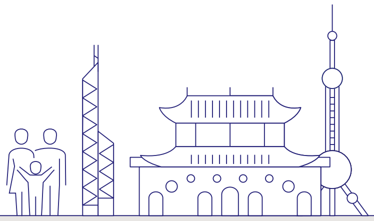
02

Strategic report

Group at a glance

Focused on structural growth markets. Serving 20 million customers worldwide.



Asia growth

Pan-regional multi-channel network

- Health, protection, savings and asset management in 15 markets.
- Top three position in nine life markets[2].
- Low insurance and mutual fund penetration.

Asia GDP growth projections ($)
2015—2024[1]

16.6tn → 31.1tn

Africa opportunity

Establishing a network with market-leading initiatives

- Building a presence in one of the world's most under-penetrated markets.
- Operating in eight markets with a total population of almost 400 million.

Africa GDP growth projections ($)
2015—2024[1]

0.7tn → 1.2tn

Our purpose

Our purpose is to help people de-risk their lives and deal with their biggest financial concerns. We provide our customers with the freedom to face the future with confidence.

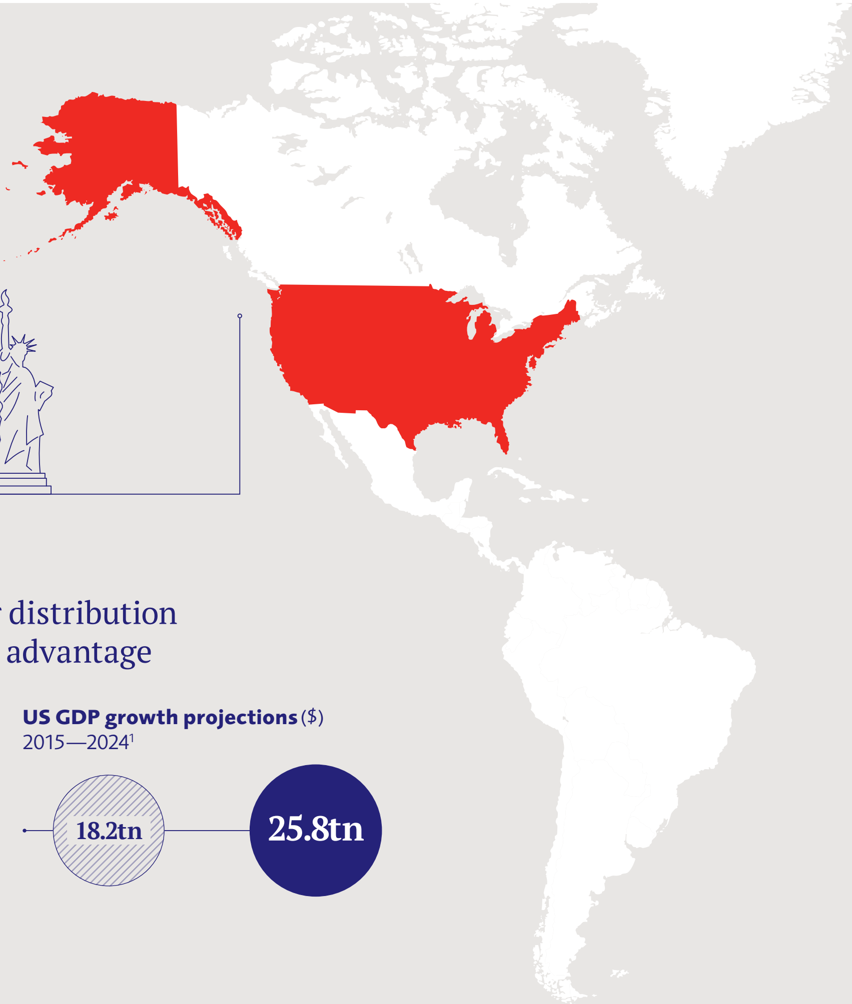
Our strategy

Our strategy is to capture the long-term structural opportunities for our markets and geographies, while operating with discipline and seeking to enhance our capabilities through innovation to deliver high-quality resilient outcomes for our customers.

We aim to do this by:

- Serving the protection and investment needs of the growing middle class in Asia;
- Offering products to new customers in Africa, one of the fastest-growing regions in the world; and
- Providing asset accumulation and retirement income products to US retirees.

Structural growth over the last 20 years has allowed our business to reach the scale where it can support its long-term goals through execution of its strategy and disciplined capital allocation. Prudential plc has a portfolio of businesses with access to the world's largest and fastest-growing markets.



US retirement

Strength and flexibility of our distribution network gives us a distinctive advantage

- Leading position in the retirement income industry.
- 10,000 Americans reach retirement age each day for the next 20 years.
- Largest wholesaling force in the annuity industry.

US GDP growth projections ($)
2015—2024[1]

18.2tn
25.8tn

Note

1 GDP of markets in which Prudential plc operates as at 31 December 2019. Source: IMF World Economic Outlook.

2 Source: Based on formal (Competitors' results release, local regulators and insurance associations) and informal (industry exchange) market share data. Ranking based on new business (APE or weighted FYP depending on the availability of data).

Evolving to serve the future customer

Our trusted brands and strong distribution channels enable us to understand the growing needs of our customers for long-term savings and financial security, and to design products that meet those needs. By helping to build better lives and stronger communities and to fuel the growth cycle, we create long-term value for both our customers and our shareholders.

Capturing structural opportunity

We capture the structural opportunities by offering the products and solutions demanded by customers and wider society

Asia

Asia's long-term structural trends are powerful drivers of sustainable growth. These trends underpin a strong and growing demand for savings and protection across the region, as markets are challenged by low life insurance penetration and a large pension funding gap.

We are well placed to capture this opportunity, providing products that meet our customers' needs and gaining political and regulatory support in our markets.

Africa

We have also continued to expand our presence in Africa, one of the world's most under penetrated markets where the population is forecast to grow by a billion by 2045. In July, we completed our acquisition of a 51 per cent stake in a leading life insurer, Group Beneficial, operating in West and Central Africa. We now operate in eight markets with a population of almost 400 million.

US

In the US, an extra 22 million individuals will need retirement solutions by 2035[1], and pension provision has been declining[2]. We see a growing demand for retirement products and an ongoing shift to fee-based solutions. Jackson is evolving its product range to address these needs.

… and enhancing capabilities

We enhance our capabilities by developing our digital offerings and expanding our partnerships, further strengthening our distribution networks

Asia

We continue to invest significantly in tech-driven capabilities and partnerships to address developing customer demand. Significant developments include the launch of Pulse by Prudential, our health and fitness app, and 18 new digital partnerships across the region.

Our productive distribution footprint across Asia is diversified across a substantial agency force and bank partner network. Recent developments include the renewal of our UOB partnerships for 15 years, and a new partnership with OVO in Indonesia.

Africa

We continue to grow and develop our footprint through our agency network and bancassurance partners. We are harnessing technology to improve customer service, innovate in distribution and build a business which is scalable.

US

We have invested in a single technology platform to deliver one of the most efficient and scalable operating platforms across the industry. Jackson is the clear leader in each variable annuity distribution channel[3], and is well positioned to further enhance its market-leading annuity position in the brokerage market.

Our product innovation and distribution strategies will enable us to capture the industry trends towards advisory-based distribution models.

Operating with discipline

Risk management and disciplined allocation of capital underpin our activities

The Group has a proven track record of disciplined capital allocation. Our governance, processes and controls enable us to deal with uncertainty effectively, which is critical to the achievement of our strategy. Our Group Risk Framework and risk appetite allow us to control our risk exposure successfully throughout the year.

Read more in the Group Chief Risk and Compliance Officer's report on page 51.

Notes

1 United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects 2019, Online Edition. Rev. 1. Population aged 65 and over as at 2019 versus 2035.

2 US Department of Labor, 'Private Pension Plan Bulletin Historical Tables and Graphs 1975 – 2017', September 2019.

3 ©2020 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar www.AnnuityIntel.com Total sales by company and channel 3Q YTD 2019. Jackson ranks #1 out of 25 companies in the Independent NASD channel, #1 out of 19 companies in the Bank channel, #1 out of 15 companies in the Wirehouse channel, and #3 out of 19 companies in the Regional Firms channel.

… creating high-quality resilient outcomes

>$29 billion
Customer claims incurred +10%[8] on 2018

$5,310m
Adjusted operating profit[1,4] +20%[3] on 2018

$4,405m
New business profit[1,2] -6%[3] on 2018

$9.5bn
LCSM shareholder surplus[5]

2,103¢
EEV per share[6]

46.26¢
Full-year ordinary dividend per share
The Group's 2020 dividend will be determined under the Group's dividend policy from a 2019 base of 36.84¢[7]

The Group has a number of key performance indicators internally to measure financial performance. Read more on page 16.

Notes
1 From continuing operations.
2 New business profit, on a post-tax basis, on business sold in the period, calculated in accordance with EEV principles.
3 Growth rates on a constant exchange rate basis.
4 Adjusted IFRS operating profit based on longer-term investment returns. This alternative performance measure is reconciled to IFRS profit for the period in note B1.1 of the IFRS financial statements.
5 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum capital requirement of participating business in Hong Kong, Singapore and Malaysia. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.
6 EEV shareholders' funds at 31 December 2019 are not directly comparable to Group shareholders' funds reported at 31 December 2018, as the prior year balance included shareholders' funds of M&G plc which, following demerger, are not part of the Group as at 31 December 2019. The reported 31 December 2018 EEV shareholders' funds were 2,445 cents.
7 The Group's dividend policy will be determined from a 2019 US dollar base of 36.84 cents per share, representing the full-year ordinary interim dividend for 2019 of 46.26 cents less the contribution of the discontinued M&G plc business (9.42 cents).
8 Growth rates on an actual exchange rate basis.

… for our stakeholders.

Customers
We provide financial security and wealth creation by providing the right products through appropriate distribution. In the light of technological advances and evolving customer needs, we actively embrace the latest technology and embed digital capabilities in our business.

Read more on pages 18 to 33, 73, 76 and 77

Investors
We aim to build long-term shareholder value, exhibited in growing dividends and share price performance.

Read more on pages 16 to 87

Government and regulators
We monitor governmental, legislative and regulatory activity in the markets in which we operate, and meet periodically with government and regulator representatives, to help us understand their objectives, priorities and concerns, and how they affect or shape our business.

Read more on page 74

Employees
We provide an inclusive working environment in which we develop our talent, reward great performance, protect our people and value our differences, and we believe that such an environment is essential to enabling us to deliver our strategy.

Read more on pages 74, 81 and 82

Communities
We support communities where we operate, through investment in business and infrastructure, tax revenues and community support activities. Responsible and ethical behaviour are embedded in our business and flow into every part of what we do, from our financial performance and tax practices to the way we fight financial crime and deal with our suppliers. We take an active approach in helping tackle environmental and social challenges and recognise that we are responsible for understanding our impact on the environment and doing what we can to minimise any damage.

Read more on pages 86 and 87

Sustainability
All of our stakeholders require us to undertake the actions to build a sustainable business, which we do through our products and the development of our capabilities. Responsible investment is a key component of sustainability. We take an inclusive approach to responsible investments, seeking to integrate environmental, social and governance considerations into our investment processes and stewardship activities through ownership practices and engagement with investee companies.

Read more on pages 75, 77 to 80 and 84 to 86

Measuring our performance

To create sustainable economic value for our shareholders we focus on delivering growth and cash while maintaining appropriate capital.

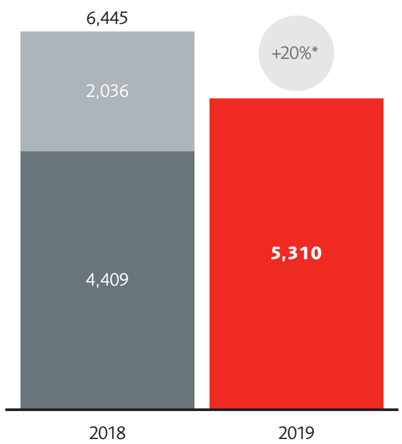
Profit, cash and capital[1]

Prudential takes a balanced approach to performance management across IFRS, EEV and cash. We aim to demonstrate how we generate profit under different accounting bases, reflecting the returns we generate on capital invested, and the cash generation of our business.

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

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

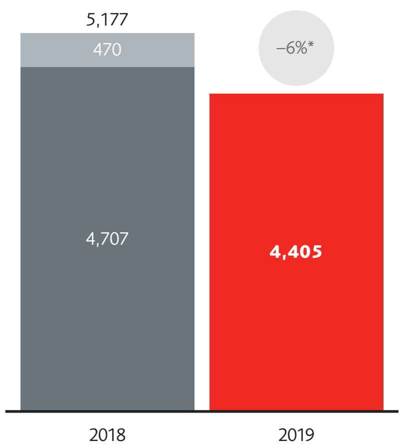
Group adjusted operating profit in 2019 is 20 per cent higher on a constant and actual exchange rate basis compared with 2018. Adjusted operating profit from Asia life and asset management operations was up 14 per cent on a constant exchange rate basis (13 per cent on an actual exchange rate basis). In the US, adjusted operating profit was up 20 per cent reflecting a lower market related deferred acquisition cost amortisation charge.



EEV new business profit[3] $m

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

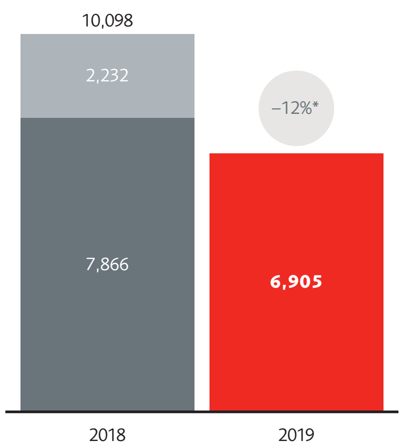
EEV new business profit in 2019 decreased by 6 per cent on a constant and actual exchange rate basis compared with 2018. New business profit generated by our Asian business was up 2 per cent on a constant exchange rate basis, with a 29 per cent increase from Asian businesses excluding Hong Kong. Hong Kong fell by 12 per cent broadly in line with the fall in APE sales given the decline in mainland China visitors in the second half of the year. US new business profit decreased by 28 per cent, with an increase in sales being more than offset by a fall in interest rates and the planned diversification of product mix.



EEV operating profit[3] $m

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

Group EEV operating profit in 2019 decreased by 12 per cent on a constant exchange rate basis (12 per cent on an actual exchange rate basis) compared with 2018. In addition to the decrease in new business profit described above, in force profit was lower due, in part, to falling interest rates.



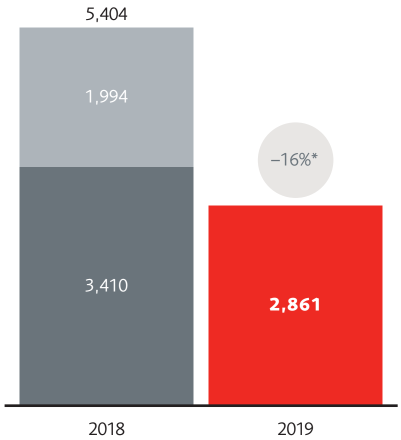
Key
- Continuing
- Discontinued
- Continuing

*Growth rates relate to continuing operations.

Operating free surplus generation[4] $m

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

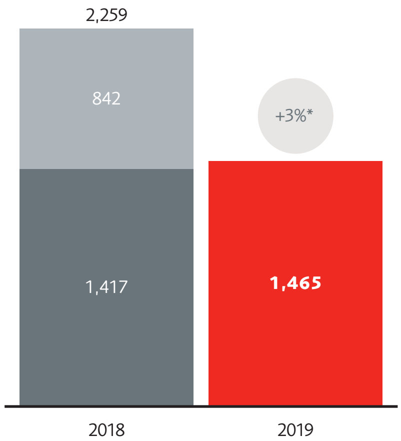
Operating free surplus from continuing operations was $2,861 million in the year. This comprises $4,958 million generated from the in-force business and asset management, up 12 per cent, before allowing for $(903) million of US EEV hedge modelling enhancements, new business strain of $(1,158) million, up 22 per cent following the planned diversification of sales in the US towards higher strain fixed index and fixed annuities, and restructuring costs of $(36) million.



Business unit remittances[5] $m

Remittances measure the cash transferred from business units to the Group. Cash flows across the Group reflect our aim of achieving a balance between ensuring sufficient net remittances from business units to cover the dividend (after corporate costs) and the use of cash for reinvestment in profitable opportunities available to the Group.

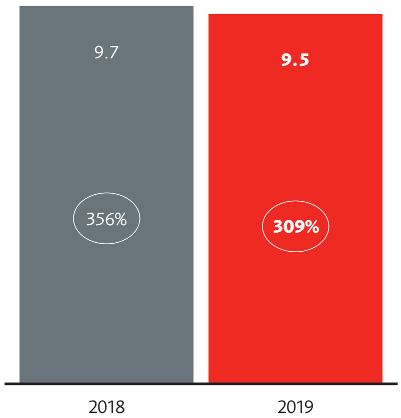
Cash remitted to the Group from continuing operations in 2019 amounted to $1,465 million, including $950 million from Asia (up 4 per cent) and $509 from the US (up 13 per cent). During 2019, the Group's holding company cash flows were managed in sterling and significant remittances were hedged. If local currency remittances in Asia had been translated directly into US dollars then the growth rate in Asia remittances would have been 8 per cent. The dividend paid by Jackson was $525 million (2018: $450 million).



Group local capital summation method[6] $bn

Following the demerger of M&G plc from Prudential plc, the Hong Kong Insurance Authority (IA) has assumed the role of the Group-wide supervisor for the Prudential Group. The Group is no longer subject to Solvency II capital requirements and currently applies the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine Group regulatory capital requirements (both minimum and prescribed levels).

The Group's available capital, as recorded on a LCSM basis, covers the Group's minimum capital requirement over three times. In 2019, capital generation from the in-force business has been used to invest in new business, pay the external dividend and invest in new bancassurance agreements and a new Thai asset manager. After these impacts and market movements, LCSM surplus fell slightly from $9.7 billion at 31 December 2018 to $9.5 billion at 31 December 2019.



