the Group's stake (from 26 per cent to 22 per cent) 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) Other transaction costs of £(196) million incurred by the continuing operations of the Group in half year 2019 reflect costs related to the preparation for the proposed demerger of M&GPrudential from Prudential plc. These include the following amounts:
- £(18) million transaction related costs, principally fees to advisors;
- £(141) million being the fee paid to the holders of two subordinated debt instruments as discussed in note C6.1(vi); and
- £(37) million for one-off costs arising from the separation of the M&GPrudential business from Prudential plc.

In 2018, other transaction costs additionally included amounts from exiting the NPH broker-dealer business in the US.

## D2 Discontinued UK and Europe operations held for distribution

In March 2018, the Group announced its intention to demerge its UK and Europe operations (M&GPrudential) from the Group, resulting in two separately listed companies by issuing shares in a newly listed company to existing shareholders. As discussed in note A2, the Group's UK and Europe operations have been classified as discontinued operations and held for distribution in these condensed consolidated financial statements in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations'.

The results for the discontinued operations presented in the consolidated financial statements are analysed below:

### D2.1 Profit and loss for the period

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Gross premiums earned | 5,907 | 6,555 | 13,061 |
| Outward reinsurance premiums | (487) | (12,598) | (13,137) |
| Earned premiums, net of reinsurance | 5,420 | (6,043) | (76) |
| Investment return | 13,072 | 53 | (3,434) |
| Other income | 643 | 890 | 1,595 |
| Total revenue, net of reinsurance | 19,135 | (5,100) | (1,915) |
| Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance | (16,361) | 6,421 | 4,977 |
| Fair value loss on debt extinguishment note (a) | (169) | – | – |
| Acquisition costs and other expenditure | (1,391) | (1,250) | (2,469) |
| Total charges, net of reinsurance | (17,921) | 5,171 | 2,508 |
| Share of profits from joint ventures and associates, net of related tax | 33 | 20 | 52 |
| Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (b) | 1,247 | 91 | 645 |
| Less tax charge attributable to policyholders' returns | (430) | 10 | 406 |
| Profit before tax attributable to shareholders | 817 | 101 | 1,051 |
| Total tax charge attributable to policyholders and shareholders | (602) | (8) | 210 |
| Adjustment to remove tax charge attributable to policyholders' returns | 430 | (10) | (406) |
| Tax charge attributable to shareholders' returns | (172) | (18) | (196) |
| **Profit for the period** | 645 | 83 | 855 |

## D2 Discontinued UK and Europe operations held for distribution continued

### D2.1 Profit and loss for the period continued

**Notes**

(a) As described in note C6.1(vi), during the first half of 2019, the Group agreed to change the terms of certain debt holdings to enable M&GPrudential to be substituted as the issuer of the instruments (in the place of Prudential plc). In return, the Group agreed to pay an initial fee of £141 million and increase the coupon on the debt. In accordance with IAS 39, this transaction has been accounted for as an extinguishment of old debt and issuance of new debt. The change in fair value of debt, driven by the higher coupon, will be borne by M&GPrudential post the proposed demerger and hence it has been included in discontinued profit or loss. The consent cost has been borne by Prudential plc and has been included in continuing operations.

(b) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is principally because the corporate taxes of the Group include 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 profit before all taxes measure is not representative of pre-tax profits attributable to shareholders. Profit before all taxes is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits funds after adjusting for taxes borne by policyholders.

**Other comprehensive income**

The other comprehensive income included in the consolidated statement of comprehensive income in respect of the discontinued UK and Europe operations is as follows:

| | **2019** £m | **2018** £m | |
|---|---|---|---|
| | **Half year** | **Half year** | **Full year** |
| **Other comprehensive income (loss) from continuing operations:** | | | |
| Exchange movements arising during the period | 2 | (3) | – |
| **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) gains on defined benefit pension schemes | (177) | 104 | 114 |
| Related tax | 30 | (18) | (19) |
| | (147) | 86 | 95 |
| Deduct amount attributable to UK with-profit funds transferred to unallocated surplus of with-profit funds, net of related tax | 149 | (21) | (38) |
| | 2 | 65 | 57 |
| **Other comprehensive income for the period, net of related tax** | 4 | 62 | 57 |

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.

**Assumption changes**

For the shareholder-backed business, the adjusted IFRS operating profit based on longer-term investment returns of the discontinued UK and Europe operations includes a benefit of £127 million (half year 2018: nil; full year 2018: £441 million) relating to changes to annuitant mortality assumptions, including the adoption of the Continuous Mortality Investigation (CMI) 2017 model with an uplift to the calibration such that additional liabilities are held to cover potential differences in experience between the PAC policyholder portfolio and the England and Wales population, in addition to the usual provisions for adverse deviation included when determining policyholder liabilities (half year 2018: no changes; full year 2018: changes to reflect current mortality experience and the adoption of the CMI 2016 model).

## D2.2 Financial position*

| By operating segment | 2019 £m With-profits† | Other funds and subsidiaries Unit-linked | Other funds and subsidiaries Annuity and other | Total insurance | Asset manage-ment | Elimina-tions | 30 Jun Total | 2018‡ £m 30 Jun Total | 31 Dec Total |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Goodwill note (a) | 202 | – | – | 202 | 1,153 | – | 1,355 | 1,314 | 1,359 |
| Deferred acquisition costs and other intangible assets | 47 | – | 110 | 157 | 17 | – | 174 | 199 | 195 |
| Property, plant and equipment note (b) | 997 | – | 66 | 1,063 | 370 | – | 1,433 | 588 | 1,031 |
| Reinsurers' share of insurance contract liabilities | 1,136 | 119 | 1,435 | 2,690 | – | – | 2,690 | 2,104 | 2,812 |
| Deferred tax assets | 58 | – | 43 | 101 | 17 | – | 118 | 130 | 126 |
| Current tax recoverable | 215 | – | 57 | 272 | 7 | – | 279 | 255 | 244 |
| Accrued investment income | 1,056 | 89 | 290 | 1,435 | 10 | – | 1,445 | 1,471 | 1,511 |
| Other debtors | 2,105 | 773 | 226 | 3,104 | 476 | (151) | 3,429 | 3,580 | 4,189 |
| Investment properties | 16,406 | 580 | 1,648 | 18,634 | – | – | 18,634 | 17,595 | 17,914 |
| Investment in joint ventures and associates accounted for using the equity method | 566 | – | – | 566 | 39 | – | 605 | 687 | 742 |
| Loans note (e) | 3,756 | – | 1,779 | 5,535 | – | – | 5,535 | 5,664 | 5,567 |
| Equity securities and portfolio holdings in unit trusts | 45,743 | 13,678 | 16 | 59,437 | 216 | – | 59,653 | 62,832 | 53,810 |
| Debt securities note (d) | 54,796 | 8,727 | 21,614 | 85,137 | 37 | – | 85,174 | 79,744 | 85,956 |
| Derivative assets | 2,354 | 2 | 527 | 2,883 | – | – | 2,883 | 2,305 | 2,513 |
| Other investments | 6,105 | 9 | 1 | 6,115 | 18 | – | 6,133 | 5,158 | 5,585 |
| Deposits | 13,422 | 1,235 | 2,135 | 16,792 | – | – | 16,792 | 11,020 | 10,320 |
| Assets held for sale | 6 | – | 10,164 | 10,170 | – | – | 10,170 | 12,024 | 10,578 |
| Cash and cash equivalents | 3,311 | 169 | 792 | 4,272 | 352 | – | 4,624 | 3,420 | 4,749 |
| **Total assets** | 152,281 | 25,381 | 40,903 | 218,565 | 2,712 | (151) | 221,126 | 210,090 | 209,201 |
| **Total equity** | – | – | 6,287 | 6,287 | 1,993 | – | 8,280 | 8,046 | 8,700 |
| **Liabilities** | | | | | | | | | |
| Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) note (f) | 118,148 | 21,172 | 20,284 | 159,604 | – | – | 159,604 | 154,655 | 151,555 |
| Unallocated surplus of with-profits funds note (f) | 15,116 | – | – | 15,116 | – | – | 15,116 | 13,517 | 13,334 |
| Operational borrowings attributable to shareholder-financed operations note (b) | – | 4 | 156 | 160 | 296 | – | 456 | 130 | 106 |
| Borrowings attributable to with-profits businesses | 3,580 | – | – | 3,580 | – | – | 3,580 | 3,557 | 3,921 |
| Obligations under funding, securities lending and sale and repurchase agreements | 846 | – | 208 | 1,054 | – | – | 1,054 | 1,516 | 1,224 |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | 4,827 | 3,659 | 7 | 8,493 | 19 | – | 8,512 | 5,781 | 9,013 |
| Deferred tax liabilities | 995 | – | 163 | 1,158 | 29 | – | 1,187 | 1,602 | 1,061 |
| Current tax liabilities | 293 | 36 | 32 | 361 | 34 | – | 395 | 194 | 326 |
| Accruals, deferred income and other liabilities | 6,988 | 498 | 2,031 | 9,517 | 151 | (151) | 9,517 | 6,349 | 6,442 |
| Provisions note (h) | 21 | – | 373 | 394 | 190 | – | 584 | 684 | 743 |
| Derivative liabilities | 1,467 | 12 | 1,198 | 2,677 | – | – | 2,677 | 2,082 | 2,208 |
| Liabilities held for sale | – | – | 10,164 | 10,164 | – | – | 10,164 | 11,977 | 10,568 |
| **Total liabilities** | 152,281 | 25,381 | 34,616 | 212,278 | 719 | (151) | 212,846 | 202,044 | 200,501 |
| **Total equity and liabilities** | 152,281 | 25,381 | 40,903 | 218,565 | 2,712 | (151) | 221,126 | 210,090 | 209,201 |

## D2 Discontinued UK and Europe operations held for distribution continued

### D2.2 Financial position continued

* The statement of financial position as shown overleaf reflects the segmental position of the discontinued UK and Europe operations and is therefore presented before the elimination of intragroup balances with continuing operations.

† Includes the Scottish Amicable Insurance Fund which, at 30 June 2019, has total assets and liabilities of £4,887 million (30 June 2018: £5,310 million; 31 December 2018: £4,844 million). The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The PAC with-profits fund includes £9.6 billion (30 June 2018: £10.2 billion; 31 December 2018: £9.5 billion) of non-profits annuities liabilities.

‡ The 2018 comparatives assets and liabilities have not been re-presented to be classified as held for distribution on the Group's statement of financial position (as described in note A2).

**Notes**

(a) **Goodwill**
At 30 June 2019, £1,153 million goodwill in M&G Investments is attributable to shareholders (30 June 2018: £1,153 million; 31 December 2018: £1,153 million) and £202 million goodwill in venture fund investments is attributable to with-profits funds (30 June 2018: £161 million; 31 December 2018: £206 million).

(b) **Property, plant and equipment**
As at 1 January 2019, the Group applied IFRS 16, 'Leases', using the modified retrospective approach. Under this approach, comparative information is not restated. The application of the standard has resulted in the recognition of an additional lease liability and a corresponding 'right-of-use' asset of a similar amount as at 1 January 2019. See note A3 for further details. As at 30 June 2019, right-of-use assets recognised in property, plant and equipment amounted to £278 million.

(c) **Fair value measurement of financial assets and liabilities**
***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 as at each period end indicated, 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.

| | 30 Jun 2019 £m | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| **Analysis of financial investments, net of derivative liabilities by business type** | **Quoted prices (unadjusted) in active markets** | **Valuation based on significant observable market inputs** | **Valuation based on significant unobservable market inputs** | **Total** |
| **With-profits** | | | | |
| Loans | – | – | 1,637 | 1,637 |
| Equity securities and portfolio holdings in unit trusts | 41,593 | 3,758 | 392 | 45,743 |
| Debt securities | 7,534 | 46,410 | 852 | 54,796 |
| Other investments (including derivative assets) | 66 | 3,282 | 5,111 | 8,459 |
| Derivative liabilities | (60) | (1,400) | (7) | (1,467) |
| Total financial investments, net of derivative liabilities | 49,133 | 52,050 | 7,985 | 109,168 |
| Percentage of total (%) | 45% | 48% | 7% | 100% |
| **Unit-linked** | | | | |
| Equity securities and portfolio holdings in unit trusts | 12,728 | 939 | 11 | 13,678 |
| Debt securities | 1,818 | 6,909 | – | 8,727 |
| Other investments (including derivative assets) | 4 | – | 7 | 11 |
| Derivative liabilities | (4) | (8) | – | (12) |
| Total financial investments, net of derivative liabilities | 14,546 | 7,840 | 18 | 22,404 |
| Percentage of total (%) | 65% | 35% | 0% | 100% |
| **Shareholder-backed annuities and other** | | | | |
| Loans | – | – | 303 | 303 |
| Equity securities and portfolio holdings in unit trusts | 232 | – | – | 232 |
| Debt securities | 3,560 | 17,754 | 337 | 21,651 |
| Other investments (including derivative assets) | – | 527 | 19 | 546 |
| Derivative liabilities | (1) | (1,197) | – | (1,198) |
| Total financial investments, net of derivative liabilities | 3,791 | 17,084 | 659 | 21,534 |
| Percentage of total (%) | 18% | 79% | 3% | 100% |
| **UK and Europe total analysis, including other financial liabilities held at fair value** | | | | |
| Loans | – | – | 1,940 | 1,940 |
| Equity securities and portfolio holdings in unit trusts | 54,553 | 4,697 | 403 | 59,653 |
| Debt securities | 12,912 | 71,073 | 1,189 | 85,174 |
| Other investments (including derivative assets) | 70 | 3,809 | 5,137 | 9,016 |
| Derivative liabilities | (65) | (2,605) | (7) | (2,677) |
| Total financial investments, net of derivative liabilities | 67,470 | 76,974 | 8,662 | 153,106 |
| Investment contract liabilities without discretionary participation features held at fair value | – | (15,695) | – | (15,695) |
| Borrowings attributable to with-profits businesses | – | – | (1,504) | (1,504) |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | (6,784) | (744) | (984) | (8,512) |
| Other financial liabilities held at fair value | – | – | (379) | (379) |
| Total financial instruments at fair value | 60,686 | 60,535 | 5,795 | 127,016 |
| Percentage of total (%) | 47% | 48% | 5% | 100% |

| Analysis of financial investments, net of derivative liabilities by business type | 30 Jun 2018 £m | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| | Quoted prices (unadjusted) in active markets | Valuation based on significant observable market inputs | Valuation based on significant unobservable market inputs | Total |
| **With-profits** | | | | |
| Loans | – | – | 1,808 | 1,808 |
| Equity securities and portfolio holdings in unit trusts | 43,931 | 3,322 | 337 | 47,590 |
| Debt securities | 7,341 | 43,374 | 349 | 51,064 |
| Other investments (including derivative assets) | 25 | 3,099 | 3,866 | 6,990 |
| Derivative liabilities | (32) | (961) | – | (993) |
| Total financial investments, net of derivative liabilities | 51,265 | 48,834 | 6,360 | 106,459 |
| Percentage of total (%) | 48% | 46% | 6% | 100% |
| **Unit-linked** | | | | |
| Equity securities and portfolio holdings in unit trusts | 14,746 | 309 | 17 | 15,072 |
| Debt securities | 2,097 | 4,439 | – | 6,536 |
| Other investments (including derivative assets) | 4 | – | 7 | 11 |
| Derivative liabilities | (3) | (2) | – | (5) |
| Total financial investments, net of derivative liabilities | 16,844 | 4,746 | 24 | 21,614 |
| Percentage of total (%) | 78% | 22% | 0% | 100% |
| **Shareholder-backed annuities and other** | | | | |
| Loans | – | – | 296 | 296 |
| Equity securities and portfolio holdings in unit trusts | 170 | – | – | 170 |
| Debt securities | 3,978 | 17,868 | 298 | 22,144 |
| Other investments (including derivative assets) | – | 460 | 2 | 462 |
| Derivative liabilities | – | (1,084) | – | (1,084) |
| Total financial investments, net of derivative liabilities | 4,148 | 17,244 | 596 | 21,988 |
| Percentage of total (%) | 19% | 78% | 3% | 100% |
| **UK and Europe total analysis, including other financial liabilities held at fair value** | | | | |
| Loans | – | – | 2,104 | 2,104 |
| Equity securities and portfolio holdings in unit trusts | 58,847 | 3,631 | 354 | 62,832 |
| Debt securities | 13,416 | 65,681 | 647 | 79,744 |
| Other investments (including derivative assets) | 29 | 3,559 | 3,875 | 7,463 |
| Derivative liabilities | (35) | (2,047) | – | (2,082) |
| Total financial investments, net of derivative liabilities | 72,257 | 70,824 | 6,980 | 150,061 |
| Investment contract liabilities without discretionary participation features held at fair value | – | (16,355) | – | (16,355) |
| Borrowings attributable to with-profits businesses | – | – | (1,746) | (1,746) |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | (4,685) | (330) | (767) | (5,782) |
| Other financial liabilities held at fair value | – | – | (366) | (366) |
| Total financial instruments at fair value | 67,572 | 54,139 | 4,101 | 125,812 |
| Percentage of total (%) | 54% | 43% | 3% | 100% |

## D2 Discontinued UK and Europe operations held for distribution continued

### D2.2 Financial position continued

| Analysis of financial investments, net of derivative liabilities by business type | 31 Dec 2018 £m Level 1 Quoted prices (unadjusted) in active markets | Level 2 Valuation based on significant observable market inputs | Level 3 Valuation based on significant unobservable market inputs | Total |
|---|---|---|---|---|
| **With-profits** | | | | |
| Loans | – | – | 1,703 | 1,703 |
| Equity securities and portfolio holdings in unit trusts | 37,027 | 3,728 | 335 | 41,090 |
| Debt securities | 8,374 | 44,619 | 805 | 53,798 |
| Other investments (including derivative assets) | 56 | 3,149 | 4,325 | 7,530 |
| Derivative liabilities | (64) | (1,201) | – | (1,265) |
| Total financial investments, net of derivative liabilities | 45,393 | 50,295 | 7,168 | 102,856 |
| Percentage of total (%) | 44% | 49% | 7% | 100% |
| **Unit-linked** | | | | |
| Equity securities and portfolio holdings in unit trusts | 12,150 | 318 | 9 | 12,477 |
| Debt securities | 1,750 | 8,762 | – | 10,512 |
| Other investments (including derivative assets) | 4 | 1 | 6 | 11 |
| Derivative liabilities | (1) | (2) | – | (3) |
| Total financial investments, net of derivative liabilities | 13,903 | 9,079 | 15 | 22,997 |
| Percentage of total (%) | 60% | 40% | 0% | 100% |
| **Shareholder-backed annuities and other** | | | | |
| Loans | – | – | 267 | 267 |
| Equity securities and portfolio holdings in unit trusts | 242 | – | 1 | 243 |
| Debt securities | 3,804 | 17,470 | 372 | 21,646 |
| Other investments (including derivative assets) | 1 | 554 | 2 | 557 |
| Derivative liabilities | – | (940) | – | (940) |
| Total financial investments, net of derivative liabilities | 4,047 | 17,084 | 642 | 21,773 |
| Percentage of total (%) | 19% | 78% | 3% | 100% |
| **UK and Europe total analysis, including other financial liabilities held at fair value** | | | | |
| Loans | – | – | 1,970 | 1,970 |
| Equity securities and portfolio holdings in unit trusts | 49,419 | 4,046 | 345 | 53,810 |
| Debt securities | 13,928 | 70,851 | 1,177 | 85,956 |
| Other investments (including derivative assets) | 61 | 3,704 | 4,333 | 8,098 |
| Derivative liabilities | (65) | (2,143) | – | (2,208) |
| Total financial investments, net of derivative liabilities | 63,343 | 76,458 | 7,825 | 147,626 |
| Investment contract liabilities without discretionary participation features held at fair value | – | (15,560) | – | (15,560) |
| Borrowings attributable to with-profits businesses | – | – | (1,606) | (1,606) |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | (7,443) | (582) | (988) | (9,013) |
| Other financial liabilities held at fair value | – | – | (355) | (355) |
| Total financial instruments at fair value | 55,900 | 60,316 | 4,876 | 121,092 |
| Percentage of total (%) | 46% | 50% | 4% | 100% |

**Level 3 fair value assets and liabilities**

At 30 June 2019, the discontinued UK and Europe operations held £5,795 million of net financial instruments at fair value within level 3, which comprises externally valued net assets of £5,632 million, primarily in private equity funds and investments in property funds which are exposed to bespoke properties or risks, and net assets of £163 million relating to investments which are internally valued or subject to a number of unobservable assumptions. The internally valued net assets include investments in debt securities, private equity and venture investment in both debt and equity securities and equity release mortgage loans, which are valued using a discounted cash flow method.

**Transfers into and transfers out of levels**

During half year 2019, the transfers between levels within the UK and Europe operations portfolio, were primarily transfers from level 1 to level 2 of £104 million and from level 1 to level 3 of £19 million. These transfers which relate mainly to debt securities and other financial investments 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. In addition, there were transfers from level 2 to level 3 of £58 million and transfers from level 3 to level 2 of £118 million for equity securities and debt securities.

**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.

| | 2019 £m | | 2018 £m | | | |
|---|---|---|---|---|---|---|
| | 30 Jun | | 30 Jun | | 31 Dec | |
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| **Assets** | | | | | | |
| Loans | 3,595 | 4,149 | 3,560 | 4,078 | 3,597 | 4,008 |
| **Liabilities** | | | | | | |
| Operational borrowings (excluding lease liabilities) attributable to shareholder-financed businesses | (114) | (114) | (130) | (130) | (106) | (106) |
| Borrowings (excluding lease liabilities) attributable to the with-profits funds | (2,038) | (2,038) | (1,811) | (1,766) | (2,315) | (2,085) |
| Obligations under funding, securities lending and sale and repurchase agreements | (1,054) | (1,054) | (1,516) | (1,516) | (1,224) | (1,224) |
| **Total financial instruments carried at amortised cost** | 389 | 943 | 103 | 666 | (48) | 593 |

(d) **Debt securities**

Debt securities are carried at fair value through profit or loss and are analysed below according to external credit ratings issued, with equivalent ratings issued by different rating agencies grouped together.

| 30 Jun 2019 £m | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | Below BBB- | Other* | Total |
|---|---|---|---|---|---|---|---|
| With-profits | 5,401 | 8,488 | 13,446 | 15,641 | 2,824 | 8,996 | 54,796 |
| Unit-linked | 578 | 2,025 | 1,959 | 2,450 | 934 | 781 | 8,727 |
| Non-linked shareholder-backed | 2,791 | 6,115 | 4,615 | 1,655 | 211 | 6,264 | 21,651 |
| Total debt securities | 8,770 | 16,628 | 20,020 | 19,746 | 3,969 | 16,041 | 85,174 |

| 30 Jun 2018 £m | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | Below BBB- | Other* | Total |
|---|---|---|---|---|---|---|---|
| With-profits | 7,091 | 8,723 | 11,606 | 13,544 | 2,847 | 7,253 | 51,064 |
| Unit-linked | 358 | 2,099 | 1,694 | 1,448 | 718 | 219 | 6,536 |
| Non-linked shareholder-backed | 3,273 | 6,296 | 5,138 | 1,496 | 223 | 5,718 | 22,144 |
| Total debt securities | 10,722 | 17,118 | 18,438 | 16,488 | 3,788 | 13,190 | 79,744 |

| 31 Dec 2018 £m | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | Below BBB- | Other* | Total |
|---|---|---|---|---|---|---|---|
| With-profits | 6,890 | 9,332 | 11,779 | 14,712 | 2,891 | 8,194 | 53,798 |
| Unit-linked | 1,041 | 2,459 | 2,215 | 3,501 | 395 | 901 | 10,512 |
| Non-linked shareholder-backed | 3,007 | 6,413 | 4,651 | 1,515 | 158 | 5,902 | 21,646 |
| Total debt securities | 10,938 | 18,204 | 18,645 | 19,728 | 3,444 | 14,997 | 85,956 |

* Securities with credit ratings classified as 'Other' which are internally rated and are analysed as follows:

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| AAA to A- | 8,630 | 7,828 | 8,150 |
| BBB to B- | 2,947 | 2,866 | 3,034 |
| Below B- or unrated | 4,464 | 2,496 | 3,813 |
| Total UK and Europe | 16,041 | 13,190 | 14,997 |

## D2 Discontinued UK and Europe operations held for distribution continued

### D2.2 Financial position continued

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 30 June 2019 are analysed as follows:

**Exposure to sovereign debts**

| | 30 Jun 2019 £m | | 30 Jun 2018 £m | | 31 Dec 2018 £m | |
|---|---|---|---|---|---|---|
| | Shareholder-backed business | With-profits funds | Shareholder-backed business | With-profits funds | Shareholder-backed business | With-profits funds |
| Italy | – | 59 | – | 60 | – | 57 |
| Spain | 49 | 19 | 36 | 18 | 36 | 18 |
| France | 23 | – | 23 | 6 | – | 50 |
| Germany* | 240 | 324 | 663 | 315 | 239 | 281 |
| Other Eurozone | 100 | 33 | 77 | 30 | 103 | 34 |
| **Total Eurozone** | 412 | 435 | 799 | 429 | 378 | 440 |
| United Kingdom | 2,235 | 2,636 | 2,410 | 3,130 | 2,300 | 3,013 |
| United States | – | 632 | 1 | 724 | – | 1,261 |
| Other | 60 | 208 | 57 | 285 | 57 | 198 |
| **Total** | 2,707 | 3,911 | 3,267 | 4,568 | 2,735 | 4,912 |

* Including bonds guaranteed by the federal government.

**Exposure to bank debt securities**

| | 30 Jun 2019 £m | | | | | | | 2018 £m | |
|---|---|---|---|---|---|---|---|---|---|
| | Senior debt | | | Subordinated debt | | | | 30 Jun | 31 Dec |
| **Shareholder-backed business** | Covered | Senior | Total | Tier 1 | Tier 2 | Total | Group total | Group total | Group total |
| Italy | – | – | – | – | – | – | – | – | – |
| Spain | – | – | – | – | – | – | – | – | – |
| France | 21 | 36 | 57 | – | – | – | 57 | 27 | 20 |
| Germany | – | – | – | – | 90 | 90 | 90 | 82 | 83 |
| Netherlands | – | 37 | 37 | – | – | – | 37 | 17 | 17 |
| Other Eurozone | – | – | – | – | – | – | – | – | – |
| **Total Eurozone** | 21 | 73 | 94 | – | 90 | 90 | 184 | 126 | 120 |
| United Kingdom | 450 | 243 | 693 | – | 67 | 67 | 760 | 726 | 674 |
| United States | – | 252 | 252 | – | 29 | 29 | 281 | 260 | 253 |
| Asia | – | – | – | – | – | – | – | – | – |
| Other | – | – | – | – | 36 | 36 | 36 | 55 | 40 |
| **Total** | 471 | 568 | 1,039 | – | 222 | 222 | 1,261 | 1,167 | 1,087 |
| **With-profits funds** | | | | | | | | | |
| Italy | – | 39 | 39 | – | – | – | 39 | 38 | 38 |
| Spain | – | 26 | 26 | – | – | – | 26 | 21 | 17 |
| France | 6 | 363 | 369 | – | 74 | 74 | 443 | 312 | 348 |
| Germany | 116 | 63 | 179 | – | 8 | 8 | 187 | 171 | 185 |
| Netherlands | – | 288 | 288 | – | – | – | 288 | 214 | 249 |
| Other Eurozone | – | 86 | 86 | – | – | – | 86 | 27 | 74 |
| **Total Eurozone** | 122 | 865 | 987 | – | 82 | 82 | 1,069 | 783 | 911 |
| United Kingdom | 877 | 873 | 1,750 | 52 | 322 | 374 | 2,124 | 1,937 | 2,096 |
| United States | – | 2,771 | 2,771 | 16 | 335 | 351 | 3,122 | 2,519 | 2,709 |
| Asia | – | 127 | 127 | – | – | – | 127 | 38 | 106 |
| Other | 506 | 998 | 1,504 | 15 | 35 | 50 | 1,554 | 1,650 | 1,616 |
| **Total** | 1,505 | 5,634 | 7,139 | 83 | 774 | 857 | 7,996 | 6,927 | 7,438 |

The tables above exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the UK and Europe's joint venture operations.