Notes

1 The comparative results shown above have been prepared using an actual exchange rate (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown in financial tables in the Chief Financial Officer's report on our 2019 financial performance. Growth rates for 2018 to 2019 are on an AER basis.

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

3 The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of the EEV basis results. See note II of Additional unaudited financial information for definition and reconciliation to IFRS balances.

4 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 operating business unit amount. Further information is set out in note 11 of the EEV basis results.

5 Cash remitted to the Group forms part of the net cash flows of the holding company. A full holding company cash flow is set out in note I(iii) of the Additional unaudited financial information. This differs from the IFRS consolidated statement of cash flows which includes all cash flows relating to both policyholders' and shareholders' funds. The holding company cash flow is therefore a more meaningful indicator of the Group's central liquidity.

6 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum capital requirement of participating business in Hong Kong, Singapore and Malaysia. 2018 surplus excludes M&G plc and includes $3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.

Asia

Continued progress towards our strategic priorities.

2019 performance highlights

- Continued strong performance in key earnings and value metrics: adjusted operating profit up 14 per cent[1] and European Embedded Value up 23 per cent[2] to $39,235 million
- We expanded our presence in China with a new branch in Shaanxi, the addition of seven cities and a strong start to our wholly owned private fund manager
- We renewed our successful regional strategic bancassurance alliance with United Overseas Bank Limited (UOB) to 2034 and expanded its coverage
- We secured one of a few 100 per cent licences in Myanmar, our 13th life market in Asia
- Eastspring total funds under management grew to $241 billion, up 25 per cent[2]
- We developed over 160 products in 2019, contributing 16 per cent of life new business profit
- Our digital health SuperApp, branded Pulse by Prudential, is live in eight markets and over one million people have downloaded the app

Our business

Our business model is underpinned by the breadth and quality of our operations in the life insurance and asset management sectors. We have an outstanding reputation with customers and regulators alike and we operate in markets with compelling structural drivers that support sustained future growth. We have a top-three position in nine insurance markets in the region and have built an Asian asset management business with one of the largest regional market footprints. This diversity, combined with our continued focus on customer outcomes and profitability, has provided protection from cyclical headwinds.

We have made significant investments during 2019 to strengthen further and grow our Asia business. We renewed our successful regional bancassurance partnership with UOB until the end of 2034 and expanded its coverage to include Vietnam as well as UOB's digital bank, TMRW. We extended our life insurance footprint to Myanmar, our 13th life market, and acquired a controlling stake in Thanachart Fund which makes us the fourth largest mutual fund manager in the attractive Thailand market with a 12 per cent market share. To date, over one million people have downloaded the 'Pulse by Prudential' app since its launch. Our focus on growing our presence in China saw our reach expand to a further seven cities, bringing our footprint to 94 cities, while our wholly owned private fund manager established in Shanghai in December 2018 has secured over one billion Yuan in its first year of operation.

We are able to translate these hallmarks of our business into financial success, with diversified growth in 2019 maintaining our strong track record of high-quality performance. We achieved a 14 per cent[1] increase in adjusted operating profit, with eight markets growing at a double-digit rate. This is supported by a 12 per cent[1] expansion in renewal premiums[3], which reflects the long-term nature of our insurance business, and a 25 per cent[2] increase in funds under management at Eastspring helped by strong third party net-inflows of $8.9 billion[4]. We also delivered 29 per cent[1] growth in new business profit outside Hong Kong, with eight markets expanding at a double-digit rate, which underpinned a 23 per cent[2] increase in European Embedded Value to $39,235 million.

Market opportunities

We seek to enhance the health and wealth of consumers in Asia by providing life insurance and asset management solutions to address their protection and savings needs at all ages. The industry remains in the early stages of development, as characterised by the low penetration rates across the region for both insurance and asset management, and low levels of financial inclusion. In particular, most of our markets are approaching the level of per capita annual income when demand increases sharply. As a consequence, Asia is predicted to contribute about two-thirds of the global life insurance growth in the next 10 years[5] and achieve a share of 42 per cent of the global insurance market by 2029 compared with just 32 per cent currently[6]. The Asia Pacific asset and wealth management industry is also expected to add about $13 trillion of assets under management between 2020 and 2025[7].

There are many structural drivers supporting the significant growth potential in Asia. The health protection gap, estimated at $1.8 trillion[8], is already substantial as consumers in Asia are under-insured and social safety nets remain limited. Meanwhile, medium-term economic growth prospects are superior to those of developed markets in the west, with continued income growth and rising wealth levels expected to raise the awareness of, and demand for, protection and wealth management solutions. Similarly, demographic trends are also favourable, as youthful emerging markets with growing working-age populations remain a core source of demand for traditional protection and savings products and more mature markets with ageing populations create demand for retirement and wealth management solutions.

While these secular trends offer attractive prospects, we remain vigilant and focused in our execution. We have carefully managed our businesses through a range of unforeseen external events during 2019, including heightened capital market volatility arising from trade tensions between the US and China, a slowdown in the growth of the Chinese economy, suppressed yields on US dollar and other Asian currency fixed-income instruments, and social unrest in Hong Kong that led to a notable decline in mainland China visitor arrivals.

We have also embraced the opportunities brought about by government initiatives. Our widening product offerings and new partnerships support many Asian regulators' vision to provide greater financial inclusion and promote the health and wellbeing of the people. For example, in Hong Kong we have seen strong demand for our annuity and medical reimbursement products that are eligible for tax incentives that were newly introduced by the government. We also successfully refreshed products of our Malaysia conventional business to comply with the new regulations on minimum allocation rate. In addition, our expertise in economic capital reporting, protection-focused business mix and conservative balance sheet position us well for the migration to risk-based solvency frameworks across the region.

Strategic priorities

We run our business with a focus on customers, quality growth and profitability. We favour health and protection products due to their resilience to market cycles and healthy margins. Collectively, such products produced 67 per cent of our new business profit in 2019 and contributed to our high mix of regular premiums, which comprised 93 per cent of our APE sales in 2019 and 99 per cent of our life weighted premium income[9]. This results in 86 per cent[10] of our life IFRS operating income (excluding other income) arising from insurance margin and fee income, which in turn supports stable profit progression across market cycles and strong returns on equity.

This performance also reflects the disciplined execution of our four strategic priorities, which align with the evolving sources of demand across the region and help position our business for continued growth.

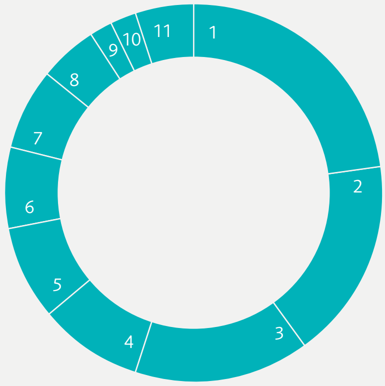
Diversification

Adjusted operating profit by region

Full year 2019

$3,276m

+14%



	Market	Adjusted operating profit	Share of total Asia	Growth
1	Hong Kong	$734m	23%	+24%
2	Indonesia	$540m	17%	–3%
3	Singapore	$493m	15%	+14%
4	Eastspring	$283m	9%	+18%
5	Malaysia	$276m	8%	+10%
6	Vietnam	$237m	7%	+20%
7	China	$219m	7%	+20%
8	Thailand	$170m	5%	+8%
9	Taiwan	$74m	2%	+10%
10	Philippines	$73m	2%	+26%
11	Others	$177m	5%	+30%

Growth rate vs 2018 constant exchange rates

First, we seek to enhance the core of our existing business and made excellent progress in this regard in 2019. Significantly, our sales in Indonesia grew 23 per cent[1] in the full year and this growth accelerated to 41 per cent[1] in the second half from 4 per cent[1] in the first half, following a substantial reform of our agency channel and new product launches. We made successful business mix improvements in the Philippines by shifting towards higher-margin health and protection products, which resulted in a 5 percentage point increase in APE sales mix[11] for these products and supported the more than doubling of new business profit. On the distribution side, we have extended our exclusive partnership with UOB until the end of 2034 with an expanded scope to include Vietnam and UOB's digital bank, TMRW, and have established an exclusive 20-year partnership with SeAbank who have 1.2 million retail customers and almost 170 branches in Vietnam.

Secondly, we aim to create 'best-in-class' health capabilities. This is being delivered by enhancing customer access to healthcare products and services. Through our digital health SuperApp branded Pulse by Prudential, which is live in 8 markets, we collaborate with various digital partners and use artificial intelligence technology to offer users a wide range of affordable and easy-to-access consumer services such as health assessments, risk factor identification, triage, telemedicine, wellness and digital payment. Meanwhile, we have launched new protection products to meet the evolving needs of our customers, including two certified VHIS plans in Hong Kong and PRUCritical Benefit 88, our first standalone critical illness product in Indonesia. In 2019, we increased our new business profit from health and protection products by 23 per cent in Asia ex-Hong Kong, as we expanded our APE sales of such products in seven markets with notable success in India, where such sales saw 50 per cent underlying growth[12].

Thirdly, we plan to accelerate growth in Eastspring by expanding its product and distribution capabilities. We have continued to develop new solutions, including our first fund offerings in China and Thailand as well as fixed maturity plans in Taiwan, Singapore, Malaysia and India. We maintained our strong investment performance with 60 per cent of retail and institutional funds outperforming over the past year, collectively helping to attract strong net flows from third parties. This in turn raised our funds under management by 25 per cent[2] to $241.1 billion. Further streamlining of our front and middle-office operations was delivered in 2019, following the completion of BlackRock's Aladdin system implementation across 10 markets. Meanwhile, our disciplined focus on costs has led to further improvement in the cost-income ratio, which fell three percentage points to 52 per cent in 2019, and contributed to the 18 per cent growth in adjusted operating profit for the year to $283 million. Following our acquisition of majority stakes in Thanachart Fund and TMB Asset Management, Eastspring is now Thailand's fourth largest mutual fund manager, with a market share of 12 per cent[13] and combined assets under management of $22 billion[4].

Finally, we continue to expand our presence in China across both the insurance and asset management sectors. We recently established a new branch in Shaanxi, our 20th in the country, and have added seven cities and 14 sales services offices in 2019, extending our reach to 94 cities and 229 sales offices. Our current presence gives us access to 77 per cent of China's population[14] and 83 per cent of the insurance market[15]. Coupled with our continued strong focus on execution, our geographic expansion has helped us achieve strong NBP growth of 38 per cent, with strong double-digit growth across both the agency and bancassurance channels. Our life joint venture also recently received regulatory approval to establish its own asset management company, which will further strengthen our capabilities in savings and retirement products. Furthermore, our wholly owned private fund manager established in Shanghai in December 2018 has secured over one billion Yuan in its first year of operation.

Customers

We believe that excellent customer service has been key to our strong reputation and leading pan-Asia franchise. During 2019, we added a further 1.4 million new life customers[18], bringing the total to over 15 million life customers, of which about one-third are our health customers. Customer loyalty is high, as reflected by our strong retention ratio which has consistently remained in excess of 90 per cent. The satisfaction and trust our customers have in our business also translates into a high proportion of repeat sales, which comprised 45 per cent of APE sales in 2019. The result of these dynamics is a portfolio of close to 25 million in-force policies, with each policyholder holding 1.6 policies on average.

At Eastspring, the expansion in assets under management was driven by strong underlying growth of 26 per cent in external client funds, excluding the M&G related assets that were reclassified following the demerger. Overall external client funds reached $124.7 billion and contributed to 52 per cent of the total funds under management at the end of 2019.

Our customer centric health ecosystem, which empowers consumers to take control of their personal health and wellbeing in an affordable way any time and anywhere, has made a promising start. The number of individuals who have downloaded the Pulse by Prudential app has exceeded one million since launch in August 2019. Pulse will help us acquire and retain users at pace as we enhance its reach by expanding the scope of service and onboard new partners.

We continue to identify and target new customer groups and segments outside our traditional focus in the mass and affluent space in order to accelerate our future growth. We first expanded into the high net worth segment in 2018 with Opus in Singapore, which provided a differentiated experience for our customers, including a dedicated service team, wealth planners and external experts covering trust and legal matters. APE sales in this segment delivered impressive growth of 46 per cent in 2019 to $76 million. Similarly, we also developed tailored offerings for SMEs, a segment that remains under-served and offers significant growth potential. This strategy is advanced through our all-inclusive platform, PRUworks, which provides a digitally-enabled HR solution for business owners and their employees, providing access to employee benefits and lifestyle programmes. In 2019, we achieved 22 per cent growth in our employee benefits APE in Singapore[17] and leveraged this experience to extend our coverage to Indonesia. We have also developed strategies to reach the digitally-savvy millennial segment through TMRW, UOB's digital bank, and new partners such as OVO in Indonesia.

Products

We offer a wide range of insurance products that are tailored to local market requirements and fast-changing individual needs, with 67 per cent of new business profit contributed by health and protection solutions and the rest by savings products that include participating, linked and other traditional products. The diversity and resilience of our business is supported by the continued enhancements we make to our product range, which include broadening coverage for new risks and adding innovative features. Indeed, last year 16 per cent of new business profit and 55 per cent of external net inflows[4] arose from the 166 products and 109 funds that were developed in 2019.

In Hong Kong, our new and innovative product offerings have contributed to the resilience of the domestic segment, which achieved 8 per cent APE sales growth in the full year. This growth accelerated to 12 per cent in the second half from 5 per cent in the first half despite the economic slowdown and social unrest. Our new qualified deferred annuity product was well received by customers in both the agency and bancassurance channels, and with sales of $162 million accounted for 11 per cent of our Hong Kong APE sales since its launch on 1 April 2019. PruActive retirement marked our entry into the annuity market in Singapore, contributing 6 per cent to our Singapore APE sales since its launch in August. We also launched PRUHealth Cancer ReCover in Hong Kong, a first-in-market cancer protection plan tailored for cancer survivors and which also offers holistic homecare services to support in-home recovery.

The improvement of our Indonesia business, whose new business profit rose strongly by 39 per cent[1] in 2019, was also helped by the broadening of our product offering. Following the success of our upgraded unit-linked product, PRUlink Generasi Baru, that was launched in late 2018, we offered a number of new and refreshed products in 2019. To raise the productivity of our trainee agents we launched PRUCritical Benefit 88, our first standalone critical illness product, which accounted for around 10 per cent of the case count in this agent segment. Similarly, we refreshed our medical product, PRUprime Healthcare Plus, offering customers a simpler and faster process to upgrade health protection, and this was our best-selling product in Indonesia last year. We also plan to introduce new offerings to our critical illness and Shariah products, which we expect will help sustain the growth momentum in 2020.

Distribution

We believe in a multi-channel strategy for our business which can adapt and respond flexibly depending on local market conditions. Our distribution network is one of the strongest and most diversified in the Asia region. We have over 600,000 licensed tied agents across our life insurance markets, and this proprietary distribution channel is the core component of our success, comprising 83 per cent of our new business profit. We also have a leading bancassurance franchise that provides access to over 18,000 bank outlets through our strategic partnerships with multi-national banks and prominent domestic banks, which grew new business profit by 12 per cent in 2019. In recent years, we have also established non-traditional partnerships to broaden our reach further, with partners added in 2019 including Viettel, the largest telecommunications service provider in Vietnam. In total, we have more than 300 life insurance and asset management distribution partnerships in Asia.

Our focus on the agency channel positions us well for sustainable growth, as customers continue to have a strong preference for face-to-face advice from a trusted financial adviser, especially regarding complex protection and wealth solutions. We have created a culture whereby agents aspire to attain membership of the Million Dollar Round Table (MDRT), an industry-recognised indicator of quality. We place great emphasis on agent professionalism and promote career progression by providing tailored training programmes that share experience and best practice across different markets. In addition, to further assist our agents during the sales process and enhance productivity we continually upgrade the tools at their disposal.

We currently boast a number one position in agency APE sales in Hong Kong and have increased MDRT qualifiers by 35 per cent in our markets outside Hong Kong, reflecting our focus on agent recruitment, training and productivity across different markets. For example, in Indonesia, our segmented agency strategy is delivering positive early results and played a key role in driving APE sales growth in 2019, with the Elite segment growing APE sales by 57 per cent to account for 25 per cent of total agency APE sales for the year.

Our partnerships also made exceptional progress last year. The bancassurance channel achieved APE sales growth of 14 per cent[1], with particularly strong performances in China JV and Vietnam and 24 per cent growth from UOB following the renewal of the strategic partnership at the beginning of the year. Meanwhile, we also extended our collaboration with new partners to widen our access to new customer segments, underlined by our new strategic partnership with OVO, the largest digital payment platform in Indonesia with access to 115 million devices. We anticipate that this partnership will significantly enhance our reach to digitally-savvy consumers in the country through the joint development of digital propositions that encompass health, wellness and wealth products. The experience will also help us in designing and managing distribution strategies in our existing markets as well as in targeting new or recent points of entry.