(e) **Loans portfolio**

The amounts included in the statement of financial position are analysed as follows:

| | 30 Jun 2019 £m | | | | 30 Jun 2018 £m | | | | 31 Dec 2018 £m | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mortgage loans* | Policy loans | Other loans† | Total | Mortgage loans* | Policy loans | Other loans† | Total | Mortgage loans* | Policy loans | Other loans† | Total |
| With-profits | 2,260 | 3 | 1,493 | 3,756 | 2,267 | 4 | 1,672 | 3,943 | 2,461 | 3 | 1,389 | 3,853 |
| Non-linked shareholder-backed | 1,711 | – | 68 | 1,779 | 1,686 | – | 35 | 1,721 | 1,655 | – | 59 | 1,714 |
| Total loans securities | 3,971 | 3 | 1,561 | 5,535 | 3,953 | 4 | 1,707 | 5,664 | 4,116 | 3 | 1,448 | 5,567 |

* All mortgage loans are secured by properties.

† Other loans held in the UK with-profits funds are commercial loans and comprise mainly syndicated loans.

(f) **Policyholder liabilities and unallocated surplus of with-profits funds**

| | | Shareholder-backed funds and subsidiaries | | |
|---|---|---|---|---|
| **Half year 2019 movements** £m | With-profits sub-fund‡ | Unit-linked liabilities | Annuity and other long-term business | Total discontinued UK and Europe operations |
| **At 1 January 2019** | 124,129 | 20,717 | 20,043 | 164,889 |
| *Comprising:* | | | | |
| *– Policyholder liabilities* | 110,795 | 20,717 | 20,043 | 151,555 |
| *– Unallocated surplus of with-profits funds* | 13,334 | – | – | 13,334 |
| Premiums | 5,668 | 447 | 151 | 6,266 |
| Surrenders | (2,462) | (1,548) | (25) | (4,035) |
| Maturities/deaths | (2,309) | (224) | (617) | (3,150) |
| Net flows | 897 | (1,325) | (491) | (919) |
| Shareholders' transfers post tax | (130) | – | – | (130) |
| Switches | (57) | 57 | – | – |
| Investment-related items and other movements | 8,431 | 1,669 | 732 | 10,832 |
| Foreign exchange translation differences | (6) | 54 | – | 48 |
| **At 30 June 2019** | 133,264 | 21,172 | 20,284 | 174,720 |
| *Comprising:* | | | | |
| *– Policyholder liabilities* | 118,148 | 21,172 | 20,284 | 159,604 |
| *– Unallocated surplus of with-profits funds* | 15,116 | – | – | 15,116 |

| **Half year 2018 movements** £m | | | | |
|---|---|---|---|---|
| **At 1 January 2018** | 124,699 | 23,145 | 33,222 | 181,066 |
| *Comprising:* | | | | |
| *– Policyholder liabilities* | 111,222 | 23,145 | 33,222 | 167,589 |
| *– Unallocated surplus of with-profits funds* | 13,477 | – | – | 13,477 |
| Reclassification of reinsured UK annuity contracts as held for sale* | – | – | (12,002) | (12,002) |
| | | | | – |
| Premiums | 6,283 | 516 | 165 | 6,964 |
| Surrenders | (2,246) | (1,163) | (37) | (3,446) |
| Maturities/deaths | (2,205) | (313) | (981) | (3,499) |
| Net flows | 1,832 | (960) | (853) | 19 |
| Shareholders' transfers post tax | (127) | – | – | (127) |
| Switches | (89) | 89 | – | – |
| Investment-related items and other movements | (476) | (76) | (249) | (801) |
| Foreign exchange translation differences | 17 | – | – | 17 |
| **At 30 June 2018** | 125,856 | 22,198 | 20,118 | 168,172 |
| *Comprising:* | | | | |
| *– Policyholder liabilities* | 112,339 | 22,198 | 20,118 | 154,655 |
| *– Unallocated surplus of with-profits funds* | 13,517 | – | – | 13,517 |
| Average policyholder liability balances† | | | | |
| **Half year 2019** | 114,472 | 20,945 | 20,163 | 155,580 |
| Half year 2018 | 111,781 | 22,671 | 26,670 | 161,122 |

## D2 Discontinued UK and Europe operations held for distribution continued

### D2.2 Financial position continued

* The reclassification of the reinsured UK annuity business as held for sale reflects the value of policyholder liabilities held at 1 January 2018. Movements in items covered by the reinsurance contract prior to the 14 March inception date are included within net flows.
† Averages have been based on opening and closing balances and adjusted for any acquisitions, disposals and corporate transactions arising in the period and exclude unallocated surplus of with-profits funds.
‡ Includes the Scottish Amicable Insurance Fund.

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

The IFRS credit risk allowance made for the UK shareholder-backed fixed and linked annuity business equated to 40 basis points at 30 June 2019 (30 June 2018: 44 basis points; 31 December 2018: 40 basis points). The allowance represented 21 per cent of the bond spread over swap rates (30 June 2018: 26 per cent; 31 December 2018: 22 per cent).

The reserves for credit risk allowance at 30 June 2019 for the UK shareholder-backed business were £0.9 billion (30 June 2018: £1.1 billion; 31 December 2018: £0.9 billion). The 30 June 2019 credit risk allowance information is after reflecting the impact of the reinsurance of £12.0 billion of the UK shareholder-backed annuity portfolio to Rothesay Life entered into in March 2018.

(h) **Review of past annuity sales**
Prudential has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. A gross provision of £400 million, before allowing for costs incurred to date, had been established at 31 December 2017 to cover the costs of undertaking the review and any related redress. In the first half of 2018, the Group agreed with its professional indemnity insurers that they would meet £166 million of the Group's claims costs, which would be paid as the Group incurred costs/redress with amounts remaining to be paid classed as 'other debtors' in the statement of financial position. Following a reassessment of the provision held, no further amount has been provided in the first half of 2019. The ultimate amount that will be expended by the Group on the review, which is currently expected to be completed in 2019, remains uncertain.

### D2.3 Cash flows

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Cash flows from operating activities | 404 | (1,711) | 4 |
| Cash flows from investing activities | (172) | (224) | (358) |
| Cash flows from financing activities* | (356) | (445) | (758) |
| **Total cash flows in the period** | (124) | (2,380) | (1,112) |
| Cash and cash equivalents at beginning of period | 4,749 | 5,808 | 5,808 |
| Effect of exchange rate changes on cash and cash equivalents | (1) | (8) | 53 |
| **Cash and cash equivalents at end of period** | 4,624 | 3,420 | 4,749 |

* The cash flows from financing activities comprise net cash remittances to Group of £356 million at half year 2019 (30 June 2018: £341 million; 31 December 2018: £654 million) and in 2018 £104 million relating to the redemption of the subordinated guaranteed bond which was held within the with-profits business of the discontinued operations.

## D3 Contingencies and related obligations

In addition to the matters set out in note D2.2(h) in relation to the Financial Conduct Authority review of past annuity sales, the Group is involved in various litigation and regulatory issues. 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 Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

There have been no material changes to the Group's contingencies and related obligations in the six month period ended 30 June 2019.

## D4 Post balance sheet events

### First interim ordinary dividend
The 2019 first interim ordinary dividend approved by the Board of Directors after 30 June 2019 is as described in note B6.

## D5 Related party transactions

There were no transactions with related parties during the six months ended 30 June 2019 which have had a material effect on the results or financial position of the Group.

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements for the year ended 31 December 2018.

# Statement of Directors' responsibilities

The Directors (who are listed below) are responsible for preparing the Half Year Financial Report in accordance with applicable law and regulations.

Accordingly, the Directors confirm that to the best of their knowledge:

— the condensed consolidated financial statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union;

— the Half Year Financial Report includes a fair review of information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2019, and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2019 and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the Group's consolidated financial statements for the year ended 31 December 2018 that could do so.

**Prudential plc Board of Directors**

**Chairman**
Paul Manduca

**Executive Directors**
Michael Wells
Mark FitzPatrick CA
James Turner FCA FCSI FRM

**Independent Non-executive Directors**
The Hon. Philip Remnant CBE FCA
Sir Howard Davies
David Law ACA
Kaikhushru Nargolwala FCA
Anthony Nightingale CMG SBS JP
Alice Schroeder
Thomas Watjen
Fields Wicker-Miurin OBE

13 August 2019

# Independent review report to Prudential plc

## Conclusion

We have been engaged by the Company to review the International Financial Reporting Standards (IFRS) condensed set of financial statements in the Half Year Financial Report for the six months ended 30 June 2019 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the IFRS condensed set of financial statements in the Half Year Financial Report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union ('EU') and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

We have also been engaged by the Company to review the European Embedded Value (EEV) basis supplementary financial information for the six months ended 30 June 2019 which comprises the Summarised Consolidated Income Statement, the Movement in Shareholders' Equity, the Summary Statement of Financial Position and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the EEV basis supplementary financial information for the six months ended 30 June 2019 is not 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 to the EEV basis supplementary financial information.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the IFRS condensed set of financial statements or the EEV basis supplementary financial information.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the IFRS condensed financial statements and the EEV basis supplementary financial information. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

## Directors' responsibilities

The Half Year Financial Report, including the IFRS condensed set of financial statements contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half Year Financial Report in accordance with the DTR of the UK FCA. The Directors have accepted responsibility for preparing the EEV basis supplementary financial information in accordance with the EEV Principles and for determining the methodology and assumptions used in the application of those principles.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The Directors are responsible for preparing the IFRS condensed set of financial statements included in the Half Year Financial Report in accordance with IAS 34 as adopted by the EU.

The EEV basis supplementary financial information has been prepared in accordance with the EEV Principles using the methodology and assumptions set out in the Notes to the EEV basis supplementary financial information. The EEV basis supplementary financial information should be read in conjunction with the IFRS condensed set of financial statements.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the IFRS condensed set of financial statements in the Half Year Financial Report and the EEV basis supplementary financial information based on our reviews.

## The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA and also to provide a review conclusion to the Company on the EEV basis supplementary financial information. Our review of the IFRS condensed set of financial statements has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. Our review of the EEV basis supplementary financial information has been undertaken so that we might state to the Company those matters we have been engaged to state 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 review work, for this report, or for the conclusions we have reached.

**Philip Smart**
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

13 August 2019

# 04

# European Embedded Value (EEV) basis results

# Index to European Embedded Value (EEV) basis results



## Description of EEV basis reporting

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 reporting the value of the life insurance business.

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in 2016. The EEV Principles provide consistent definitions, a framework for setting actuarial assumptions and an approach to the underlying methodology and disclosures.

Results prepared under the EEV Principles capture the discounted value of future profits expected to arise from the current book of long-term business. The results are prepared by projecting cash flows, by product, using best estimate assumptions for all relevant factors. Furthermore, in determining these expected future profits, a full allowance is made for the risks attached to their emergence and the associated cost of capital, taking into account recent experiences in assessing likely future persistency, mortality, morbidity and expenses. Further details are explained in notes 11 and 12.

In anticipation of the proposed demerger of the Group's UK and Europe operations from the Group, and in line with the treatment of the results of these operations within IFRS (see note A2 of the Group IFRS basis results), the EEV basis results for M&GPrudential have been presented as discontinued operations. Therefore, only profit after tax for the period has been presented in these statements, with no analysis of the constituent items. The comparative summarised consolidated income statement and the related notes have been re-presented from those previously published accordingly.

# European Embedded Value (EEV) basis results

## Summarised consolidated income statement

| | Note | Half year 2019 £m Asia | US | Group total | 2018 £m Half year Group total notes (ii)(iii) | Full year Group total notes (ii)(iii) |
|---|---|---|---|---|---|---|
| **Continuing operations:** | | | | | | |
| New business | 3 | 1,295 | 348 | 1,643 | 1,588 | 3,525 |
| Business in force | 4 | 832 | 445 | 1,277 | 1,170 | 2,977 |
| Long-term business | | 2,127 | 793 | 2,920 | 2,758 | 6,502 |
| Asset management | | 91 | 11 | 102 | 75 | 162 |
| **Operating profit from long-term business and asset management** | | 2,218 | 804 | 3,022 | 2,833 | 6,664 |
| Other income and expenditure note (i) | | | | (361) | (340) | (726) |
| Restructuring costs | | | | (20) | (18) | (47) |
| **Operating profit from continuing operations** | | | | 2,641 | 2,475 | 5,891 |
| Short-term fluctuations in investment returns | 5 | | | 2,229 | (965) | (2,498) |
| Effect of changes in economic assumptions | 6 | | | (1,371) | 610 | 312 |
| Mark-to-market value movements on core structural borrowings | 7 | | | (492) | 579 | 549 |
| Loss attaching to corporate transactions | 14 | | | (24) | (48) | (75) |
| Non-operating profit (loss) from continuing operations | | | | 342 | 176 | (1,712) |
| **Profit for the period from continuing operations** | | | | 2,983 | 2,651 | 4,179 |
| **Profit for the period from discontinued operations** note (iii) | | | | 1,281 | 317 | 409 |
| **Profit for the period attributable to equity holders of the Company** | | | | 4,264 | 2,968 | 4,588 |
| **Attributable to:** | | | | | | |
| Equity holders of the Company: | | | | | | |
| From continuing operations | | | | 2,978 | 2,650 | 4,176 |
| From discontinued operations | | | | 1,281 | 317 | 409 |
| Non-controlling interests from continuing operations | | | | 5 | 1 | 3 |
| | | | | 4,264 | 2,968 | 4,588 |

## EEV basis basic earnings per share

| | 2019 Half year | 2018 Half year notes (ii)(iii) | Full year notes (ii)(iii) |
|---|---|---|---|
| Based on operating profit from continuing operations, after non-controlling interests (in pence) | 102.1p | 96.2p | 228.7p |
| Based on profit for the period attributable to equity holders of the Company (in pence) | | | |
| From continuing operations | 115.3p | 103.0p | 162.2p |
| From discontinued operations | 49.6p | 12.3p | 15.9p |
| | 164.9p | 115.3p | 178.1p |
| Weighted average numbers of shares in the period (millions) | 2,583 | 2,573 | 2,575 |
| Annualised return on embedded value* | 17% | 13% | 10% |

* Annualised return on embedded value is based on EEV profit for the period attributable to equity holders of the Company, after non-controlling interests, as a percentage of opening EEV basis shareholders' equity. Half year profits are annualised by multiplying by two.

**Notes**

(i) EEV basis other income and expenditure represents the post-tax IFRS basis results for other operations (including Group and Asia Regional Head Office, holding company borrowings, Africa operations and Prudential Capital) less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 11(i)(g)).

(ii) The comparative results have been prepared using previously reported average exchange rates for the period.

(iii) The Group's UK and Europe operations have been classified as discontinued operations as at 30 June 2019 as described in note A2 of the Group IFRS basis results. 2018 comparative results have been re-presented from those previously published accordingly in line with the Group IFRS basis results. This approach has been adopted consistently throughout this supplementary information.

## Movement in shareholders' equity

| | Half year 2019 £m | | | | | 2018 £m | |
|---|---|---|---|---|---|---|---|
| | **Asia** | **US** | **Other** | **Dis-continued UK and Europe operations** note (iii) | **Group total** | **Half year Group total** note (iii) | **Full year Group total** note (iii) |
| **Continuing operations:** | | | | | | | |
| Operating profit from long-term and asset management businesses | 2,218 | 804 | – | | 3,022 | 2,833 | 6,664 |
| Other income and expenditure | – | – | (361) | | (361) | (340) | (726) |
| Restructuring costs | (13) | (1) | (6) | | (20) | (18) | (47) |
| **Operating profit from continuing operations** | 2,205 | 803 | (367) | | 2,641 | 2,475 | 5,891 |
| Non-operating profit (loss) from continuing operations note (v) | 863 | 145 | (666) | | 342 | 176 | (1,712) |
| Non-controlling interests | (4) | – | (1) | | (5) | (1) | (3) |
| **Profit for the period from continuing operations** | 3,064 | 948 | (1,034) | | 2,978 | 2,650 | 4,176 |
| **Profit for the period from discontinued operations** note (iii) | – | – | – | 1,281 | 1,281 | 317 | 409 |
| **Profit for the period attributable to equity holders of the Company** | 3,064 | 948 | (1,034) | 1,281 | 4,259 | 2,967 | 4,585 |
| Exchange movements on foreign operations and net investment hedges | 219 | 18 | (14) | 2 | 225 | 523 | 1,706 |
| Intra-group dividends and investment in operations note (i) | (362) | (406) | 1,124 | (356) | – | – | – |
| External dividends | – | – | (870) | – | (870) | (840) | (1,244) |
| Mark-to-market value movements on Jackson assets backing surplus and required capital | – | 137 | – | – | 137 | (32) | (95) |
| Other movements note (ii) | (154) | (8) | 797 | (752) | (117) | 127 | 132 |
| **Net increase in shareholders' equity** | 2,767 | 689 | 3 | 175 | 3,634 | 2,745 | 5,084 |
| Shareholders' equity at beginning of period | 25,132 | 14,690 | (3,624) | 13,584 | 49,782 | 44,698 | 44,698 |
| **Shareholders' equity at end of period** | 27,899 | 15,379 | (3,621) | 13,759 | 53,416 | 47,443 | 49,782 |
| **Representing:** | | | | | | | |
| Long-term business | 27,080 | 15,329 | – | 11,749 | 54,158 | 47,659 | 50,388 |
| Asset management and other | 309 | 50 | (3,621) | 857 | (2,405) | (1,675) | (2,257) |
| Goodwill | 510 | – | – | 1,153 | 1,663 | 1,459 | 1,651 |
| Shareholders' equity at end of period | 27,899 | 15,379 | (3,621) | 13,759 | 53,416 | 47,443 | 49,782 |
| Shareholders' equity per share at end of period note (iv) | 1,073p | 592p | (139)p | 529p | 2,055p | 1,830p | 1,920p |
| Long-term business | 24,329 | 14,650 | – | 11,409 | 50,388 | 45,917 | 45,917 |
| Asset management and other | 305 | 40 | (3,624) | 1,022 | (2,257) | (2,677) | (2,677) |
| Goodwill | 498 | – | – | 1,153 | 1,651 | 1,458 | 1,458 |
| Shareholders' equity at beginning of period | 25,132 | 14,690 | (3,624) | 13,584 | 49,782 | 44,698 | 44,698 |
| Shareholders' equity per share at beginning of period note (iv) | 969p | 567p | (140)p | 524p | 1,920p | 1,728p | 1,728p |

**Notes**

(i) Intra-group dividends represent dividends that have been declared in the period. Investment in operations reflects movements in share capital. The amounts included for these items in the analysis of movement in free surplus (note 9) are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, foreign exchange and other non-cash items.

(ii) Other movements include reserve movements in respect of the shareholders' share of actuarial gains and losses on defined benefit pension schemes, share capital subscribed, share-based payments, treasury shares and intra-group transfers between operations which have no overall effect on the Group's shareholders' equity.

(iii) The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

(iv) Based on the number of issued shares at 30 June 2019 of 2,600 million shares (30 June 2018: 2,592 million shares; 31 December 2018: 2,593 million shares).

(v) The £(666) million non-operating loss recorded for other operations comprises £(484) million of mark-to-market value movements on core structural borrowings, £(162) million for demerger costs (net of tax) and £(20) million for short term fluctuations.

## Summary statement of financial position

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| **Assets less liabilities before deduction of insurance funds** | 470,884 | 429,035 | 431,269 |
| Less insurance funds:* | | | |
| Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds | (451,189) | (413,145) | (414,002) |
| Less shareholders' accrued interest in the long-term business | 33,744 | 31,561 | 32,533 |
| | (417,445) | (381,584) | (381,469) |
| Less non-controlling interests | (23) | (8) | (18) |
| **Total net assets attributable to equity holders of the Company** | 53,416 | 47,443 | 49,782 |
| Share capital | 130 | 129 | 130 |
| Share premium | 1,974 | 1,954 | 1,964 |
| IFRS basis shareholders' reserves | 17,568 | 13,799 | 15,155 |
| IFRS basis shareholders' equity | 19,672 | 15,882 | 17,249 |
| Additional EEV basis retained profit | 33,744 | 31,561 | 32,533 |
| **EEV basis shareholders' equity** | 53,416 | 47,443 | 49,782 |

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

# Notes on the EEV basis results

## 1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in 2016. Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS.

The Directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The EEV basis results for half year 2019 and half year 2018 are unaudited. Except for re-presenting the results for UK and Europe operations as discontinued operations, the full year 2018 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2018. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 11.

## 2 Results analysis by business area

The half year 2018 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The half year 2018 CER comparative results are translated at half year 2019 average exchange rates.

### Annual premium equivalents (APE) from continuing operations note 13

| | | | Actual exchange rate | | | | Constant exchange rate | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Half year 2019 £m | | Half year 2018 £m | | Change % | | Half year 2018 £m | | Change % | |
| | Annual premium equivalent | New business profit | Annual premium equivalent | New business profit | Annual premium equivalent | New business profit | Annual premium equivalent | New business profit | Annual premium equivalent | New business profit |
| Asia | **1,978** | **1,295** | 1,736 | 1,122 | 14% | 15% | 1,806 | 1,178 | 10% | 10% |
| US | **831** | **348** | 816 | 466 | 2% | (25)% | 868 | 495 | (4)% | (30)% |
| **Group total** | **2,809** | **1,643** | 2,552 | 1,588 | 10% | 3% | 2,674 | 1,673 | 5% | (2)% |

### Profit for the period attributable to equity holders of the Company

| | | Actual exchange rate | | Constant exchange rate | |
|---|---|---|---|---|---|
| | Half year 2019 £m | Half year 2018* £m | Change % | Half year 2018* £m | Change % |
| **Continuing operations:** | | | | | |
| **Asia** | | | | | |
| Long-term business | **2,127** | 1,753 | 21% | 1,834 | 16% |
| Asset management | **91** | 77 | 18% | 79 | 15% |
| Total | **2,218** | 1,830 | 21% | 1,913 | 16% |
| **US** | | | | | |
| Long-term business | **793** | 1,005 | (21)% | 1,068 | (26)% |
| Asset management | **11** | (2) | 650% | (2) | 650% |
| Total | **804** | 1,003 | (20)% | 1,066 | (25)% |
| **Operating profit from long-term business and asset management** | **3,022** | 2,833 | 7% | 2,979 | 1% |
| Other income and expenditure | **(361)** | (340) | (6)% | (341) | (6)% |
| Restructuring costs | **(20)** | (18) | (11)% | (18) | (11)% |
| **Operating profit from continuing operations** | **2,641** | 2,475 | 7% | 2,620 | 1% |
| Short-term fluctuations in investment returns | **2,229** | (965) | | (1,021) | |
| Effect of changes in economic assumptions | **(1,371)** | 610 | | 656 | |
| Mark-to-market value movements on core structural borrowings | **(492)** | 579 | | 580 | |
| Loss attaching to corporate transactions | **(24)** | (48) | | (50) | |
| Total non-operating profit from continuing operations | **342** | 176 | | 165 | |
| **Profit for the period from continuing operations** | **2,983** | 2,651 | 13% | 2,785 | 7% |
| **Profit for the period from discontinued operations** | **1,281** | 317 | 304% | 317 | 304% |
| **Profit for the period attributable to equity holders of the Company** | **4,264** | 2,968 | 44% | 3,102 | 37% |

* The half year 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

## EEV basis basic earnings per share

| | Half year 2019 | Actual exchange rate | | Constant exchange rate | |
|---|---|---|---|---|---|
| | | Half year 2018* | Change % | Half year 2018* | Change % |
| Based on operating profit from continuing operations after non-controlling interests (in pence) | 102.1p | 96.2p | 6% | 101.8p | 0% |
| Based on profit for the period attributable to equity holders of the Company (in pence): | | | | | |
| From continuing operations | 115.3p | 103.0p | 12% | 108.2p | 7% |
| From discontinued operations | 49.6p | 12.3p | 303% | 12.3p | 303% |
| | 164.9p | 115.3p | 43% | 120.5p | 37% |

* The half year 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

## 3 Analysis of new business contribution from continuing operations

| | Half year 2019 | | | | |
|---|---|---|---|---|---|
| | Annual premium equivalents (APE) £m note 13 | Present value of new business premiums (PVNBP) £m note 13 | New business contribution £m note (i) | New business margin APE % | New business margin PVNBP % |
| Asia note (ii) | 1,978 | 10,988 | 1,295 | 65% | 11.8% |
| US | 831 | 8,310 | 348 | 42% | 4.2% |
| **Group total** note (iii) | 2,809 | 19,298 | 1,643 | 58% | 8.5% |

| | Half year 2018* | | | | |
|---|---|---|---|---|---|
| | Annual premium equivalents (APE) £m note 13 | Present value of new business premiums (PVNBP) £m note 13 | New business contribution £m note (i) | New business margin APE % | New business margin PVNBP % |
| Asia note (ii) | 1,736 | 9,132 | 1,122 | 65% | 12.3% |
| US | 816 | 8,163 | 466 | 57% | 5.7% |
| **Group total** note (iii) | 2,552 | 17,295 | 1,588 | 62% | 9.2% |

| | Full year 2018* | | | | |
|---|---|---|---|---|---|
| | Annual premium equivalents (APE) £m note 13 | Present value of new business premiums (PVNBP) £m note 13 | New business contribution £m | New business margin APE % | New business margin PVNBP % |
| Asia note (ii) | 3,744 | 20,754 | 2,604 | 70% | 12.5% |
| US | 1,542 | 15,423 | 921 | 60% | 6.0% |
| **Group total** note (iii) | 5,286 | 36,177 | 3,525 | 67% | 9.7% |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

## 3 Analysis of new business contribution from continuing operations continued

**Notes**

(i) The movement in new business contribution of £55 million from £1,588 million for half year 2018 to £1,643 for half year 2019 is analysed as follows:

| New business contribution | Half year 2018 £m | Foreign exchange movement £m | Effect of changes in interest rates and other economic assumptions £m | Sales volume, business and product mix and other items £m | Half year 2019 £m |
|---|---|---|---|---|---|
| Asia | 1,122 | 56 | (21) | 138 | 1,295 |
| US | 466 | 29 | (75) | (72) | 348 |
| **Group** | 1,588 | 85 | (96) | 66 | 1,643 |

(ii) Asia new business contribution by business unit is shown below:

| | 2019 £m | 2018 £m | | |
|---|---|---|---|---|
| | Half year | AER Half year | CER Half year | AER Full year |
| China JV | 98 | 76 | 76 | 149 |
| Hong Kong | 826 | 731 | 777 | 1,729 |
| Indonesia | 66 | 59 | 61 | 122 |
| Taiwan | 22 | 21 | 21 | 46 |
| Other | 283 | 235 | 243 | 558 |
| Total | 1,295 | 1,122 | 1,178 | 2,604 |

(iii) Details of new business contribution from discontinued operations are shown in note 13.

## 4 Operating profit from long-term business in force from continuing operations

| | Half year 2019 £m | | |
|---|---|---|---|
| | Asia operations | US operations | Group total |
| Unwind of discount and other expected returns note (i) | 622 | 355 | 977 |
| Effect of changes in operating assumptions note (ii) | 131 | – | 131 |
| Experience variances and other items note (iii) | 79 | 90 | 169 |
| Total operating profit from long-term business in force | 832 | 445 | 1,277 |

| | Half year 2018* £m | | |
|---|---|---|---|
| | Asia operations | US operations | Group total |
| Unwind of discount and other expected returns note (i) | 601 | 433 | 1,034 |
| Experience variances and other items | 30 | 106 | 136 |
| Total operating profit from long-term business in force | 631 | 539 | 1,170 |

| | Full year 2018* £m | | |
|---|---|---|---|
| | Asia operations | US operations | Group total |
| Unwind of discount and other expected returns | 1,218 | 881 | 2,099 |
| Effect of changes in operating assumptions | 342 | 115 | 457 |
| Experience variances and other items | 223 | 198 | 421 |
| Total operating profit from long-term business in force | 1,783 | 1,194 | 2,977 |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

**Notes**

(i) The movement in unwind of discount and other expected returns of £(57) million from £1,034 million for half year 2018 to £977 million for half year 2019 comprises:

| | Half year 2019 £m | | |
|---|---|---|---|
| | Asia | US | Group total |
| Growth in opening value of in-force business | 69 | (51) | 18 |
| Effect of changes in interest rates and other economic assumptions | (71) | (56) | (127) |
| Foreign exchange movements | 23 | 29 | 52 |
| Total movement in unwind of discount and other expected returns | 21 | (78) | (57) |

(ii) The half year 2019 effect of changes in operating assumptions of £131 million in Asia principally reflects the beneficial effect on the effective tax rate for China from changes to tax legislation in the first half of 2019.