Cambodia

Life insurance

Market ranking[19]	1st
Population[20]	16m
Penetration[6]	0.1%

China

Life insurance

Market ranking[19,21]	4th
Population[20]	1.4bn
Penetration[6]	2.3%
Average health protection gap per household[8]	$1,724

Eastspring

Funds under management[22]	$7.8bn

Hong Kong

Life insurance

Market ranking[19]	2nd
Population[20]	7m
Penetration[6]	16.8%
Average health protection gap per household[8]	$9,156

Eastspring

Funds under management[22]	$5.0bn

India[24]

Life insurance

Market ranking[19]	2nd
Population[20]	1.4bn
Penetration[6]	2.7%
Average health protection gap per household[8]	$1,382

Eastspring

Funds under management[22]	$25.3bn

Indonesia[25]

Life insurance

Market ranking[19]	1st
Population[20]	271m
Penetration[6]	1.5%
Average health protection gap per household[8]	$1,230

Eastspring

Funds under management[22]	$5.6bn

Japan

Eastspring

Funds under management[22]	$6.7bn

Korea

Eastspring

Funds under management[22]	$12.2bn

Laos

Life insurance

Market ranking[19]	Top 3
Population[20]	7m
Penetration[6]	0.0%

Malaysia[26]

Life insurance

Market ranking[19]	1st
Population[20]	32m
Penetration[6]	3.3%
Average health protection gap per household[8]	$6,864

Eastspring

Funds under management[22]	$11.8bn

Philippines

Life insurance

Market ranking[19]	3rd
Population[20]	108m
Penetration[6]	1.3%
Average health protection gap per household[8]	$1,406

Singapore

Life insurance

Market ranking[19]	3rd
Population[20]	6m
Penetration[6]	6.2%
Average health protection gap per household[8]	$13,776

Eastspring

Funds under management[22]	$129.2bn

Taiwan

Life insurance

Market ranking[19]	12th
Population[20]	24m
Penetration[6]	17.5%
Average health protection gap per household[8]	$4,823

Eastspring

Funds under management[22]	$8.0bn

Thailand

Life insurance

Market ranking[19]	8th
Population[20]	70m
Penetration[6]	3.6%
Average health protection gap per household[8]	$287

Eastspring

Funds under management[22]	$23.3bn

Vietnam

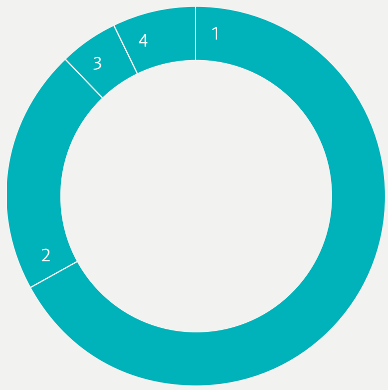
Life insurance

Market ranking[19]	3rd
Population[20]	96m
Penetration[6]	1.6%
Average health protection gap per household[8]	$1,251

Eastspring

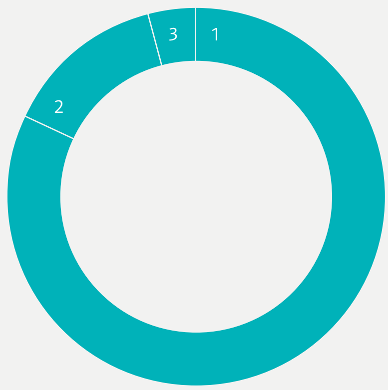
Funds under management[22]	$4.4bn

New business profit by product
Full year 2019 %



1	Health and protection	67%
2	Par	21%
3	Non-par	5%
4	Linked	7%

New business profit by channel
Full year 2019 %



1	Agency	83%
2	Bancassurance	15%
3	Others	2%

Digital

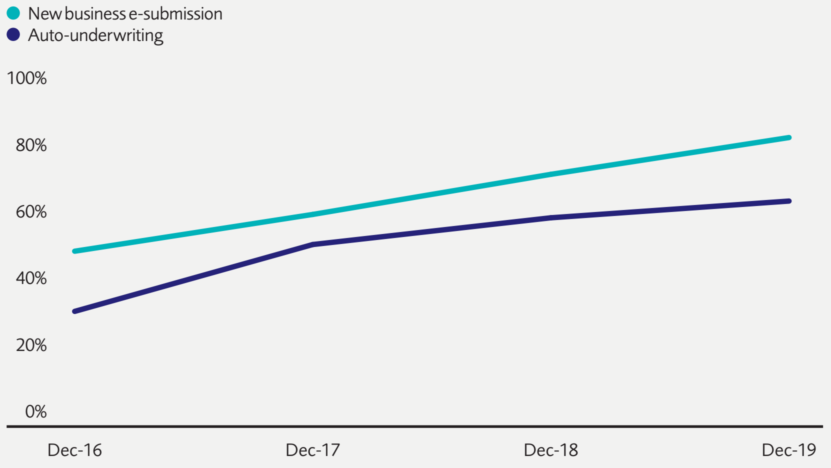
In the face of rapidly evolving customer needs and technological disruption, we actively embrace change and the latest technology. Our digital strategy is being executed in two waves. The first focuses on increasing automation and improving digital capabilities in our current business model for better customer experience leading to better business results. The second adds a new business model based on a customer centric digital ecosystem which is manifested in our SuperApp branded Pulse by Prudential.

First wave: Enhancing our current business model

In the first wave we are continually increasing the automation of our operations so as to improve both business efficiency and customer experience. For example, 83 per cent of all new business was submitted through e-point-of-sale technology in 2019, representing an increase of 11 percentage points year-on-year, with the enhancement particularly pronounced in our bancassurance partners in Thailand, Taiwan and Malaysia. Our smart underwriting tool, which is now used in 64 per cent of all new sales, offers dynamic underwriting that streamlines the application process and communicates instant underwriting decisions to customers. We provide our rapidly growing digital-savvy customer-base with efficient and secure digital payment solutions, for example, through our recent partnership with Boost, a leading lifestyle e-wallet in Malaysia. We have established a strategic relationship with the global technology services company Tech Mahindra to leverage their scale and expertise in Cloud and Mobile to ensure faster deliveries across all markets.

At Eastspring, in addition to embedding BlackRock's Aladdin system, we have also made other digital advancements, with our Malaysian entity winning the 'Fintech Innovation in Asset Management' award in Asia Asset Management's '2020 Best-of-the-Best awards'. This reflected the continued enhancements to our online platform, myEastspring, which enables our clients to access, monitor and transact online and includes tools for our agents to help clients predict their future savings needs. We also launched a new digital facility that empowers members of the Employees Provident Fund to take control of their investments and make transactions at nearly zero cost.

Prudential Corporation Asia automation rates trend



Second wave: Building an ecosystem-based business model

In the second wave, to aid the expansion of our role from providing protection to making customers healthier, we have added an ecosystem-based business model which is manifested in our Pulse by Prudential app. Built on the latest architecture, Pulse is scalable and is based on real data and artificial intelligence (AI) technology focusing on positive outcomes for customers and our businesses. This business model also uses a wide range of partnerships and the latest trends in health and wealth technology, allowing us to fulfil our strategic imperative to add prevention and postponement to our protection business. So far we have secured 18 market-leading partners across an array of different elements. We believe this will help us to acquire users at pace and gain access to new data, whilst enabling our customers to enjoy a wide range of affordable healthcare and value-added services to help them live longer and healthier lives. Currently live in eight markets, Pulse will continuously improve as we roll out new functionalities, increase partnerships and learn from direct user feedback over time.

The component of Pulse designed for the fast-growing small and medium enterprise (SME) segment in Asia is known as PruWorks. Following its launch in Singapore and Indonesia, we are now enhancing this further with a fully integrated, new administration system as well as direct connectivity to enhance customer experience for SMEs and their employees.

Corporate responsibilities

We have a large number of staff and agents across our life and asset management businesses across Asia, and an explicit inclusive approach to hiring and monitoring diversity. Progressively, we seek to ensure that mobility is not just seen as part of the opportunity provided to improve our individuals' skills but is also a source of key competitive advantage as we take learnings from one operation and apply them in another. The change in the method of managing agents in Indonesia using techniques developed in Vietnam is a prime example of this.

Highlights of key ecosystems partners

Ecosystem partners	Markets (to be) covered	Ecosystem elements
babylon	Regional	Health assessment, triage, AI symptom checker
doc	Malaysia	Online consultation, telemedicine
halodoc	Indonesia	Telemedicine
mydoc	Regional	Telemedicine
TICTRAC	Regional	Wellness, engagement and rewards
Prenetics	Hong Kong	DNA testing
OVO	Indonesia	e-payment, alternative distribution channel
Boost	Malaysia	e-payment
AIME	Malaysia	Dengue alert
HælthTech	Regional	SME cloud computing
FreedomPop	Regional	Data analytics and lead generation
TMRW	Regional	UOB's digital bank
MyanCare	Myanmar	Digital healthcare
FLEXIBLE PASS	Myanmar	Wellness, engagement and rewards
AIS	Thailand	Digital service provider, Group business
VIETTEL	Vietnam	Telecommunication and e-payment
CENTRAL Group	Thailand	Customers and behavioural data, alternative distribution
Chiiwii	Thailand	Telemedicine

We have long-standing and strong relationships with the regulators in the markets we operate in. This is built on a culture of compliance with the rules and our promotion of financial services in the context of public policy. To drive the insurance penetration rates in protection and savings products which are desired by governments and regulators in the region, we support the process of deepening capital markets, building robust regulatory and legal frameworks and enhancing financial literacy in the markets in which we operate, which in turn supports economic growth and stability. We see our investment appetite and risk management approach as contributing to the development and stability of the capital markets for the markets in which we operate. We actively engage with fellow market counterparties and governments to foster greater depth, transparency and liquidity of markets.

The responsible and sustainable management of our tax affairs also helps us to maintain constructive relations with our stakeholders and play a positive role in the economy. We take a long-term perspective and balance our responsibility to support our business strategy with our responsibility to the communities in which we operate, which need sustainable tax revenues. We understand the importance of paying the right amount of tax on time. We manage our tax affairs transparently and seek to build constructive relationships with tax authorities in all the countries in which we operate.

COVID-19 update

We continue to monitor closely the development of the coronavirus outbreak. Our priority is the health and wellbeing of our customers and staff during this challenging time. In China and Hong Kong, we were one of the first insurance companies to launch extra free protection and coverage against this disease. Similarly, in another eight Asian markets we are offering additional free hospital cash benefits and other lump sum benefits to customers diagnosed with this disease, alongside a series of measures and services to support affected customers in a timely manner, such as dedicated hotlines and simplified claims procedures. For our staff, we have put in place flexible work arrangements, for example on work hours and work location, as well as enhanced hygienic tools in the office.

While the coronavirus outbreak has slowed down economic activities in the year-to-date and dampened our sales momentum in Hong Kong and China, we remain confident in the medium to long-term prospects of these economies and their respective insurance sectors. Our broad geographic spread across the region and the strength of our recurring premium business model lends considerable resilience to our earnings. We will continue to collaborate actively with the relevant governments and uphold our corporate and social responsibilities. This is exemplified by the recent donation of RMB15 million to support efforts in fighting against the disease by our joint ventures in China[18]. We will also continue to stand by our customers steadfastly and make them healthier with our 'best-in-class' health and protection capabilities.

Business outlook

Asia's growth fundamentals and demographic trends remain robust and we expect will continue to support strong growth for the insurance and asset management industries in Asia.

We are well placed to capture these structural prospects given our market-leading positions, focused strategic priorities, high-quality execution and expanding digital capabilities.

We have built a track record of consistent and resilient expansion across cycles over the past decades, and we are confident in continuing to replicate our past success and to make our customers in Asia healthier and wealthier in the years to come.

Nic Nicandrou
Chief Executive
Prudential Corporation Asia

Notes

1 Increase stated on a constant exchange rate basis.
2 Increase stated on an actual exchange rate basis.
3 See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
4 Excludes Money Market Fund.
5 Source: Allianz Global Insurance Market at a crossroads, May 2019. Global life insurance premium derived from total insurance premium.
6 Market penetration: Swiss Re (Sigma) – based on insurance premiums as a percentage of GDP in 2018 (estimated).
7 Source: PWC Asset & Wealth Management 2025 report.
8 Swiss Re Institute: The health protection gap in Asia, October 2018. Average gap per household is calculated as 'total health protection gap divided by estimated number of households hospitalised under the mentioned gap range'. Report excludes Cambodia and Laos.
9 Weighted premium income comprises gross earned premiums at 100 per cent of renewal premiums, 100 per cent of first-year premiums and 10 per cent of single premiums.
10 Total insurance margin ($2,244 million) and fee income ($286 million) of $2,530 million divided by total life income excluding other income of $2,958 million (Comprised of total life income of $6,187 million less other income of $3,229 million). For discussion on the basis of preparation of the sources of earnings see note I(iv) of the Additional unaudited financial information.
11 APE sales mix refers to the proportion of total market APE sales accounted for by each product type.
12 Assuming no change in our shareholding.
13 Mutual fund market shares; mutual fund assets under management as at 31 December 2019.
14 Source: National Bureau of Statistics of China.
15 By life and health GWP in 2019.
16 Excluding India.
17 Excluding broker channel.
18 RMB10 million by CPL and RMB5 million by Citic Pru FMC.
19 Based on full year 2019 or the latest information available. Sources include formal (eg competitors results release, local regulators and insurance association) and informal (industry exchange) market share data. Ranking based on new business (APE sales, weighted full year premium or full year premium depending on availability of data). Full year 2019 data is not yet available for Hong Kong; full year 2018 has been used instead.
20 United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects 2019 Revision.
21 Total joint venture/foreign players only.
22 Full year 2019 FUM reported based on the country where the funds are managed.
23 IFRS gross premiums earned for Asia segment.
24 Excludes Jiwasraya.
25 Includes Takaful sales and excludes Group business.

Driving our business

Customers
In Asia, we focus our efforts on helping new and existing customers build better futures for themselves and their families, by helping to fill the savings and protection gap that exists in many markets in the region.

Products
We listen to our customers to help us understand their changing needs and tailor our design of product solutions and services.

Distribution
We are well-positioned in terms of the scale and diversity of our distribution to reach and serve our customers' needs. At the core of our distribution model is face-to-face customer interaction that delivers high-quality, needs-based advice.

Investment for growth
Building on our strong track record, we are building for future growth by investing in new opportunities and capabilities.

Creating value and benefiting our stakeholders

+15m life customers

93%
of APE sales in regular premium

83%
of all new business submitted through e-point-of-sale technology

+600,000 agents

Access to over **18,000** bank outlets

Now in **94** cities in China

Launched over **160** insurance products and more than **100** funds

$241bn
Eastspring Investments' total funds under management

United

Providing America's ageing population with financial strategies for their retirement through product innovation and developing market-leading distribution capabilities.

2019 performance highlights

— Launches of Jackson's RateProtector, a single premium, multi-year guarantee fixed annuity, as well as MarketProtector and MarketProtector Advisory fixed index annuity products, contributing to an 8 per cent increase in new business sales

— Continued growth of advisory sales, with new business sales up 30 per cent as distribution models continue to evolve

— Expanded advisory distribution footprint with Morgan Stanley, DPL Financial Partners, TD Ameritrade and RetireOne

— Awarded 'Contact Center World Class CX Certification' and 'Highest Customer Service for the Financial Industry' awards by The Service Quality Measurement Group, Inc

— Actively engaged with FinTech partners including Envestnet, MoneyGuidePro and eMoney

— Adjusted operating profit up 20 per cent to $3,070 million and new business profit down 28 per cent to $883 million

States

The US is the world's largest retirement savings market with approximately four million Americans reaching retirement age every year. This transition continues to trigger the unprecedented shift of trillions of dollars from savings accumulation to retirement income generation.

However, these Americans face challenges in planning for life after work. For those nearing the end of their working careers, a financially secure retirement is at risk, due to insufficient accumulation of savings and the current combination of low yields and market volatility. Employer-based pensions are being withdrawn, and state and government plans are underfunded as the impact of increased administrative costs and lower interest rates continue to reduce the affordability of the post-war pensions model. Social security was never intended to be a primary retirement solution and today its long-term funding status is in question.

Additionally, the life expectancy of an average retiree has significantly increased, lengthening the number of years for which retirement funding is needed.

To overcome these challenges, Americans need and demand retirement strategies that offer them the opportunity to grow and protect the value of their existing assets, as well as the ability to provide guaranteed income that will last throughout their extended lifetimes. Achieving this will reduce the gap many retirees face between income needed during retirement and the income they can generate from their retirement assets and social security. Reducing this gap is a public benefit as it helps reduce strain on supplemental government programmes for those in need.

Jackson believes that a retirement plan integrated with an income guarantee annuity will mitigate much of the risk of retirees running out of money during retirement. In response to this demand and the ongoing shift to fee-based solutions, Jackson has positioned itself with product innovation and distribution strategies to provide a wide spectrum of choice when selecting the retirement product that best fits customer needs. This will allow Jackson to enhance further our market-leading variable annuity position in the brokerage market, diversify in the fixed annuity and fixed index annuity space and grow in the advisory retirement solutions market. Jackson has demonstrated its ability to diversify during the year, growing the proportion of APE sales accounted for by fixed annuity, fixed index annuity and wholesale business to 34 per cent, from 19 per cent in the prior year.

Customers and products

Through its distribution partners, Jackson provides products that offer Americans the retirement strategies they need, including variable, fixed and fixed index annuities. Each of these products offer a unique range of features tailored to meet the individual needs of the retiree as discussed below:

Variable annuity A Jackson variable annuity, with investment freedom, represents an attractive option for retirees and soon-to-be-retirees, providing both access to equity market appreciation and guaranteed lifetime income as an add-on benefit.

Fixed index annuity A Jackson fixed index annuity is a guaranteed product with limited market exposure but no direct equity ownership. It is designed to build wealth through a combination of a base crediting rate that is generally lower than a traditional fixed annuity crediting rate, but with the potential for additional upside, based upon the performance of the linked index. Jackson also provides access to guaranteed lifetime income as an add-on benefit.

Fixed annuity A Jackson fixed annuity is a guaranteed product designed to build wealth without market exposure, through a crediting rate that is likely to be superior to interest rates offered from banks or money market funds.

These products also offer tax deferral, allowing interest and earnings to grow tax-free until withdrawals are made.

Jackson has a proven track record in this market with its market-leading flagship product, Perspective II[1]. Jackson's success has been built on its quick-to-market product innovation, as demonstrated by the development and launch of Elite Access, our investment-only variable annuity. Further demonstrating Jackson's flexibility and manufacturing capabilities, and in response to the trend in financial services toward fee-based solutions, Jackson has launched Perspective Advisory II, Elite Access Advisory II and the innovative MarketProtector Advisory, the industry's first fully-liquid advisory fixed index annuity, to serve advisers and distributors with a preference for advisory products.

In June 2019, Jackson launched RateProtector, a single premium, multi-year guarantee fixed annuity. RateProtector offers consumers the opportunity to protect and grow their assets through guaranteed interest rates that will not fluctuate during a select period, combined with the ability to defer taxes on any earnings until money is withdrawn.