(iii) In Asia, the half year 2019 effect of experience variances and other items of £79 million is driven by positive mortality and morbidity experience in a number of local business units, together with a positive persistency variance from participating and health and protection products.

In the US, the effect of experience variances and other items include items as shown below. Other items includes the effects of positive persistency experience in the period.

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Spread experience variance | 12 | 26 | 39 |
| Amortisation of interest-related realised gains and losses | 36 | 45 | 92 |
| Other items | 42 | 35 | 67 |
| Total US experience variances and other items | 90 | 106 | 198 |

## 5 Short-term fluctuations in investment returns from continuing operations

| | 2019 £m | 2018* £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| **Asia** | | | |
| Hong Kong | 897 | (212) | (552) |
| Singapore | 153 | (126) | (233) |
| Other | 230 | (177) | (244) |
| Total Asia note (i) | 1,280 | (515) | (1,029) |
| **US** | | | |
| Investment return related experience on fixed income securities note (ii) | (16) | 15 | 60 |
| Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current period separate account return, net of related hedging activity and other items note (iii) | 985 | (543) | (1,541) |
| Total US | 969 | (528) | (1,481) |
| Other operations | (20) | 78 | 12 |
| **Total continuing operations** | 2,229 | (965) | (2,498) |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

**Notes**

(i) For half year 2019, the credit of £1,280 million mainly represents the increase in bond and equity values in Hong Kong and higher than expected investment returns on participating and unit-linked business in Singapore and Taiwan.

(ii) The net result relating to fixed income securities reflects a number of offsetting items as follows:
- The impact on portfolio yields of changes in the asset portfolio in the period;
- The difference between actual realised gains and losses and the amortisation of interest-related realised gains and losses that is recorded within operating profit; and
- Credit experience versus the longer-term assumption.

(iii) This item reflects the net impact of:
- Changes in projected future fees and future benefit costs arising from the difference between the actual growth in separate account asset values of 15.2 per cent and that assumed of 2.8 per cent (half year 2018: actual growth of 2.2 per cent compared to assumed growth of 3.2 per cent; full year 2018: actual growth of negative 5.4 per cent compared to assumed growth of positive 6.2 per cent); and
- Related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate derivatives and other items.

## 6 Effect of changes in economic assumptions from continuing operations

| | 2019 £m | 2018* £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| **Asia** | | | |
| Hong Kong | (478) | 400 | 165 |
| Indonesia | 33 | (89) | (94) |
| Malaysia | 34 | (41) | (19) |
| Singapore | (101) | (32) | 70 |
| Other | (45) | 5 | (7) |
| Total Asia note (i) | (557) | 243 | 115 |
| **US** | | | |
| Variable annuity business note (ii) | (1,129) | 497 | 365 |
| Fixed annuity and other general account business note (iii) | 315 | (130) | (168) |
| Total US | (814) | 367 | 197 |
| **Total continuing operations** | (1,371) | 610 | 312 |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

**Notes**

(i) In half year 2019, the negative effect of £(557) million largely arises from movements in long-term interest rates, resulting in lower assumed fund earned rates for participating business in Hong Kong and Singapore, partially offset by the positive effect of lower risk discount rates in Indonesia and Malaysia in valuing future profits for health and protection business and a refinement to the methodology in Vietnam as described in note 11(i)(h).

(ii) In half year 2019, the charge of £(1,129) million mainly reflects the effect of a decrease in the assumed separate account return, following the 70 basis points decrease in the US 10-year treasury yield over the period, resulting in lower projected fee income and an increase in projected benefit costs for variable annuity business.

(iii) For fixed annuity and other general account business, the impact reflects the effect on the present value of future projected spread income from the combined decrease in interest rates and credit spreads in the period.

## 7 Net core structural borrowings of shareholder-financed businesses

| | 2019 £m | | | 2018 £m | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 30 Jun | | | 30 Jun | | | 31 Dec | | |
| | IFRS basis | Mark-to-market value adjustment | EEV basis at market value | IFRS basis | Mark-to-market value adjustment | EEV basis at market value | IFRS basis | Mark-to-market value adjustment | EEV basis at market value |
| Holding company cash and short-term investments note (i) | (2,365) | – | (2,365) | (2,210) | – | (2,210) | (3,236) | – | (3,236) |
| Holding company borrowings: | | | | | | | | | |
| Subordinated debt with no options to substitute to M&GPrudential note (ii) | 3,362 | 163 | 3,525 | 4,067 | (119) | 3,948 | 3,757 | (108) | 3,649 |
| Senior debt | 519 | 177 | 696 | 549 | 143 | 692 | 517 | 174 | 691 |
| Bank loan | 275 | – | 275 | – | – | – | 275 | – | 275 |
| Central funds before amounts capable of being substituted to M&GPrudential | 4,156 | 340 | 4,496 | 4,616 | 24 | 4,640 | 4,549 | 66 | 4,615 |
| Subordinated debt capable of being substituted to M&GPrudential (as at 30 Jun 2019) note (iii) | 3,089 | 209 | 3,298 | 1,287 | 80 | 1,367 | 2,919 | 64 | 2,983 |
| Total holding company borrowings | 7,245 | 549 | 7,794 | 5,903 | 104 | 6,007 | 7,468 | 130 | 7,598 |
| **Holding company net borrowings** | 4,880 | 549 | 5,429 | 3,693 | 104 | 3,797 | 4,232 | 130 | 4,362 |
| Prudential Capital bank loan | – | – | – | 275 | – | 275 | – | – | – |
| Jackson Surplus Notes | 196 | 62 | 258 | 189 | 47 | 236 | 196 | 53 | 249 |
| **Net core structural borrowings of shareholder-financed businesses** note (iv) | 5,076 | 611 | 5,687 | 4,157 | 151 | 4,308 | 4,428 | 183 | 4,611 |

**Notes**

(i) Holding company includes central finance subsidiaries.

(ii) In May 2019, the Company redeemed its £400 million 11.375 per cent subordinated notes.

(iii) In October 2018, the Company issued three tranches of substitutable debt as part of the process required before the proposed demerger, to rebalance debt across M&GPrudential and Prudential plc. Total proceeds, net of costs, were £1.6 billion. In the first half of 2019, the Group agreed with the holders of two subordinated debt instruments to alter the terms and conditions of these instruments in exchange for an upfront fee of £141 million and an increase in the coupon of the instruments. The loss arising from the change in fair value in the period of £100 million has been treated as an expense attributable to the discontinued UK and Europe operations and the £141 million fee, which has been paid by Prudential plc, has been treated as a non-operating expense.

(iv) The movement in the value of core structural borrowings includes foreign exchange effects for US dollar denominated debts, which are included in 'Exchange movements on foreign operations and net investment hedges'. The movement in the mark-to-market value adjustment can be analysed as follows:

| | **2019** £m | **2018** £m | |
|---|---|---|---|
| | **Half year** | **Half year** | **Full year** |
| Mark-to-market value adjustment at beginning of period | 183 | 743 | 743 |
| Change in fair value of debt under IFRS as a result of consent process† | (169) | – | – |
| Charge (credit) in respect of market movements included in the income statement* | 592 | (579) | (549) |
| Effect of changes in US$ exchange rate for US$ denominated debts included in reserves | 5 | (13) | (11) |
| Mark-to-market value adjustment at end of period | 611 | 151 | 183 |

* The total income statement charge of £592 million relates to £492 million from continuing operations and £100 million note (iii) from discontinued operations.

† Further details are explained in note D2.1 of the Group's IFRS basis results.

## 8 Analysis of movement in total net worth and value of in-force for long-term business

| | **Half year 2019** £m | | | | |
|---|---|---|---|---|---|
| | **Free surplus** | **Required capital** | **Total net worth** | **Value of in-force business** | **Total embedded value** |
| **Group** | | | | | |
| Shareholders' equity at beginning of period from continuing operations | 3,856 | 4,734 | 8,590 | 30,389 | 38,979 |
| New business contribution note 3 | (516) | 358 | (158) | 1,801 | 1,643 |
| Existing business – transfer to net worth | 1,533 | (296) | 1,237 | (1,237) | – |
| Expected return on existing business note 4 | 59 | 64 | 123 | 854 | 977 |
| Changes in operating assumptions and experience variances note 4 | 338 | 108 | 446 | (146) | 300 |
| Restructuring costs | (1) | – | (1) | – | (1) |
| **Operating profit from continuing operations** | 1,413 | 234 | 1,647 | 1,272 | 2,919 |
| Non-operating profit (loss) from continuing operations | 268 | (146) | 122 | 886 | 1,008 |
| **Profit for the period from continuing operations** | 1,681 | 88 | 1,769 | 2,158 | 3,927 |
| Exchange movements on foreign operations and net investment hedges | 58 | 19 | 77 | 151 | 228 |
| Intra-group dividends and investment in operations | (701) | – | (701) | – | (701) |
| Other movements | (24) | – | (24) | – | (24) |
| **Shareholders' equity at end of period from continuing operations** | 4,870 | 4,841 | 9,711 | 32,698 | 42,409 |
| Shareholders' equity at end of period from discontinued operations | 3,705 | 5,175 | 8,880 | 2,869 | 11,749 |
| **Shareholders' equity at end of period** | 8,575 | 10,016 | 18,591 | 35,567 | 54,158 |
| **Asia** | | | | | |
| New business contribution note 3 | (250) | 99 | (151) | 1,446 | 1,295 |
| Existing business – transfer to net worth | 779 | (169) | 610 | (610) | – |
| Expected return on existing business note 4 | 35 | 29 | 64 | 558 | 622 |
| Changes in operating assumptions and experience variances note 4 | 30 | 107 | 137 | 73 | 210 |
| **Operating profit based on longer-term investment returns** | 594 | 66 | 660 | 1,467 | 2,127 |
| Non-operating profit (loss) | 674 | 37 | 711 | 152 | 863 |
| **Profit for the period** | 1,268 | 103 | 1,371 | 1,619 | 2,990 |

## 8 Analysis of movement in total net worth and value of in-force for long-term business continued

| | Half year 2019 £m | | | | |
|---|---|---|---|---|---|
| | Free surplus | Required capital | Total net worth | Value of in-force business | Total embedded value |
| **US** | | | | | |
| New business contribution[note 3] | (266) | 259 | (7) | 355 | 348 |
| Existing business – transfer to net worth | 754 | (127) | 627 | (627) | – |
| Expected return on existing business[note 4] | 24 | 35 | 59 | 296 | 355 |
| Changes in operating assumptions and experience variances[note 4] | 308 | 1 | 309 | (219) | 90 |
| Restructuring costs | (1) | – | (1) | – | (1) |
| **Operating profit based on longer-term investment returns** | 819 | 168 | 987 | (195) | 792 |
| Non-operating profit (loss) | (406) | (183) | (589) | 734 | 145 |
| **Profit for the period** | 413 | (15) | 398 | 539 | 937 |

**Note**

The net value of in-force business comprises the value of future margins from current in-force business less the cost of holding required capital for long-term business as shown below:

| | 30 Jun 2019 £m | | | | 31 Dec 2018 £m | | | |
|---|---|---|---|---|---|---|---|---|
| | Asia | US | UK and Europe | Group total | Asia | US | UK and Europe | Group total |
| Value of in-force business before deduction of cost of capital and time value of options and guarantees | 23,035 | 12,267 | 3,334 | 38,636 | 21,867 | 11,811 | 3,083 | 36,761 |
| Cost of capital | (681) | (237) | (465) | (1,383) | (566) | (296) | (459) | (1,321) |
| Time value of options and guarantees* | (278) | (1,408) | – | (1,686) | (981) | (1,446) | – | (2,427) |
| Net value of in-force business | 22,076 | 10,622 | 2,869 | 35,567 | 20,320 | 10,069 | 2,624 | 33,013 |
| Total net worth | 5,004 | 4,707 | 8,880 | 18,591 | 4,009 | 4,581 | 8,785 | 17,375 |
| Total embedded value | 27,080 | 15,329 | 11,749 | 54,158 | 24,329 | 14,650 | 11,409 | 50,388 |

* The time value of options and guarantees arises from the variability of economic outcomes in the future and is, where appropriate, calculated as the difference between a full stochastic valuation and a single deterministic valuation as described in note 11(i)(d). Both valuations reflect the level of policyholder benefits (including guaranteed benefits and discretionary bonuses) and associated charges, together with management actions in response to emerging investment and fund solvency conditions. The reduction in the time value of options and guarantees for Asia operations from £(981) million at 31 December 2018 to £(278) million at 30 June 2019 reflects the interaction between these effects on the two valuations at the respective level of interest rates and equity markets.

## 9 Analysis of movement in free surplus

For EEV covered 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 fair 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 included in net worth where considered fully recognisable on an EEV basis. Free surplus for asset management operations is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations (including Group and Asia Regional Head Office, holding company borrowings, Africa operations and Prudential Capital) is taken to be EEV basis post-tax earnings and shareholders' equity net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

| | Half year 2019 £m | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | | |
| | Asia note (a) | US note (b) | Total insurance and asset management | Other | Discontinued UK and Europe operations | Group total |
| Operating free surplus generated before restructuring costs note (e) | 685 | 831 | 1,516 | (361) | | 1,155 |
| Restructuring costs | (13) | (1) | (14) | (6) | | (20) |
| **Operating free surplus generated** | 672 | 830 | 1,502 | (367) | | 1,135 |
| Non-operating profit (loss) from continuing operations note (f) | 674 | (406) | 268 | (185) | | 83 |
| Free surplus generated from discontinued operations | | | | | 974 | 974 |
| **Free surplus generated in the period** | 1,346 | 424 | 1,770 | (552) | 974 | 2,192 |
| Net cash flows to parent company note (g) | (451) | (400) | (851) | 1,212 | (361) | – |
| External dividends | – | – | – | (870) | – | (870) |
| Exchange movements on foreign operations, timing differences and other items note (h) | (15) | 124 | 109 | 304 | (744) | (331) |
| **Net movement in free surplus** | 880 | 148 | 1,028 | 94 | (131) | 991 |
| Balance at beginning of period | 2,034 | 2,167 | 4,201 | 3,008 | 4,693 | 11,902 |
| **Balance at end of period** | 2,914 | 2,315 | 5,229 | 3,102 | 4,562 | 12,893 |

| | Half year 2018* £m | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | | |
| | Asia note (a) | US note (b) | Total insurance and asset management | Other | Discontinued UK and Europe operations | Group total |
| Operating free surplus generated before restructuring costs | 590 | 593 | 1,183 | (340) | | 843 |
| Restructuring costs | (10) | – | (10) | (8) | | (18) |
| **Operating free surplus generated** | 580 | 593 | 1,173 | (348) | | 825 |
| Non-operating profit (loss) from continuing operations note (f) | (167) | (489) | (656) | 97 | | (559) |
| Free surplus generated from discontinued operations | | | | | 726 | 726 |
| **Free surplus generated in the period** | 413 | 104 | 517 | (251) | 726 | 992 |
| Net cash flows to parent company note (g) | (391) | (342) | (733) | 1,111 | (378) | – |
| External dividends | – | – | – | (840) | – | (840) |
| Exchange movements on foreign operations, timing differences and other items note (h) | (359) | 12 | (347) | 413 | 77 | 143 |
| **Net movement in free surplus** | (337) | (226) | (563) | 433 | 425 | 295 |
| Balance at beginning of period | 2,470 | 1,928 | 4,398 | 1,774 | 3,180 | 9,352 |
| **Balance at end of period** | 2,133 | 1,702 | 3,835 | 2,207 | 3,605 | 9,647 |

## 9 Analysis of movement in free surplus continued

| | Full year 2018* £m | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | | |
| | Asia | US | Total insurance and asset management | Other | Discontinued UK and Europe operations | Group total |
| Operating free surplus generated before restructuring costs | 1,171 | 1,419 | 2,590 | (726) | | 1,864 |
| Restructuring costs | (19) | (17) | (36) | (11) | | (47) |
| **Operating free surplus generated** | 1,152 | 1,402 | 2,554 | (737) | | 1,817 |
| Non-operating profit (loss) from continuing operations note (f) | (393) | (842) | (1,235) | (22) | | (1,257) |
| Free surplus generated from discontinued operations | | | | | 1,965 | 1,965 |
| **Free surplus generated in the year** | 759 | 560 | 1,319 | (759) | 1,965 | 2,525 |
| Net cash flows to parent company note (g) | (699) | (342) | (1,041) | 1,732 | (691) | – |
| External dividends | – | – | – | (1,244) | – | (1,244) |
| Exchange movements on foreign operations, timing differences and other items note (h) | (496) | 21 | (475) | 1,505 | 239 | 1,269 |
| **Net movement in free surplus** | (436) | 239 | (197) | 1,234 | 1,513 | 2,550 |
| Balance at beginning of year | 2,470 | 1,928 | 4,398 | 1,774 | 3,180 | 9,352 |
| **Balance at end of year** | 2,034 | 2,167 | 4,201 | 3,008 | 4,693 | 11,902 |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

**Notes**

(a) Operating free surplus generated by Asia insurance and asset management operations before restructuring costs can be analysed as follows:

| | Half year 2019 £m | Half year 2018* £m | | % change | |
|---|---|---|---|---|---|
| | | AER | CER | AER | CER |
| Operating free surplus generated from in-force life business | **844** | 773 | 797 | 9% | 6% |
| Investment in new business note (c) | **(250)** | (260) | (269) | (4)% | (7)% |
| Long-term business | **594** | 513 | 528 | 16% | 13% |
| Asset management | **91** | 77 | 79 | 18% | 15% |
| Total Asia | **685** | 590 | 607 | 16% | 13% |

* The half year 2018 comparative results are shown on both actual exchange rates (AER) and constant exchange rates (CER) bases. The half year 2018 CER comparative results are translated at half year 2019 average exchange rates.

(b) Operating free surplus generated by US insurance and asset management operations before restructuring costs can be analysed as follows:

| | Half year 2019 £m | Half year 2018* £m | | % change | |
|---|---|---|---|---|---|
| | | AER | CER | AER | CER |
| Operating free surplus generated from in-force life business note (d) | **1,086** | 775 | 824 | 40% | 32% |
| Investment in new business note (c) | **(266)** | (180) | (192) | 48% | 39% |
| Long-term business | **820** | 595 | 632 | 38% | 30% |
| Asset management | **11** | (2) | (2) | 650% | 650% |
| Total US | **831** | 593 | 630 | 40% | 32% |

* The half year 2018 comparative results are shown on both actual exchange rates (AER) and constant exchange rates (CER) bases. The half year 2018 CER comparative results are translated at half year 2019 average exchange rates.

(c) Free surplus invested in new business primarily represents acquisition costs and amounts set aside for required capital.
(d) The increase in the US in-force free surplus generation includes a £274 million benefit following the integration of the recently acquired John Hancock business.
(e) Other operating free surplus generated for "other business" includes £(69) million (net of tax) of interest costs on debt that is capable of being substituted to M&GPrudential.
(f) Non-operating items include short-term fluctuations in investment returns, the effect of changes in economic assumptions for long-term business and the effect of corporate transactions as described in note 14. In particular, for other business it includes £(162) million for demerger costs (post-tax) and £(20) million for short term fluctuations. In addition, for 2018 this included the impact in the US of changes to RBC factors following the US tax reform, which were formally approved by the National Association of Insurance Commissioners (NAIC) in June 2018.
(g) Net cash flows to parent company for long-term business reflect the flows as included in the holding company cash flow at transaction rates.

(h) Exchange movements on foreign operations, timing differences and other items represent:

| | Half year 2019 £m | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | | |
| | Asia | US | Total insurance and asset management | Other | Discontinued UK and Europe operations | Group total |
| Exchange movements on foreign operations | 54 | 1 | 55 | (8) | 2 | 49 |
| Mark-to-market value movements on Jackson assets backing surplus and required capital | – | 137 | 137 | – | – | 137 |
| Other items note (i) | (69) | (14) | (83) | 312 | (746) | (517) |
| | (15) | 124 | 109 | 304 | (744) | (331) |

| | Half year 2018 £m | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | | |
| | Asia | US | Total insurance and asset management | Other | Discontinued UK and Europe operations | Group total |
| Exchange movements on foreign operations | 3 | 38 | 41 | 9 | (5) | 45 |
| Mark-to-market value movements on Jackson assets backing surplus and required capital | – | (32) | (32) | – | – | (32) |
| Other items note (i) | (362) | 6 | (356) | 404 | 82 | 130 |
| | (359) | 12 | (347) | 413 | 77 | 143 |

| | Full year 2018 £m | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | | |
| | Asia | US | Total insurance and asset management | Other | Discontinued UK and Europe operations | Group total |
| Exchange movements on foreign operations | 88 | 131 | 219 | (6) | – | 213 |
| Mark-to-market value movements on Jackson assets backing surplus and required capital | – | (95) | (95) | – | – | (95) |
| Other items note (i) | (584) | (15) | (599) | 1,511 | 239 | 1,151 |
| | (496) | 21 | (475) | 1,505 | 239 | 1,269 |

(i) Other items include the effect of the net issuance of £1.2 billion of subordinated debt for other operations in full year 2018, intra-group loans and other intra-group transfers between operations and other non-cash items.

## 10 Sensitivity of results to alternative economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2019 and 31 December 2018 and the new business contribution after the effect of required capital for half year 2019 and full year 2018 for long-term business to:

- 1 per cent increase in the discount rates;
- 1 per cent increase in interest rates and risk discount rates, including consequential changes in assumed investment returns for all asset classes and market values of fixed interest assets, but excluding changes in the allowance for market risk;
- 0.5 per cent decrease in interest rates and risk discount rates, including consequential changes in assumed investment returns for all asset classes and market values of fixed interest assets, but excluding changes in the allowance for market risk;
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- The statutory minimum capital level in contrast to EEV basis required capital (embedded value only); and
- 5 basis points increase in the UK long-term expected defaults (embedded value only).

The sensitivities shown below are for the impact of instantaneous (and permanent) changes 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. No change in assets held at the period end is assumed when calculating sensitivities. If the changes in assumptions shown in the sensitivities were to occur, the effect shown below would be recorded within two components of the profit analysis for the following period, namely the effect of changes in economic assumptions and short-term fluctuations in investment returns. In addition to the sensitivity effects shown below, the other components of the profit for the following period would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount and other expected returns, together with the effect of other changes such as altered corporate bond spreads. In addition, for changes in interest rates, the effect shown below for 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.

## 10 Sensitivity of results to alternative economic assumptions continued

### New business contribution from continuing long-term business

| | Half year 2019 £m | | | Full year 2018* £m | | |
|---|---|---|---|---|---|---|
| | Asia | US | Group total | Asia | US | Group total |
| **New business contribution** note 3 | 1,295 | 348 | 1,643 | 2,604 | 921 | 3,525 |
| Discount rates – 1% increase | (281) | (17) | (298) | (549) | (42) | (591) |
| Interest rates – 1% increase | (35) | 54 | 19 | (202) | 94 | (108) |
| Interest rates – 0.5% decrease | (33) | (41) | (74) | 58 | (66) | (8) |
| Equity/property yields – 1% rise | 67 | 55 | 122 | 130 | 115 | 245 |

* The full year 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

### Embedded value of long-term business

| | 30 Jun 2019 £m | | | | 31 Dec 2018 £m | | | |
|---|---|---|---|---|---|---|---|---|
| | Asia | US | UK and Europe | Group total | Asia | US | UK and Europe | Group total |
| **Shareholders' equity** note 8 | 27,080 | 15,329 | 11,749 | 54,158 | 24,329 | 14,650 | 11,409 | 50,388 |
| Discount rates – 1% increase | (3,718) | (346) | (682) | (4,746) | (3,292) | (513) | (648) | (4,453) |
| Interest rates – 1% increase | (984) | (604) | (748) | (2,336) | (1,564) | 119 | (668) | (2,113) |
| Interest rates – 0.5% decrease | (19) | (10) | 451 | 422 | 366 | (273) | 363 | 456 |
| Equity/property yields – 1% rise | 1,122 | 1,107 | 424 | 2,653 | 1,041 | 1,011 | 377 | 2,429 |
| Equity/property market values – 10% fall | (537) | (305) | (536) | (1,378) | (473) | (498) | (461) | (1,432) |
| Statutory minimum capital | 142 | 166 | – | 308 | 110 | 217 | – | 327 |
| Long-term expected defaults – 5 bps increase | – | – | (72) | (72) | – | – | (76) | (76) |

## 11 Methodology and accounting presentation

### (i) Methodology

**Overview**

The embedded value is the present value of the shareholders' interest in the post-tax earnings distributable from assets allocated to the covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- The present value of expected future shareholder cash flows from the in-force covered business (value of in-force business) less deductions for:
  - The cost of locked-in required capital; and
  - The time value of financial options and guarantees;
- Locked-in required capital; and
- The shareholders' total net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value. No smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and non-operating items, as explained in note (ii)(a) below.

#### (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, with the following exceptions:

- The exclusion of the closed Scottish Amicable Insurance Fund (SAIF) from covered business. SAIF is a ring-fenced sub-fund of The Prudential Assurance Company Limited (PAC) long-term fund, established by a Court Approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund; and
- A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

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 Group and Asia Regional Head Office, holding company borrowings, Africa operations and Prudential Capital). 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 12(iii)(a). 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 12(i), which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

For M&GPrudential, the embedded value incorporates Solvency II transitional measures, which are recalculated using management's estimate of the impact of operating and market conditions at each valuation date.

***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 for statutory basis reporting.

New business premiums reflect those premiums attaching to the covered business, including premiums for contracts classified as investment contracts under IFRS. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

New business contribution represents profit determined by applying operating and economic assumptions as at the end of the period. 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 equivalents (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 contribution.

## 11 Methodology and accounting presentation continued

### (i) Methodology continued

***Valuation movements on investments***

With the exception of debt securities held by Jackson, investment gains and losses during the period (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the period and shareholders' equity as they arise.

The results for any 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 not affected generally 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 fair value. Consistent with the treatment applied under IFRS, 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 shareholders' equity.

### (c) Cost of capital

A charge is deducted from the embedded value for the cost of locked-in required capital supporting the Group's long-term business. The cost is the difference between the nominal value of the capital held and the discounted value of the projected releases of this capital, allowing for post-tax investment earnings on the capital.

The result is affected by the movement in this cost from period to period, 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 in the fund is already discounted to reflect its expected release over time and no further adjustment is necessary in respect of required capital.

### (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 accrue at rates set at inception and do not vary subsequently with market conditions.

**US (Jackson)**

The principal financial options and guarantees in Jackson are associated with the variable annuity and fixed annuity lines of business.

Jackson issues variable annuity (VA) 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 policyholders' contract value in the event of poor equity market performance. Jackson hedges the GMWB and GMDB guarantees through the use of equity options and futures contracts with an expected long-term future hedging cost allowed for within the EEV value of in-force business. Jackson historically issued a small amount of income benefits (Guaranteed Minimum Income Benefits (GMIB)), which are now materially fully reinsured.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum return, which varies from 1.0 per cent to 5.5 per cent for all periods shown, depending on the particular product, jurisdiction where issued and the date of issue. At 30 June 2019, 86 per cent (30 June and 31 December 2018: 88 per cent) of the account values on fixed annuities are for policies with guarantees of 3 per cent or less and the average guarantee rate is 2.7 per cent (30 June and 31 December 2018: 2.6 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson also issues fixed index annuities that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return, which is of a similar nature to those described above for fixed annuities.

**UK and Europe (M&GPrudential)**
The only significant financial options and guarantees in M&GPrudential's covered business arise in the with-profits fund, for which the guarantee features described above in respect of Asia business broadly apply. The UK with-profits fund also held a provision of £49 million at 30 June 2019 (30 June 2018: £52 million; 31 December 2018: £49 million) to honour guarantees on a small number of guaranteed annuity option products.

The Group's main exposure to guaranteed annuity options in M&GPrudential is through the non-covered business of SAIF. A provision of £372 million was held in SAIF at 30 June 2019 (30 June 2018: £467 million; 31 December 2018: £361 million) to honour the guarantees. As described in note (i)(a) above, the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore, the movement in the provision has no direct impact on shareholders' funds.

***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, for example, 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 12(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 actually available to management. For the UK with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management, which explain how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

### (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 with-profits business in Asia and the UK, the available capital in the fund is sufficient to meet the capital requirements. For the UK, a portion of future shareholder transfers expected from the with-profits fund is recognised within total net worth, together with the associated capital requirements.

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 China life operations, the level of required capital follows the approach for EEV reporting issued by the China Association of Actuaries (CAA) reflecting the C-ROSS regime;
- 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); and
- UK and Europe: the capital requirements are set at the Solvency II Solvency Capital Requirement (SCR) for shareholder-backed business as a whole.