Market reception for these products has been positive and these have contributed to the delivery of the organic diversification of Jackson sales in 2019, with new business APE sales up 8 per cent to $2,223 million (2018: $2,059 million). The planned transition to a more balanced portfolio has resulted in higher investment in new business in 2019 which over time is expected to enhance statutory capital and cash generation.

Jackson operates within a well-defined risk framework and takes into account the expected cost of hedging when pricing its products. It aggregates financial risks across the company, obtains a unified view of its risk positions, and actively manages net risks through a hedging programme which aims to manage economic risk. Some accounting volatility is expected in periods of large market movements as was seen in 2019, given the economic focus described above, and this has impacted IFRS profitability in the year, as further discussed in the Group Chief Financial Officer and Chief Operating Officer's report. However, the benefits of Jackson's hedging programme have been demonstrated in times of equity market decline, for example during the fourth quarter of 2018 and during the recent market turbulence. At the end of 2019 Jackson's surplus of available capital over required capital was $3,795 million after adopting the NAIC's changes to its framework for variable annuities. This equates to a ratio of 366 per cent (2018: 458 per cent using the previous NAIC framework). Jackson continues to monitor closely the recent changes in markets and take the appropriate actions through its dynamic hedging strategy. If these conditions persist management could take additional actions to assist in mitigating the impact.

Distribution

Jackson distributes products in all 50 states of the US and in the District of Columbia. Operations in the state of New York are conducted through a New York subsidiary. Jackson markets its retail products primarily through advice-based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, wirehouses and banks. For variable annuity sales, Jackson is the leader in the independent broker-dealer, bank and wirehouse channels[2] and third in regional firms[2].

Jackson's distribution strength also sets us apart from our competitors. Our highly productive wholesaling force is the largest[3] in the annuity industry and is instrumental in supporting the independent advisers who help the growing pool of American retirees develop effective retirement strategies. Our wholesalers provide extensive training to thousands of advisers about the range of products and the investment strategies that are available to support their clients. Based on the latest available data, Jackson is the second most productive variable annuity wholesale distribution force in the US[3].

In 2019, Jackson invested significant time and resources with fintech partners to help illustrate the benefits a lifetime income solution can provide within a comprehensive wealth management plan. This gives the financial adviser the necessary tools to customise according to the unique needs and goals of the client. Additionally, investment freedom within VA investment options allows the adviser to build a diversified portfolio that is customised to meet their clients' individual priorities and preferences, rather than locking them into restrictive allocation models. Some of the fintech platforms where Jackson is actively engaged include eMoney, MoneyGuidePro and Envestnet.

In 2019, Jackson announced distribution agreements with DPL Financial Partners (DPL), TD Ameritrade and RetireOne to provide our protected lifetime income solutions to independent registered investment advisers (RIAs). The collaboration expands Jackson's distribution footprint and provides Jackson with access to new opportunities in the independent RIA channel. In addition to these new relationships, Jackson's distribution partnership announced in late 2018 with State Farm is targeted to roll out in the first quarter of 2020. These new partnerships show Jackson's determination and progress on channel diversification.

Regulatory landscape

The regulatory outlook for the industry has improved since the passing of the Securities and Exchange Commission's (SEC) Best Interest Regulation in June 2019. This replaced proposed legislation known as the DOL Fiduciary Duty Rule. The SEC's finalised rule creates a best interest standard of conduct for broker-dealers and is designed to be 'product agnostic' meaning that it is not intended to give preference to or target any specific product. Instead, the rule enhances the diligence required when advising customers about suitable, albeit more complex, products such as variable annuities. The rule became effective 60 days after being published in the Federal Register (12 July 2019) and includes a transition period until 30 June 2020.

Despite lower interest rates, the life insurance industry saw increased total annuity sales as of the third quarter of 2019, primarily due to a clearer regulatory environment and more aggressive product feature changes (ie withdrawal percentages) implemented by competitors. Higher industry sales of fixed annuities were offset slightly by lower variable annuity sales.

Regardless of the outcome of the SEC best interest standard, the regulatory disruption caused by the now rescinded DOL Rules has challenged the industry to review the ways in which investment advice is provided to American investors. Manufacturers will need to have the ability to provide product and system adaptations in order to support the success of various distribution partners in their delivery of the retirement strategies that investors need. Because of its strong distribution, leadership in the annuities market, best-in-class service and an efficient operation, we believe that Jackson is well positioned to take advantage of this opportunity.

In December 2019, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) was passed into law, bringing positive changes to the US retirement system. A significant change includes the portability of lifetime income products, permitting participants to preserve their lifetime income investments and avoid surrender charges and fees. Another provision of the Act clarifies the existing Employee Retirement Income Security Act safe harbour and removes ambiguity about the applicable fiduciary standard that currently acts as a roadblock to offering lifetime income benefit options under a defined contribution plan. Under this provision, for purposes of fulfilling their fiduciary duty to select an annuity provider, defined contribution plan fiduciaries may rely on representations from insurers regarding their status under state insurance laws. The enactment of these provisions, and the SECURE Act as a whole, are important steps in facilitating Americans' ability to achieve financial freedom for life.

We believe that Jackson is well positioned to manage the impact of these regulatory changes and welcome the outcomes of the revised regulations.

At 31 December 2019, Jackson early adopted the new US regulatory regime enacted by the National Association of Insurance Commissioners in respect of variable annuities. The effect of this change is further discussed in the Group Chief Financial Officer and Chief Operating Officer's report on the 2019 financial performance.

Corporate responsibility

As a provider of savings and protection products, stewardship is core to what we do. We recognise that to help our customers look to the future with confidence, we need to take a long-term view on a wide range of issues that affect our business and the communities in which we operate. To do this, we maintain a proactive dialogue with our stakeholders – customers, investors, employees, communities, regulators and governments – to ensure that we are managing these issues sustainably and delivering long-term value.

Jackson seeks to provide the best retirement solutions that we can, while striving to communicate information about those products in a fair and transparent way. In the US, Jackson continues to be a leader in shifting perspectives and simplifying the language around financial products. In 2018, Jackson led the creation of a groundbreaking, industry-wide coalition seeking to help mitigate America's looming retirement crises, the Alliance for Lifetime Income. The Alliance is a tremendous leap forward in Jackson's ongoing commitment to educating Americans about the importance of lifetime income in retirement planning.

At Jackson, we take an inclusive approach to responsible investment, seeking to integrate environmental, social and governance (ESG) considerations into our investment processes and stewardship activities through active ownership practices and engagement with investee companies. We also maintain the ability to exclude entities from our internal investment mandates, where their practices, policies or procedures conflict with our values, or where we see a need to explicitly recognise international consensus.

As a long-term investor, Jackson considers both financial and non-financial factors in our investment processes, decision-making and ownership practices that may have a meaningful impact on our customers' long-term investment outcomes. Similarly, as active asset owners of the capital we invest on behalf of our customers, we believe that due consideration of the various factors that can impact investment returns is part of our fiduciary duty to our customers.

Jackson also takes pride in helping the communities in which we operate, providing significant employment, tax revenues, charitable programmes and contributions, as well as the investment of general account assets, all of which provide valuable public services and build infrastructure for the benefit of the wider community and economy.

Investment for growth

We believe that a significant opportunity exists to reach even more American retirees and serve their needs with annuity products going forward. This is because there are trillions of dollars of adviser-distributed assets across distribution platforms that have not historically been a focus for the business, such as the dual-registered investment adviser channel, which we can seek to access. The industry will need to remain flexible and cost-effective in making changes to product systems and processes. We continue to seek to understand and make the necessary adjustments to support the needs and demands of American retirees into the future.

Jackson is making significant investments in new technologies, which allows us to provide better service that will give our customers what they want, when they want it. These new technologies will also provide higher quality data so that our executives and staff across the business can make better informed decisions with regard to risk, and with how and where to invest.

Jackson's competitive strengths are even more critical as we work towards diversification and growth, within a highly competitive insurance industry. The breadth and depth of our best-in-class distribution team, our agility and success in launching well designed customer-centric products, the continued success of our risk management and hedge programmes through many economic cycles, and our significant investment in technology platforms and award-winning customer service will provide Americans with the retirement strategies they so desperately need. Jackson's discipline helps enable us to be positioned to potentially capture additional growth during times of transition into the future.

Michael Falcon
Chairman and
Chief Executive Officer
Jackson Holdings LLC

Notes

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3 Independent research and Market Metrics, a Strategic Insight Business: U.S. Advisor Metrics 2019, as of 30 September 2019.

4 LIMRA/Secure Retirement Institute, US Individual Annuity Participants Report 3Q YTD 2019.

5 2018 annual estimate. Annual estimates of the residential population by single year of age and sex for the United States: 1 April 2010 to 1 July 2018. U.S. Census Bureau, Population Division.

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7 WealthManagement.com, FUSE research.

8 New advisers defined as producers who have not sold Jackson products since 2013.

Driving our business

Creating value and benefiting our stakeholders

Customers
Many retirees or soon-to-be retirees face a reality of under-saving, having no guaranteed income source and the prospect of living longer than any prior generation. Jackson's focus is to provide solutions to help address these concerns for the millions of Americans currently transitioning to and through retirement.

Average of **10,000** Americans retire per day[5]

Assisting **four million** customers with their financial needs

Products
Jackson's products provide access to equity market growth, protection of principal, and a way of converting retirees' savings into retirement income with a degree of certainty. With a long history of disciplined product design and prudent risk management, Jackson has earned and continues to earn trust from its key stakeholders.

#2 seller of individual annuities in the US[4]

Perspective II is the **#1** selling variable annuity contract[1]

#1 selling variable annuity contract in the independent channel since 2003[6]

Distribution
Jackson's distribution teams set us apart from our competitors. Jackson's annuity wholesaling force is the largest and one of the most productive in the industry, supporting thousands of advisers across multiple channels and distribution outlets.

Largest annuity wholesale distribution force in the US[3]

New partnerships with State Farm, Morgan Stanley, DPL financial partners, TD Ameritrade and RetireOne, adding significant distribution access

Ranked **#2** overall in terms of Top Firms for Quality of Wholesalers[7]

Investment for growth
Jackson continues to invest in technology and innovative products to adapt efficiently and effectively to what our customers and regulatory environment require. Jackson launched an advisory version of our flagship product Perspective II, our innovative Elite Access product and our fixed index MarketProtector product to allow for penetration into untapped distribution.

Actively engaging with fintech partners Envestnet, eMoney and MoneyGuidePro

Approximately **24%** of Jackson's 2019 advisory annuity sales from new advisers[8]

Corporate responsibility
Jackson is committed to be a responsible partner with customers, employees, shareholders and the community.

Jackson Charitable Foundation reached more than **1.75m** students through partnership with Discovery Education, Junior Achievement USA and Ramsey Education, advancing financial education across the United States

1,840 associates volunteered **48,000+** hours in 2019

Through sponsorships, grants, matching gifts and volunteer support, Jackson provided **$6.7m** to charitable causes across the country

Maintaining focus on the execution of our strategy

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

14%
increase in Asia adjusted operating profit[1]

$9.5bn
LCSM surplus[6] over the Group minimum capital requirement (31 December 2018: $9.7bn)

I am pleased to report that we maintained focus on the execution of our strategy alongside the successful completion of the demerger of M&G plc and that this has continued to deliver positive financial performance in 2019.

Growth has once again been led by our businesses in Asia, which reflects the benefits of our well positioned and broad-based portfolio, which has long focused on high quality, recurring premium business. In 2019, this saw our life businesses outside Hong Kong deliver overall new business profit growth of 29 per cent[1], and within this 10 markets increasing new business profit. While Hong Kong has seen a more challenging sales environment, the resilience of its business model is demonstrated by its 24 per cent[1] growth in adjusted operating profit, which contributed to the 14 per cent[1] increase in adjusted operating profit delivered by our overall Asia business.

Our US business took its first steps in the execution of its diversification strategy, broadened its presence across the US annuity market, delivered increased remittances to the Group, and early adopted the new National Association of Insurance Commissioners (NAIC) variable annuity framework. Jackson has successfully demonstrated its ability both to develop and distribute new products in order to diversify its product range. Over time, this will contribute to a more balanced mix of policyholder liabilities which will enhance statutory capital and cash generation. During 2019, this transition has resulted in a higher investment in new business than has been seen in recent periods, with resulting impacts on capital generation and new business profit margins.

During 2019 our head office activities incurred costs of $(460) million (2018: $(490) million[2]). The demerger of M&G plc provides us with the opportunity to optimise the operating model of our Group functions across our head office. We are well advanced in developing and executing plans that will deliver total savings of circa $180 million[3], targeting a revised run-rate from 1 January 2021[4]. We have already completed the first phase of this work which will deliver annual savings[5] of $55 million.

Over 2019, global equity markets rallied strongly. In the US markets the S&P 500 index increased by 29 per cent over 2019, but government bond yields were generally lower over the period, with the US 10 year government bond yield ending the year at 1.9 per cent (2018: 2.7 per cent).

The impact of these market effects are most prevalent in the US's results. Jackson's hedging programme is focused on managing the economic risks in the business and protecting statutory solvency in the circumstance of large market movements. The hedging programme does not aim to hedge IFRS accounting results and this can lead to volatility in the IFRS results in periods of significant market movements, as was seen in 2019. In particular, while higher equity markets are expected to deliver ultimately increased profitability to Jackson through higher future fee income, this benefit is not fully recognised in the IFRS results in the short term. This contrasts with the impact on the derivatives within the hedging programme, designed to provide protection when markets fall, where rises in equity markets lead to short term losses in the IFRS results. These losses have been exacerbated by falling interest rates in 2019, which have led to an increase in the IFRS liabilities for the guarantees attaching to variable annuities given lower discount rates and lower assumed future separate account growth, impacting directly on the income statement. Collectively, these factors led to an IFRS loss after tax of $(380) million for the US over 2019. The interest rate falls have also led to gains on bonds, which are recognised outside the income statement, and US's IFRS segment shareholders' equity increased from $7,163 million at the end of 2018 to $8,929 million at the end of 2019. EEV has fewer mismatches (for example future fee income is fully recognised), but fluctuations in interest rates also impact Jackson's EEV results, since EEV discount rates and future expectations of separate account returns are based on current risk free rates. While our IFRS and EEV results in 2019 may therefore show a degree of volatility, we believe that the Jackson business is positioned to enhance its capital and cash generation over time as it continues to focus on the US retirement market opportunity.

We have presented the results of the UK and Europe operations (referred to as M&G plc) as discontinued operations and have adopted the US dollar as our presentational currency which better reflects the economic footprint of our business going forward. Prior year comparatives have been restated, as required under IFRS. However comparative balance sheet amounts are not restated for discontinued operations. As in previous years, growth rates referred to are on a constant exchange rate basis unless otherwise stated.

Adjusted operating profit before tax from continuing operations

Prudential's adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit) from continuing operations increased in 2019 to $5,310 million (20 per cent higher on a constant and actual exchange rate basis). This increase was driven by higher earnings from our Asia life insurance and asset management operations, and by lower market-related DAC amortisation charges compared with the prior year in the US, as a result of the strong equity market returns achieved in 2019. Other income and expenditure generated a net cost of $(926) million (2018: $(967) million[2]). Of this, $(179) million related to interest costs in respect of debt instruments transferred to M&G plc on 18 October 2019 prior to completion of the demerger. Excluding these amounts, interest costs for the continuing Group would have been $(337) million, lower than 2018 following the redemption of debt in the first half of 2019.

IFRS basis non-operating items from continuing operations

Non-operating items in 2019 consist of short-term fluctuations in investment returns on shareholder-backed business of negative $(3,203) million (2018: negative $(791) million on an actual exchange rate basis), the net loss arising from corporate transactions undertaken in the year of negative $(142) million (2018: negative $(107) million on an actual exchange rate basis), and the amortisation of acquisition accounting adjustments of negative $(43) million (2018: negative $(61) million on an actual exchange rate basis) arising mainly from the REALIC business acquired by Jackson in 2012.

The $(142) million cost of corporate transactions reflects gains from disposals offset by the $(407) million incurred in the year in connection with the demerger of M&G plc from Prudential plc, in line with our previous guidance. Further information is set out in note D1.1 to the financial statements.

Negative short-term fluctuations comprised positive $657 million (2018: negative $(684) million on an actual exchange rate basis) for Asia, negative $(3,757) million (2018: negative $(134) million) in the US and negative $(103) million (2018: positive $27 million on an actual exchange rate basis) in other operations.

Falling interest rates in certain parts of Asia led to unrealised bond gains in the year which are accounted for within non-operating profit. In the US, rising equity markets and falling interest rates have resulted in negative effects primarily reflecting net losses on hedge instruments used to manage the market exposure of Jackson's products and by changes in the IFRS value for these features. Further discussion of Jackson's non-operating items is contained in the US section of this report.

After allowing for non-operating items, the total profit after tax from continuing items was $1,953 million (2018: $2,881 million[2]).

In addition to the effects seen above, falling interest rates resulted in unrealised gains of $2.7 billion being recognised outside the income statement as part of other comprehensive income, partially mitigating the adverse effect of market movements on the Group's IFRS shareholders' funds.

IFRS loss after tax from discontinued operations

In the period prior to demerger, $1,319 million IFRS profit after tax was recognised from the discontinued M&G plc business. On distribution to shareholders as a dividend in specie the net assets of the business were remeasured to the market value of M&G plc on listing, resulting in a gain of $188 million recognised within the loss from discontinued operations for the year. As a result of representing the historical results of M&G plc in US dollars (as opposed to sterling), a loss of $(2,668) million was recognised at the date of demerger representing cumulative foreign exchange differences held in the currency translation reserve. This arose from the fall in the sterling/US dollar exchange rate over the period since the currency translation reserve was established in 2004. This was matched by an equal and opposite gain in other comprehensive income resulting in no overall impact on shareholders' funds. Reflecting the above, the total loss from discontinued operations after tax was $(1,161) million. The rest of this report focuses solely on the continuing operations of the Group.

IFRS effective tax rates

In 2019, the effective tax rate on adjusted operating profit based on longer-term investment returns from continuing operations was 15 per cent. This was unchanged from 2018.