### (f) With-profits business and the treatment of the estate
For the Group's relevant Asia operations and the UK 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.

### (g) Internal asset management
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 unwind of the expected margins on the internal management of the assets of the life funds for the period as included in 'Other' operations. In half year 2019, the deduction of the unwind of the expected M&GPrudential internal asset management margin is included within the result of discontinued operations. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Accordingly, Group operating profit based on longer-term investment returns includes the variance between actual and expected profit margin in respect of the management of the assets for the covered business.

## 11 Methodology and accounting presentation continued

### (i) Methodology continued

### (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.

For Asia and the US, the risk-free rates are based on 10-year local government bond yields. For the UK and Europe, the risk-free rate is based on the full-term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period.

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 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 are set excluding the effect of these product features.

The risk margin also 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 an equity risk premium. Except for the UK shareholder-backed annuity business (as explained below), such an approach has been used for the Group's covered business.

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 on various asset classes. By converting this into a relative rate of return, it is possible to derive a product-specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product group.

At 30 June 2019, the Group reconsidered the application of this methodology for certain Asia businesses to reflect a more granular assessment of the underlying market risks when determining the beta, alongside other refinements. These refinements resulted in the change in the risk discount rate for Vietnam shown in note 12(i)(a), and had an impact of £110 million via the effect of change in economic assumptions as shown in note 6. There were small consequential effects on new business contribution and in-force operating profit, which were overall not material in the context of the Group's results.

***Additional credit risk allowance***

The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover expected long-term defaults, 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, these 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 long-term spread over the risk-free rate.

### US (Jackson)

For Jackson, the allowance for long-term defaults of 0.17 per cent at 30 June 2019 (30 June 2018: 0.18 per cent; 31 December 2018: 0.17 per cent) 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 credit risk premium and short-term downgrades and defaults, as shown in note 12(ii). 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 Jackson fixed annuity 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. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

The level of allowance differs from that for the UK annuity business for investment portfolio differences and to take account of management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.

### UK and Europe (M&GPrudential)

*(1) Shareholder-backed annuity business*

For shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate, which is then applied to the projected best estimate future cash flows.

In the annuity MCEV calculations, as the assets are generally held to maturity to match liabilities, the projected future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on the Solvency II allowance for credit risk. The Solvency II allowance is set by the European Insurance and Occupational Pensions Authority (EIOPA), using a prudent assumption that all future downgrades will be replaced annually and allowing for the credit spread floor.

For the purposes of presentation in the EEV basis results, the results produced under the approach above are reconfigured. Under EEV, the projected rates of return on debt securities held are determined after allowing for a best estimate credit risk allowance. The remaining elements of prudence within the Solvency II allowance are incorporated into the risk margin included in the discount rate shown in note 12(iii).

*(2) Non-profit annuity business in the with-profits fund*

For non-profit annuity business attributable to the UK with-profits fund, the basis for determining the aggregate allowance for credit risk is consistent with that applied for the UK shareholder-backed annuity business as described above. The allowance for credit risk for this business is taken into account in determining the projected future cash flows from the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows from the fund.

*(3) With-profits fund holdings of debt securities*

The with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rates for with-profits holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over risk-free, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

***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 Asia businesses in Indonesia, the Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points. The level of these allowances are reviewed and updated based on an assessment of a range of pre-defined emerging market risk indicators, as well as the Group's exposure and experience in the markets. For the Group's US business and UK and Europe business, no additional allowance is necessary.

## 11 Methodology and accounting presentation continued

### (i) Methodology continued

#### (i) Foreign currency translation
Foreign currency profits and losses have been translated at average exchange rates for the period. Foreign currency assets and liabilities have been translated at period-end exchange rates. The principal exchange rates are shown in note A1 of the Group IFRS basis results.

#### (j) Taxation
In determining the post-tax profit for the period 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.

#### (k) Inter-company arrangements
The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension policies in SAIF and the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to the PAC non-profit sub-fund.

### (ii) Accounting presentation

#### (a) Analysis of post-tax profit
To the extent applicable, the presentation of the EEV basis profit for the period is consistent with the classification between operating and non-operating results that the Group applies for the analysis of IFRS basis results. Operating results based on longer-term investment returns are determined as described in note (b) below and incorporate the following:

- New business contribution, as defined in note (i)(b) above;
- Unwind of discount on the value of in-force business and other expected returns, 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.

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; and
- The impact of corporate transactions undertaken in the period.

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.

Total profit in the period 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 fixed annuity and other 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 disclosed in note 12(b)), which reflects the aggregation of end-of-period risk-free rates and the equity risk premium. For variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force business adjusted to reflect end-of-period projected rates of return, with the excess or deficit of the actual return recognised within non-operating results, together with related hedging activity variances.

#### (c) Unwind of discount and other expected returns
The Group's methodology in determining the unwind of discount and other expected returns is by reference to the value of in-force business at the beginning of the period (adjusted for the effect of changes in economic and operating assumptions in the current period) and required capital and surplus assets.

#### (d) Effect of changes in operating assumptions
Operating profit includes the effect of changes to non-economic assumptions on the value of in-force business at the end of the 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 end-of-period assumptions, as discussed below.

### (e) Operating experience variances
Operating profit includes the effect of experience variances on non-economic assumptions, such as persistency, mortality, morbidity, expenses and other factors, which are calculated with reference to the end-of-period assumptions.

### (f) Effect of changes in economic assumptions
Movements in the value of in-force business at the beginning of the period 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.

## 12 Assumptions

### (i) Principal economic assumptions
The EEV basis results for the Group's covered business have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to period-end risk-free rates of return (defined below for each of the Group's insurance operations). Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium to the risk-free rate, based on the Group's long-term view. As described in note 11(i)(h), the resulting risk discount rates incorporate 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, after considering risks allowed for explicitly elsewhere in the EEV basis, such as cost of capital and the time value of the cost of options and guarantees.

The total profit that emerges over the lifetime of an individual contract as calculated under the EEV basis is the same over time 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 period.

### (a) Asia notes (2)(3)
The risk-free rates of return are defined as the 10-year government bond yields at the end of the period.

| | Risk discount rate % | | | | | |
|---|---|---|---|---|---|---|
| | New business | | | In-force business | | |
| | 2019 | 2018 | | 2019 | 2018 | |
| | 30 Jun | 30 Jun | 31 Dec | 30 Jun | 30 Jun | 31 Dec |
| China JV | 8.0 | 9.3 | 8.1 | 8.0 | 9.3 | 8.1 |
| Hong Kong notes (2)(4) | 3.8 | 4.3 | 4.4 | 3.8 | 4.4 | 4.4 |
| Indonesia | 11.8 | 12.1 | 12.4 | 11.8 | 12.1 | 12.4 |
| Malaysia note (4) | 6.2 | 6.8 | 6.6 | 6.2 | 6.8 | 6.6 |
| Philippines | 12.5 | 14.1 | 14.5 | 12.5 | 14.1 | 14.5 |
| Singapore note (4) | 3.5 | 3.9 | 3.4 | 4.3 | 4.9 | 4.2 |
| Taiwan | 4.3 | 4.5 | 4.5 | 4.2 | 4.0 | 4.4 |
| Thailand | 9.6 | 10.1 | 10.0 | 9.6 | 10.1 | 10.0 |
| Vietnam | 9.1 | 12.2 | 12.6 | 9.0 | 12.2 | 12.6 |
| Total weighted average note (1) | 5.0 | 5.6 | 5.4 | 5.2 | 6.0 | 5.8 |

| | 10-year government bond yield % | | | Expected long-term inflation % | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | | 2019 | 2018 | |
| | 30 Jun | 30 Jun | 31 Dec | 30 Jun | 30 Jun | 31 Dec |
| China JV | 3.3 | 3.5 | 3.3 | 3.0 | 3.0 | 3.0 |
| Hong Kong notes (2)(4) | 2.0 | 2.9 | 2.7 | 2.5 | 2.5 | 2.5 |
| Indonesia | 7.5 | 7.9 | 8.2 | 4.5 | 4.5 | 4.5 |
| Malaysia note (4) | 3.7 | 4.2 | 4.1 | 2.5 | 2.5 | 2.5 |
| Philippines | 5.0 | 6.6 | 7.0 | 4.0 | 4.0 | 4.0 |
| Singapore note (4) | 2.0 | 2.6 | 2.1 | 2.0 | 2.0 | 2.0 |
| Taiwan | 0.7 | 0.9 | 0.9 | 1.5 | 1.5 | 1.5 |
| Thailand | 2.1 | 2.6 | 2.5 | 3.0 | 3.0 | 3.0 |
| Vietnam | 4.7 | 4.7 | 5.1 | 5.5 | 5.5 | 5.5 |

## 12 Assumptions continued

### (i) Principal economic assumptions continued

**Notes**

(1) Total weighted average risk discount rates for Asia shown above have been determined by weighting each business's risk discount rates by reference to the EEV basis new business contribution 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 10-year government bond yields, changes in the allowance for market risk as described in note 11(i)(h) and changes in product mix.

(2) For Hong Kong, the assumptions shown are for US dollar denominated business. For other businesses, the assumptions shown are for local currency denominated business.

(3) Equity risk premiums in Asia range from 4.0 per cent to 9.5 per cent (30 June and 31 December 2018: 4.0 per cent to 9.4 per cent).

(4) The mean (arithmetic) equity return assumptions for the most significant equity holdings of the Asia businesses are:

| | 2019 % | 2018 % | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| Hong Kong | 6.0 | 6.9 | 6.7 |
| Malaysia | 10.1 | 10.7 | 10.6 |
| Singapore | 8.5 | 9.1 | 8.6 |

### (b) US

The risk-free rate of return is defined as the 10-year treasury bond yield at the end of the period.

| | 2019 % | 2018 % | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| Risk discount rate: | | | |
| Variable annuity: | | | |
| Risk discount rate | 6.4 | 7.3 | 7.1 |
| Additional allowance for credit risk included in risk discount rate note 11(i)(h) | 0.2 | 0.2 | 0.2 |
| Non-variable annuity: | | | |
| Risk discount rate | 3.7 | 4.6 | 4.4 |
| Additional allowance for credit risk included in risk discount rate note 11(i)(h) | 1.0 | 1.0 | 1.0 |
| Total weighted average: | | | |
| New business | 6.1 | 7.1 | 6.9 |
| In-force business | 6.1 | 7.0 | 6.8 |
| Allowance for long-term defaults included in projected spread note 11(i)(h) | 0.17 | 0.18 | 0.17 |
| US 10-year treasury bond yield | 2.0 | 2.9 | 2.7 |
| Equity risk premium (arithmetic) | 4.0 | 4.0 | 4.0 |
| Pre-tax expected long-term nominal rate of return for US equities (arithmetic) | 6.0 | 6.9 | 6.7 |
| Expected long-term rate of inflation | 2.8 | 3.1 | 2.9 |
| S&P equity return volatility note (ii)(b) | 17.5 | 18.0 | 17.5 |

**Note**

Assumed new business spread margins are as follows:

| | 2019 % | 2018 % | |
|---|---|---|---|
| | January to June issues | January to June issues | July to December issues |
| Fixed annuity business* | 1.50 | 1.75 | 1.75 |
| Fixed index annuity business† | 0.50 | 2.00 | 2.00 |
| Institutional business | 0.50 | 0.50 | 0.50 |

* Including the proportion of variable annuity business invested in the general account. The assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

† The assumed spread margin grades up linearly by 100 basis points over five years, increasing by a further 50 basis points to a long-term assumption at the end of the index option period (2018 issues: grades up linearly by 25 basis points to a long-term assumption over five years).

### (c) UK and Europe

The risk-free rate is based on the full term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period. These yield curves are used to derive pre-tax expected long-term nominal rates of investment return and risk discount rates.

This single implied risk discount rate is shown, along with the 15-year nominal rate of investment return and 15-year rate of inflation based on the inflation yield curve.

| | 2019 % | 2018 % | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| **Shareholder-backed annuity in-force business:** note (1) | | | |
| Risk discount rate | 3.8 | 4.1 | 4.7 |
| Pre-tax expected 15-year nominal rates of investment return | 2.5 | 2.9 | 3.1 |
| **With-profits and other business:** | | | |
| Risk discount rate: note (2) | | | |
| New business | 4.6 | 4.8 | 4.9 |
| In-force business | 4.5 | 4.9 | 5.0 |
| Pre-tax expected 15-year nominal rates of investment return (arithmetic): | | | |
| Overseas equities | 5.8 to 9.7 | 6.6 to 10.3 | 6.5 to 10.1 |
| Property | 4.0 | 4.4 | 4.4 |
| 15-year gilt yield | 1.3 | 1.7 | 1.7 |
| Corporate bonds | 3.0 | 3.5 | 3.5 |
| Expected 15-year rate of inflation | 3.6 | 3.4 | 3.6 |
| Equity risk premium (arithmetic) | 4.0 | 4.0 | 4.0 |

**Notes**

(1) For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and risk discount rates reflect the effect of changes in asset yields.

(2) The risk discount rates for with-profits and other business shown above represent a weighted average total of the rates applied to determine the present value of future cash flows, including the portion of future shareholders' transfers from the with-profits business recognised in total net worth.

(3) The table below shows the pattern of the UK Solvency II risk-free spot yield curve at the end of each reporting period:

| | 1 year | 5 year | 10 year | 15 year | 20 year |
|---|---|---|---|---|---|
| **30 Jun 2019** | 0.7% | 0.8% | 0.9% | 1.1% | 1.1% |
| 31 Dec 2018 | 1.0% | 1.2% | 1.3% | 1.4% | 1.5% |
| 30 Jun 2018 | 0.8% | 1.2% | 1.4% | 1.5% | 1.6% |

## (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 11(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 all periods shown; and
- The volatility of government bond yields ranges from 1.1 per cent to 2.0 per cent for all periods shown.

### (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 (half year 2018: from 18 per cent to 27 per cent; full year 2018: from 17 per cent to 26 per cent); and
- The standard deviation of interest rates ranges from 3.3 per cent to 3.5 per cent (half year 2018: from 2.6 per cent to 2.9 per cent; full year 2018: from 3.4 per cent to 3.7 per cent).

## 12 Assumptions continued

### (ii) Stochastic assumptions continued

**(c) UK and Europe (M&GPrudential)**

- 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;
- Property returns are modelled based on a risk-free return plus a risk premium with a stochastic process reflecting total property returns; and
- The standard deviation of equities and property ranges from 14 per cent to 20 per cent for all periods shown.

### (iii) Operating assumptions

**(a) Best estimate 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 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 also 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 premiums 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 30 June 2019, the allowance held for these costs across the Group was £(353) million mainly 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, the expenses comprise costs borne directly and costs recharged from the Asia Regional Head Office that are attributable to the covered business. The assumed future expenses for these businesses also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises:

- Expenditure of Group Head Office, together with restructuring costs incurred across the Group; and
- Expenditure of the Asia Regional Head Office that is not allocated to the covered business or asset management. These costs are primarily for corporate related activities and are charged as incurred.

**(b) Tax rates**

The assumed long-term effective tax rates for operations reflect the incidence of taxable profit and loss in the projected future cash flows as explained in note 11(i)(j).

The local statutory corporate tax rates applicable for the most significant businesses are as follows:

| | % |
|---|---|
| **Asia:** | |
| Hong Kong | 16.5 per cent on 5 per cent of premium income |
| Indonesia | 25.0 |
| Malaysia | 24.0 |
| Singapore | 17.0 |
| **US** | 21.0 |
| **UK** | 19.0; from 1 April 2020: 17.0 |

## 13 Total insurance and investment products new business

### (i) Insurance new business premiums note (a)

| | Single premiums | | | Regular premiums | | | Annual premium equivalents (APE) | | | Present value of new business premiums (PVNBP) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 £m | 2018 £m | | 2019 £m | 2018 £m | | 2019 £m | 2018 £m | | 2019 £m | 2018 £m | |
| | Half year | Half year | Full year | Half year | Half year | Full year | Half year | Half year | Full year | Half year | Half year | Full year |
| **Continuing operations:** | | | | | | | | | | | | |
| **Asia** | | | | | | | | | | | | |
| Cambodia | – | – | – | 11 | 8 | 20 | 11 | 8 | 20 | 51 | 37 | 89 |
| Hong Kong | 165 | 157 | 343 | 813 | 726 | 1,663 | 830 | 742 | 1,697 | 5,178 | 4,210 | 10,200 |
| Indonesia | 94 | 118 | 205 | 111 | 101 | 215 | 121 | 113 | 236 | 515 | 434 | 910 |
| Malaysia | 70 | 31 | 84 | 115 | 114 | 243 | 122 | 117 | 251 | 681 | 583 | 1,322 |
| Philippines | 11 | 22 | 43 | 54 | 36 | 83 | 55 | 38 | 87 | 185 | 134 | 296 |
| Singapore | 386 | 420 | 930 | 192 | 163 | 369 | 231 | 205 | 462 | 1,623 | 1,529 | 3,611 |
| Thailand | 74 | 124 | 217 | 41 | 41 | 95 | 48 | 53 | 117 | 246 | 289 | 609 |
| Vietnam | 10 | 8 | 20 | 67 | 60 | 144 | 68 | 61 | 146 | 363 | 305 | 708 |
| **South-east Asia including Hong Kong** | 810 | 880 | 1,842 | 1,404 | 1,249 | 2,832 | 1,486 | 1,337 | 3,016 | 8,842 | 7,521 | 17,745 |
| China JV note (b) | 360 | 30 | 103 | 234 | 184 | 292 | 270 | 187 | 302 | 1,185 | 759 | 1,313 |
| Taiwan | 196 | 180 | 292 | 97 | 90 | 182 | 116 | 108 | 211 | 483 | 426 | 788 |
| India note (c) | 60 | 31 | 79 | 100 | 101 | 207 | 106 | 104 | 215 | 478 | 426 | 908 |
| **Total Asia** | 1,426 | 1,121 | 2,316 | 1,835 | 1,624 | 3,513 | 1,978 | 1,736 | 3,744 | 10,988 | 9,132 | 20,754 |
| **US** | | | | | | | | | | | | |
| Variable annuities | 4,854 | 5,439 | 10,810 | – | – | – | 485 | 544 | 1,081 | 4,854 | 5,439 | 10,810 |
| Elite Access (variable annuity) | 743 | 898 | 1,681 | – | – | – | 74 | 89 | 168 | 743 | 898 | 1,681 |
| Fixed annuities | 177 | 166 | 340 | – | – | – | 18 | 17 | 34 | 177 | 166 | 340 |
| Fixed index annuities | 930 | 125 | 251 | – | – | – | 93 | 13 | 25 | 930 | 125 | 251 |
| Institutional | 1,606 | 1,535 | 2,341 | – | – | – | 161 | 153 | 234 | 1,606 | 1,535 | 2,341 |
| **Total US** | 8,310 | 8,163 | 15,423 | – | – | – | 831 | 816 | 1,542 | 8,310 | 8,163 | 15,423 |
| **Total continuing operations** note (d) | 9,736 | 9,284 | 17,739 | 1,835 | 1,624 | 3,513 | 2,809 | 2,552 | 5,286 | 19,298 | 17,295 | 36,177 |
| **Discontinued UK and Europe operations** | | | | | | | | | | | | |
| Bonds | 1,799 | 1,650 | 3,539 | – | – | – | 180 | 165 | 354 | | | |
| Corporate pensions | 44 | 43 | 69 | 61 | 70 | 117 | 65 | 75 | 124 | | | |
| Individual pensions | 2,170 | 2,989 | 5,681 | 18 | 17 | 35 | 235 | 316 | 603 | | | |
| Income drawdown | 1,248 | 1,226 | 2,555 | – | – | – | 125 | 123 | 256 | | | |
| Other products | 854 | 782 | 1,538 | 14 | 14 | 25 | 100 | 91 | 179 | | | |
| **Total discontinued UK and Europe operations** | 6,115 | 6,690 | 13,382 | 93 | 101 | 177 | 705 | 770 | 1,516 | | | |
| **Group total** note (d) | 15,851 | 15,974 | 31,121 | 1,928 | 1,725 | 3,690 | 3,514 | 3,322 | 6,802 | | | |

## 13 Total insurance and investment products new business continued

### (i) Insurance new business premiums[note (a)] continued

**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. A reconciliation of APE and gross premiums earned on an IFRS basis is provided in note II(vi) within the additional financial information.

The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, products categorised as 'insurance' refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, ie falling within one of the classes of insurance specified in Part II of Schedule 1 to the Regulated Activities Order under Prudential Regulation Authority regulations.

The details shown above for insurance products include contributions for contracts that are classified under IFRS 4, 'Insurance Contracts' as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and Guaranteed Investment Contracts and similar funding agreements written in US operations.

(b) New business in China JV is included at Prudential's 50 per cent interest in the China joint venture.

(c) New business in India is included at Prudential's interest in the India associate (with effect from 27 March 2019: 22 per cent; 30 June 2018 and 31 December 2018: 26 per cent).

(d) In half year 2019, the Africa business sold new business APE of £30 million (half year 2018: £18 million; full year 2018: £38 million). 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.

### (ii) Investment products – funds under management[notes (a)(b)(c)]

| | Half year 2019 £m | | | | |
|---|---|---|---|---|---|
| | 1 Jan 2019 | Market gross inflows | Redemptions | Market exchange translation and other movements | 30 Jun 2019 |
| Eastspring Investments – continuing | 49,455 | 16,454 | (13,396) | 3,959 | 56,472 |
| M&GPrudential – discontinued | 146,946 | 17,793 | (22,379) | 10,601 | 152,961 |
| **Group total** | 196,401 | 34,247 | (35,775) | 14,560 | 209,433 |

| | Half year 2018 £m | | | | |
|---|---|---|---|---|---|
| | 1 Jan 2018 | Market gross inflows | Redemptions | Market exchange translation and other movements | 30 Jun 2018 |
| Eastspring Investments | 46,568 | 10,456 | (11,319) | (3,335) | 42,370 |
| M&GPrudential | 163,855 | 21,401 | (17,853) | (1,913) | 165,490 |
| **Group total** | 210,423 | 31,857 | (29,172) | (5,248) | 207,860 |

**Notes**

(a) Investment products referred to in the tables for funds under management above are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as 'investment contracts' under IFRS 4, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

(b) Investment flows for half year 2019 exclude Eastspring Money Market Funds gross inflows of £103,337 million (half year 2018: gross inflows of £95,336 million) and net outflows of £978 million (half year 2018: net inflows of £665 million).

(c) New business and market gross inflows and redemptions have been translated at an average exchange rate for the period applicable. Funds under management at points in time are translated at the exchange rate applicable to those dates.

## 14 Gain (loss) attaching to corporate transactions undertaken by continuing operations

| | 2019 £m | 2018* £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Gain on disposals[note (i)] | 140 | – | – |
| Other corporate transactions[note (ii)] | (164) | (48) | (75) |
| Total | (24) | (48) | (75) |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations classified as discontinued operations as at 30 June 2019.

**Notes**

(i) In half year 2019, the £140 million gain on disposals mainly relates to profits arising from a reduction in the Group's stake (from 26 per cent to 22 per cent) 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 half year 2019, other corporate transactions undertaken by continuing operations resulted in an EEV loss of £(164) million (half year 2018: £(48) million; full year 2018: £(75) million). This primarily reflects costs related to the preparation for the proposed demerger of M&GPrudential from Prudential plc, including a fee of £141 million (before tax) paid to the holders of two subordinated debt instruments as discussed in note 7. In 2018, these additionally included costs from exiting the NPH broker-dealer business in the US.

# 05 Additional information

# Index to the additional financial information*



* The additional financial information (set out in sections I(i) to II(x)) is not covered by the KPMG independent review opinion on page 104.

# Additional financial information

## I Additional financial information

### I(i) Group capital position

**(a) Solvency II capital position**

The estimated Group shareholder Solvency II surplus (including M&GPrudential) at 30 June 2019 was £16.7 billion, before allowing for payment of the 2019 first interim ordinary dividend and after allowing for management's calculation of transitional measures reflecting operating and market conditions as at 30 June 2019.

| | 2019 | 2018 | |
|---|---|---|---|
| **Estimated Group shareholder Solvency II capital position*** | **30 Jun** | **30 Jun** | **31 Dec** |
| Own funds (£bn) | 30.4 | 27.5 | 30.2 |
| Solvency Capital Requirement (£bn) | 13.7 | 13.1 | 13.0 |
| **Surplus (£bn)** | 16.7 | 14.4 | 17.2 |
| Solvency ratio (%) | 222% | 209% | 232% |

* The Group shareholder Solvency II capital position excludes the contribution to own funds and the SCR from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which at 31 December 2018 reflected the approved regulatory position.

In accordance with Solvency II requirements, these results allow for:

- Capital in Jackson in excess of 250 per cent of the US local Risk Based Capital (RBC) requirement. As agreed with the Prudential Regulation Authority (PRA), this is incorporated in the result above as follows:
  - Own funds: represents Jackson's local US risk based available capital less 100 per cent of the US RBC requirement (Company Action Level);
  - Solvency Capital Requirement (SCR): represents 150 per cent of Jackson's local US RBC requirement (Company Action Level); and
  - No diversification benefits are taken into account between Jackson and the rest of the Group.
- Matching adjustment for UK annuities and volatility adjustment for US dollar denominated Hong Kong with-profits business, based on approvals from the PRA and calibrations published by the European Insurance and Occupational Pensions Authority (EIOPA); and
- UK transitional measures, which have been recalculated using management's calculation of the impact of operating and market conditions at the valuation date. Transitional measures were last approved by the PRA as at 31 December 2018. Applying this approved regulatory transitional amount would result in the estimated Group shareholder Solvency II surplus reducing from £16.7 billion to £16.6 billion as at 30 June 2019.

The Group shareholder Solvency II capital position excludes:

- A portion of Solvency II surplus capital (£2.0 billion at 30 June 2019) relating to the Group's Asia life operations, primarily due to the Solvency II definition of 'contract boundaries', which prevents some expected future cash flows from being recognised;
- The contribution to own funds and the SCR from ring-fenced with-profits funds in surplus (representing £6.6 billion of surplus capital from UK with-profits funds at 30 June 2019) and from the shareholders' share of the estate of with-profits funds; and
- The contribution to own funds and the SCR from staff pension schemes in surplus.

It also excludes unrealised gains on certain derivative instruments taken out to protect Jackson against declines in long-term interest rates. At Jackson's request, the Department of Insurance Financial Services renewed its approval to carry these instruments at book value in the local statutory returns for the period 31 December 2018 to 1 October 2019. At 30 June 2019, applying this approval had the effect of decreasing local available statutory capital and surplus (and by extension Solvency II own funds and Solvency II surplus) by £0.4 billion net of tax. This arrangement reflects an elective long-standing practice first put in place in 2009, which can be unwound at Jackson's discretion.

Further information on the consolidated Solvency II capital position for the Group and The Prudential Assurance Company Limited (PAC) is published annually in the Solvency and Financial Condition Reports which are available on the Group's website.

## I Additional financial information continued

### I(i) Group capital position continued

***Analysis of movement in Group capital position***

A summary of the estimated movement in Group Solvency II surplus from £17.2 billion at 31 December 2018 to £16.7 billion at 30 June 2019 is set out in the table below. The movement from the Group Solvency II surplus at 31 December 2017 to the Group Solvency II surplus at 30 June 2018 and 31 December 2018 is included for comparison.

| Analysis of movement in Group shareholder Solvency II surplus | Half year 2019 £bn | Half year 2018 £bn | Full year 2018 £bn |
|---|---|---|---|
| **Estimated Solvency II surplus at beginning of period** | **17.2** | 13.3 | 13.3 |
| Underlying operating experience | **2.1** | 1.7 | 4.1 |
| Management actions | **0.0** | 0.1 | 0.1 |
| Operating experience | **2.1** | 1.8 | 4.2 |
| Non-operating experience (including market movements) | **(1.5)** | 0.0 | (1.2) |
| M&GPrudential transactions | **–** | 0.1 | 0.4 |
| **Other capital movements:** | | | |
| Net subordinated debt issuance/redemption | **(0.4)** | – | 1.2 |
| Foreign currency translation impacts | **0.0** | 0.1 | 0.5 |
| Dividends paid | **(0.9)** | (0.8) | (1.2) |
| Model changes | **0.2** | (0.1) | 0.0 |
| **Estimated Solvency II surplus at end of period** | **16.7** | 14.4 | 17.2 |

The estimated movement in Group Solvency II surplus over the first half of 2019 is driven by:

— *Operating experience of £2.1 billion:* generated by in-force business and new business written in 2019, after allowing for amortisation of the UK transitional measures;

— *Non-operating experience of £(1.5) billion:* mainly as a result of the negative impact of market movements during the first half of the year, after allowing for the recalculation of the UK transitional measures at the valuation date. This includes Jackson hedging losses net of reserve movements, together with the effect of corporate transactions in the period including a £(0.6) billion Solvency II impact from the extension of the UOB bancassurance distribution deal and £(0.2) billion of costs associated with the demerger, offset by £0.2 billion of gains on disposals in the period;

— *Other capital movements of £(1.3) billion:* comprise a decrease in surplus from the impact of debt redeemed during 2019 and from the payment of the 2018 second interim dividend; and

— *Model changes of £0.2 billion:* reflecting internal model changes approved by the PRA and other minor internal model calibration changes made in the period.

***Analysis of Group SCR***

The split of the Group's estimated SCR by risk type, including the capital requirements in respect of Jackson's risk exposures based on 150 per cent of US RBC requirements (Company Action Level) but with no diversification between Jackson and the rest of the Group, is as follows:

| | 30 Jun 2019 | | 30 Jun 2018 | | 31 Dec 2018 | |
|---|---|---|---|---|---|---|
| **Split of the Group's estimated SCR** | % of undiversified SCR | % of diversified SCR | % of undiversified SCR | % of diversified SCR | % of undiversified SCR | % of diversified SCR |
| **Market** | **59%** | **76%** | 56% | 70% | 57% | 70% |
| Equity | **14%** | **25%** | 15% | 25% | 13% | 23% |
| Credit | **23%** | **41%** | 21% | 36% | 23% | 38% |
| Yields (interest rates) | **17%** | **9%** | 14% | 7% | 16% | 6% |
| Other | **5%** | **1%** | 6% | 2% | 5% | 3% |
| **Insurance** | **23%** | **16%** | 25% | 20% | 24% | 20% |
| Mortality/morbidity | **5%** | **2%** | 5% | 2% | 5% | 2% |
| Lapse | **14%** | **13%** | 15% | 16% | 15% | 17% |
| Longevity | **4%** | **1%** | 5% | 2% | 4% | 1% |
| **Operational/expense** | **11%** | **7%** | 12% | 7% | 12% | 8% |
| **Foreign exchange translation** | **7%** | **1%** | 7% | 3% | 7% | 2% |

### *Reconciliation of IFRS shareholders' equity to Group shareholder Solvency II own funds*

| | **30 Jun 2019** £bn | **30 Jun 2018** £bn | **31 Dec 2018** £bn |
|---|---|---|---|
| IFRS shareholders' equity | **19.7** | 15.9 | 17.2 |
| Restate US insurance entities from IFRS basis to local US statutory basis | **(4.2)** | (2.6) | (2.5) |
| Remove DAC, goodwill and other intangibles | **(5.4)** | (4.1) | (4.6) |
| Add subordinated debt | **7.0** | 5.8 | 7.2 |
| Impact of risk margin (net of transitional measures) | **(3.8)** | (3.8) | (3.8) |
| Add value of shareholder transfers | **5.5** | 5.5 | 5.3 |
| Liability valuation differences | **13.1** | 12.2 | 13.3 |
| Increase in net deferred tax liabilities resulting from liability valuation differences above | **(1.6)** | (1.4) | (1.5) |
| Other | **0.1** | 0.0 | (0.4) |
| **Estimated shareholder Solvency II own funds** | 30.4 | 27.5 | 30.2 |

The key items of the reconciliation as at 30 June 2019 are:

- £(4.2) billion representing the adjustment required to the Group's IFRS shareholders' equity in order to convert Jackson's contribution from an IFRS basis to the local statutory valuation basis. This item also reflects a de-recognition of own funds of £1.0 billion, equivalent to the value of 100 per cent of US RBC requirements (Company Action Level), as agreed with the PRA;
- £(5.4) billion due to the removal of DAC, goodwill and other intangibles from the IFRS statement of financial position;
- £7.0 billion due to the addition of subordinated debt, which is treated as available capital under Solvency II but as a liability under IFRS;
- £(3.8) billion due to the inclusion of a risk margin for the UK and Asia non-hedgeable risks, net of £1.7 billion from transitional measures (after allowing for the recalculation of transitional measures as at 30 June 2019), which are not applicable under IFRS;
- £5.5 billion due to the inclusion of the value of future shareholder transfers from with-profits business (excluding the shareholders' share of the with-profits estate, for which no credit is given under Solvency II), which is excluded from the determination of the Group's IFRS shareholders' equity;
- £13.1 billion mainly due to differences in insurance valuation requirements between Solvency II and IFRS, with Solvency II own funds partially capturing the value of in-force business, which is excluded from IFRS;
- £(1.6) billion due to the impact on the valuation of net deferred tax liabilities resulting from the liability valuation differences noted above; and
- £0.1 billion due to other items, including the impact of revaluing loans, borrowings and debt from IFRS to Solvency II.

### *Sensitivity analysis*

The estimated sensitivity of the Group Solvency II capital position to significant changes in market conditions is as follows:

| | **30 Jun 2019** | | **31 Dec 2018** | |
|---|---|---|---|---|
| **Impact of market sensitivities** | **Solvency II surplus** £bn | **Solvency ratio** % | **Solvency II surplus** £bn | **Solvency ratio** % |
| Base position | 16.7 | 222% | 17.2 | 232% |
| *Impact of:* | | | | |
| 20% instantaneous fall in equity markets | (0.5) | 1% | (1.6) | (10)% |
| 40% fall in equity markets note (1) | (2.7) | (12)% | (4.0) | (28)% |
| 50 basis points reduction in interest rates notes (2),(3) | (2.5) | (26)% | (1.8) | (21)% |
| 100 basis points increase in interest rates note (3) | 0.8 | 18% | 1.2 | 20% |
| 100 basis points increase in credit spreads note (4) | (1.9) | (11)% | (1.7) | (9)% |

**Notes**

(1) 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.
(2) Subject to a floor of zero for Asia and US interest rates.
(3) Allowing for further transitional measures recalculation after the interest rate stress.
(4) US RBC solvency position included using a stress of 10 times expected credit defaults.

The Group believes it is positioned to withstand significant deteriorations in market conditions and it continues to use market hedges to manage some of this exposure across the Group, where it believes the benefit of the protection outweighs the cost. The sensitivity analysis above allows for predetermined management actions and those taken to date, but does not reflect all possible management actions which could be taken in the future.

### *UK PAC Solvency II capital position* notes 1,2

On the same basis as above, the estimated shareholder Solvency II surplus for PAC and its subsidiaries note 2 at 30 June 2019 was £3.7 billion, after allowing for the recalculation of transitional measures as at 30 June 2019. This relates to shareholder-backed business including future shareholder transfers from the with-profits funds, but excludes the shareholders' share of the estate, in line with Solvency II requirements.

## I Additional financial information continued

### I(i) Group capital position continued

| Estimated UK PAC shareholder Solvency II capital position* | 30 Jun 2019 | 30 Jun 2018† | 31 Dec 2018 |
|---|---|---|---|
| Own funds (£bn) | 8.9 | 14.7 | 8.8 |
| Solvency Capital Requirement (£bn) | 5.2 | 7.2 | 5.1 |
| **Surplus (£bn)** | 3.7 | 7.5 | 3.7 |
| Solvency ratio (%) | 171% | 203% | 172% |

* The UK PAC shareholder Solvency II capital position excludes the contribution to own funds and the SCR from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency positions include management's calculation of UK transitional measures reflecting both operating and market conditions at each valuation date, which at 31 December 2018 reflected the approved regulatory position.

† The 30 June 2018 UK PAC shareholder Solvency II capital position included the contribution to own funds and the SCR from the Hong Kong business, which was subsequently transferred to Prudential Corporation Asia Limited (PCA) in December 2018.

The UK PAC Solvency II surplus at 30 June 2019 is unchanged since 31 December 2018:

— *Operating experience of £0.4 billion:* generated by in-force business and new business written in 2019, after allowing for amortisation of the UK transitional measures. This includes a £0.1 billion benefit from the impact of updates to UK longevity best estimate assumptions;
— *Capital movements of £(0.3) billion:* reflecting cash remittances made to the Group over the period; and
— *Other movements of £(0.1) billion.*

Whilst there is a large surplus in the UK with-profits funds, this is ring-fenced from the shareholder balance sheet and is therefore excluded from both the Group and the UK PAC shareholder Solvency II surplus results. The estimated UK with-profits funds Solvency II surplus at 30 June 2019 was £6.6 billion, after allowing for recalculation of transitional measures as at 30 June 2019.

| Estimated UK with-profits Solvency II capital position* | 30 Jun 2019 | 30 Jun 2018 | 31 Dec 2018 |
|---|---|---|---|
| Own funds (£bn) | 11.1 | 9.4 | 9.7 |
| Solvency Capital Requirement (£bn) | 4.5 | 3.9 | 4.2 |
| **Surplus (£bn)** | 6.6 | 5.5 | 5.5 |
| Solvency ratio (%) | 249% | 244% | 231% |

* The estimated solvency positions include management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date, which as at 31 December 2018 reflected the approved regulatory position.

***Reconciliation of UK with-profits IFRS unallocated surplus to Solvency II own funds*** note 1

A reconciliation between the IFRS unallocated surplus and Solvency II own funds for UK with-profits business is as follows:

| | 30 Jun 2019 £bn | 30 Jun 2018 £bn | 31 Dec 2018 £bn |
|---|---|---|---|
| **IFRS unallocated surplus of UK with-profits funds** | 15.1 | 13.5 | 13.3 |
| Value of shareholder transfers | (2.7) | (2.7) | (2.4) |
| Risk margin (net of transitional measures) | (1.1) | (1.0) | (1.0) |
| Other valuation differences | (0.2) | (0.4) | (0.2) |
| **Estimated with-profits Solvency II own funds** | 11.1 | 9.4 | 9.7 |

**Notes**

1 The UK with-profits capital position includes the PAC with-profits sub-fund, the Scottish Amicable Insurance Fund (SAIF) and the Defined Charge Participating Sub-Fund.

2 The results include the insurance subsidiaries of PAC being Prudential International Assurance plc and Prudential Pensions Limited and exclude the contribution from Prudential Holborn Life Limited in order to align the segmental definitions applied within IFRS and EEV reporting. Prudential Holborn Life Limited is expected to be liquidated prior to the demerger.

***Statement of independent review in respect of Solvency II Capital Position at 30 June 2019****

The methodology, assumptions and overall result have been subject to examination by KPMG LLP.

* This review is separate from that set out on page 104.

### *M&GPrudential shareholder Solvency II capital position*

Following the proposed demerger of M&GPrudential from Prudential plc, the PRA will assume the role of the group-wide supervisor for the M&GPrudential Group with the Solvency II framework continuing to apply.

The M&GPrudential Group has requested approval from the Prudential Regulatory Authority (PRA) to amend the group internal model to apply at the level of the M&GPrudential Group, rather than at the level of the existing Prudential Group. The decision is pending and is expected to be provided shortly before the planned demerger, such that the Prudential Group internal model remains in place until the demerger with M&GPrudential's model commencing from this point. The results set out below should not be interpreted as representing the Pillar I output from an approved Solvency II internal model for M&GPrudential and are subject to change.

Based on the assumptions that underpin the current approved Group internal model the estimated shareholder Solvency II surplus for the M&GPrudential Group at 30 June 2019 was £3.9 billion. The estimated pro forma position, assuming that the proposed demerger of M&GPrudential from Prudential plc had been completed as at 30 June 2019 based on the operating environment and economic conditions as at that date, was £3.9 billion (equivalent to a cover ratio of 169 per cent).

| Estimated M&GPrudential Group Solvency II capital position* | As reported note | Adjustments† | Pro forma‡ |
|---|---|---|---|
| Own funds (£bn) | 9.5 | 0.0 | 9.5 |
| Solvency Capital Requirement (£bn) | 5.6 | 0.0 | 5.6 |
| **Surplus (£bn)** | 3.9 | 0.0 | 3.9 |
| Solvency ratio (%) | 169% | 0% | 169% |

* Based on outputs from the M&GPrudential Group internal model which has not yet been approved by the PRA.

† The adjustments as shown in the table above, which result in an increase in surplus of £nil billion, represent the estimated impact on the M&GPrudential Group shareholder Solvency II capital position of the proposed demerger. The adjustments, which are based on current indicative estimates and are subject to change, include:
- The expected impact of the transfer of £3.2 billion of subordinated debt to M&GPrudential by substituting M&GPrudential in the place of Prudential plc as issuer of such debt;
- The expected proceeds of £3.0 billion from a pre-demerger dividend to be paid by M&GPrudential to Prudential plc shortly before demerger, together with planned dividends of £0.3 billion expected to be paid earlier. All dividends are subject to the customary legal and governance considerations required before approval by the M&GPrudential Board; and
- £0.1 billion of other associated effects.

‡ No account has been taken of any trading and other changes in the financial position of the M&GPrudential Group after 30 June 2019, thus the pro forma shareholder Solvency II capital position does not reflect the actual shareholder Solvency II capital position of the M&GPrudential Group following the completion of the proposed demerger.

**Note**

The M&GPrudential Group Solvency II capital position at 30 June 2019 has been subject to examination by KPMG LLP.

### (b) Local Capital Summation Method (LCSM)

Following the proposed demerger of M&GPrudential from Prudential plc, the Hong Kong Insurance Authority (IA) will assume the role of the group-wide supervisor for the retained Group (excluding M&GPrudential). The retained Group will no longer be subject to Solvency II capital requirements. Ultimately, Prudential plc will become subject to the Group Wide Supervision (GWS) framework which is currently under development by the Hong Kong IA for the industry and is not expected to come into force until the second half of 2020 (subject to the legislative process) at the earliest.

Until Hong Kong's GWS framework comes into force, Prudential will apply 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 will be used to determine group regulatory capital requirements, with no allowance for diversification between business operations. The group available capital will be determined by the summation of available capital across local solvency regimes for regulated entities and IFRS net assets (with adjustments described below) for non-regulated entities. The Hong Kong IA has yet to make any final decisions regarding the GWS framework for the industry and it continues to consider and consult on the proposed legislation and related guidelines. The amounts below should not therefore be interpreted as representing the results or requirements under the industry-wide GWS framework and are not intended to provide a forecast of the eventual position.

In determining the LCSM available capital and minimum required capital the following principles have been applied:

- For regulated insurance entities, available and required capital is based on the local solvency regime applicable in each jurisdiction, with 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, available and required capital is based on the local US RBC framework set by the NAIC with required capital set at 100 per cent of the Company Action Level;
- For asset management operations and other regulated entities, the shareholder capital position is derived based on the sectoral basis applicable in each jurisdiction, with required capital based on the solo legal entity statutory minimum capital requirement;
- For non-regulated entities, the available capital is based on IFRS net assets after deducting intangible assets. No required capital is held in respect of unregulated entities;
- 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 available capital; and
- The Hong Kong IA has agreed that certain specific bonds (being those subordinated debt instruments expected to be held by Prudential plc at the date of demerger) can be included as part of the group's capital resources for the purposes of satisfying group minimum and prescribed capital requirements from the date of demerger as part of the LCSM. Grandfathering provisions under the GWS framework remain subject to further consultation and the Hong Kong legislative process in due course.

At 30 June 2019 the Prudential Group's aggregated (ie policyholder and shareholder) surplus of available capital over the Group minimum capital requirement calculated using the LCSM outlined above, and excluding M&GPrudential, was £16.0 billion before allowing for the payment of the 2019 first interim ordinary dividend.

## I Additional financial information continued

### I(i) Group capital position continued

The Group holds material participating business in Hong Kong, Singapore and Malaysia. If the available capital and minimum capital requirement attributed to this business is excluded, then the Prudential Group shareholder surplus of available capital over the Group minimum capital requirement at 30 June 2019, using the LCSM outlined above, and excluding M&GPrudential, was £7.4 billion before allowing for the payment of the 2019 first interim ordinary dividend. This is analysed as follows:

***Estimated Group shareholder LCSM capital position at 30 June 2019***

| | **Asia** £bn | **US** £bn | **Unallocated to a segment** £bn | **Total** £bn |
|---|---|---|---|---|
| Available Capital | 5.8 | 3.9 | 0.9 | 10.6 |
| Minimum Required Capital | 2.2 | 1.0 | – | 3.2 |
| LCSM surplus | 3.6 | 2.9 | 0.9 | 7.4 |

The estimated pro forma shareholder position presented below assumes the proposed demerger of M&GPrudential from Prudential plc had completed as at 30 June 2019.

***Estimated Group shareholder LCSM pro-forma capital position as at 30 June 2019***

| | **As reported** | | | | |
|---|---|---|---|---|---|
| | **Consolidated** | **Less Policyholder** | **Shareholder** | **Adjustments**† | **Pro forma**‡ |
| Available Capital* (£bn) | 22.8 | (12.2) | 10.6 | +0.3 | 10.9 |
| Minimum Required Capital (£bn) | 6.8 | (3.6) | 3.2 | – | 3.2 |
| **LCSM surplus (£bn)** | 16.0 | (8.6) | 7.4 | +0.3 | 7.7 |
| LCSM ratio (%) | 337% | (5)% | 332% | +8% | 340% |

* Excludes M&GPrudential and includes £2.9 billion of subordinated debt issued by Prudential plc that is expected to be transferred to M&GPrudential pre-demerger and hence has not been grandfathered with Hong Kong IA.

† The adjustments as shown in the table above, which result in an increase in surplus of £0.3 billion, represent the estimated impact on the retained Prudential Group shareholder LCSM capital position of the proposed demerger. The adjustments, which are based on current indicative estimates and are subject to change, include:

– A reduction of £2.9 billion for the expected impact of the transfer of subordinated debt to M&GPrudential by substituting M&GPrudential in the place of Prudential as issuer of such debt. The £2.9 billion represents debt capable of being substituted that was held at 30 June 2019. A further £0.3 billion was raised in July bringing the total of subordinated debt expected to be transferred to £3.2 billion;

– An increase for the expected proceeds of £3.0 billion from a pre-demerger dividend to be paid by M&GPrudential to Prudential plc shortly before demerger, together with planned dividends of £0.3 billion expected to be paid earlier. All dividends are subject to the customary legal and governance considerations required before approval by the M&GPrudential Board; and

– A reduction of £0.1 billion for expected directly attributable transaction costs associated with the proposed demerger that have yet to be incurred at 30 June 2019.

‡ No account has been taken of any trading and other changes in financial position of the Prudential Group after 30 June 2019, thus the pro forma shareholder LCSM capital position does not reflect the actual shareholder LCSM capital position of the retained Prudential Group following the completion of the proposed demerger.

***Reconciliation of Group shareholder Solvency II capital position to shareholder LCSM capital position at 30 June 2019***

| | **Available capital** £bn | **Capital requirements** £bn | **Surplus** £bn |
|---|---|---|---|
| **Estimated Group shareholder Solvency II capital position** | 30.4 | 13.7 | 16.7 |
| Remove M&GPrudential | (9.5) | (5.6) | (3.9) |
| Reduction in capital requirements from Solvency II SCR to Solvency II MCR | – | (5.1) | 5.1 |
| Adjust insurance entities' Solvency II available capital to local basis | (10.3) | – | (10.3) |
| Other | – | 0.2 | (0.2) |
| **Estimated Group shareholder LCSM capital position (excluding M&GPrudential)** | 10.6 | 3.2 | 7.4 |

The key items of the reconciliation as at 30 June 2019 are:

— Removal of the M&GPrudential Solvency II own funds (£9.5 billion) and SCR (£5.6 billion) at 30 June 2019;

— £(5.1) billion representing the adjustment required to restate Solvency II SCR to Solvency II MCR, including the reduction in US entities' required capital from the 150 per cent of the US Risk Based Capital requirement (Company Action Level) allowed for within the Solvency II SCR to the 100 per cent relevant to the MCR reducing required capital by £0.5 billion;

— £(10.3) billion due to valuation differences between Solvency II and the local solvency regime in each jurisdiction. This mainly relates to the removal of the value of in-force business (restricted by the Solvency II definition of 'contract boundaries') captured in the Solvency II own funds for the Asian business but excluded from the local basis. For Jackson it includes the reversal of the reduction made to Solvency II available capital equal to 100 per cent of the US Risk Based Capital requirement (Company Action Level) increasing available capital by £1.0 billion; and

— £0.2 billion due to other items.

*Reconciliation of Group IFRS shareholders' equity to shareholder LCSM available capital position at 30 June 2019*

| | Available capital £bn |
|---|---|
| **Group IFRS shareholders' equity** | 19.7 |
| Remove M&GPrudential | (8.3) |
| Add subordinated debt at IFRS book value | 6.5 |
| Valuation differences | 6.1 |
| Remove DAC, goodwill and intangibles | (13.1) |
| Other | (0.3) |
| **Estimated Group shareholder LCSM available capital (excluding M&GPrudential)** | 10.6 |

Valuation differences of £6.1 billion primarily relate to differences on the basis of valuing assets and liabilities between IFRS and local statutory valuation rules, including reductions for inadmissible assets. The most significant difference arises in Jackson where local statutory reserves are reduced by an allowance for future surrender charges. 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).

## I(ii) Funds under management

### (a) Summary

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 period, 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.

| | **2019** £bn | **2018** £bn | |
|---|---|---|---|
| | **30 Jun** | **30 Jun** | **31 Dec** |
| Asia operations: | | | |
| Internal funds | 102.8 | 83.7 | 89.5 |
| Eastspring Investments external funds | 67.0 | 52.4 | 61.1 |
| | 169.8 | 136.1 | 150.6 |
| US operations – internal funds | 204.1 | 183.7 | 183.1 |
| Other operations | 2.2 | 2.7 | 2.4 |
| Total funds under management from continuing operations | 376.1 | 322.5 | 336.1 |
| M&GPrudential: | | | |
| Internal funds, including PruFund-backed products | 188.1 | 176.4 | 174.3 |
| External funds | 153.0 | 165.5 | 146.9 |
| Total funds under management from discontinued UK and Europe operations | 341.1 | 341.9 | 321.2 |
| Total Group funds under management[note] | 717.2 | 664.4 | 657.3 |

**Note**

Total Group funds under management comprise:

| | **2019** £bn | **2018** £bn | |
|---|---|---|---|
| | **30 Jun** | **30 Jun** | **31 Dec** |
| Total investments per the consolidated statement of financial position | 496.0 | 448.0 | 449.6 |
| External funds of M&GPrudential and Eastspring Investments (as analysed in note (b) overleaf) | 219.9 | 217.9 | 208.0 |
| Internally managed funds held in joint ventures and other adjustments | 1.3 | (1.5) | (0.3) |
| Prudential Group funds under management | 717.2 | 664.4 | 657.3 |

## I Additional financial information continued

### I(ii) Funds under management continued
### (b) Investment products – external funds under management

| | Half year 2019 £m | | | | |
|---|---|---|---|---|---|
| | At 1 Jan 2019 | Market gross inflows | Redemptions | Market and other movements | At 30 Jun 2019 |
| Eastspring Investments | 61,057 | 119,791 | (117,711) | 3,827 | 66,964 |
| M&G Investments: | | | | | |
| Wholesale/Direct | 69,465 | 11,867 | (16,118) | 4,267 | 69,481 |
| Institutional | 77,481 | 5,926 | (6,261) | 6,334 | 83,480 |
| Total M&G Investments note (1) | 146,946 | 17,793 | (22,379) | 10,601 | 152,961 |
| Group total note (2) | 208,003 | 137,584 | (140,090) | 14,428 | 219,925 |

| | Half year 2018 £m | | | | |
|---|---|---|---|---|---|
| | At 1 Jan 2018 | Market gross inflows | Redemptions | Market and other movements | At 30 Jun 2018 |
| Eastspring Investments | 55,885 | 105,792 | (105,990) | (3,250) | 52,437 |
| M&G Investments: | | | | | |
| Wholesale/Direct | 79,697 | 16,471 | (14,317) | (2,030) | 79,821 |
| Institutional | 84,158 | 4,930 | (3,536) | 117 | 85,669 |
| Total M&G Investments note (1) | 163,855 | 21,401 | (17,853) | (1,913) | 165,490 |
| Group total note (2) | 219,740 | 127,193 | (123,843) | (5,163) | 217,927 |

| | Full year 2018 £m | | | | |
|---|---|---|---|---|---|
| | At 1 Jan 2018 | Market gross inflows | Redemptions | Market and other movements | At 31 Dec 2018 |
| Eastspring Investments | 55,885 | 212,070 | (212,156) | 5,258 | 61,057 |
| M&G Investments: | | | | | |
| Wholesale/Direct | 79,697 | 24,584 | (29,452) | (5,364) | 69,465 |
| Institutional | 84,158 | 12,954 | (18,001) | (1,630) | 77,481 |
| Total M&G Investments note (1) | 163,855 | 37,538 | (47,453) | (6,994) | 146,946 |
| Group total note (2) | 219,740 | 249,608 | (259,609) | (1,736) | 208,003 |

**Notes**

(1) The results exclude the contribution from PruFund products net inflows of £3.5 billion in half year 2019 (half year 2018: £4.4 billion; full year 2018: £8.5 billion) and funds under management of £49.6 billion as at 30 June 2019 (30 June 2018: £40.3 billion; 31 December 2018: £43.0 billion).

(2) The £219.9 billion (30 June 2018: £217.9 billion; 31 December 2018: £208 billion) investment products comprise of £209.4 billion (30 June 2018: £207.9 billion; 31 December 2018: £196.4 billion) plus Asia Money Market Funds of £10.5 billion (30 June 2018: £10.0 billion; 31 December 2018: £11.6 billion).

## I(iii) Holding company cash flow*

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| **Net cash remitted by business units:** | | | |
| From continuing operations | | | |
| Asia net remittances to the Group | 451 | 391 | 699 |
| US remittances to the Group | 400 | 342 | 342 |
| Other UK (including Prudential Capital) paid to the Group | 5 | 37 | 37 |
| Total continuing operations | 856 | 770 | 1,078 |
| From discontinued UK and Europe operations | 356 | 341 | 654 |
| **Net remittances to the Group from business units** note (a) | 1,212 | 1,111 | 1,732 |
| Net interest paid | (218) | (187) | (366) |
| Tax received | 93 | 81 | 142 |
| Corporate activities | (97) | (113) | (206) |
| **Total central outflows** | (222) | (219) | (430) |
| **Operating holding company cash flow before dividend** | 990 | 892 | 1,302 |
| Dividend paid | (870) | (840) | (1,244) |
| **Operating holding company cash flow after dividend** | 120 | 52 | 58 |
| Non-operating net cash flows note (b) | (999) | (106) | 913 |
| Total holding company cash flow | (879) | (54) | 971 |
| Cash and short-term investments at beginning of period | 3,236 | 2,264 | 2,264 |
| Foreign exchange movements | 8 | – | 1 |
| **Cash and short-term investments at end of period** note (c) | 2,365 | 2,210 | 3,236 |

* The holding company cash flow differs from the IFRS cash flow statement, which includes all cash flows in the period 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.

**Notes**

(a) Net cash remittances comprise dividends and other transfers from business units that are reflective of emerging earnings and capital generation. In half year 2019 it includes £191 million of proceeds from the reduction in the Group's shareholding in ICICI Prudential.

(b) Non-operating net cash flows principally relate to the repayment of debt, demerger costs and associated transactions and payments for distribution rights. In full year 2018, the amounts include the receipts from issuance of debt.

(c) Including central finance subsidiaries.

## I(iv) Analysis of adjusted IFRS operating profit based on longer-term investment returns by driver from continuing long-term insurance businesses

This schedule classifies the Group's adjusted IFRS operating profit based on longer-term investment returns (operating profit) from continuing long-term insurance businesses 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 asset management 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 overleaf).
- **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. These exclude items such as restructuring 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.