The 2019 effective tax rate on total IFRS profit was negative (2) per cent (2018: 16 per cent). The decrease in the 2019 effective tax rate reflects increased derivative losses in the US where the effective tax rate on these items is higher (at 21 per cent) than the effective tax rate on profit from Asia operations.

Total tax contribution from continuing operations

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with $2,168 million remitted to tax authorities in 2019. This increased from the equivalent amount of $1,829 million[2] remitted in 2018, primarily due to the timing of when various tax payments became due.

Tax strategy

The Group publishes its tax strategy annually which, in addition to complying with the mandatory UK (Finance Act 2016) requirements, also includes a number of additional disclosures, including a breakdown of revenues, profits and taxes for all jurisdictions where more than $5 million tax was paid. This disclosure is included as a way of demonstrating that our tax footprint (ie where we pay taxes) is consistent with our business footprint. An updated version of the tax strategy, including 2019 data, will be available on the Group's website before 31 May 2020.

IFRS profit

	Actual exchange rate			Constant exchange rate	
	2019 $m	**2018** $m	**Change** %	**2018** $m	**Change** %
Adjusted operating profit based on longer-term investment returns before tax from continuing operations					
Asia					
Long-term business	2,993	2,646	13	2,633	14
Asset management	283	242	17	239	18
Total Asia	3,276	2,888	13	2,872	14
US					
Long-term business	3,038	2,552	19	2,552	19
Asset management	32	11	191	11	191
Total US	3,070	2,563	20	2,563	20
Total segment profit from continuing operations	6,346	5,451	16	5,435	17
Other income and expenditure	(926)	(967)	4	(933)	1
Total adjusted operating profit based on longer-term investment returns before tax and restructuring costs	5,420	4,484	21	4,502	20
Restructuring costs	(110)	(75)	(47)	(73)	(51)
Total adjusted operating profit based on longer-term investment returns before tax from continuing operations	5,310	4,409	20	4,429	20
Non-operating items:					
Short-term fluctuations in investment returns on shareholder-backed business	(3,203)	(791)	(305)	(796)	(302)
Amortisation of acquisition accounting adjustments	(43)	(61)	30	(61)	30
Gain (loss) on disposal of businesses and corporate transactions	(142)	(107)	(33)	(106)	(34)
Profit from continuing operations before tax attributable to shareholders	1,922	3,450	(44)	3,466	(45)
Tax credit (charge) attributable to shareholders' returns	31	(569)	105	(570)	105
Profit from continuing operations for the year	1,953	2,881	(32)	2,896	(33)
Profit for the year from discontinued operations	1,319	1,142	15	1,092	21
Remeasurement of discontinued operations on demerger	188	–	n/a	–	n/a
Cumulative exchange loss recycled through other comprehensive income	(2,668)	–	n/a	–	n/a
(Loss) profit from discontinued operations for the year, net of related tax	(1,161)	1,142	(202)	1,092	(206)
Profit for the year	792	4,023	(80)	3,988	(80)

IFRS earnings per share

	Actual exchange rate			Constant exchange rate	
	2019 cents	**2018** cents	**Change** %	**2018** cents	**Change** %
Basic earnings per share based on adjusted operating profit after tax from continuing operations	175.0	145.2	21	146.0	20
Basic earnings per share based on:					
Total profit after tax from continuing operations	75.1	111.7	(33)	112.5	(33)
Total (loss) profit after tax from discontinued operations	(44.8)	44.3	(201)	42.4	(206)

Group capital position

Following the demerger of M&G plc from Prudential plc, the Hong Kong Insurance Authority (IA) is now the Group-wide supervisor for the Prudential Group. Ultimately, the Group 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 expected to be finalised in the second half of 2020. Until it comes into force, Prudential is applying the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine Group regulatory capital requirements.

At 31 December 2019, the Group's LCSM surplus over the Group minimum capital requirement (GMCR) was estimated at $9.5 billion on a shareholder basis[6], equivalent to a solvency ratio of 309 per cent, and compares with a like-for-like position at 31 December 2018 of $9.7 billion and ratio of 356 per cent.

The high quality and recurring nature of the Group's operating capital generation and disciplined approach to managing balance sheet risk is evident from the $2.5 billion of in-force capital generation in the period, which supported $0.6 billion of investment in new business (on an LCSM basis), inorganic investment in Asia along with external dividends. The movement in LCSM surplus also includes demerger and other capital related items. More information is set out in note I(i) of the Additional unaudited financial information. The Group's LCSM position is resilient to external macro movements as demonstrated by the sensitivity disclosure contained in note I(i) of the Additional unaudited financial information, alongside further information on the basis of calculation of the LCSM measure.

The Group is no longer subject to Solvency II capital requirements nor regulated by the Bank of England.

Estimated Group LCSM capital position[6]

	31 December 2019		31 December 2018†	
	Total	Shareholder*	Total	Shareholder*
Available capital ($ billion)	33.1	14.0	27.0	13.5
Group minimum capital requirement (GMCR) ($ billion)	9.5	4.5	7.6	3.8
LCSM surplus (over GMCR) ($ billion)	23.6	9.5	19.4	9.7
LCSM ratio (over GMCR) (%)	348%	309%	355%	356%

* The shareholder LCSM amounts exclude the available capital and minimum capital requirements of the participating business in Hong Kong, Singapore and Malaysia.
† Excludes M&G plc and includes $3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019.

Financing and liquidity

Net core structural borrowings of shareholder-financed businesses[7]

	31 December 2019 $m			31 December 2018 $m		
	IFRS basis	Mark-to-market value	EEV basis	IFRS basis	Mark-to-market value	EEV basis
Subordinated debt substituted to M&G plc in 2019	–	–	–	3,718	82	3,800
Other core structural borrowings	5,594	633	6,227	6,043	151	6,194
Total borrowings of shareholder-financed businesses	5,594	633	6,227	9,761	233	9,994
Less: holding company cash and short-term investments	(2,207)	–	(2,207)	(4,121)	–	(4,121)
Net core structural borrowings of shareholder-financed businesses	3,387	633	4,020	5,640	233	5,873
Gearing ratio*	15%			20%		

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

The total borrowings of the shareholder-financed businesses decreased by $(4.2) billion, from $9.8 billion to $5.6 billion in 2019. This reflected the substitution of $4,161 million Tier 2 subordinated notes to M&G plc as part of the demerger (including £300 million 3.875 per cent Tier 2 subordinated notes issued in July 2019), and the redemption of £400 million 11.375 per cent Tier 2 subordinated notes in May 2019. The Group had central cash resources of $2.2 billion at 31 December 2019 (31 December 2018: $4.1 billion), resulting in net core structural borrowings of the shareholder-financed businesses of $3.4 billion at end 2019 (2018: $5.6 billion).

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

Prudential plc has maintained a consistent presence as an issuer in the commercial paper market for the past decade and had $520 million in issue at the year end (2018: $601 million).

As at 31 December 2019, the Group had a total of £2.0 billion of undrawn committed facilities, expiring in 2024. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2019.

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

Prudential plc seeks to maintain its financial strength rating which derives, in part, from the high level of financial flexibility to issue debt and equity instruments which is intended to be maintained and enhanced in the future.

Cash remittances
Holding company cash flow[7]

	Actual exchange rate		
	2019* $m	**2018*** $m	**Change** %
From continuing operations			
Asia	950	916	4
US	509	452	13
Other UK (including Prudential Capital)	6	49	(88)
Total net cash remitted from continuing operations	1,465	1,417	3
From discontinued operations			
M&G plc	684	842	(19)
Net cash remitted by business units	2,149	2,259	(5)
Central outflows	(522)	(572)	
Dividends paid	(1,634)	(1,662)	
Other movements	(1,999)	1,153	
Total holding company cash flow	(2,006)	1,178	
Cash and short-term investments at beginning of year	4,121	3,063	
Foreign exchange movements	92	(120)	
Cash and short-term investments at end of year	2,207	4,121	

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

Cash remitted to the Group from continuing operations in 2019 amounted to $1,465 million, included $950 million from Asia and $509 million from the US. In addition, $684 million of remittances were received pre-demerger from M&G plc (excluding the $3,841 million pre-demerger dividend used to offset the payment due to M&G plc in return for the substitution of debt).

During 2019, the Group's holding company cash flow was managed in sterling and significant remittances were hedged and recorded on that basis. Growth rates are therefore distorted by the onwards translation into US dollars for presentation purposes. If local currency remittances in Asia had been translated directly into US dollars[8], then the growth rate in Asia remittances year-on-year would have been 8 per cent (compared with 4 per cent shown in the table above). The dividend paid by the US in 2019 was $525 million (2018: $450 million). From 1 January 2020, holding company cash flow will be managed in US dollars and no such distortions will occur.

Cash remittances were used to meet central costs of $(522) million, pay dividends of $(1,634) million and meet other expenditure of $(1,999) million. Corporate expenditure includes net interest paid of $(527) million of which $(231) million relates to that expended on debt substituted to M&G plc. Corporate expenditure is net of receipts of $265 million in 2019 from tax received. The level of tax receipts is expected to decline sharply in 2020, and then is not expected to recur going forward given the demerger of UK operations and the level of UK income which can be used to offset central UK expenditure.

Other expenditure of $(1,999) million relates to amounts paid in connection with the demerger and other corporate transactions in the year, including the redemption of subordinated debt in the first half of 2019. Further information is contained in note I(iii) of the Additional unaudited financial information.

As highlighted in my report for the first half of 2019, holding company cash was expected to reduce in the second half of 2019. Cash and short-term investments totalled $2.2 billion at the end of the year (2018: $4.1 billion on an actual exchange rate basis), commensurate with the reduced size of the Group post-demerger. The Group will seek to manage its financial condition such that it has sufficient resources available to provide a buffer to support the retained businesses in stress scenarios and to provide liquidity to service central outflows.

Shareholders' funds

	IFRS		EEV	
	2019 $m	2018 $m	2019 $m	2018 $m
Adjusted operating profit after tax and non-controlling interests from continuing operations[9]	4,528	3,739	6,896	7,862
Profit after tax for the year[9]	783	4,019	(645)	6,122
Exchange movements, net of related tax	2,943	(714)	666	(1,574)
Unrealised gains and losses on US fixed income securities classified as available-for-sale	2,679	(1,446)	–	–
Demerger dividend in specie of M&G plc	(7,379)	–	(7,379)	–
Other dividends	(1,634)	(1,662)	(1,634)	(1,662)
Mark-to-market value movements on Jackson assets backing surplus and required capital	–	–	206	(127)
Other	117	9	95	176
Net increase (decrease) in shareholders' funds	(2,491)	206	(8,691)	2,935
Shareholders' funds at beginning of the year	21,968	21,762	63,402	60,467
Shareholders' funds at end of the year	19,477	21,968	54,711	63,402
Shareholders' value per share[10,11]	749¢	847¢	2,103¢	2,445¢

Group IFRS shareholders' funds in the 12 months to 31 December 2019 decreased by 11 per cent to $19.5 billion (31 December 2018: $22.0 billion on an actual exchange rate basis) principally as a result of the demerger of M&G plc which reduced shareholders' funds by $(7.4) billion. Excluding this effect, shareholders' funds increased by $4.9 billion primarily as a result of profit after tax from continuing businesses of $1.9 billion, profit generated by M&G plc up to the date of demerger of $1.3 billion and unrealised gains on fixed income securities of Jackson of $2.7 billion following a decrease in US long-term interest rates. These amounts were offset by dividends paid in the year of $(1.6) billion.

The total return from continuing operations (including other comprehensive income) on Group's closing shareholders' funds for the year was 27 per cent[12], after excluding items arising from the demerger of $528 million (being costs of undertaking the demerger and interest). The demerger alters the size of the Group's shareholders' equity and the nature of its operations, rendering a comparison with the prior year return on shareholders' funds value unrepresentative.

The Group's EEV basis shareholders' funds at 31 December 2019 was $54.7 billion. This compares with $46.1 billion at 31 December 2018 if the $17.3 billion in respect of the UK & Europe operations is excluded. The growth over the year is primarily driven by EEV profit from continuing operations of $4.2 billion, total inter-group dividends from M&G plc in the period before demerger of $5.5 billion less external dividends of $(1.6) billion. On a per share basis, the Group's embedded value at 31 December 2019 equated to 2,103 cents. More information on the Group's EEV results are included in the segmental detail that follows.

Free surplus generation from continuing operations[13]

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations and is based (with adjustments) on the capital regimes that apply locally in the various jurisdictions in which the Group operates. For life insurance operations, it represents amounts emerging from the in-force business during the year, net of amounts reinvested in writing new business. For asset management businesses, it equates to post-tax adjusted operating profit for the year.

Operating free surplus generated from continuing operations before the adjustments to reflect hedge modelling changes and restructuring costs increased to $3.8 billion (2018: $3.5 billion[1]). This was after $(1,158) million of investment in new business (2018: $(946) million[1]).

Asia operating free surplus generation[14] increased by 13 per cent to $1,772 million in line with business growth, higher asset management earnings and stable levels of new business investment.

US operating free surplus generation before the 2019 hedge modelling changes was $2,028 million (2018: $1,895 million) with the increase from in-force business, including a one-off benefit from the integration of the John Hancock business, offset by higher new business investment. As part of the implementation of the NAIC's changes to the US statutory reserve and capital framework enhancements were made to the model used to allow for hedging within US statutory reporting. As a consequence, the Group has chosen to utilise this new model within its EEV results, resulting in a $3.2 billion reduction in Jackson's EEV at the start of the year and a subsequent fall in operating free surplus of $(903) million from a lower expected transfer to net worth. Further information is included in the US segmental discussion and in the EEV basis results. After allowing for this effect and restructuring costs, operating free surplus generation for the Group was down 16 per cent to $2,861 million.

Analysis of movement in free surplus for insurance and asset management operations[13]

	Actual exchange rate			Constant exchange rate	
	2019 $m	**2018** $m	**Change** %	**2018** $m	**Change** %
Operating free surplus generated before restructuring costs and US EEV hedge modelling enhancements	3,800	3,458	10	3,462	10
Restructuring costs	(36)	(48)	25	(47)	23
Operating free surplus generated before US EEV hedge modelling enhancements	3,764	3,410	10	3,415	10
Impact of 2019 US EEV hedge modelling enhancements	(903)	–	n/a	–	n/a
Operating free surplus generated	2,861	3,410	(16)	3,415	(16)
Non-operating (loss) profit	(568)	(1,649)			
Net cash flows paid to parent company	(1,475)	(1,368)			
Foreign exchange movements on foreign operations, timing differences and other items	(172)	(991)			
Total movement in free surplus from continuing operations	646	(598)			
Free surplus at 1 January from continuing operations	5,351	5,949			
Free surplus at 31 December from continuing operations	5,997	5,351			
Analysis of operating free surplus generated from in-force life business and asset management before restructuring costs and US EEV hedge modelling enhancements					
Asia	1,772	1,563	13	1,567	13
US	2,028	1,895	7	1,895	7
Total	3,800	3,458	10	3,462	10

Dividend

The Board has approved a 2019 second interim ordinary dividend of 25.97 cents per share, equivalent to the 19.60 pence per share previously indicated in the demerger Circular.

The Board considers dividends to be an important component of total shareholder return and adopted a progressive dividend policy for the Group following the demerger. The level of dividend growth will be determined after taking into account the Group's capital generation capacity, financial prospects and investment opportunities, as well as market conditions. The Group's 2020 dividend under the new progressive dividend policy will be determined from a 2019 US dollar base of $958 million[15] (36.84 cents per share), equivalent to the circa £750 million previously disclosed in the Circular.

This policy is expected to result, over the medium term, in future central outflows, ie dividends, debt interest costs and other central expenses (including central payments for bancassurance distribution agreements and restructuring costs) net of tax recoverables, being covered by remittances from business units.

The Board intends to maintain the Group's existing formulaic approach to first interim dividends, which are calculated as one-third of the previous year's full-year dividend.

Asia

Operational and financial highlights

Our 2019 Asia financial results reflect the benefits of our diverse and well-positioned portfolio across the Asia region, the resilience of the longer-term growth drivers in these markets, our long-held prioritisation of high quality, recurring premium life insurance business and focused execution on our key strategic priorities.

This is reflected in diversified growth, with 10 markets expanding new business profit and our Asia ex-Hong Kong businesses growing new business profit by 29 per cent. Our earnings continue to be supported by high quality drivers with a 14 per cent increase in insurance margin, underpinned by our protection propositions for customers, alongside 18 per cent growth in asset management earnings, helped by a 15 per cent increase in average funds under management.

This led to a 14 per cent increase in overall Asia adjusted operating profit with eight insurance markets delivering double-digit growth. These drivers are also reflected in the EEV operating profit of $6,138 million (2018: $6,052 million[1]), driving a 23 per cent increase in embedded value to $39.2 billion. At the same time, a 13 per cent increase in operating free surplus generation[14] supported a higher cash remittance of $950 million for the year.

	Actual exchange rate			Constant exchange rate	
	2019 $m	2018 $m	Change %	2018 $m	Change %
New business profit	3,522	3,477	1	3,460	2
Adjusted operating profit*	3,276	2,888	13	2,872	14
EEV operating profit*	6,138	6,070	1	6,052	1
Operating free surplus generation*	1,772	1,563	13	1,567	13

* Before restructuring costs

New business performance

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

	Actual exchange rate						Constant exchange rate			
	2019 $m		2018 $m		Change %		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
Hong Kong	2,016	2,042	2,266	2,309	(11)	(12)	2,268	2,310	(11)	(12)
China JV	590	262	403	199	46	32	386	190	53	38
Indonesia	390	227	315	163	24	39	316	163	23	39
Other life insurance markets	2,165	991	2,015	806	7	23	1,989	797	9	24
Total Asia	5,161	3,522	4,999	3,477	3	1	4,959	3,460	4	2
Total Asia excluding Hong Kong	3,145	1,480	2,733	1,168	15	27	2,691	1,150	17	29
Total new business margin		68%		70%				70%		

Life insurance new business APE sales increased by 4 per cent to $5,161 million and related **new business profit** increased by 2 per cent with eight markets achieving double-digit growth in new business profit.