**I Additional financial information** continued

## I(iv) Analysis of adjusted IFRS operating profit based on longer-term investment returns by driver from continuing long-term insurance businesses continued

### (a) Margin analysis of long-term insurance business – continuing operations

The following analysis expresses certain of the Group's sources of adjusted IFRS operating profit based on longer-term investment returns as a margin of policyholder liabilities or other relevant drivers. Details on the calculation of the Group's average policyholder liability balances are given in note (1).

| | Half year 2019 | | | | |
|---|---|---|---|---|---|
| | Asia note (b) £m | US note (c) £m | Group total £m | Average liability note (1) £m | Margin note (2) bps |
| Spread income | 119 | 230 | 349 | 65,174 | 107 |
| Fee income | 111 | 1,238 | 1,349 | 157,676 | 171 |
| With-profits | 41 | – | 41 | 43,294 | 19 |
| Insurance margin | 852 | 549 | 1,401 | | |
| Margin on revenues | 1,124 | – | 1,124 | | |
| Expenses: | | | | | |
| Acquisition costs note (3) | (802) | (382) | (1,184) | 2,809 | (42)% |
| Administration expenses | (547) | (637) | (1,184) | 225,483 | (105) |
| DAC adjustments note (4) | 132 | 191 | 323 | | |
| Expected return on shareholder assets | 69 | 14 | 83 | | |
| | 1,099 | 1,203 | 2,302 | | |
| Share of related tax charges from joint ventures and associate note (5) | (4) | – | (4) | | |
| Adjusted IFRS operating profit based on longer-term investment returns from continuing long-term business | 1,095 | 1,203 | 2,298 | | |

| | Half year 2018 AER note (7) | | | | |
|---|---|---|---|---|---|
| | Asia note (b) £m | US note (c) £m | Group total £m | Average liability note (1) £m | Margin note (2) bps |
| Spread income | 112 | 295 | 407 | 54,268 | 150 |
| Fee income | 108 | 1,185 | 1,293 | 149,991 | 172 |
| With-profits | 30 | – | 30 | 34,032 | 18 |
| Insurance margin | 723 | 463 | 1,186 | | |
| Margin on revenues | 1,004 | – | 1,004 | | |
| Expenses: | | | | | |
| Acquisition costs note (3) | (721) | (384) | (1,105) | 2,552 | (43)% |
| Administration expenses | (512) | (580) | (1,092) | 208,441 | (105) |
| DAC adjustments note (4) | 143 | 10 | 153 | | |
| Expected return on shareholder assets | 58 | 12 | 70 | | |
| | 945 | 1,001 | 1,946 | | |
| Share of related tax charges from joint ventures and associate note (5) | (18) | – | (18) | | |
| Adjusted IFRS operating profit based on longer-term investment returns from continuing long-term business | 927 | 1,001 | 1,928 | | |

| | Half year 2018 CER notes (6)(7) | | | | |
|---|---|---|---|---|---|
| | **Asia** note (b) £m | **US** note (c) £m | **Group Total** £m | **Average liability** note (1) £m | **Margin** note (2) bps |
| Spread income | 115 | 314 | 429 | 57,280 | 150 |
| Fee income | 110 | 1,260 | 1,370 | 158,567 | 173 |
| With-profits | 31 | – | 31 | 35,700 | 17 |
| Insurance margin | 750 | 491 | 1,241 | | |
| Margin on revenues | 1,042 | – | 1,042 | | |
| Expenses: | | | | | |
| Acquisition costs note (3) | (749) | (408) | (1,157) | 2,674 | (43)% |
| Administration expenses | (526) | (617) | (1,143) | 219,632 | (104) |
| DAC adjustments note (4) | 148 | 11 | 159 | | |
| Expected return on shareholder assets | 60 | 13 | 73 | | |
| | 981 | 1,064 | 2,045 | | |
| Share of related tax charges from joint ventures and associate note (5) | (18) | – | (18) | | |
| Adjusted IFRS operating profit based on longer-term investment returns from continuing long-term business | 963 | 1,064 | 2,027 | | |

**Notes to the tables throughout I(iv)**

(1) For Asia, opening and closing policyholder liabilities have been used to derive an average balance for the period, as a proxy for average balances throughout the period. 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. Average liabilities used to calculate the administration expenses margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson.

(2) Margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus. The margin is on an annualised basis in which half year profits are annualised by multiplying by two.

(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.

(4) The DAC adjustments contain a credit of £25 million in respect of joint ventures and associate in half year 2019 (half year 2018: £14 million).

(5) Under IFRS, the Group's share of results from its investments in joint ventures and associate 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 associate to be included in the margin analysis on a consistent basis as the rest of the Asia's operations.

(6) The half year 2018 comparative information has been presented at both AER and CER to eliminate the impact of exchange translation. CER results are calculated by translating prior period results using the current period foreign exchange rates. All CER profit figures have been translated at current period average rates. For Asia, CER average liabilities have been translated using current period opening and closing exchange rates. For US, CER average liabilities have been translated at the current period month-end closing exchange rates.

(7) The half year 2018 comparative results exclude the contribution from the UK and Europe operations, which have been classified as discontinued at 30 June 2019.

## I Additional financial information continued

### I(iv) Analysis of adjusted IFRS operating profit based on longer-term investment returns by driver from continuing long-term insurance businesses continued

### (b) Margin analysis of long-term insurance business – Asia

| | Half year 2019 | | | Half year 2018 AER | | | Half year 2018 CER note (6) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Profit | Average liability note (1) | Margin note (2) | Profit | Average liability note (1) | Margin note (2) | Profit | Average liability note (1) | Margin note (2) |
| **Long-term business** | £m | £m | bps | £m | £m | bps | £m | £m | bps |
| Spread income | 119 | 21,816 | 109 | 112 | 17,872 | 125 | 115 | 18,515 | 124 |
| Fee income | 111 | 20,843 | 107 | 108 | 19,903 | 109 | 110 | 20,513 | 107 |
| With-profits | 41 | 43,294 | 19 | 30 | 34,032 | 18 | 31 | 35,700 | 17 |
| Insurance margin | 852 | | | 723 | | | 750 | | |
| Margin on revenues | 1,124 | | | 1,004 | | | 1,042 | | |
| Expenses: | | | | | | | | | |
| Acquisition costs note (3) | (802) | 1,978 | (41)% | (721) | 1,736 | (42)% | (749) | 1,806 | (41)% |
| Administration expenses | (547) | 42,659 | (256) | (512) | 37,775 | (271) | (526) | 39,028 | (270) |
| DAC adjustments note (4) | 132 | | | 143 | | | 148 | | |
| Expected return on shareholder assets | 69 | | | 58 | | | 60 | | |
| | 1,099 | | | 945 | | | 981 | | |
| Share of related tax charges from joint ventures and associate note (5) | (4) | | | (18) | | | (18) | | |
| Adjusted IFRS operating profit based on longer-term investment returns | 1,095 | | | 927 | | | 963 | | |

***Analysis of Asia operating profit drivers***

- Spread income has increased on a CER basis by 3 per cent (AER: 6 per cent) to £119 million in half year 2019, with a decrease in the margin on a CER basis from 124 basis points (AER: 125 basis points) in half year 2018 to 109 basis points in half year 2019 predominantly reflecting the changes in investment mix, product and geographical mix as well as lower interest rates in the period.
- Fee income has increased by 1 per cent on a CER basis (AER: 3 per cent) to £111 million in half year 2019, broadly in line with the increase in movement in average unit-linked liabilities.
- Insurance margin has increased by 14 per cent on a CER basis (AER: 18 per cent), primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of protection products.
- Margin on revenues has increased by 8 per cent on a CER basis (AER: 12 per cent) to £1,124 million in half year 2019, primarily reflecting higher premiums together with the effect of changes in product mix.
- Acquisition costs have increased by 7 per cent on a CER basis (AER: 11 per cent) to £(802) million in half year 2019, compared to a 10 per cent increase in APE sales on a CER basis (AER: 14 per cent). The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator, the acquisition cost ratio would become 66 per cent (half year 2018: 69 per cent on a CER basis), the decrease being the result of product and geographical mix.
- Administration expenses including renewal commissions have increased by 4 per cent on a CER basis (AER: 7 per cent) to £(547) million in half year 2019 as the business continues to expand. On a CER basis, the administration expense ratio has decreased from 270 basis points in half year 2018 to 256 basis points in half year 2019 as a result of changes in geographical and product mix.

## (c) Margin analysis of long-term insurance business – US

| Long-term business | Half year 2019 Profit £m | Half year 2019 Average liability note (1) £m | Half year 2019 Margin note (2) bps | Half year 2018 AER Profit £m | Half year 2018 AER Average liability note (1) £m | Half year 2018 AER Margin note (2) bps | Half year 2018 CER note (6) Profit £m | Half year 2018 CER note (6) Average liability note (1) £m | Half year 2018 CER note (6) Margin note (2) bps |
|---|---|---|---|---|---|---|---|---|---|
| Spread income | 230 | 43,358 | 106 | 295 | 36,396 | 162 | 314 | 38,765 | 162 |
| Fee income | 1,238 | 136,833 | 181 | 1,185 | 130,088 | 182 | 1,260 | 138,054 | 183 |
| Insurance margin | 549 | | | 463 | | | 491 | | |
| Expenses: | | | | | | | | | |
| Acquisition costs note (3) | (382) | 831 | (46)% | (384) | 816 | (47)% | (408) | 868 | (47)% |
| Administration expenses | (637) | 182,824 | (70) | (580) | 170,666 | (68) | (617) | 180,604 | (68) |
| DAC adjustments | 191 | | | 10 | | | 11 | | |
| Expected return on shareholder assets | 14 | | | 12 | | | 13 | | |
| Adjusted IFRS operating profit based on longer-term investment returns | 1,203 | | | 1,001 | | | 1,064 | | |

### *Analysis of US operating profit drivers*

- Spread income has decreased by 27 per cent on a CER basis (AER: 22 per cent) to £230 million in half year 2019, reflecting the combination of lower spread income and lower swap income. The reduction in spread income reflects the effect of lower invested asset yields. The decline in swap income is a result of the unfavourable impact of higher short-term interest rates over much of the period. The decline in spread margin to 106 basis points from 162 basis points at half year 2018 (on and AER and CER basis) in relation to average spread-related general account assets also reflects the full consolidation in the current period of the assets acquired with the John Hancock transaction in November 2018. Excluding the effect of the swaps transactions, the spread margin would have been 95 basis points (half year 2018: 133 basis points).
- Fee income has decreased on a CER basis by 2 per cent (AER: increased by 4 per cent) to £1,238 million in half year 2019, primarily due to lower average separate account balances as a result of market depreciation during the second half of 2018. Fee income margin has decreased to 181 basis points from 183 basis points on a CER basis (AER: 182 basis points) primarily reflecting a change in product mix.
- Insurance margin represents profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin increased on a CER basis from £491 million (AER: £463 million) in half year 2018 to £549 million in half year 2019. The increase is due to higher income from variable annuity guarantees and a contribution from the John Hancock business acquired in the fourth quarter of 2018.
- Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased on a CER basis by 6 per cent (AER: 1 per cent). This primarily reflects a 4 per cent decrease in APE sales.
- Administration expenses increased on a CER basis from £(617) million (AER £(580) million) in half year 2018 to £(637) million in half year 2019, primarily as a result of higher asset-based commissions. Excluding these asset-based commissions, the resulting administration expense ratio would be 34 basis points (half year 2018: 34 basis points on a CER basis; 33 basis points on AER basis).
- DAC adjustments in half year 2019 was a positive £191 million (half year 2018: positive £11 million on a CER basis) due to a decrease in the DAC amortisation charge. The lower DAC amortisation charge in half year 2019 arises largely from a deceleration of amortisation of £148 million (half year 2018: acceleration of £(45) million on a CER basis) driven primarily by higher equity market returns in the first half of 2019.

## I Additional financial information continued

### I(iv) Analysis of adjusted IFRS operating profit based on longer-term investment returns by driver from continuing long-term insurance businesses continued

***Analysis of adjusted IFRS operating profit based on longer-term investment returns for US insurance operations before and after acquisition costs and DAC adjustments***

| | Half year 2019 £m | | | | Half year 2018 AER £m | | | | Half year 2018 CER £m note (6) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Before acquisition costs and DAC adjustments | Acquisition costs Incurred | Acquisition costs Deferred | After acquisition costs and DAC adjustments | Before acquisition costs and DAC adjustments | Acquisition costs Incurred | Acquisition costs Deferred | After acquisition costs and DAC adjustments | Before acquisition costs and DAC adjustments | Acquisition costs Incurred | Acquisition costs Deferred | After acquisition costs and DAC adjustments |
| Total adjusted IFRS operating profit based on longer-term investment returns before acquisition costs and DAC adjustments | 1,394 | – | – | 1,394 | 1,375 | – | – | 1,375 | 1,462 | – | – | 1,462 |
| Less new business strain | – | (382) | 285 | (97) | – | (384) | 290 | (94) | – | (408) | 308 | (100) |
| Other DAC adjustments – amortisation of previously deferred acquisition costs: Normal | – | – | (242) | (242) | – | – | (238) | (238) | – | – | (253) | (253) |
| (Accelerated) decelerated | – | – | 148 | 148 | – | – | (42) | (42) | – | – | (45) | (45) |
| Total adjusted IFRS operating profit based on longer-term investment returns | 1,394 | (382) | 191 | 1,203 | 1,375 | (384) | 10 | 1,001 | 1,462 | (408) | 10 | 1,064 |

***Analysis of adjusted IFRS operating profit based on longer-term investment returns for US by product***

| | 2019 £m | 2018 £m | | % | |
|---|---|---|---|---|---|
| | | | | Half year 2019 vs half year 2018 | |
| | Half year | AER Half year | CER Half year note (6) | AER | CER note (6) |
| Spread business | 123 | 153 | 163 | (20)% | (25)% |
| Fee business | 1,048 | 791 | 841 | 32% | 25% |
| Life and other business | 32 | 57 | 60 | (44)% | (47)% |
| **Total insurance business** | 1,203 | 1,001 | 1,064 | 20% | 13% |
| Asset management and broker-dealer | 12 | 1 | 1 | 1,100% | 1,100% |
| **Total US** | 1,215 | 1,002 | 1,065 | 21% | 14% |

The analysis of adjusted IFRS operating profit based on longer-term investment returns for US by product represents the net profit generated by each line of business after allocation of costs. Broadly:

— Spread business is the net adjusted operating profit for fixed annuity, fixed indexed annuity and guaranteed investment contracts and largely comprises spread income less costs.
— Fee business represents profit from variable annuity products. As well as fee income, revenue for this product line includes spread income from investments directed to the general account and other variable annuity fees included in insurance margin.
— Life and other business include profit from the REALIC business and other closed life books. Revenue allocated to this product line includes spread income and premiums and policy charges for life protection, which are included in insurance margin after claim costs.

## I(v) Asia operations – analysis of adjusted IFRS operating profit based on longer-term investment returns by business unit

### (a) Analysis of adjusted IFRS operating profit based on longer-term investment returns by business unit

Adjusted operating profit based on longer-term investment returns for Asia operations are analysed below. The table below presents the half year 2018 results on both AER and CER bases to eliminate the impact of exchange translation.

| | 2019 £m | 2018 £m | | % | | 2018 £m |
|---|---|---|---|---|---|---|
| | Half year | AER Half year | CER Half year | Half year 2019 vs half year 2018 AER | Half year 2019 vs half year 2018 CER | AER Full year |
| Hong Kong | **260** | 190 | 202 | 37% | 29% | 443 |
| Indonesia | **200** | 205 | 212 | (2)% | (6)% | 416 |
| Malaysia | **109** | 97 | 99 | 12% | 10% | 194 |
| Philippines | **26** | 20 | 21 | 30% | 24% | 43 |
| Singapore | **176** | 143 | 149 | 23% | 18% | 329 |
| Thailand | **48** | 46 | 48 | 4% | 0% | 113 |
| Vietnam | **83** | 63 | 67 | 32% | 24% | 149 |
| **South-east Asia including Hong Kong** | **902** | 764 | 798 | 18% | 13% | 1,687 |
| China JV | **69** | 62 | 61 | 11% | 13% | 143 |
| Taiwan | **24** | 19 | 20 | 26% | 20% | 51 |
| Other | **30** | 33 | 32 | (9)% | (6)% | 51 |
| Non-recurrent items* | **76** | 69 | 72 | 10% | 6% | 94 |
| **Total insurance operations** | **1,101** | 947 | 983 | 16% | 12% | 2,026 |
| Share of related tax charges from joint ventures and associate | **(4)** | (18) | (18) | 78% | 78% | (40) |
| Development expenses | **(2)** | (2) | (2) | – | – | (4) |
| **Total long-term business** | **1,095** | 927 | 963 | 18% | 14% | 1,982 |
| Asset management (Eastspring Investments) | **103** | 89 | 92 | 16% | 12% | 182 |
| **Total Asia** | **1,198** | 1,016 | 1,055 | 18% | 14% | 2,164 |

* In half year 2019, the adjusted IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £76 million (half year 2018: £69 million; full year 2018: £94 million) representing a small number of items that are not expected to reoccur, including the impact of a refinement to the run-off of the allowance for prudence within technical provisions.

### (b) Analysis of Eastspring Investments operating profit for the period

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Operating income before performance-related fees note (1) | **239** | 216 | 424 |
| Performance-related fees | **1** | 2 | 17 |
| Operating income (net of commission) note (2) | **240** | 218 | 441 |
| Operating expense note (2) | **(121)** | (116) | (232) |
| Group's share of tax on joint ventures' operating profit | **(16)** | (13) | (27) |
| Operating profit for the period | **103** | 89 | 182 |
| Average funds under management | **£162.4bn** | £139.5bn | £146.3bn |
| Margin based on operating income* | **29bps** | 31bps | 29bps |
| Cost/income ratio† | **51%** | 54% | 55% |

**Notes**

(1) Operating income before performance-related fees for Eastspring Investments can be further analysed as follows:

| | Retail £m | Margin of FUM* bps | Institutional‡ £m | Margin of FUM* bps | Total £m | Margin of FUM* bps |
|---|---|---|---|---|---|---|
| 30 Jun 2019 | **148** | **51** | **91** | **18** | **239** | **29** |
| 30 Jun 2018 | 128 | 54 | 88 | 19 | 216 | 31 |
| 31 Dec 2018 | 252 | 50 | 172 | 18 | 424 | 29 |

* Margin represents operating income before performance-related fees as a proportion of the related funds under management (FUM). Half year figures have been annualised by multiplying by two. 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 (but excludes any contribution from associates). In the condensed consolidated income statement of the Group IFRS basis results, the net post-tax income of the joint ventures and associates is shown as a single line item.

## I Additional financial information continued

### I(v) Asia operations – analysis of adjusted IFRS operating profit based on longer-term investment returns 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 under management managed by Eastspring Investments.

| | 2019 £bn | 2018 £bn | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| External funds under management* | 67.0 | 52.4 | 61.1 |
| Internal funds under management | 102.5 | 85.8 | 90.2 |
| Total funds under management | 169.5 | 138.2 | 151.3 |

* The external funds under management for Eastspring Investments include Asia Money Market Funds at 30 June 2019 of £10.5 billion (30 June 2018: £10.0 billion; 31 December 2018: £11.6 billion).

### I(vi) Additional financial information on the discontinued UK and Europe operations

**(a) Analysis of profit for the period by driver**

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Core profit from long-term business | 345 | 255 | 519 |
| Shareholder-backed annuity new business | 8 | 3 | 9 |
| Changes in longevity assumption basis | 127 | – | 441 |
| Other management actions to improve solvency | 16 | 63 | 58 |
| Provision for guaranteed minimum pension equalisation | – | – | (55) |
| Insurance recoveries in respect of the review of past annuity sales | – | 166 | 166 |
| **Operating profit from long-term business** | 496 | 487 | 1,138 |
| General insurance commissions | 2 | 19 | 19 |
| Asset management operations | 239 | 272 | 477 |
| Head office costs | (21) | – | – |
| Restructuring costs | (29) | (42) | (109) |
| **Adjusted IFRS operating profit based on longer-term investment returns** | 687 | 736 | 1,525 |
| Fair value loss on debt extinguishment[note] | (169) | – | – |
| Other non-operating profit (loss) | 299 | (635) | (474) |
| **Profit before tax** | 817 | 101 | 1,051 |
| Tax charge attributable to shareholders' returns | (172) | (18) | (196) |
| **Profit for period, net of related tax** | 645 | 83 | 855 |

**Note**

As described in note C6.1(vi) of the Group IFRS basis results, during the first half of 2019, the Group agreed to change the terms of certain debt holdings to enable M&GPrudential to be substituted as the issuer of the instruments (in the place of Prudential plc). The change in fair value of debt, driven by the higher coupon, will be borne by M&GPrudential post the proposed demerger and hence it has been included in the results from discontinued operations in the table above. The 2018 comparative results include a £(513) million loss arising on the reinsurance of part of the UK annuity portfolio to Rothesay Life.

## (b) Analysis of M&G Investments operating profit for the period

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| Asset management fee income | 511 | 552 | 1,098 |
| Other income | 12 | 1 | 2 |
| Operating income before performance-related fees note | 523 | 553 | 1,100 |
| Staff costs | (176) | (190) | (384) |
| Other costs | (122) | (107) | (270) |
| Operating expense | (298) | (297) | (654) |
| Underlying profit before performance-related fees | 225 | 256 | 446 |
| Performance-related fees | 7 | 8 | 15 |
| Share of associate's results | 7 | 8 | 16 |
| **Operating profit based on longer-term investment returns** | 239 | 272 | 477 |
| Average funds under management | £263.8bn | £285.3bn | £276.6bn |
| Margin based on operating income* | 40bps | 39bps | 40bps |
| Cost/income ratio† | 57% | 54% | 59% |

**Note**
Operating income before performance-related fees can be further analysed as follows:

| | Retail £m | Margin of FUM* bps | Institutional‡ £m | Margin of FUM* bps | Total £m | Margin of FUM* bps |
|---|---|---|---|---|---|---|
| 30 Jun 2019 | 280 | 83 | 243 | 25 | 523 | 40 |
| 30 Jun 2018 | 331 | 84 | 222 | 21 | 553 | 39 |
| 31 Dec 2018 | 662 | 85 | 438 | 22 | 1,100 | 40 |

* Margin represents operating income before performance related fees as a proportion of the related funds under management (FUM). Half year figures have been annualised by multiplying by two. Monthly closing internal and external funds managed by the respective entity 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 operating expense as a percentage of operating income before performance-related fees.
‡ Institutional includes internal funds.

## (c) M&G Investments total funds under management

M&G Investments, the asset management business of M&GPrudential, manages funds from external parties and also funds for the Group's insurance operations. The table below analyses the total funds under management managed by M&G Investments.

| | 2019 £bn | 2018 £bn | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| External funds under management | 153.0 | 165.5 | 146.9 |
| Internal funds under management | 123.7 | 120.3 | 118.2 |
| Total funds under management | 276.7 | 285.8 | 265.1 |

## I Additional financial information continued

### I(vii) Pro forma Prudential Group IFRS shareholders' equity, excluding M&GPrudential, as at 30 June 2019

The pro forma impact on the Prudential Group IFRS shareholders' equity below illustrates the estimated effect of the proposed demerger of M&GPrudential from Prudential plc as if it had completed as at 30 June 2019, is provided in the table below.

| | 2019 £bn |
|---|---|
| | 30 Jun |
| **IFRS shareholders' equity as reported in the statement of financial position** | 19.7 |
| **Adjustments:** note (1) | |
| Remove IFRS shareholders' equity of the discontinued M&GPrudential operations | (8.3) |
| Dividends to be remitted by M&GPrudential to Prudential plc prior to demerger | 3.3 |
| Directly attributable transaction costs to be borne by Prudential plc | (0.1) |
| | (5.1) |
| **Pro forma IFRS shareholders' equity** note (2) | 14.6 |

**Notes**

(1) The adjustments as shown in the table above, which result in a decrease in IFRS shareholders' equity of £5.1 billion, represent the estimated impact on the retained Prudential Group's IFRS shareholders' equity of the proposed demerger. The adjustments, which are calculated based on the information and assumptions at 30 June 2019 and therefore, do not necessarily represent the actual financial position following the proposed demerger, include:
- The removal of the IFRS shareholders' equity of M&GPrudential as at 30 June 2019 of £8.3 billion, as shown in note D2.2;
- The expected proceeds of £3.0 billion from a pre-demerger dividend to be paid by M&GPrudential to Prudential plc, shortly before demerger, together with planned dividends of £0.3 billion expected to be paid earlier. All dividends are subject to the customary legal and governance considerations required before approval by the M&GPrudential Board; and
- £0.1 billion of expected transaction related costs associated with the proposed demerger that have yet to be incurred at 30 June 2019, principally relating to fees to advisors. Further information on the total costs associated with the demerger are set out in the CFO Report.

The expected transfer of £3.2 billion of debt to M&GPrudential prior to the proposed demerger by substituting M&GPrudential in the place of Prudential plc as issuer of such debt, as discussed in note C6.1, does not result in a separate pro forma adjustment to IFRS shareholders equity.

(2) No account has been taken of any trading and other changes in financial position of the Prudential Group after 30 June 2019, thus the pro forma IFRS shareholders' equity does not reflect the actual IFRS shareholders' equity of the retained Prudential Group following the completion of the demerger.

### I(viii) Return on IFRS shareholders' funds

Operating return on IFRS shareholders' funds is calculated as operating profit net of tax and non-controlling interests divided by opening shareholders' equity. Total comprehensive return on shareholders' funds is calculated as IFRS total comprehensive income for the period net of tax and non-controlling interests divided by opening shareholders' equity. Detailed reconciliation of operating profit based on longer-term investment returns to IFRS profit before tax for continuing operations is shown in note B1.1 to the Group IFRS basis results. The reconciliation for discontinued operations is shown in note I(vi).

| | Half year 2019 £m | | | | | |
|---|---|---|---|---|---|---|
| | Asia | US | Other | Total continuing operations | Discontinued UK and Europe operations | Total Group |
| Operating profit based on longer-term investment returns | 1,198 | 1,215 | (389) | 2,024 | 687 | 2,711 |
| Tax on operating profit | (168) | (203) | 39 | (332) | (146) | (478) |
| Profit attributable to non-controlling interests | (4) | – | (1) | (5) | – | (5) |
| Operating profit based on longer-term investment returns, net of tax and non-controlling interests | 1,026 | 1,012 | (351) | 1,687 | 541 | 2,228 |
| Non-operating profit (loss), net of tax | 607 | (1,222) | (182) | (797) | 104 | (693) |
| IFRS profit for the period, net of tax and non-controlling interests | 1,633 | (210) | (533) | 890 | 645 | 1,535 |
| Other comprehensive income, net of tax and non-controlling interests | 84 | 1,748 | (82) | 1,750 | 4 | 1,754 |
| IFRS total comprehensive income | 1,717 | 1,538 | (615) | 2,640 | 649 | 3,289 |
| Opening shareholders' funds | 6,419 | 5,624 | (3,494) | 8,549 | 8,700 | 17,249 |
| **Annualised operating return on shareholders' funds (%)*** | 32% | 36% | (20)% | 39% | 12% | 26% |
| **Annualised total comprehensive return on shareholders' funds (%)*** | 53% | 55% | (35)% | 62% | 15% | 38% |

* Half year profits are annualised by multiplying by two.

| | Half year 2018* £m | | | | | |
|---|---|---|---|---|---|---|
| | Asia | US | Other | Total continuing operations | Discontinued UK and Europe operations | Total Group |
| Operating profit based on longer-term investment returns | 1,016 | 1,002 | (349) | 1,669 | 736 | 2,405 |
| Tax on operating profit | (151) | (177) | 41 | (287) | (142) | (429) |
| Profit attributable to non-controlling interests | – | – | (1) | (1) | – | (1) |
| Operating profit based on longer-term investment returns, net of tax and non-controlling interests | 865 | 825 | (309) | 1,381 | 594 | 1,975 |
| Non-operating profit (loss), net of tax | (326) | 145 | 72 | (109) | (511) | (620) |
| IFRS profit for the period, net of tax and non-controlling interests | 539 | 970 | (237) | 1,272 | 83 | 1,355 |
| Other comprehensive income, net of tax and non-controlling interests | 22 | (790) | (66) | (834) | 62 | (772) |
| IFRS total comprehensive income | 561 | 180 | (303) | 438 | 145 | 583 |
| Opening shareholders' funds | 5,925 | 5,248 | (3,331) | 7,842 | 8,245 | 16,087 |
| **Annualised operating return on shareholders' funds (%)†** | 29% | 31% | (19)% | 35% | 14% | 25% |
| **Annualised total comprehensive return on shareholders' funds (%)†** | 19% | 7% | (18)% | 11% | 4% | 7% |

* The half year 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations as at 30 June 2019.
† Half year profits are annualised by multiplying by two.

| | Full year 2018* £m | | | | | |
|---|---|---|---|---|---|---|
| | Asia | US | Other | Total continuing operations | Discontinued UK and Europe operations | Total Group |
| Operating profit based on longer-term investment returns | 2,164 | 1,919 | (781) | 3,302 | 1,525 | 4,827 |
| Tax on operating profit | (308) | (301) | 110 | (499) | (293) | (792) |
| Profit attributable to non-controlling interests | (1) | – | (2) | (3) | – | (3) |
| Operating profit based on longer-term investment returns, net of tax and non-controlling interests | 1,855 | 1,618 | (673) | 2,800 | 1,232 | 4,032 |
| Non-operating profit (loss), net of tax | (496) | (134) | (15) | (645) | (377) | (1,022) |
| IFRS profit for the period, net of tax and non-controlling interests | 1,359 | 1,484 | (688) | 2,155 | 855 | 3,010 |
| Other comprehensive income, net of tax and non-controlling interests | 221 | (754) | (185) | (718) | 57 | (661) |
| IFRS total comprehensive income | 1,580 | 730 | (873) | 1,437 | 912 | 2,349 |
| Opening shareholders' funds | 5,925 | 5,248 | (3,331) | 7,842 | 8,245 | 16,087 |
| **Operating return on shareholders' funds (%)** | 31% | 31% | (20)% | 36% | 15% | 25% |
| **Total comprehensive return on shareholders' funds (%)** | 27% | 14% | (26)% | 18% | 11% | 15% |

* The full year 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations as at 30 June 2019.