Lower levels of APE sales and new business profit in Hong Kong (down 11 and 12 per cent respectively) were more than offset by higher overall APE sales and new business profit in markets outside Hong Kong (up 17 and 29 per cent respectively). Our Asia ex-Hong Kong businesses accelerated strongly, as new APE sales growth steadily increased throughout the year, with 11 per cent growth in the first quarter rising to 26 per cent growth in the fourth quarter.

We continue to favour health and protection products due to their resilience to market cycles and superior margins. Collectively, such products achieved new business profit growth of more than 20 per cent outside Hong Kong and produced 67 per cent of our overall Asia new business profit in 2019. This also contributed to our high mix of regular premiums, which comprised 93 per cent of our APE sales in 2019.

Our partnerships also made encouraging progress last year. The bancassurance channel achieved APE sales growth of 14 per cent, with particularly strong performances in our China joint venture and Vietnam and 24 per cent growth from UOB following the renewal of the strategic partnership at the beginning of the year.

In **Hong Kong**, our domestic business was resilient with new product launches and focused management actions leading to an 8 per cent increase in local APE sales. This was supported by strong take-up of our new qualified deferred annuity product which accounted for 11 per cent of our Hong Kong APE sales since its launch on 1 April 2019 as well as our VHIS plans, both of which are eligible for tax incentives that were newly introduced by the government. Our Hong Kong life insurance business serves the health and savings needs of both domestic as well as visiting mainland Chinese consumers. The social unrest drove a decline in mainland Chinese visitors in the second half of 2019 inhibiting sales to this segment which led to a 41 per cent reduction in related APE sales compared with the second half of 2018, and to a 21 per cent reduction in APE sales over the year as a whole. Overall Hong Kong APE sales and new business profit were 11 and 12 per cent lower respectively.

In our **China JV**, APE sales were 53 per cent higher at $590 million. This growth reflects a strong performance by both our agency and bancassurance channels with the latter reflecting the success of our strategy to drive increased branch activation. Higher volumes helped deliver an increase in new business profit by 38 per cent.

In **Indonesia**, the benefits of a recent restructuring of our agency channel and successful new product launches supported a 23 per cent increase in APE sales and this growth accelerated to 41 per cent in the second half from 4 per cent in the first half. The 39 per cent increase in new business profit reflected the benefit of increased volumes, as well as operational improvements from new product launches in the year.

The broad-based performance of our other life insurance markets led to a 9 per cent increase in related new sales, with particularly strong growth in the **Philippines** (34 per cent higher), while shifting towards higher-margin health and protection products. The 24 per cent increase in new business profit contribution from our other life markets is driven by higher new sales volumes, favourable assumption changes and modelling enhancements.

EEV basis results

	Actual exchange rate			Constant exchange rate	
	2019 $m	**2018** $m	**Change** %	**2018** $m	**Change** %
New business profit	3,522	3,477	1	3,460	2
Business in force	2,366	2,381	(1)	2,383	(1)
Operating profit from long-term business	5,888	5,858	1	5,843	1
Asset management	250	212	18	209	20
Operating profit from long-term business and asset management before restructuring costs	6,138	6,070	1	6,052	1
Restructuring costs	(31)	(25)	(24)	(24)	(29)
Non-operating profit (loss)	1,962	(1,235)	259	(1,232)	259
Profit for the year	8,069	4,810	68	4,796	68
Other movements	(842)	(1,681)			
Net increase (decrease) in embedded value	7,227	3,129			
Embedded value at 1 January	32,008	28,879			
Embedded value at 31 December	39,235	32,008			
% New business profit/closing embedded value	9%	11%			
% Operating profit/closing embedded value	16%	19%			

Asia EEV operating profit increased marginally compared with the prior period to $6,138 million (2018: $6,052 million[1]), driven by the 2 per cent increase in life new business profit, balanced by a 1 per cent reduction in the contribution from in-force life business.

The development of the in-force life result of $2,366 million (2018: $2,383 million[1]) reflects a 4 per cent reduction in the expected return, partly offset by higher, favourable operating assumption changes and experience development. Under our active EEV assumption framework, the lower expected return is a function of lower period end interest rates leading to lower period end risk discount rates. These lower risk discount rates are applied to the opening embedded value in this analysis, and result in a lower expected return compared with the prior period, only partly offset by a higher starting embedded value position. Operating assumption and experience developments were positive at $824 million (2018: $769 million[1]) and are driven by favourable persistency and mortality/morbidity effects among other factors, and again reflect the high quality of our in-force life business.

The asset management segment operating profit after tax increased by 20 per cent to $250 million (2018: $209 million[1]), which is discussed in more detail below.

Non-operating profit was $1,962 million (2018: $(1,232) million[1]), mainly reflecting higher than assumed equity and fixed income returns in the period, partly offset by the effect of lower period end interest rates leading to a reduction in future assumed investment returns, among other factors.

Overall Asia segment embedded value increased by 23 per cent to $39.2 billion (2018: $32.0 billion). Of this, $37.8 billion (2018: $31.0 billion) relates to the value of the long-term business. The remainder represents Asia asset management and goodwill which are carried at IFRS net asset value under the EEV framework.

Asia analysis of movement in free surplus[13]

	Actual exchange rate			Constant exchange rate	
	2019 $m	**2018** $m	**Change** %	**2018** $m	**Change** %
Operating free surplus generated from in-force life business and asset management before restructuring costs	2,391	2,215	8	2,213	8
Investment in new business	(619)	(652)	5	(646)	4
Operating free surplus generated before restructuring costs	1,772	1,563	13	1,567	13
Restructuring costs	(31)	(25)	(24)	(24)	(29)
Operating free surplus generated	1,741	1,538	13	1,543	13
Non-operating (loss) profit	1,195	(525)			
Net cash flows to parent company	(950)	(916)			
Foreign exchange movements on foreign operations, timing differences and other items	(357)	(847)			
Total movement in free surplus	1,629	(750)			
Free surplus at 1 January	2,591	3,341			
Free surplus at 31 December	4,220	2,591			

Overall Asia operating free surplus generated[14], after investment in new business, was $1,772 million, an increase of 13 per cent compared with the prior period, driven by higher in-force generation and a lower level of investment in new business. The 8 per cent increase in the in-force return reflects growth in the in-force life portfolio, favourable operating experience effects and strong growth in asset management earnings, which more than offsets less favourable economic effects. The level of investment in new business reduced by 4 per cent, despite higher new sales, and reflects the net impact of assumption changes and various country and business mix effects. In turn, this growth in operating free surplus generation supported an increased net cash remittance of $950 million for the year (2018: $916 million). Non-operating profit of $1,195 million mainly relates to the net effect of bond and equity gains across most Asia markets.

Local statutory capital

We maintained a resilient balance sheet with a robust shareholder LCSM surplus of $4.7 billion and coverage ratio of 253 per cent at 31 December 2019 (31 December 2018: $3.6 billion and 244 per cent) supported by our expertise in risk management and a conservative approach to credit risk. We seek to safeguard our business from market volatility through our strong focus on protection products and our prudent asset and liability management strategy, which continues to be well-matched by both currency and duration. This is demonstrated by the relatively low sensitivity of our new business profit and our embedded value to a wide range of capital market fluctuations.

IFRS earnings

Overall, Asia adjusted operating profit increased by 14 per cent to $3,276 million, with life insurance earnings up 14 per cent and asset management earnings up 18 per cent. Our Asia life insurance earnings growth is broad-based and at scale, reflecting the benefits of our focus on high quality recurring premium business and well diversified business portfolio. 86 per cent[16] of our total life income (excluding other income described below) arises from insurance margin and fee income, again supporting stable profit progression across market cycles.

Overall, eight insurance markets reported double-digit growth, with five delivering growth of 20 per cent or more. Six markets delivered annual adjusted operating profit of above $200 million and three in the region of $500 million or higher. At a market level, highlights include Hong Kong (up 24 per cent) driven by the high quality of its in-force growth, China JV (up 20 per cent), Vietnam (up 20 per cent) and the Philippines (up 26 per cent). Adjusted operating profit in Indonesia of $540 million remains at a high level, but was 3 per cent below the prior period.

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

	Actual exchange rate				Constant exchange rate	
	2019		2018		2018	
	$m	Margin bps	$m	Margin bps	$m	Margin bps
Spread income	321	108	310	125	305	124
Fee income	286	105	280	106	277	106
With-profits	107	18	95	20	94	20
Insurance margin	2,244		1,978		1,966	
Other income	3,229		2,982		2,962	
Total life income	6,187		5,645		5,604	
Expenses:						
Acquisition costs	(2,156)	(42)%	(2,007)	(40)%	(1,991)	(40)%
Administration expenses	(1,437)	(252)	(1,374)	(269)	(1,359)	(268)
DAC adjustments	430		435		430	
Share of related tax charges from joint ventures and associates	(31)		(53)		(51)	
Long-term insurance business pre-tax adjusted operating profit	2,993		2,646		2,633	
Eastspring	283		242		239	
Adjusted operating profit from long-term business and asset management before restructuring costs	3,276		2,888		2,872	
Tax charge	(436)		(411)		(408)	
Adjusted operating profit after tax for the year before restructuring costs	2,840		2,477		2,464	
Non-operating profit after tax	885		(662)		(665)	
Profit for the year after tax before restructuring costs	3,725		1,815		1,799	

Our earnings continue to be based on high-quality drivers. The overall 14 per cent growth in Asia life insurance adjusted operating profit to $2,993 million (2018: $2,633 million[1]) was driven principally by 14 per cent growth in insurance margin related revenues and reflects our ongoing focus on recurring premium health and protection products, and the associated continued growth of our in-force business. Renewal premiums[10], reflecting the long-term nature of our insurance business, grew 12 per cent.

Fee income increased by three per cent, broadly in line with the increase in average unit-linked liabilities, while spread income rose by five per cent given changes in product and geographical mix and lower interest rates in the period.

With-profits earnings relate principally to the shareholders' share in bonuses declared to policyholders. As these bonuses are typically weighted to the end of a contract, under IFRS, with-profit earnings consequently emerge only gradually over time. The 14 per cent growth in with-profits earnings reflects the ongoing growth in these portfolios.

Other income primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses. As such, the 9 per cent increase in margin on revenues largely reflects ongoing business growth and the associated continued growth in overall premiums received. Acquisition costs borne by shareholders increased by 8 per cent in relation to a 4 per cent increase in overall APE sales. The ratio of shareholder acquisition costs to shareholder related APE sales (excluding with-profits related sales) reduced to 66 per cent (2018: 69 per cent on an actual exchange rate) as a result of changes in product mix. Administration expenses, including renewal commissions, increased by 6 per cent reflecting ongoing business growth.

Asset management

	Actual exchange rate		
	2019 $m	2018 $m	Change %
Total external net flows	8,909	(2,118)	n/a
External funds under management ($bn)	124.7	77.8	60
Internal funds under management ($bn)	116.4	114.9	1
Total funds under management ($bn)	241.1	192.7	25
Analysis of adjusted operating profit			
Retail operating income	392	336	17
Institutional operating income	244	230	6
Operating income before performance-related fees	636	566	12
Performance-related fees	12	23	(48)
Operating income (net of commission)	648	589	10
Operating expense	(329)	(311)	(6)
Group's share of tax on joint ventures' adjusted operating profit	(36)	(36)	–
Adjusted operating profit	283	242	17
Adjusted operating profit post-tax	250	212	18
Average funds managed by Eastspring	$214.0bn	$186.3bn	15
Margin based on operating income	30bps	30bps	–
Cost/income ratio[10]	52%	55%	(3) ppts

Eastspring delivered a strong performance in 2019 reflecting positive operating momentum and the benefit of recent acquisitions. Overall funds under management of $241.1 billion and adjusted operating profit of $283 million, are at record levels.

The increase in external funds under management to $124.7 billion (2018: $77.8 billion) reflected $8.9 billion[18] (2018: $(2.1) billion[18]) in positive third-party net flows, favourable market performance and $7.5 billion from the TFUND acquisition in December 2019. In addition, following the demerger of M&G plc, $26.7 billion of M&G related assets have been reclassified to external from internal funds under management.

Third party net inflows were positive in both retail and institutional products and across both equity and fixed income funds, reflecting the benefit of new products and mandates. Overall funds under management were also supported by continued positive internal net flows resulting in total funds under management of $241.1 billion at year end (2018: $192.7 billion on an actual exchange rate basis).

An increase in average funds managed by Eastspring of 15 per cent[2] resulted in adjusted operating profit rising by 18 per cent (up 17 per cent on an actual exchange rate basis) to $283 million and growth in operating income of 10 per cent[2]. Disciplined cost management has led to an improvement in its cost-income ratio[10] to 52 per cent (2018: 55 per cent on an actual exchange rate basis), with operating expenses increasing at a slower rate of 8 per cent (6 per cent on an actual exchange rate basis).

Return on segment equity

Asia return on closing IFRS shareholders' funds

	2019	2018
Operating return on closing shareholders' funds (%)	26	30
Total comprehensive return on closing shareholders' funds (%)	36	20

The benefit of our focus on profitable and capital efficient health and protection, with-profit and asset management businesses is evident in the attractive 26 per cent (2018: 30 per cent) return delivered on closing segment equity over 2019.

United States

Operational and financial highlights

The financial performance of the US business in the period reflects the impact of the execution of the first steps of its strategic diversification together with the varying financial effects of strong US equity market performance and lower interest rates in the period. We have decided to adopt early as at 31 December 2019 the new National Association of Insurance Commissioners (NAIC) capital rules related to variable annuities and have made consequential updates to our EEV basis results. All of the results below reflect the whole US segment, except for the discussion on local statutory capital which covers Jackson National Life only.

	2019 $m	2018 $m	Change %
New business profit	883	1,230	(28)
Adjusted operating profit*	3,070	2,563	20
EEV operating profit*	1,782	2,828	(37)
Jackson RBC ratio (%)	366	458	(92) ppts

* Before restructuring costs

New business performance

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

	2019 $m	2018 $m	Change %
Variable annuities	1,270	1,443	(12)
Elite Access (variable annuity)	200	225	(11)
Fixed annuities	119	46	159
Fixed index annuities	382	33	1,058
Wholesale	252	312	(19)
Total APE sales	2,223	2,059	8
% APE variable annuities	66	81	(15)
% APE other products	34	19	15
Total new business profit	883	1,230	(28)
New business margin	40%	60%	

Overall new US APE sales increased to $2,223 million (2018: $2,059 million), with the proportion of general account products (fixed annuities, fixed index annuities and wholesale business) at 34 per cent (2018: 19 per cent) of new sales reflecting our intention to diversify our product mix over time to balance the overall risk profile of Jackson better. This was supported by new product launches and additional distribution initiatives. New business profit was lower at $883 million (2018: $1,230 million). Of this $(347) million reduction, $(155) million is a result of lower interest rates and other changes in economic assumptions compared with the prior period. The remainder reflects the change in product mix and other assumption change impacts.

Movement in policyholder liabilities

	2019 $m		2018 $m	
	Separate account liabilities	General account and other liabilities	Separate account liabilities	General account and other liabilities
At 1 January	163,301	73,079	176,578	67,905
Premiums	12,776	8,200	14,646	3,967
Surrenders	(12,767)	(4,575)	(11,746)	(4,465)
Maturities/deaths	(1,564)	(1,823)	(1,449)	(1,238)
Net flows	(1,555)	1,802	1,451	(1,736)
Addition for closed block of group pay-out annuities in the US	–	–	–	5,532
Transfers from general to separate account	951	(951)	708	(708)
Investment-related items and other movements	32,373	549	(15,436)	2,086
At 31 December	195,070	74,479	163,301	73,079

Overall US net flows were $0.2 billion over the year (2018: $(0.3) billion). Separate account net flows were negative at $(1.6) billion (2018: positive $1.5 billion), reflecting lower new sales of variable annuities in the period and expected higher levels of surrenders as the in-force book develops. Investment related movements reflect favourable investment performance driven by strong capital market returns. General account net flows were $1.8 billion (2018: $(1.7) billion), driven by higher new sales in the period. Total year-end policyholder liabilities were $269.5 billion (2018: $236.4 billion), with separate account liabilities at $195.1 billion and general account and other liabilities at $74.5 billion.

IFRS earnings

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

	2019		2018	
	$m	Margin bps	$m	Margin bps
Spread income	642	112	778	155
Fee income	3,292	182	3,265	183
Insurance margin	1,317		1,267	
Other income	26		14	
Total life income	5,277		5,324	
Expenses:				
Acquisition costs	(1,074)	(48)%	(1,013)	(49)%
Administration expenses	(1,675)	(68)	(1,607)	(69)
DAC adjustments	510		(152)	
Long-term insurance business pre-tax adjusted operating profit	3,038		2,552	
Asset management	32		11	
Adjusted operating profit from long-term business and asset management before restructuring costs	3,070		2,563	
Tax charge	(437)		(402)	
Adjusted operating profit after tax for the year before restructuring costs	2,633		2,161	
Non-operating profit after tax	(3,013)		(179)	
(Loss) profit for the year after tax before restructuring costs	(380)		1,982	

Adjusted operating profit

US long-term adjusted operating profit was $3,038 million (2018: $2,552 million), and reflects the benefit of favourable market-related DAC adjustments in the period compared with unfavourable DAC adjustments in the prior period.

Fee income was marginally higher compared with the prior period, with the benefit of a 2 per cent increase in average separate account balances largely offset by a modest decline in the average fee margin[17].

Spread income declined to $642 million (2018: $778 million) reflecting the combination of lower core spread income and lower income derived from swaps held for duration management purposes. The development of the core spread income was driven by the effect of lower invested asset yields and the full consolidation of the assets acquired with the John Hancock transaction towards the end of 2018, resulting in a reduction in the spread margin to 112 basis points (2018: 155 basis points).

Insurance margin primarily represents income from variable annuity guarantees and profits from legacy life businesses. This increased by 4 per cent to $1,317 million (2018: $1,267 million) mainly as a result of higher income from variable annuity guarantees.

Acquisition costs increased by 6 per cent, broadly in line with the 8 per cent increase in new APE sales. Administrative expenses increased from $(1,607) million in 2018 to $(1,675) million in 2019, primarily as a result of higher asset-based commissions. Excluding these asset-based commissions, the resulting administration expense ratio would be 33 basis points (2018: 34 basis points).