## I Additional financial information continued

### I(viii) Return on IFRS shareholders' funds continued

**Return on shareholders' funds based on total profit for the period**

Total return on shareholders' funds is calculated as IFRS profit for the period net of tax and non-controlling interests divided by opening shareholders' equity.

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year* | Half year* | Full year |
| Total profit for the period, net of tax and minority interest | 1,535 | 1,355 | 3,010 |
| Opening Shareholders' funds | 17,249 | 16,087 | 16,087 |
| Return on shareholders' funds | 18% | 17% | 19% |

* Half year profits are annualised by multiplying by two.

### I(ix) 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 UK savings-related share option scheme (SAYE). In anticipation of the demerger of the M&GPrudential business the Company did not operate the SAYE in 2018. Executives and eligible employees based in Asia as well as eligible employees based in Europe can participate in the international savings-related share option scheme while agents based in certain regions of Asia can participate in the 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 in the 2018 annual report.

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 non-employee savings-related share option scheme) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the Directors resolve to terminate the plans at an earlier date:

- UK savings-related share option scheme: 16 May 2023;
- International savings-related share option scheme: 31 May 2021; and
- International savings-related share option scheme for non-employees 2012: 17 May 2022.

The weighted average share price of Prudential plc for the period ended 30 June 2019 was £15.90 (30 June 2018: £18.56).

The following analyses show the movements in options for each of the option schemes for the period ended 30 June 2019.

**UK savings-related share option scheme**

| | | Exercise period | | Number of shares under options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of grant | Exercise price £ | Beginning | End | Beginning of period | Granted | Exercised | Cancelled | Forfeited | Lapsed | End of period |
| 20 Sep 13 | 9.01 | 01 Dec 18 | 31 May 19 | 27,732 | – | (26,068) | – | – | – | 1,664 |
| 23 Sep 14 | 11.55 | 01 Dec 19 | 31 May 20 | 303,716 | – | (31,373) | (1,835) | (262) | (5,462) | 264,784 |
| 22 Sep 15 | 11.11 | 01 Dec 18 | 31 May 19 | 256,744 | – | (251,751) | – | (1,134) | (2,337) | 1,522 |
| 22 Sep 15 | 11.11 | 01 Dec 20 | 31 May 21 | 180,526 | – | (9,438) | (1,890) | (270) | (4,888) | 164,040 |
| 21 Sep 16 | 11.04 | 01 Dec 19 | 31 May 20 | 538,927 | – | (38,627) | (6,044) | (4,596) | (17,971) | 471,689 |
| 21 Sep 16 | 11.04 | 01 Dec 21 | 31 May 22 | 121,105 | – | (4,247) | (4,536) | (543) | (5,945) | 105,834 |
| 21 Sep 17 | 14.55 | 01 Dec 20 | 31 May 21 | 668,276 | – | (16,617) | (28,115) | (10,681) | (51,110) | 561,753 |
| 21 Sep 17 | 14.55 | 01 Dec 22 | 31 May 23 | 115,347 | – | (1,960) | (3,297) | (412) | (9,651) | 100,027 |
| | | | | 2,212,373 | – | (380,081) | (45,717) | (17,898) | (97,364) | 1,671,313 |

The total number of securities available for issue under the scheme is 1,671,313 which represents 0.064 per cent of the issued share capital at 30 June 2019.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £15.74.

### International savings-related share option scheme

| | | Exercise period | | Number of shares under options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of grant | Exercise price £ | Beginning | End | Beginning of period | Granted | Exercised | Cancelled | Forfeited | Lapsed | End of period |
| 20 Sep 13 | 9.01 | 01 Dec 18 | 31 May 19 | 18,387 | – | (18,386) | (1) | – | – | – |
| 23 Sep 14 | 11.55 | 01 Dec 19 | 31 May 20 | 4,413 | – | – | – | – | – | 4,413 |
| 22 Sep 15 | 11.11 | 01 Dec 18 | 31 May 19 | 4,860 | – | (4,860) | – | – | – | – |
| 22 Sep 15 | 11.11 | 01 Dec 20 | 31 May 21 | 2,700 | – | – | – | – | – | 2,700 |
| 21 Sep 16 | 11.04 | 01 Dec 19 | 31 May 20 | 10,776 | – | – | (277) | (1,304) | – | 9,195 |
| 21 Sep 17 | 14.55 | 01 Dec 20 | 31 May 21 | 9,820 | – | – | (272) | (247) | – | 9,301 |
| 21 Sep 17 | 14.55 | 01 Dec 22 | 31 May 23 | 3,298 | – | – | – | – | – | 3,298 |
| 18 Sep 18 | 13.94 | 01 Dec 21 | 31 May 22 | 22,005 | – | – | – | – | – | 22,005 |
| 18 Sep 18 | 13.94 | 01 Dec 23 | 31 May 24 | 1,076 | – | – | – | – | – | 1,076 |
| | | | | 77,335 | – | (23,246) | (550) | (1,551) | – | 51,988 |

The total number of securities available for issue under the scheme is 51,988 which represents 0.002 per cent of the issued share capital at 30 June 2019.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £15.83.

### Non-employee savings-related share option scheme

| | | Exercise period | | Number of shares under options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Date of grant | Exercise price £ | Beginning | End | Beginning of period | Granted | Exercised | Cancelled | Forfeited | Lapsed | End of period |
| 20 Sep 13 | 9.01 | 01 Dec 18 | 31 May 19 | 235,987 | – | (235,987) | – | – | – | – |
| 23 Sep 14 | 11.55 | 01 Dec 19 | 31 May 20 | 459,165 | – | – | (5,192) | (1,298) | – | 452,675 |
| 22 Sep 15 | 11.11 | 01 Dec 18 | 31 May 19 | 261,478 | – | (260,499) | (169) | – | – | 810 |
| 22 Sep 15 | 11.11 | 01 Dec 20 | 31 May 21 | 376,672 | – | – | (6,750) | – | – | 369,922 |
| 21 Sep 16 | 11.04 | 01 Dec 19 | 31 May 20 | 326,596 | – | (565) | – | (250) | – | 325,781 |
| 21 Sep 16 | 11.04 | 01 Dec 21 | 31 May 22 | 197,057 | – | – | – | – | – | 197,057 |
| 21 Sep 17 | 14.55 | 01 Dec 20 | 31 May 21 | 263,827 | – | – | – | – | – | 263,827 |
| 21 Sep 17 | 14.55 | 01 Dec 22 | 31 May 23 | 172,291 | – | – | – | – | – | 172,291 |
| 18 Sep 18 | 13.94 | 01 Dec 21 | 31 May 22 | 184,780 | – | – | – | – | – | 184,780 |
| 18 Sep 18 | 13.94 | 01 Dec 23 | 31 May 24 | 118,243 | – | – | – | – | – | 118,243 |
| | | | | 2,596,096 | – | (497,051) | (12,111) | (1,548) | – | 2,085,386 |

The total number of securities available for issue under the scheme is 2,085,386 which represents 0.080 per cent of the issued share capital at 30 June 2019.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £16.04.

## II Calculation of alternative performance measures

The half year 2019 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 IFRS operating profit based on longer-term investment returns from continuing operations to profit before tax

Adjusted IFRS operating profit attributable to shareholders based on longer-term investment returns from continuing operations (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;
- Gain or loss on corporate transactions, such as disposals undertaken in the period; and
- Profit for the period from discontinued operations.

More details on how adjusted IFRS operating profit based on longer-term investment returns is determined are included in note B1.3 of the Group IFRS basis results.

### II(ii) Calculation of IFRS gearing ratio

IFRS gearing ratio is calculated as net core structural borrowings of shareholder-financed businesses divided by closing IFRS shareholders' equity plus net core structural borrowings.

| | **2019** £m | **2018** £m | |
|---|---|---|---|
| | **30 Jun** | **30 Jun** | **31 Dec** |
| Core structural borrowings of shareholder-financed businesses | 7,441 | 6,367 | 7,664 |
| Less holding company cash and short-term investments | (2,365) | (2,210) | (3,236) |
| **Net core structural borrowings of shareholder-financed businesses** | 5,076 | 4,157 | 4,428 |
| Closing shareholders' equity | 19,672 | 15,882 | 17,249 |
| **Closing shareholders' equity plus net core structural borrowings** | 24,748 | 20,039 | 21,677 |
| **IFRS gearing ratio** | 21% | 21% | 20% |

### II(iii) Calculation of IFRS shareholders' funds per share

IFRS shareholders' funds per share is calculated as closing IFRS shareholders' equity divided by the number of issued shares at the end of the period (30 June 2019: 2,600 million shares; 30 June 2018: 2,592 million shares; 31 December 2018: 2,593 million shares).

| | **30 Jun 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Asia** | **US** | **Other** | **Total continuing operations** | **Discontinued UK and Europe operations** | **Total Group** |
| Closing IFRS shareholders' equity (£ million) | 7,643 | 6,752 | (3,003) | 11,392 | 8,280 | 19,672 |
| **Shareholders' funds per share (pence)** | 294p | 260p | (116)p | 438p | 319p | 757p |

| | **30 Jun 2018** | | | | | |
|---|---|---|---|---|---|---|
| | **Asia** | **US** | **Other** | **Total continuing operations** | **Discontinued UK and Europe operations** | **Total Group** |
| Closing IFRS shareholders' equity (£ million) | 5,740 | 5,100 | (3,004) | 7,836 | 8,046 | 15,882 |
| **Shareholders' funds per share (pence)** | 221p | 197p | (116)p | 302p | 311p | 613p |

| | **31 Dec 2018** | | | | | |
|---|---|---|---|---|---|---|
| | **Asia** | **US** | **Other** | **Total continuing operations** | **Discontinued UK and Europe operations** | **Total Group** |
| Closing IFRS shareholders' equity (£ million) | 6,419 | 5,624 | (3,494) | 8,549 | 8,700 | 17,249 |
| **Shareholders' funds per share (pence)** | 248p | 217p | (135)p | 330p | 335p | 665p |

## II(iv) 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 – continuing | | |
|---|---|---|---|
| | 2019 £m | 2018 £m | |
| | Half year | Half year | Full year |
| **Operating income before performance-related fees** | 239 | 216 | 424 |
| Share of joint venture revenue | (93) | (99) | (188) |
| Commission | 68 | 59 | 118 |
| Performance-related fees | 1 | 2 | 17 |
| **IFRS revenue** | 215 | 178 | 371 |
| **Operating expense** | 121 | 116 | 232 |
| Share of joint venture expense | (40) | (58) | (100) |
| Commission | 68 | 59 | 118 |
| **IFRS charges** | 149 | 117 | 250 |
| **Cost/income ratio: operating expense/operating income before performance-related fees** | 51% | 54% | 55% |

| | M&GPrudential asset management – discontinued | | |
|---|---|---|---|
| | 2019 £m | 2018 £m | |
| | Half year | Half year | Full year |
| **Operating income before performance-related fees** | 523 | 553 | 1,100 |
| Commission | 132 | 155 | 313 |
| Performance-related fees | 7 | 8 | 15 |
| Investment return | – | – | (14) |
| Short-term fluctuations in investment returns on shareholder-backed business | 7 | (6) | (15) |
| **IFRS revenue** | 669 | 710 | 1,399 |
| **Operating expense used in cost/income ratio** | 298 | 297 | 654 |
| Investment return | – | – | (14) |
| Commission | 132 | 155 | 313 |
| **IFRS charges** | 430 | 452 | 953 |
| **Cost/income ratio: operating expense/operating income before performance-related fees** | 57% | 54% | 59% |

## II(v) Reconciliation of Asia renewal insurance premium to gross premiums earned

Asia renewal insurance premium is calculated as IFRS gross earned premiums less new business premiums and adjusted for the contribution from joint ventures.

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| **Asia renewal insurance premium** | 7,093 | 6,076 | 12,856 |
| Add: General insurance premium | 50 | 42 | 90 |
| Add: IFRS gross earned premium from new regular and single premium business | 2,406 | 2,237 | 4,809 |
| Less: Renewal premiums from joint ventures | (693) | (619) | (1,286) |
| **Asia segment IFRS gross premiums earned** | 8,856 | 7,736 | 16,469 |

## II Calculation of alternative performance measures continued

### II(vi) Reconciliation of APE new business sales to gross premiums earned

The Group reports APE new business sales as a measure of the new policies sold in the period. This differs from the IFRS measure of gross premiums earned as shown below:

| | 2019 £m | 2018* £m | |
|---|---|---|---|
| | Half year | Half year | Full year |
| **Annual premium equivalents (APE) from continuing operations** | 2,809 | 2,552 | 5,286 |
| Adjustment to include 100% of single premiums on new business sold in the period note (a) | 8,762 | 8,356 | 15,966 |
| Premiums from in-force business and other adjustments note (b) | 4,722 | 3,878 | 12,911 |
| **Gross premiums earned from continuing operations** | 16,293 | 14,786 | 34,163 |
| **Annual premiums equivalents (APE) from discontinued UK and Europe operations** | 705 | 770 | 1,516 |
| Adjustment to include 100% of single premiums on new business sold in the period note (a) | 5,503 | 6,021 | 12,043 |
| Premiums from in-force business and other adjustments note (b) | (301) | (236) | (498) |
| **Gross premiums earned from discontinued operations** | 5,907 | 6,555 | 13,061 |

* The 2018 comparative results have been re-presented from those previously published to reflect the Group's UK and Europe operations as discontinued operations as at 30 June 2019.

**Notes**

(a) APE new business sales only include one tenth of single premiums, recorded on policies sold in the period. Gross premiums earned include 100 per cent of such premiums.

(b) Other adjustments principally include amounts in respect of the following:
- 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. Asia in-force premiums form the vast majority of the other adjustment amount;
- In October 2018, Jackson entered into a 100 per cent reinsurance agreement with John Hancock Life Insurance Company to acquire a closed block of group pay-out annuity business. The transaction resulted in an addition to gross premiums earned of £3.7 billion. No amounts were included in APE new business sales;
- APE includes new policies written in the period which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in M&GPrudential for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
- APE new business sales are annualised while gross premiums earned are recorded only when revenues are due; and
- 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.

### II(vii) 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 period:

| | 2019 £m | 2018 £m | |
|---|---|---|---|
| | 30 Jun | 30 Jun | 31 Dec |
| **EEV shareholders' equity** | 53,416 | 47,443 | 49,782 |
| Less: Value of in-force business of long-term business note (a) | (35,567) | (31,555) | (33,013) |
| Deferred acquisition costs assigned zero value for EEV purposes | 10,443 | 9,652 | 10,077 |
| Other note (b) | (8,620) | (9,658) | (9,597) |
| **IFRS shareholders' equity** | 19,672 | 15,882 | 17,249 |

**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(viii) Reconciliation of EEV operating profit based on longer-term investment returns to profit for the period

To the extent applicable, the presentation of the EEV profit for the period is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results based on longer-term investment returns are determined following the EEV Principles issued by the European Insurance CFO Forum in 2016.

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; and
- The impact of corporate transactions undertaken in the period.

More details on how EEV profit for the period is determined and the components of EEV operating profit are included in note 11 of the supplementary EEV basis of results.

## II(ix) Calculation of return on embedded value

Return on embedded value is calculated as the total post-tax EEV profit for the period as a percentage of opening EEV basis shareholders' equity.

| | Half year 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Asia** | **US** | **Other** | **Total continuing operations** | **Discontinued UK and Europe operations** | **Total Group** |
| EEV basis profit for the period, net of tax and non-controlling interests (£ million) | 3,064 | 948 | (1,034) | 2,978 | 1,281 | 4,259 |
| Opening EEV basis shareholders' equity (£ million) | 25,132 | 14,690 | (3,624) | 36,198 | 13,584 | 49,782 |
| **Annualised total return on shareholders' funds (%)*** | 24% | 13% | n/a | 16% | 19% | 17% |

* Half year profits are annualised by multiplying by two.

| | Half year 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Asia** | **US** | **Other** | **Total continuing operations** | **Discontinued UK and Europe operations** | **Total Group** |
| EEV basis profit for the period, net of tax and non-controlling interests (£ million) | 1,538 | 822 | 290 | 2,650 | 317 | 2,967 |
| Opening EEV basis shareholders' equity (£ million) | 21,592 | 13,492 | (4,013) | 31,071 | 13,627 | 44,698 |
| **Annualised total return on shareholders' funds (%)*** | 14% | 12% | n/a | 17% | 5% | 13% |

* Half year profits are annualised by multiplying by two.

| | Full year 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Asia** | **US** | **Other** | **Total continuing operations** | **Discontinued UK and Europe operations** | **Total Group** |
| EEV basis profit for the period, net of tax and non-controlling interests (£ million) | 3,601 | 788 | (213) | 4,176 | 409 | 4,585 |
| Opening EEV basis shareholders' equity (£ million) | 21,592 | 13,492 | (4,013) | 31,071 | 13,627 | 44,698 |
| **Total return on shareholders' funds (%)** | 17% | 6% | n/a | 13% | 3% | 10% |

## II Calculation of alternative performance measures continued

### II(x) Calculation of EEV shareholders' funds per share

EEV shareholders' funds per share is calculated as closing EEV shareholders' equity divided by the number of issued shares at the end of the period (30 June 2019: 2,600 million shares; 30 June 2018: 2,592 million shares; 31 December 2018: 2,593 million shares). EEV shareholders' funds per share excluding goodwill attributable to shareholders is calculated in the same manner, except goodwill attributable to shareholders is deducted from closing EEV shareholders' equity.

| | 30 Jun 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Asia | US | Other | Total continuing operations | Discontinued UK and Europe operations | Total Group |
| Closing EEV shareholders' equity (£ million) | 27,899 | 15,379 | (3,621) | 39,657 | 13,759 | 53,416 |
| Less: Goodwill attributable to shareholders (£ million) | (510) | – | – | (510) | (1,153) | (1,663) |
| Closing EEV shareholders' equity excluding goodwill attributable to shareholders (£ million) | 27,389 | 15,379 | (3,621) | 39,147 | 12,606 | 51,753 |
| **Shareholders' funds per share (in pence)** | 1,073p | 592p | (139)p | 1,526p | 529p | 2,055p |
| **Shareholders' funds per share excluding goodwill attributable to shareholders (in pence)** | 1,053p | 592p | (139)p | 1,506p | 485p | 1,991p |

| | 30 Jun 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Asia | US | Other | Total continuing operations | Discontinued UK and Europe operations | Total Group |
| Closing EEV shareholders' equity (£ million) | 22,608 | 14,300 | (3,108) | 33,800 | 13,643 | 47,443 |
| Less: Goodwill attributable to shareholders (£ million) | (306) | – | – | (306) | (1,153) | (1,459) |
| Closing EEV shareholders' equity excluding goodwill attributable to shareholders (£ million) | 22,302 | 14,300 | (3,108) | 33,494 | 12,490 | 45,984 |
| **Shareholders' funds per share (in pence)** | 872p | 552p | (120)p | 1,304p | 526p | 1,830p |
| **Shareholders' funds per share excluding goodwill attributable to shareholders (in pence)** | 860p | 552p | (120)p | 1,292p | 482p | 1,774p |

| | 31 Dec 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Asia | US | Other | Total continuing operations | Discontinued UK and Europe operations | Total Group |
| Closing EEV shareholders' equity (£ million) | 25,132 | 14,690 | (3,624) | 36,198 | 13,584 | 49,782 |
| Less: Goodwill attributable to shareholders (£ million) | (498) | – | – | (498) | (1,153) | (1,651) |
| Closing EEV shareholders' equity excluding goodwill attributable to shareholders (£ million) | 24,634 | 14,690 | (3,624) | 35,700 | 12,431 | 48,131 |
| **Shareholders' funds per share (in pence)** | 969p | 567p | (140)p | 1,396p | 524p | 1,920p |
| **Shareholders' funds per share excluding goodwill attributable to shareholders (in pence)** | 950p | 567p | (140)p | 1,377p | 479p | 1,856p |

# Risk factors

A number of risk factors affect Prudential's operating results and financial condition 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'.

## Risks relating to Prudential's business

### Prudential's businesses are inherently subject to market fluctuations and general economic conditions

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, government interest rates in the US, the UK and some Asian countries in which Prudential operates remain low relative to historical levels.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include monetary policy in the US, the UK and other jurisdictions together with their impact on the valuation of all asset classes and effect on interest rates and inflation expectations, concerns over sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty (including the imposition of trade barriers) and potentially negative socio-political events.

The adverse effects of such factors could be felt principally through the following items:

- 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, and/or have a negative impact on its assets under management and profit.
- Higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses.
- Failure of counterparties who have transactions with Prudential (eg banks and reinsurers) to meet commitments which 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.
- 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).
- Increased illiquidity, which also adds to uncertainty over the accessibility of financial resources 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. 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 investment products, 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 not 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.

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. Jackson uses a derivative hedging programme to reduce its exposure to market risks arising on these guarantees. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

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 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 significant spread based business with a significant proportion of its assets invested in fixed-income securities and its results are therefore affected by fluctuations in prevailing interest rates. In particular, fixed annuities and 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.

A significant part of the profit from M&GPrudential's insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

**Prudential conducts its businesses subject to regulation and associated regulatory risks, including 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 proposed demerger of M&GPrudential from Prudential plc will result in a change to Prudential's group-wide supervisor to the Hong Kong Insurance Authority, and as a consequence will change the group-wide supervisory framework to which Prudential is subject. Prudential has agreed to apply the Local Capital Summation Method (LCSM) to determine Group regulatory capital requirements immediately following the demerger of M&GPrudential. The Group's engagement with the Hong Kong Insurance Authority on the supervisory framework that will apply to the Group in the longer term remains in progress. The impact from any regulatory changes may affect Prudential's 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 change the level of capital required to be held by individual businesses, the regulation of selling practices and solvency requirements, and could introduce changes that impact the products 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 enhanced supervisory powers.

Recent shifts in the focus of some national 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 or measures favouring local enterprises such as changes to the maximum level of non-domestic ownership by foreign companies.

The EU's Solvency II Directive came into effect on 1 January 2016. The measure of regulatory capital under Solvency II is more volatile than under the previous Solvency I regime and regulatory policy may further evolve under the regime. The European Commission began a review in late 2016 of some aspects of the Solvency II legislative package, which is expected to continue until 2021 and includes a review of the Long Term Guarantee measures. Prudential applied for, and has been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the 'matching adjustment' for UK annuities, the 'volatility adjustment' for selected US dollar-denominated business, and UK transitional measures on technical provisions. Prudential also has permission to use 'deduction and aggregation' as the method by which the contribution of the Group's US insurance entities to the Group's solvency is calculated, which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. For as long as Prudential or its businesses remain subject to Solvency II, there is a risk that changes may be required to Prudential's approved internal model or other Solvency II approvals, which could have a material impact on the Group Solvency II capital position. Where such changes (including internal model changes) are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group's Solvency II capital position.

Currently there are also a number of other global regulatory developments which could impact Prudential's businesses in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) in the area of systemic risk including the designation of Global Systemically Important Insurers (G-SIIs), the Insurance Capital Standard (ICS) being developed by the International Association of Insurance Supervisors (IAIS), MiFID II and associated implementing measures, which came into force on 3 January 2018 and the EU General Data Protection Regulation, which came into force on 25 May 2018. In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes; this includes potential future developments under the National Association of Insurance Commissioners' (NAIC) reforms in the US, amendments to certain local statutory regimes in some territories in Asia and Solvency II in the UK (as referred to above). There remains a high degree of uncertainty over the potential impact of these changes on the Group.

The Dodd-Frank Act, a US federal law enacted in 2010, provided for a comprehensive overhaul of the financial services industry within the US including reforms to financial services entities, products and markets. The full impact of the Dodd-Frank Act on Prudential's businesses remains unclear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rule-making or other actions by various US regulators over the coming years. There is also potential uncertainty surrounding future changes to the Dodd-Frank Act under the current US administration.

Prudential's designation as a G-SII was last reaffirmed on 21 November 2016. The FSB, in conjunction with the IAIS, did not publish a new list of G-SIIs in 2017 and did not engage in G-SII identification for 2018 following IAIS' launch of the consultation on the Holistic Framework (HF) on 14 November 2018, which aims to assess and mitigate systemic risk in the insurance sector, potentially serving as an alternative approach to the current G-SII model. A further consultation was launched by the IAIS on 14 June 2019 with proposals for revisions to the Insurance Core Principles in relation to the HF. The IAIS intends to implement the HF in 2020, proposing that G-SII identification be suspended from that year. In the interim, the relevant group-wide supervisors have committed to continue applying existing enhanced G-SII supervisory policy measures with some supervisory discretion, which includes a requirement to submit enhanced risk management plans. In November 2022, the FSB will review the need to either discontinue or re-establish an annual identification of G-SIIs in consultation with the IAIS and national authorities. The Higher Loss Absorbency (HLA) standard (a proposed additional capital measure for G-SII designated firms, planned to apply from 2022) is not part of the proposed HF. However, the HF proposes supervisory monitoring to identify potential vulnerabilities and increased supervisory powers of intervention for mitigating systemic risk.

The IAIS is also developing the ICS as part of ComFrame – the Common Framework for the supervision of Internationally Active Insurance Groups (IAIGs). The implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. ComFrame will more generally establish a set of common principles and standards designed to assist supervisors in addressing risks that arise from insurance groups with operations in multiple jurisdictions. The ComFrame proposals, including ICS, could result in enhanced capital and regulatory measures for IAIGs, for which Prudential satisfies the criteria.

The NAIC is targeting a January 2020 effective date for the revised Variable Annuity Framework, which was designed with the aim of reducing the non-economic volatility in the variable annuity statutory balance sheet. Jackson continues to make progress in preparing models for implementation. The NAIC also has an ongoing review of the C-1 bond factors in the required capital calculation, on which further information is expected to be provided in due course. The Group's preparations to manage the impact of these reforms will continue.

On 27 July 2017, the UK FCA announced that it will no longer persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR after 2021. The discontinuation of LIBOR in its current form and its replacement with the Sterling Overnight Index Average benchmark (SONIA) in the UK (and other alternative benchmark rates in other countries) 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 LIBOR, 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.

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.

The Group's accounts are prepared in accordance with current IFRS applicable to the insurance industry. The International Accounting Standards Board (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'), which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. In June 2019, the IASB published an exposure draft proposing a number of targeted amendments to this new standard including the deferral of the effective date by one year from 2021 to 2022. The comment deadline for the exposure draft is 25 September 2019. The EU will apply its usual process for assessing whether the standard meets the necessary criteria for endorsement. The Group is reviewing the complex requirements of this standard and considering its potential impact. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently uncertain, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. Given the implementation of this standard is likely to require significant enhancements to IT, actuarial and finance systems of the Group, it will also have an impact on the Group's expenses.

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.

**The proposed demerger of M&GPrudential carries with it execution risk and will continue to require significant management attention**

The proposed demerger of M&GPrudential is subject to a number of factors and dependencies (including prevailing market and political conditions, the appropriate allocation of debt and capital between the two groups and internal and external approvals (including those from regulators and shareholders)). In addition, preparing for and implementing the proposed demerger is expected to continue to require significant time from management, which may divert management's attention from other aspects of Prudential's business.

Therefore, there can be no certainty that the demerger will be implemented on the anticipated timetable, or that it will be completed as proposed (or at all). Further, if the proposed demerger is completed, there can be no assurance that either Prudential plc or M&GPrudential will realise the anticipated benefits of the transaction, or that the proposed demerger will not adversely affect the trading value or liquidity of the shares of either or both of the two businesses.

Failure to complete the demerger would result in the potential benefits of the demerger 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 is due to factors outside the control of Prudential. A failure to complete the demerger may also result in increased regulatory scrutiny on Prudential, in particular where the reasons for the demerger not proceeding are internal to Prudential.

**The intended UK exit from the EU may adversely impact economic conditions, increase market volatility, increase political and regulatory uncertainty, and cause operational disruption (including reduced access to EU markets) which could have adverse effects on Prudential's business and its profitability**

In 2017, the UK submitted the formal notification of its intention to withdraw from the EU pursuant to Article 50 of the Treaty on the European Union, as amended. If no formal withdrawal agreement is reached between the UK and the EU, then it is currently expected the UK's membership of the EU will automatically terminate on 31 October 2019 unless a further extension is agreed between the UK and EU. The UK's decision to leave the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK-domiciled operations, principally M&GPrudential, and these will be impacted by a UK withdrawal from the EU, although contingency plans have been developed and enacted since the referendum result to ensure that Prudential's business is not unduly affected by the UK withdrawal. The outcome of the negotiations on the UK's withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market, is currently unknown. As a result, there is ongoing uncertainty over the terms under which the UK will leave the EU, in particular after any agreed transitional period, and the potential for a disorderly exit by the UK without a negotiated agreement. While the Group has undertaken significant work to plan for and mitigate such risks, there can be no assurance that these plans and efforts will be successful.

In particular, depending on the nature of the UK's exit from the EU, some or all of the following risks may materialise, the extent of which may be more pronounced if the UK leaves the EU without a negotiated agreement and which may impact the business of the Group and its profitability:

- The UK and EU may experience a downturn in economic activity. The effect of any downturn is expected to be more pronounced for the UK particularly in the event of a disorderly exit by the UK from the EU. Market volatility and illiquidity may increase (including for property funds, where redemption restrictions may be applied) in the period leading up to, and following, the UK's withdrawal. A disorderly exit could also lead to potential downgrades in sovereign and corporate debt ratings in the UK and the EU and falls in UK property values. In a severe scenario where the UK's sovereign rating is downgraded by potentially more than one notch, this may also impact on the ratings of UK companies, including Prudential's UK business. Further or prolonged interest rate reductions may occur due to monetary easing. These impacts may result in the adverse effects outlined in the *'market fluctuations and general economic conditions'* risk factor.
- The UK's exit from the EU could result in significant changes to the legal and regulatory regime under which the Group (and, in particular, M&GPrudential) operates (including the future application of the Solvency II regime in the UK), the nature and extent of which remain uncertain while the manner of the UK's withdrawal from the EU remains unclear and the extent and terms of any future access to the single EU market remain to be agreed. There may be an increase in complexity and costs associated with operating in an additional regulatory jurisdiction.
- There may be increased risk of operational disruption to Prudential's business, in particular to M&GPrudential. Access to the EU market, and the ability to service EU clients, may be adversely impacted. Negative market sentiment towards the UK from investors may result in negative fund flows and EU service providers may be less willing, or unable to service UK fund managers, both of which may negatively impact on the asset management business of M&GPrudential. The insurance business may experience higher product lapses resulting from fund outflows. The ability to retain and attract appropriately skilled staff from the EU may be adversely impacted. Contractual documentation may need to be renegotiated or redrafted in order to remain effective.

**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 results of operations**

Operational risks are present in all of Prudential's businesses, including the risk (from both Prudential and its outsourcing and external technology and data hosting partners) 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. Exposure to 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 financial loss, customer impacts and reputational damage.

Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and it employs a large number of information technology (IT) and finance systems and models, and user developed applications, some of which are complex, in its processes. The long-term nature of much of the Group's business also means that accurate records have to be maintained for significant periods. Further, Prudential operates in an extensive and evolving legal and regulated environment (including in relation to tax) which adds to the operational complexity of its business processes and controls.

These factors, among others, result in significant reliance on, and require significant investment in, IT infrastructure, data management, compliance and other operational systems, personnel and processes for the performance of the Group's core business activities. During times of significant change, the operational effectiveness of these components may be impacted.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance that such 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 there have not been any material events to date. Prudential's legacy and other IT systems, data and processes, as with operational systems and processes generally, may be susceptible to failure or security/data breaches.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers and business partners. Similarly, any weakness in administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

In addition, Prudential also relies on a number of outsourcing (including external technology and data hosting) partners to provide several business processes, including a significant part of the UK back office and customer facing operations as well as a number of IT support functions and investment operations. This creates reliance upon the operational performance of these outsourcing partners, and failure to adequately oversee the outsourcing partner, or the failure of an outsourcing partner (or its key IT and operational systems and processes) could result in significant disruption to business operations and customers.

**The implementation of complex strategic initiatives gives rise to significant execution risks, may affect the operational capacity of the Group, and may adversely impact the Group if these initiatives fail to meet their objectives**

As part of the implementation of its business strategies, Prudential is undertaking a number of significant change initiatives across the Group, many of which are interconnected and/or of large scale. There may be adverse financial and non-financial (including operational, regulatory, customer and reputational) implications for the Group if these initiatives fail, in whole or in part, to meet their objectives. Additionally, 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 strategic initiatives may amplify these risks.

The Group's current significant change initiatives include the merger of M&G and Prudential UK and Europe and the proposed demerger of M&GPrudential. In particular, significant operational execution risks arise from these initiatives, including in relation to the separation and establishment of standalone governance regimes for both the M&GPrudential and remaining Group under their prospective regulatory regimes following the proposed demerger, and the separation and establishment of their respective business functions and processes (data, systems, people) and other third-party arrangements.

**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 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, and Prudential might face additional risks relating to any debt held in such financial institutions held in its 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 financial condition and results of operations.

**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 in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, 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 significant fluctuations in Prudential's consolidated financial statements upon the translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the dividends relating to the reporting year. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility that Prudential has in managing its business.

**The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results 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.

Current regulatory actions include the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, and the UK insurance business's undertaking to the FCA to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. This will result in the UK insurance business being required to provide redress to certain such customers. A provision has been established to cover the costs of undertaking the review and any related redress but the ultimate amount required remains uncertain.

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.

**Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition**

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 reputation, results of operations or cash flows.

**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 UK, 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, 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 and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors include global life insurers such as Allianz, AXA, and Manulife together with regional insurers such as AIA, FWD and Great Eastern, and multinational asset managers such as Franklin Templeton, HSBC Global Asset Management, J.P. Morgan Asset Management and Schroders. In most markets, there are also local companies that have a material market presence.

M&GPrudential's principal competitors include many of the major retail financial services companies and fund management companies including, for example, Aviva, Janus Henderson, Jupiter, Legal & General, Schroders and Standard Life Aberdeen.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as Aegon, AIG, Allianz, AXA Equitable Holdings Inc., Brighthouse, Lincoln Financial Group, MetLife and Prudential Financial.

Prudential believes competition will intensify across all regions in response to consumer demand, digital and other technological advances, 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.

**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 on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A by Standard & Poor's and A- by Fitch.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa3 by Moody's, A+ by Standard & Poor's and AA- by Fitch.

Jackson's financial strength is rated AA- by Standard & Poor's and Fitch, A1 by Moody's and A+ by A.M. Best.

Prudential Assurance Co. Singapore (Pte) Ltd's financial strength is rated AA- by Standard & Poor's.

All ratings above are on a stable outlook and are stated as at the date of this document.

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.

**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 financial loss**
Prudential and its business partners are increasingly exposed to the risk that individuals or groups may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to key operations, make it difficult to recover critical services, damage assets and compromise the integrity and security of data (both corporate and customer). This 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 classification 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 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 use it in a transparent and appropriate way. Developments in data protection worldwide (such as the implementation of EU General Data Protection Regulation that came into force on 25 May 2018) may also increase the financial and reputational implications for Prudential following a significant breach of its (or its third-party suppliers') IT systems. 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, it 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 and financial position.

**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 business environment in which Prudential operates is continually changing. A failure to manage those material risks which have ESG implications may adversely impact on the reputation and brand of the Group, the results of its operations, its ability to attract and retain customers and staff, and its ability to deliver on its long-term strategy and therefore its long-term success. ESG-related issues may also directly or indirectly impact key stakeholders, ranging from customers to institutional investors, employees, suppliers and regulators, all of whom have expectations in this area, which may differ.

Climate change is one ESG theme that poses potentially significant risks to Prudential and its customers, not only from the physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term impacts, but also from transition risks associated with the shift to a low carbon economy. Climate-driven changes in countries in which Prudential operates could change its claims profile. There is an increasing expectation from stakeholders for Prudential to understand, manage and provide increased transparency of its exposure to climate-related risks. For example, the FSB's Task Force on Climate-related Disclosures recommendations were published in 2017 to provide a voluntary framework on corporate climate-related financial disclosures following the FSB's concern that there may be systemic risk in the financial system related to climate change. More recently, in April 2019 the UK Prudential Regulation Authority published a supervisory statement which highlighted the physical and transition risks to financial stability caused by climate change and set out its expectations on UK insurers in relation to such risks.

As governments and policymakers take action to reduce greenhouse gas emissions and limit global warming, the transition to a low carbon economy could have an adverse impact on global investment asset valuations whilst at the same time present investment opportunities which the Group will need to monitor. In particular, there is a risk that this transition could result in some asset sectors facing significantly higher costs and a disorderly adjustment to their asset values. This could lead to an adverse impact on the value and the future performance of the investment assets of the Group. The potential broader economic impact from this may impact upon customer demand for the Group's products. Given that Prudential's investment horizons are long term, it is potentially more exposed to the long-term impact of climate change risks. Additionally, Prudential's stakeholders increasingly expect responsible investment principles to be adopted to demonstrate that ESG considerations (including climate change) are effectively integrated into investment decisions and fiduciary and stewardship duties.

**Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations**

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. In addition, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive. Prudential conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

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. 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 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. Significant influenza and other epidemics have occurred a number of times historically but the likelihood, timing, or the severity of future epidemics 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 loss experience.

**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 that can limit their ability to make remittances. In some circumstances, 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.

**Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries**

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, the allocation of control among, and continued cooperation between, the participants. In addition, the level of control exercisable by the Group could also 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 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 or material failure in controls (such as those pertaining to the third-party system failure or the prevention of financial crime) could adversely affect the results of operations of Prudential.

**Prudential's Articles of Association contain an exclusive jurisdiction provision**

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service providers. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

**Changes in tax legislation may result in adverse tax consequences**

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 financial condition and results of operations.

# Corporate governance

## Hong Kong listing obligations

The Directors confirm that the Company has complied with all the provisions of the Corporate Governance Code issued by the Hong Kong Stock Exchange Limited (HK Code) throughout the accounting period, except that the Company does not comply with provision B.1.2(d) of the HK Code which 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 provision 34 of the UK Corporate Governance Code which recommends the board determines the remuneration of non-executive directors. Prudential has chosen to adopt a practice in line with the recommendations of the UK Corporate Governance Code.

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

The Company has adopted securities dealing rules relating to transactions in Prudential securities by Directors on terms no less exacting than those set out in Appendix 10 to the Hong Kong Listing Rules except that a waiver in respect of certain requirements of Appendix 10 to the Hong Kong Listing Rules was granted by the Hong Kong Stock Exchange Limited, originally on 28 February 2011, to take into account accepted practices in the UK. Having made specific enquiry of all Directors, the Directors of the Company have complied with these rules throughout the accounting period.

Pursuant to Rule 13.51(2) of the Hong Kong Listing Rule, and as previously announced by the Company on 10 July 2019, as part of the preparation for the demerger of M&GPrudential, Mark FitzPatrick, Chief Financial Officer, took on the additional role of Chief Operating Officer. This extension of his responsibilities encompasses oversight of key Group support functions including Legal, Government Relations and Communications. His role is Group Chief Financial Officer and Chief Operating Officer. James Turner, Group Chief Risk Officer, assumed responsibility for Group Compliance and became Group Chief Risk and Compliance Officer.

## 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 the financial statements are approved.

In support of this expectation, the Company's business activities, together with the factors likely to affect its future development, successful performance and position in the current economic climate are set out in the Business Performance section. The risks facing the Group's capital and liquidity positions and their sensitivities are referred to in the 'Chief Financial Officer's report on the 2019 first half financial performance', the 'Group Chief Risk and Compliance Officer's report on the risks facing our business and how these are managed' and note I(i) 'Group capital position' within Additional financial information. The Group's IFRS financial statements include cash flow details in the 'Condensed consolidated statement of cash flows' and borrowings information in note C6.

The Directors therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements for the period ended 30 June 2019.

# Disclosure of interests of Directors

## 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 30 June 2019 (pence) | Exercise period | | Number of options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Beginning | End | Beginning of period | Granted | Exercised | Cancelled | Forfeited | Lapsed | End of period |
| Mark FitzPatrick | 21 Sep 17 | 1,455 | 1,716 | 01 Dec 22 | 31 May 23 | 2,061 | – | – | – | – | – | 2,061 |
| James Turner | 21 Sep 17 | 1,455 | 1,716 | 01 Dec 20 | 31 May 21 | 1,237 | – | – | – | – | – | 1,237 |

## Directors' shareholdings and substantial shareholdings

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.

The following table sets out the interests of directors, including the interests of persons connected with directors as at the end of the period. This includes shares acquired under the Share Incentive Plan and deferred annual bonus awards as detailed in the table on 'Other share awards' on page 173.

| | 1 January 2019 (or on date of appointment) | 30 June 2019 (or on date of retirement) | | |
|---|---|---|---|---|
| | Total beneficial interest (number of shares) | Total beneficial interest (number of shares) | Number of shares subject to performance conditions | Total interest in shares |
| **Chairman** | | | | |
| Paul Manduca | 42,500 | 42,500 | – | 42,500 |
| **Executive Directors** | | | | |
| Michael Falcon[1] | – | 51,988 | 157,712 | 209,700 |
| Mark FitzPatrick | 28,333 | 61,870 | 331,347 | 393,217 |
| John Foley[2] | 329,834 | 380,330 | 355,323 | 735,653 |
| Nic Nicandrou[3] | 295,085 | 298,692 | 419,946 | 718,638 |
| James Turner | 20,876 | 51,705 | 220,950 | 272,655 |
| Mike Wells[4] | 812,252 | 949,070 | 819,655 | 1,768,725 |
| **Non-executive Directors** | | | | |
| Howard Davies | 9,514 | 9,704 | – | 9,704 |
| David Law | 9,066 | 9,066 | – | 9,066 |
| Kai Nargolwala | 70,000 | 70,000 | – | 70,000 |
| Anthony Nightingale | 50,000 | 50,000 | – | 50,000 |
| Philip Remnant | 6,916 | 6,916 | – | 6,916 |
| Alice Schroeder[5] | 14,500 | 14,500 | – | 14,500 |
| Lord Turner[6] | 6,719 | 6,719 | – | 6,719 |
| Thomas Watjen[7] | 10,340 | 10,340 | – | 10,340 |
| Fields Wicker-Miurin | 1,000 | 2,500 | – | 2,500 |

**Notes**

1 Michael Falcon was appointed to the Board on 7 January 2019. He stepped down from the Board on 16 May 2019. Total interest in shares is shown at this date. For the 16 May 2019 figure, Michael Falcon's beneficial interest in shares is made up of 25,994 ADRs (representing 51,988 ordinary shares).
2 John Foley stepped down from the Board on 16 May 2019. Total interest in shares is shown at this date.
3 Nic Nicandrou stepped down from the Board on 16 May 2019. Total interest in shares is shown at this date.
4 For the 1 January 2019 figure, Mike Wells' beneficial interest in shares is made up of 297,320 ADRs (representing 594,640 ordinary shares) and 217,612 ordinary shares. For the 30 June 2019 figure, his beneficial interest in shares is made up of 297,320 ADRs (representing 594,640 ordinary shares) and 354,430 ordinary shares.
5 For the 1 January 2019 figure, Alice Schroeder's beneficial interest in shares is made up of 7,250 ADRs (representing 14,500 ordinary shares). For the 30 June 2019 figure, the beneficial interest in shares is made up of 7,250 ADRs (representing 14,500 ordinary shares).
6 Lord Turner stepped down from the Board on 16 May 2019. Total interests in shares shown at this date.
7 For the 1 January 2019 figure,Thomas Watjen's beneficial interest in shares is made up of 5,170 ADRs (representing 10,340 ordinary shares). For the 30 June 2019 figure, the beneficial interest in shares is made up of 5,170 ADRs (representing 10,340 ordinary shares).

## Directors' outstanding long-term incentive awards
### Share-based long-term incentive awards

| | Plan name | Year of award | Conditional share awards outstanding at 1 Jan 2019 (Number of shares) | Conditional awards in 2019 (Number of shares) | Market price at date of award (pence) | Dividend equivalents on vested shares[note] (Number of shares released) | Rights exercised in 2019 | Rights lapsed in 2019 | Conditional share awards outstanding at 30 June 2019 (Number of shares released) | Date of end of performance period |
|---|---|---|---|---|---|---|---|---|---|---|
| **Mark FitzPatrick** | PLTIP | 2017 | 101,360 | | 1,828 | | | | 101,360 | 31 Dec 19 |
| | PLTIP | 2018 | 106,611 | | 1,750 | | | | 106,611 | 31 Dec 20 |
| | PLTIP | 2019 | | 123,376 | 1,605.5 | | | | 123,376 | 31 Dec 21 |
| | | | **207,971** | **123,376** | | **–** | **–** | **–** | **331,347** | |
| **James Turner** | PLTIP | 2016 | 33,116 | | 1,279 | 1,905 | 20,697 | 12,419 | – | 31 Dec 18 |
| | PLTIP | 2017 | 27,940 | | 1,672 | | | | 27,940 | 31 Dec 19 |
| | PLTIP | 2018 | 89,439 | | 1,750 | | | | 89,439 | 31 Dec 20 |
| | PLTIP | 2019 | | 103,571 | 1,605.5 | | | | 103,571 | 31 Dec 21 |
| | | | **150,495** | **103,571** | | **1,905** | **20,697** | **12,419** | **220,950** | |
| **Mike Wells** | PLTIP | 2016 | 332,870 | | 1,279 | 19,174 | 208,043 | 124,827 | – | 31 Dec 18 |
| | PLTIP | 2017 | 263,401 | | 1,672 | | | | 263,401 | 31 Dec 19 |
| | PLTIP | 2018 | 257,813 | | 1,750 | | | | 257,813 | 31 Dec 20 |
| | PLTIP | 2019 | | 298,441 | 1,605.5 | | | | 298,441 | 31 Dec 21 |
| | | | **854,084** | **298,441** | | **19,174** | **208,043** | **124,827** | **819,655** | |

**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 2019 (Number of shares) | Conditionally awarded in 2019 (Number of shares) | Dividends accumulated in 2019 note (Number of shares) | Shares released in 2019 (Number of shares) | Conditional share awards outstanding at 30 June 2019 (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 | 28,119 | | 577 | | 28,696 | 31 Dec 20 | | 1,750 | |
| Deferred 2018 annual incentive award | 2019 | | 32,223 | 661 | | 32,884 | 31 Dec 21 | | 1,605.5 | |
| | | **28,119** | **32,223** | **1,238** | **–** | **61,580** | | | | |
| **James Turner** | | | | | | | | | | |
| Deferred 2015 group deferred bonus plan award | 2016 | 5,440 | | | 5,440 | – | 31 Dec 18 | 01 Apr 19 | 1,279 | 1,557 |
| Deferred 2018 annual incentive award | 2019 | | 20,605 | 422 | | 21,027 | 31 Dec 21 | | 1,605.5 | |
| | | **5,440** | **20,605** | **422** | **5,440** | **21,027** | | | | |
| **Mike Wells** | | | | | | | | | | |
| Deferred 2015 annual incentive award | 2016 | 112,720 | | | 112,720 | – | 31 Dec 18 | 01 Apr 19 | 1,279 | 1,557 |
| Deferred 2016 annual incentive award | 2017 | 54,060 | | 1,109 | | 55,169 | 31 Dec 19 | | 1,672 | |
| Deferred 2017 annual incentive award | 2018 | 48,664 | | 998 | | 49,662 | 31 Dec 20 | | 1,750 | |
| Deferred 2018 annual incentive award | 2019 | | 55,394 | 1,136 | | 56,530 | 31 Dec 21 | | 1,605.5 | |
| | | **215,444** | **55,394** | **3,243** | **112,720** | **161,361** | | | | |

**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. In anticipation of the demerger of the M&GPrudential business the Company did not operate the SAYE in 2018.

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 2019 (Number of shares) | Partnership shares accumulated in 2019 (Number of shares) | Matching shares accumulated in 2019 (Number of shares) | Dividend shares accumulated in 2019 (Number of shares) | Share Incentive Plan awards held in Trust at 30 June 2019 (Number of shares) |
|---|---|---|---|---|---|---|
| Mark FitzPatrick | 2017 | 214 | 57 | 14 | 5 | 290 |
| James Turner | 2011 | 709 | 57 | 15 | 15 | 796 |
| Mike Wells | 2015 | 548 | 58 | 15 | 13 | 634 |

### 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.

# Shareholder information

## Dividends

| 2019 first interim dividend | Shareholders registered on the UK register | Shareholders registered on the Hong Kong branch register | Holders of US American Depositary Receipts | Shareholders with ordinary shares standing to the credit of their Singapore CDP securities accounts |
|---|---|---|---|---|
| Ex-dividend date | 22 August 2019 | 22 August 2019 | – | 22 August 2019 |
| Record date | 23 August 2019 | 23 August 2019 | 23 August 2019 | 23 August 2019 |
| Payment of 2019 first interim dividend | 26 September 2019 | 26 September 2019 | On or about 3 October 2019 | On or about 3 October 2019 |

## 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. | Tel 0371 384 2035<br>Textel 0371 384 2255<br>(for hard of hearing)<br>Lines are open from 8.30am to 5.30pm, Monday to Friday.<br>International shareholders<br>Tel +44 (0)121 415 7026 |
| **Hong Kong branch register** | The Company operates a branch register for shareholders in Hong Kong. All enquiries regarding Hong Kong branch register accounts should be directed to Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. | Tel +852 2862 8555 |
| **Singapore branch 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 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker. | Tel +65 6535 7511 |
| **American Depositary Receipts (ADRs)** | The Company's ordinary shares are listed on the New York Stock Exchange in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol PUK. Each American Depositary Share represents two ordinary shares. All enquiries regarding ADR holder accounts should be directed to JP Morgan, the authorised depositary bank, at JP Morgan Chase Bank, N.A., PO Box 64504, St. Paul, MN 55164-0504, USA. | Tel +1 800 990 1135<br>or from outside the US<br>+1 651 453 2128 or<br>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 Limited (Equiniti) and request a Cash Dividend Mandate form. Alternatively, shareholders may download a form from www.shareview.co.uk/4/Info/Portfolio/default/en/home/shareholders/Pages/Mandate.aspx

**Cash dividend alternative**
The Company has 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 on the Shareview website 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, you will need your shareholder reference number which can be found on your share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through The Central Depository (Pte) Limited (CDP) in Singapore. Please contact Equiniti if you require any assistance or further information.

**Equiniti Shareview service**
Information on how to manage shareholdings can be found at https://help.shareview.co.uk

The pages at this web address provide the following:

- answers to commonly asked questions regarding shareholder registration;
- links to downloadable forms, guidance notes and Company history factsheets; and
- a choice of contact methods – via email, telephone or post.

**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 above 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 plc shares. For telephone sales call 0345 603 7037 between 8.30am and 4.30pm, Monday to Friday excluding UK bank holidays, 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 obtained from our website www.prudential.co.uk/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

There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief.

# How to contact us

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www.prudential.co.uk

**Media enquiries**
Tel +44 (0)20 3977 9760
Email: media.relations@prudential.co.uk

## Board

**Paul Manduca**
Chairman

**Mike Wells**
Group Chief Executive

**Mark FitzPatrick**
Group Chief Financial Officer and Chief Operating Officer

**James Turner**
Group Chief Risk and Compliance Officer

## Group Executive Committee

**Jolene Chen**
Group Human Resources Director

**Michael Falcon**
Chief Executive Officer, Jackson Holdings LLC

**John Foley**
Chief Executive, M&GPrudential

**Nic Nicandrou**
Chief Executive, Prudential Corporation Asia

**Al-Noor Ramji**
Group Chief Digital Officer

## Our businesses

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**M&GPrudential**
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www.mandg.co.uk

**Prudential Corporation Asia**
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**Jackson Holdings LLC**
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## Shareholder contacts

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**US American Depositary Receipts holder enquiries**
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**The Central Depository (Pte) Limited shareholder enquiries**
Tel +65 6535 7511

**Forward-looking statements**

This Prudential Half Year Report may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, operating environment, 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, including without limitation those referring to the demerger and the expected timing of the demerger, involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, the timing, costs and successful implementation of the demerger of the M&GPrudential business; the future trading value of the shares of Prudential plc and the trading value and liquidity of the shares of the to-be-listed M&GPrudential business following such demerger; future market conditions, including fluctuations in interest rates and exchange rates, the continuance of a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the actual or anticipated political, legal and economic ramifications of the UK's withdrawal from the European Union; the impact of continuing application of Global Systemically Important Insurer (or 'G-SII') policy measures on Prudential; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions failing to meet their objectives; disruption to the availability, confidentiality or integrity of Prudential's IT systems (or those of its suppliers); 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; and the impact of legal and regulatory actions, investigations and disputes. 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 to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk factors' section in this Prudential 2019 Half Year Financial Report.

Any forward-looking statements contained in this Half Year Financial Report 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 report 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.

**Prudential public limited company**
Incorporated and registered in England
and Wales

**Registered office**
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London EC2R 7AG
Registered number 1397169
www.prudential.co.uk

**Principal place of business
in Hong Kong**
13th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Prudential plc is a holding company, subsidiaries of which are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.

# Providing financial security since 1848

Successive generations have looked to Prudential to safeguard their financial security – from industrial workers and their families in Victorian Britain to over 26 million customers worldwide today. Our financial strength, heritage, prudence and focus on our customers' long-term needs ensure that people continue to turn to our trusted brands to help them plan for today and tomorrow.

**1848** Prudential is established as Prudential Mutual Assurance, Investment and Loan Association in Hatton Garden, London, offering loans and life assurance to professional people.

**1854** Prudential opens the Industrial Department to sell a new type of insurance, Industrial Insurance, to the working classes, for premiums of a penny and upwards.

**1871** The Company becomes one of the first in the City to employ women. Calculating machines are also introduced, bringing efficiencies to the processing of an increasing volume of business.

**1879** Prudential moves into Holborn Bars, a purpose-built office complex designed by Alfred Waterhouse. The building becomes a London landmark, and remains part of Prudential's property portfolio to this day.

**1912** Following the National Insurance Act, Prudential works with the government to run Approved Societies, providing sickness and unemployment benefits to five million people.

**1923** Prudential's first overseas life branch is established in India, with the first policy being sold to a tea planter in Assam.

**1924** Prudential shares are floated on the London Stock Exchange.

**1949** The 'Man from the Pru' advertising campaign is launched.

**1986** Prudential acquires Jackson National Life Insurance in the United States.

**1994** Prudential Corporation Asia is formed in Hong Kong as a regional head office to expand operations beyond an existing presence in Malaysia, Singapore and Hong Kong.

**1999** Prudential acquires M&G, pioneer of unit trusts in the UK and a leading provider of investment products.

**2000** Prudential plc is listed on the New York Stock Exchange. Prudential becomes the first UK life insurer to enter the Mainland China market through its joint venture with CITIC Group.

**2010** Prudential plc is listed on stock exchanges in Hong Kong and Singapore.

**2014** Prudential acquires businesses in Ghana and Kenya, marking its entry into the fast-growing African life insurance industry.

**2017** M&G Investments and Prudential UK & Europe combine to form M&GPrudential, a leading savings and investments business ideally positioned to target growing customer demand for comprehensive financial solutions.

**2018** Prudential plc announces its intention to demerge its UK and Europe business, M&GPrudential, resulting in two separately listed companies, with different investment characteristics and opportunities.


*Detail from a Prudential Industrial Branch policy, 1899.*

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