DAC adjustments, being the cost deferred on sales in the period net of amortisation of amounts deferred previously, of $510 million (2018: $(152) million) were favourable compared with the prior period, in part due to higher sales in the period. Over 2019, strong capital market returns resulted in a separate account investment performance materially in excess of that assumed within the DAC mean reversion formula which led to a favourable DAC deceleration effect of $280 million (2018: unfavourable DAC acceleration effect of $(259) million).

Non-operating items

The non-operating result was negative $(3,795) million pre-tax (2018: negative $(241) million pre-tax) and contributed to a net loss after tax of $(380) million (2018: net income $1,982 million).

In the US, Jackson provides certain guarantees on its annuity products, the value of which would typically rise when equity markets fall and long-term interest rates decline. Jackson charges fees for these guarantees which are in turn used to purchase downside protection, in particular options and futures to mitigate the effect of equity market falls. Under IFRS, accounting for the movement in the valuation of these derivatives, which are all fair valued, is asymmetrical to the movement in guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and accepts the variability in accounting results. Non-operating losses of $(3,795) million in the year mainly reflect the effect of lower interest rates on guarantee liabilities and the impact of higher equity markets on both guarantee liabilities and associated derivatives given that the S&P 500 index ended the year 28.9 per cent higher than at the start of the year. While the resulting negative mark-to-market movements on these hedging instruments are recorded in the current year, the related increases in fee income that arise from the higher asset values managed, will be recognised and reported in future years.

In addition to the effects seen above, falling interest rates resulted in gains of $2.7 billion being recognised outside the income statement on bonds held by Jackson's general account. In total, Jackson's segment shareholders' funds increased to $8,929 million (2018: $7,163 million).

EEV basis results

	2019 $m	2018 $m	Change %
New business profit	883	1,230	(28)
Business in force	874	1,594	(45)
Operating profit from long-term business	1,757	2,824	(38)
Asset management	25	4	525
Operating profit from long-term business and asset management before restructuring costs	1,782	2,828	(37)
Restructuring costs	(5)	(23)	78
Non-operating loss	(3,802)	(1,695)	(124)
Profit for the year	(2,025)	1,110	(282)
Other movements (including dividends)	(342)	(654)	
Net increase (decrease) in embedded value	(2,367)	456	
Embedded value at 1 January	18,709	18,253	
Embedded value at 31 December	16,342	18,709	
% New business profit / closing embedded value	5%	7%	
% Operating profit / closing embedded value	11%	15%	

EEV operating profit from the long-term business reduced to $1,757 million (2018: $2,824 million) reflecting lower new business profit in the period and a reduction in the level of expected return on business in force.

During 2019, following the implementation of the NAIC's changes to the US statutory reserve and capital framework, enhancements were made to the model used to allow for hedging within US statutory reporting. As a consequence, the Group has chosen to utilise the model for its EEV reporting to update its allowance for the long-term cost of hedging, resulting in a $(3,233) million reduction in Jackson's EEV at the start of the year.

The reduction in expected return from business in force reflects lower period end interest rates which reduce the expected unwind, and a lower starting balance of EEV shareholders' funds compared with the prior period. This is a function of weak equity markets in the fourth quarter of 2018, and the adoption of a new hedge model as discussed above.

The EEV non-operating loss of $(3,802) million mainly includes negative $(3,233) million from the adoption of the new hedging model (as discussed above), and negative $(1,201) million from economic effects, offset by positive $876 million from favourable investment movements.

The investment return variances are driven by the benefit of strong capital market performance in the period leading to separate account returns materially in excess of those assumed, more than offsetting hedging losses on instruments held for risk management purposes.

Economic assumption changes of $(1,201) million largely reflect the impact of lower interest rates in the period on the projected future fund growth rates for the variable annuity business. These projected lower growth rates reduce the expected growth in fund values for policyholders and hence the expected profitability for shareholders.

Overall segment embedded value ended the year at $16.3 billion (2018: $18.7 billion).

US analysis of movement in free surplus[13]

	2019 $m	2018 $m	Change %
Operating free surplus generated from in-force life business and asset management before restructuring costs and EEV hedge modelling enhancements	2,567	2,195	17
Investment in new business	(539)	(300)	(80)
Operating free surplus generated before restructuring costs and EEV hedge modelling enhancements	2,028	1,895	7
Restructuring costs	(5)	(23)	78
Operating free surplus generated before EEV hedge modelling enhancements	2,023	1,872	8
Impact of 2019 EEV hedge modelling enhancements	(903)	–	–
Operating free surplus generated	1,120	1,872	(40)
Non-operating (loss) profit	(1,763)	(1,124)	
Net flows paid to parent company	(525)	(452)	
Timing differences and other items	185	(144)	
Total movement in free surplus	(983)	152	
Free surplus at 1 January	2,760	2,608	
Free surplus at 31 December	1,777	2,760	

The US in-force business generated $2,567 million (2018: $2,195 million) prior to allowing for the change to the allowance for hedging costs discussed above. This included a $355 million benefit following the integration of the John Hancock business acquired in 2018. Offsetting this increase was a higher investment in new business (up 80 per cent to $(539) million). The increase in investment in new business to $(539) million (2018: $(300) million) is a function of a higher weight of general account new sales in the period.

Operating free surplus generated[14] after allowing for the impact of changes to hedge modelling was $1,120 million.

Non-operating assumptions and variances related to free surplus development were $(1,763) million (2018: $(1,124) million) and reflect higher losses on hedge instruments compared with those assumed under the new basis. Circa $395 million of these hedge losses were incurred in managing the risk profile of the business as Jackson transitioned from the previous US statutory and reserving framework to the new framework following updates made by the NAIC which is further discussed below.

Local statutory capital – Jackson National Life (Jackson)

Jackson applies the US statutory reserve and capital framework required by the NAIC and adopted the NAIC's changes to this framework for variable annuities with effect from 31 December 2019. This new capital methodology incorporates a unified approach to reserving and required capital determination. In addition, with effect from 1 October 2019, Jackson chose not to renew its long-standing permitted practice to exclude unrealised gains on certain derivative instruments taken out to protect Jackson against declines in long-term interest rates.

After adopting this new regime, the surplus of available capital over required capital (set at 100 per cent of the Company Action Level) was $3,795 million. This equated to a risk-based capital ratio of 366 per cent (2018: 458 per cent using the previous NAIC framework). An analysis of the estimated movement in Jackson's risk-based capital position over 2019 is set out below. Jackson continues to remain within its existing risk appetite and expects the new capital regime to result in a more stable RBC ratio than under the previous regime, in low interest rate scenarios.

	Total available capital $m	Required capital $m	Surplus $m	Ratio %
1 January 2019	5,519	1,204	4,315	458
Capital generation from new business written during 2019	119	263	(144)	(75)
Operating capital generation from business in force at 1 January 2019*	1,406	(125)	1,531	141
Operating capital generation	1,525	138	1,387	66
Adoption of NAIC reforms (see above)	279	137	142	(17)
Other non-operating movements, including market effects and removal of the permitted practice	(1,577)	(53)	(1,524)	(104)
Dividends paid	(525)	–	(525)	(37)
31 December 2019	5,221	1,426	3,795	366

* Includes operating experience variances and the impact of John Hancock

Over the period, statutory operating capital generation of $1.4 billion increased the RBC ratio by 66 percentage points, comprising 118 percentage points ($1.2 billion) from in-force capital generation, reduced by 75 percentage points ($(0.1) billion) for the capital strain of writing new business, and 23 percentage points ($0.3 billion) of one-off benefits related to the recent John Hancock acquisition. In line with the product diversification strategy previously outlined and Jackson's accelerated sales growth of fixed index and new fixed annuity products, the capital strain from selling non-VA products was 64 percentage points of the total 75 percentage points of new business strain.

Non-operating and other capital movements reduced the RBC ratio by 121 percentage points ($(1.4) billion) due to:

— adoption of the new capital regime at 31 December 2019, resulting in a one-off reduction in the RBC ratio of 17 percentage points;

— one-off hedge losses in respect of managing through the changeover to the new regime representing a 28 percentage point fall in the RBC ratio;

— an increase in deferred tax assets not admitted as statutory capital, which reduced the RBC ratio by 26 percentage points, bringing the total non-admitted DTA to $0.9 billion at 31 December 2019. $0.5 billion of this non-admitted DTA balance relates to hedge losses incurred in 2019 which are required to be spread over three years for tax purposes and so is expected to be carried forward to be deducted from Jackson's taxable income in the next two years; and

— other non-operating items that reduced the RBC ratio by 50 percentage points, primarily representing variable annuity net hedge losses in the period given asymmetries between the statutory accounting basis and the economics hedged by Jackson.

During 2019 Jackson remitted $(525) million to Prudential, representing around half of Jackson's operating capital generation in the period (excluding John Hancock effects), which reduced the RBC ratio by 37 percentage points. As previously announced, from 2020 Jackson's remittances are expected to be more evenly spread over the calendar year than in prior periods.

In respect of the previously noted ongoing NAIC review of the C-1 bond factors in the required capital calculation, the expected implementation has been delayed to 2021 or thereafter. After adoption of the new capital regime, the estimated reduction in RBC ratio under the current proposal is circa 10 to 20 points.

Return on segment equity
US return on closing IFRS shareholders' funds.

	2019	2018
Operating return on closing shareholders' funds (%)	29	30
Total comprehensive return on closing shareholders' funds (%)	26	7

The US operating return on segment equity was 29 per cent (2018: 30 per cent). The total comprehensive return on segment equity, including non-operating and other comprehensive income movements, described above, was 26 per cent (2018: 7 per cent).

Notes
1 On a constant exchange rate basis.
2 On an actual exchange rate basis.
3 As compared with 2018 and before a planned $10 million increase in Africa costs as business grows.
4 Approximately half of the corporate expenditure is incurred in sterling and our assumptions forecast an exchange rate of £1=$1.2599.
5 From 1 January 2021.
6 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum requirement of participating business in Hong Kong, Singapore and Malaysia. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.
7 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 unaudited financial information. This comprises dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
8 Using the relevant month-end spot rate.
9 Excluding profit for the year attributable to non-controlling interests.
10 See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
11 For EEV shareholders' value per share, see note II(x) of the Additional unaudited financial information.
12 See note I(iii) of the Additional unaudited financial information for the basis of calculation.
13 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 operating business unit amount. Further information is set out in note 11 of the EEV basis results.
14 Operating free surplus generated before restructuring costs.
15 The pro forma dividend for 2019 of the $958 million represents the first interim ordinary dividend paid of $528 million (£428 million based on spot exchange rate at the payment date) plus the second interim ordinary dividend of $675 million (£510 million based on spot rate at 31 December 2019) less the contribution of remittances from the discontinued M&G plc business to the second interim ordinary dividend of $245 million (£185 million based on spot exchange rates at 31 December 2019).
16 Total insurance margin ($2,244 million) and fee income ($286 million) of $2,530 million divided by total life income excluding other income of $2,958 million (Comprised of total life income of $6,187 million less other income of $3,229 million).
17 For discussion on the basis of preparation of the sources of earnings in the table see note I(iv) of the Additional unaudited financial information.
18 Excludes Money Market Funds.

Enabling business growth and change through risk management

James Turner
Group Chief Risk and Compliance Officer

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.

1 Introduction

Group structure

On 21 October 2019, just 18 months after announcing its intention to do so, the Group completed the demerger of M&G plc, marking the successful and controlled delivery of a complex and historic change to the business, in which the Risk function played a central role. An unsettled macroeconomic and geopolitical environment added to the challenges in completing a strategic initiative of this magnitude and to the key objective of delivering two distinct and strongly capitalised groups. Strong stewardship was provided by the Risk function through risk opinions, guidance and assurance on critical activity, as well as assessments and ongoing monitoring of external risks. At the same time, the function retained its focus on managing the risks of the ongoing business performing its defined role in providing risk management support and oversight, as well as objective challenge to ensure the Group remained within its risk appetite.

The Group welcomes the Hong Kong Insurance Authority (IA) as its new Group-wide supervisor and is transitioning to a new supervisory framework. A mature and well-embedded risk framework will enable the repositioned business to capture the opportunities in the growth markets in which it is now focused while operating with discipline.

The world economy

Economic growth worldwide slowed in 2019 driven by a contraction in global manufacturing, in particular in the Eurozone, UK and some Asian economies. Various factors contributed to this slowdown, including geopolitical tensions (in particular those around trade), steps taken in China to deleverage its financial system, and tightened financial conditions in the US during the first half of the year. Faced with the prospect of slowing economic growth and continued subdued inflation, the major central banks across North America, Europe and Asia implemented significant changes in monetary policy, deploying both conventional and non-conventional accommodation. The US Federal Reserve cut its benchmark federal funds rate by 75 basis points over 2019, while the ECB delivered a 10 basis point interest rate cut and announced a resumption of its quantitative easing programme in September. At the start of 2020, the prospects for global growth initially appeared to have improved with the signing of the 'Phase One' initial trade agreement by the US and China in January and signs that macroeconomic data was stabilising throughout the Eurozone and parts of Asia. Since then however, it is becoming increasingly evident that the coronavirus outbreak has impacted economic activity in Hong Kong and China with spill over to the rest of the global economy. This has prompted the world's major central banks to commit to measures to manage the potential economic effects and in early March 2020 the US Federal Reserve cut its benchmark federal funds rate by 50 basis points. This demonstrates the fragility of any improvement in the growth outlook, with geopolitical risks representing another source of potential disruption, including a resurfacing in trade tensions, a resumption of the protests in Hong Kong and, looking forward, political uncertainty that may arise from the US presidential election towards the end of 2020.

Financial markets

After a volatile 2018, which was marked by sharp falls in equity markets in the final quarter, 2019 saw a significant rebound with all major risk assets, particularly global equities, providing strong returns over the course of the year. Government bonds also saw good returns as yields declined significantly, with the US 10-year government bond yield falling by circa 80 basis points over the year. Corporate bonds performed similarly well, with credit spreads tightening and mirroring the strong equity returns observed. The year was largely characterised by relatively defensive investor sentiment and a preference for higher credit quality within asset classes. This positive performance was facilitated by the accommodative environment driven by the shift in monetary policy by major central banks, but came amid a deterioration in macroeconomic indicators, an increase in perceived US recession risk and the trade negotiations between the US and China which ebbed and flowed, all of which negatively impacted global risk sentiment. Political headlines and the monetary policy shift by central banks were the primary drivers of currency market movements during 2019, with the US-China trade negotiations and developments surrounding the UK's departure from the EU impacting the US dollar (in particular the USD-RMB rate) and UK pound respectively. Funding markets came under significant pressure in September when a sudden spike in repo rates was observed, prompting the US Federal Reserve to intervene and inject significant funding through a combination of permanent and temporary open market operations. Global financial markets remain highly susceptible to reversals in risk sentiment, as demonstrated in Q1 2020 with the coronavirus outbreak, which has increased market downside risks significantly.

(Geo)political landscape

The geopolitical landscape over 2019 continued to reflect a world in an unsettled state of transition. Some nations continue to face the challenge of reconciling the inter-connectedness of the global economy with heightened nationalistic sentiment. This has played out in international trade disputes, notably between the US and China during 2019. Increasing polarisation has become a driver of geopolitical risk, both between nations and within them. Populations appear to be increasingly active in voicing and acting collectively on their discontent. 2019 has been described as 'the year of the street protestor' with mass demonstrations having taken place across the world, including in Spain, France, Hong Kong, India and the Middle East over the course of the year and continuing into 2020. A weakening of civil order and domestic disruption are potential consequences, and this is testing the resilience of businesses and governments. As a global organisation, the Group has developed 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, 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. Some of these changes will have a significant impact on the way that the Group operates, conducts business and manages its risks. These regulatory developments will continue to be monitored at a national and global level and form part of Prudential's engagement with government policy teams and regulators. In addition to the evolving regulatory landscape, and following the completion of the demerger in October, Prudential's Group-wide supervisor changed, with the Hong Kong IA assuming the role in October 2019. Constructive engagement continues on the Group-wide Supervision Framework (GWS) that will apply to the Group, which is expected to be finalised in 2020.

Societal developments
Increasingly, a strong sense of purpose for an enterprise is being seen as a driver of

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

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&G plc. The Group has since agreed with the supervisor to apply the local capital summation method (LCSM) to determine Group regulatory capital requirements. The Hong Kong IA's Group-wide Supervision Framework is expected to be finalised in H2 2020.
- ● In Indonesia, the Otoritas Jasa Keuangan (OJK) approves 'grandfathering' of Prudential's existing 94.6 per cent shareholding in PT. Prudential Life Assurance, our Indonesian subsidiary, with future capital injections not permitted to increase the percentage of foreign ownership.
- ● 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.
- ● 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. China reports its lowest quarterly GDP growth rate in 30 years of 6.2 per cent. Central bank rhetoric starts to turn 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.
- ● 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.
- ● 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. Donald Trump becomes the first sitting US president to enter North Korea in June as the two countries agree to resume talks, although these stall in Q4.

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.
- ● The Hong Kong IA 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.
- ● 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.
- ● Suspension of the Woodford Equity Income Fund in June raises questions over the ability of the fund management industry to meet redemption requests, in particular for those funds heavily invested in illiquid assets.
- ● 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.
- ● From June onwards and continuing over 2019, large-scale demonstrations take place in Hong Kong, sparked by an extradition bill proposed by the Hong Kong government.
- ● 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. Tensions ultimately spike at the start of 2020 when the US assassinates Iranian military leader Qassam Soleimani.

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

long-term profitability, and this is making companies evaluate their place in, and contribution to, society. The 'why and how' a business acts has become arguably at least as important as what it produces or the services that it provides. Similarly, understanding and managing the environmental, social and governance (ESG) implications of the Group's business is fundamental to Prudential's brand, reputation and ultimately long-term success. Ensuring high levels of transparency and responsiveness to stakeholders is a key aspect of this. Key social issues with implications for the Group include risks arising from demographic changes as well as those arising from privacy and data security requirements and expectations.

Recent changes in demographic, geographical and environmental factors have driven public health trends, such as obesity, and changed the nature, likelihood and impact of extreme events such as pandemics, with a consequential impact on Prudential's underwriting assumptions and product design. Given the unique set of variables associated with extreme events, past experience is not an indication of the likely impact or ability to deal with future occurrences. The coronavirus outbreak demonstrates the unpredictable nature of such events and the impact on the functioning of society, with consequential disruption to business operations, staff, customers and sales. The Group is actively managing this impact including assisting affected policyholders and staff in meeting their needs.

In support of increased social inclusion and to meet evolving customer needs, the Group is increasing its use of digital services, technologies and distribution methods for the products and services that it offers. This amplifies the risks to Prudential associated with regulations and expectations in relation to privacy and data security. These changes to the Group's use of technology and distribution models have broad implications, touching on Prudential's conduct of business, increasing the risks of technology and data being compromised or misused and potentially leading to new and unforeseen regulatory issues.

Q3 2019

- Central bank monetary policy becomes increasingly accommodative, contributing to a reversal in the weakness in risk assets. In August, following a record high in July, the S&P 500 corrects amid recession fears and trade tensions. The index continues to struggle in September but rebounds strongly over Q4.
- Government bond yields decline significantly, with the 10-year US Treasury yield falling by circa 50 basis points to 1.5 per cent over August (representing a circa 120 basis points drop over the year), its lowest rate since 2017. In Japan and Europe, the volume of negative-yielding debt surges significantly.
- Following the launch of ICS field-testing for 2019 in April, the Group submits its results to the IAIS on 31 July 2019. This is the last field-testing exercise prior to the finalisation of the ICS 2.0 specifications and the start of a five-year monitoring period in 2020.
- In September, US President Donald Trump and Chinese President Xi Jinping agree to resume trade talks following earlier breakdowns in negotiations in May and August. Talks continue positively into Q4 culminating in the signing of a 'Phase One' trade deal between the two countries in January 2020.

Q4 2019

- On 21 October 2019, M&G plc's shares begin trading on the London Stock Exchange, marking the successful completion of its demerger from the Prudential Group. The Hong Kong IA formally assumes its role as Group-wide supervisor for Prudential plc.
- Eastspring successfully completes the acquisition of 50.1 per cent of Thanachart Fund, which manages $7.5 billion of mutual funds in Thailand, for circa $142 million, with an option to increase its ownership to 100 per cent in future. The acquisition makes Eastspring the fourth-largest asset manager in Thailand.
- The broader economic cycle continues to deteriorate. US domestic data begins to show economic weakness in November. Despite this, equity markets reach new all-time highs over the quarter, supported by continued application of accommodative monetary policy by central banks.
- In September, the ECB delivers a package of easing measures, including a renewal of quantitative easing. Following this, the US Federal Reserve lowers its benchmark federal funds target rate for the third time in four months in October. Central banks in China and other emerging markets turn more dovish amid continued weakness in economic data.
- The 26th Annual Conference of the IAIS takes place in Abu Dhabi on 14 and 15 November, and it is agreed that the ICS project will move from Field Testing into the Monitoring Period phase and ICS v2.0 is released. The Holistic Framework (HF) for systemic risk is endorsed by the FSB at the conference for implementation by the IAIS in 2020. The FSB also confirms that G-SII designations will be suspended until its review in 2022, although a number of the previous G-SII requirements are included either into the Insurance Core Principles or the ComFrame.
- Following the East Asia Summit in Bangkok in November, 15 of the 16 negotiating participants agree to sign up to the Regional Comprehensive Economic Partnership (RCEP), most likely in Q1 2020, with India deciding not to participate.
- Hong Kong enters technical recession in Q3, with its economy shrinking by 2.9 per cent overall over 2019, as the protests, which peak in violence during November, impact the territory's economy. On 27 November, the US president signs the Hong Kong Human Rights and Democracy Act into law, requiring annual reviews of Hong Kong's special trade status under US law, as well as sanctions against any official deemed responsible for human rights abuses or for undermining the city's autonomy.
- The National Association of Insurance Commissioners (NAIC) implements changes to the US statutory reserve and capital framework for variable annuities, effective from 1 January 2020. Jackson chooses to early adopt the changes at 31 December 2019 for US statutory reporting.

Q1 2020

- In December, cases of what appear to be viral pneumonia are reported in Wuhan, China. In January 2020, the virus is identified as a novel coronavirus (the resulting disease has since been named COVID-19) and over Q1 2020 thousands of cases are reported with the virus proceeding to spread to countries across Asia and the world. Prudential Corporation Asia rolls out Asia-wide initiatives and a campaign to support customers and staff.
- Following its launch, downloads of Pulse by Prudential exceed one million in February 2020. The digital health platform is now one of the most popular health and wellness apps offered by an insurer in the region.

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 Our strategy is to capture the long-term structural opportunities for our markets and geographies, while operating with discipline and seeking to enhance our capabilities through innovation to deliver high-quality resilient outcomes for our customers.	Transformation risks around key change programmes, including those related to the Group's digital strategy	Continuing the focus on, and ensuring consistency in transformation risk management across the Group's business units. Provision of independent risk assurance, challenge and advice on first line programme risk identification and assessments.
	Group-wide regulatory risks	Engagement with national governments, regulators and industry groups on macroprudential and systemic risk-related regulatory initiatives, international capital standards, and other initiatives with Group-wide impacts. Engagement with the Hong Kong IA on, and implementation of, the Group-wide Supervision Framework, which is expected to be finalised in H2 2020.
	Information security and data privacy risks	Continuing the implementation of the Group-wide organisational structure and governance model for cyber security management. Focus on compliance with applicable privacy laws across the Group and the appropriate use of customer data.
	Business disruption and third-party risks	Continued application of the Group's global business continuity management, with an enhanced focus on operational resilience as it relates to customer outcomes. Applying the distinct oversight and risk management required over the Group's third parties, including its strategic partnerships for product distribution, non-traditional services and processing activities.
	Conduct risk	Continuing the enhancement of the Group-wide customer conduct risk management framework building on the Group's existing customer commitments policy.
Asia Serving the protection and investment needs of the growing middle class in Asia.	Financial risks	Maintaining, and enhancing where necessary, risk limits and implementing business initiatives to manage financial risks, including asset allocation, bonus revisions, product repricing and reinsurance where required.
	Persistency risk	Implementation of business initiatives to manage persistency risk, including additional payment methods, enhancing customer experience, revisions to product design and incentive structures. Ongoing experience monitoring.
	Morbidity risk	Implementation of business initiatives to manage morbidity risk, including product repricing where required. Ongoing experience monitoring.
United States Providing asset accumulation and retirement income products to US retirees.	Financial risks	Maintaining, and enhancing where necessary, risk limits, hedging strategies, modelling tools and risk oversight appropriate to Jackson's product mix.
	Policyholder behaviour risk	Continued monitoring of policyholder behaviour experience and review of assumptions.
Africa Offering products to new customers in Africa, one of the fastest-growing regions in the world.	The Group continues to increase its focus on Prudential Africa's most significant risks, being those related to physical and information security and financial crime, as its presence there expands and grows in materiality.	

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. Prudential's approach to risk management must be both well embedded and rigorous, closely aligned to the Group's key stakeholders and operate across the entire group. 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

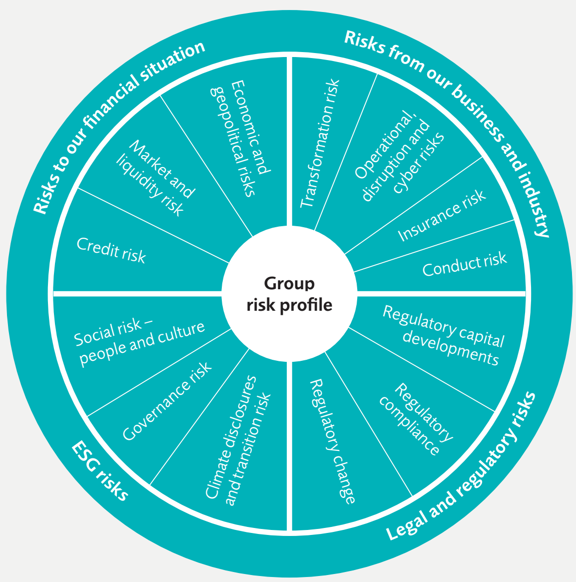
Risk management is embedded across the Group through the Group Risk Framework, which is owned by the Board and details Prudential's risk governance, risk management processes and risk appetite. The Group's risk governance arrangements are based on the concept of the 'three lines of defence' model, comprising 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 reviewed and updated its policies and processes for alignment with the requirements of its new Group-wide supervisor. The frameworks relating to oversight of transformation risk and model risk were further embedded and the Group focused on development of a Group-wide customer conduct risk framework, building on its existing customer commitments policy.

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 the Group's main 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 to the Board any changes required 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. In addition, a set of policies owned by other Group functions support the effective implementation of the Group Risk Framework.

Culture is a strategic priority of the Board, which recognises 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.

Risk culture forms part of the Group Risk Framework and the Group works to promote a responsible risk culture in the following ways:

- Senior management in business units promote a responsible culture of risk management by emphasising the importance of balancing risk with profitability and growth in decision-making. This balance is included in the performance evaluation of key individuals, including both senior management and those directly responsible for risk management;
- The Group works to build skills and capabilities in risk management, which are needed by both senior management and risk management specialists, while attempting to allocate scarce resources appropriately; and
- 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.

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 Group Code of Business Conduct and Group Governance Manual include a series of guiding principles that govern the day-to-day conduct of all its people and any organisations acting on its behalf. This is supported by specific risk-related policies which require that the Group act in a responsible manner. These include, but are not limited to, policies related to financial crime covering anti-money laundering, 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.

The ESG Executive Committee is focused on the holistic assessment of ESG matters material to the Group, raising matters for Board decision-making and overseeing the implementation of resulting decisions, supporting the sustainable delivery of the Group's strategy. It reports to the Board through the Group Nomination and Governance Committee which comprises the Group's Chairman, the Senior Independent Director, and the chairs of the Audit, Remuneration and Risk committees and is regularly attended by the Group Chief Executive.

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 principal 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) and horizon-scanning performed as part of our emerging risk management process. In addition to risk identification, the ORSA is also the ongoing process of assessing, controlling, monitoring and reporting the risks to which the business is exposed. It includes an assessment of capital adequacy to ensure that the Group's solvency needs are met at all times as well as quantitative and qualitative assessments of the Group's risk profile and solvency needs on a forward-looking basis, incorporating the Group's strategy and business plan. The Group's regular ORSA report was produced in H1 2019, with an additional ORSA report produced in October 2019 in anticipation of the completion of the demerger of M&G plc which included a forward-looking assessment of the post demerger Group's capital and liquidity position under a range of stresses and scenarios.

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

Stress and scenario testing, which includes reverse stress testing requiring the Group to ascertain the point of business model failure, is another tool that helps 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 principal risks is given enhanced management and reporting focus.

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

Risk management and control requirements are set out in the Group risk policies, and form part of the holistic risk management approach under the Group's ORSA process. 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 that the Group employs to mitigate each of its 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 the Group's principal and emerging risks.

iii Risk appetite, limits and triggers
The Group recognises that interests of its customers and shareholders and a managed acceptance of risk lies at the heart of its business, and that effective risk management capabilities represent a key source of competitive advantage. 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 defined and monitored in aggregate for financial and non-financial risks by the setting of objectives for its liquidity, capital requirements and non-financial risk exposure. 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 maintains sufficient capital such that in business-as-usual and stressed conditions it exceeds its internal economic capital requirements, achieves its desired target rating to meet its business objectives, and supervisory intervention is avoided. The two measures currently in use at the Group level are the regulatory local capital summation method (LCSM) capital requirements (both minimum and prescribed levels) and internal economic capital (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 relative to the aggregate risk limits.

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.

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

Risk management

Risk identification
Risk identification covers Group-wide:

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

Risk measurement and assessment
Risks are assessed in terms of materiality.

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

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

Processes that support the oversight and control of risks include:

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

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

Risk governance and culture
Risk governance comprises the Board, organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies. 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.

5 Summary risks

Broadly, the risks assumed across the Group can be categorised as those relating to its financial situation, its business and industry, regulatory and legal compliance and those relating to ESG. Principal risks, whether materialising within the Group or at third parties on which the Group relies, may have a financial impact and could also impact the performance of products or services provided to customers and distributors, and its ability to fulfil commitments to customers, giving rise to potential risks to its brand and reputation. 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. Further information on some of these risks and the risk management and mitigation in place are included in section 6. The Group's disclosures covering risk factors are aligned to the same categories and can be found at the end of this document.

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

The global economic and geopolitical environment may impact on the Group directly by affecting trends in financial markets and asset values, as well driving short-term volatility.

Risks in this category include the market risks to our investments, the credit quality of our investment portfolio as well as liquidity risk.

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 can directly impact on the Group in a wide range of ways. Financial markets and economic sentiment have been highly susceptible to geopolitical developments in recent years, with implications for the Group's financial situation. Geopolitical tensions can result in mass civil protests and/or disobedience as well as the imposition of restrictive regulatory and trading requirements by governments and regimes; increasing operational, business disruption and regulatory risks, and potentially impacting sales directly. Developments in the Hong Kong protests and the recent COVID-19 outbreak across Asia are being closely monitored by the Group and plans have been enacted to ensure that any potential impact to the business, our employees and customers are managed within our existing business resilience processes.

Market risks to our investments

This is the potential for reduced value of Prudential's investments resulting from the volatility of asset prices, driven by fluctuations in equity prices, interest rates, foreign exchange rates and property prices.

In the Asia business, the main market risks arise from the value of fees from its fee-earning products as well as from the guarantees of some non-linked 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.

Interest rates remain low relative to historical levels and a persistently low interest rate environment poses challenges to both the capital position of life insurers as well as to new business profitability.

Liquidity risk

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

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 Jackson general account portfolio and the Asia shareholder business means credit risk is considered a material risk for the Group's business units.

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

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

Transformation risk

This is the risk arising from the design and execution of a material and complex change initiative, or a combination of initiatives.

A number of significant change programmes are currently in progress that effect both the Group's strategic vision, enable its future compliance with impending regulatory changes and to maintain the Group's market competitiveness. The breadth of these activities, and their consequences, including the reputational impact, to the Group should they fail to meet their objectives, mean that this risk remains material at the level of the Group.

Non-financial risks

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

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. These risks are considered to be material at the level of the Group.

Business disruption risks may impact on Prudential's ability to meet its key objectives, ensure continuity of services to customers, and protect its brand and reputation. The Group's business resilience is a core part of a well-embedded business continuity management programme, which contributes to the wider operational resilience of the Group.

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 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 the services required to monitor and manage it), stakeholder expectations and high-profile cyber security and data misuse incidents across industries mean that these risks are considered material at the level of the Group.

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

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

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 **persistency risk** (customers lapsing their policies at different levels than expected, and a type of policyholder behaviour risk); **mortality risk** (higher number of policyholders with life protection dying than expected); **morbidity risk** (more policyholders with health protection becoming ill than expected) and **longevity risk** (policyholders living longer than expected). 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.

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 reflects management focus on achieving good customer outcomes.

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

Prudential operates under the ever-evolving requirements set out by diverse regulatory, legal and tax regimes. The increasing shift towards macroprudential regulation and the number of regulatory changes underway across Asia and US (in particular focusing on capital requirements and consumer protection) are key areas of focus. Regulatory reforms can have a material impact on Prudential's businesses. From 21 October 2019, Prudential's Group-wide supervisor changed to the Hong Kong IA. As a result, the Group is now applying the local capital summation method (LCSM) to determine Group regulatory capital requirements (both minimum and prescribed levels). The Hong Kong IA's Group-wide Supervision (GWS) Framework is expected to be finalised in the second half of 2020.

As the industry's use of emerging technological tools and digital services increases, this is likely to lead to new and unforeseen regulatory issues. The Group is monitoring the regulatory developments and standards emerging around the governance and ethical use of technology and data.

The Group's ESG-related risks
These include environmental risks associated with climate change (including physical and transition risks), social risks that arise from the diverse people and communities that the Group interacts with and governance-related 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 delivery of its long-term strategy.

These include the **environmental risks** associated with climate change and the impact of this on the business, such as the physical impacts on the Group's operational resilience, underwriting assumptions and claims profile, as well as the impact to long-term asset valuations resulting from the transition to a low carbon economy. **Social risks** affecting Prudential may arise from public health and demographic changes (such as increasing obesity and urbanisation), which may impact on product claims profiles. Social risks may also arise from a failure to consider the rights, diversity, well-being, and interests of people and communities in which the Group, or its third-parties, operates. This includes the responsibilities the Group assumes as a responsible employer. **Governance risks** may arise from a failure to maintain high standards of corporate governance (including committee independence and diversity) senior management behaviours and oversight of key risks.

Policies and procedures to support how the Group operates in relation to certain ESG issues are included in the Group Governance Manual. Further information on how Prudential addresses material risks associated with ESG themes are included in the ESG Summary.

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

a Market risk

(Audited)

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. The main investment risk exposure arises from the portion of the profits from the 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;

— 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. The Group's interest rate risk is driven by Jackson's fixed annuity business, the cost of guarantees in its fixed index and variable annuity business, and the guarantees of some non-unit-linked investment savings products in Asia. The impact of lower interest rates also manifests through reduced solvency levels in some of the Asian businesses as well as reduced new business profitability; 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 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 which include management actions such as asset allocation, bonus revisions, repricing and the use of reinsurance where appropriate;
- Hedging derivatives, including equity options and futures, interest rate swaps and swaptions and currency forwards;
- The monitoring and oversight of market risks through the regular reporting of management information; and
- Regular deep dive assessments.

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.

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

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.

Foreign exchange risk

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

In cases where a non-US dollar denominated surplus arises in an operation which is to be used to support Group capital, or where a significant cash payment is due from a subsidiary to the Group, this currency exposure may be hedged where it is believed to be 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

(Audited)

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 $74.7 billion at 31 December 2019. The majority (67 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 33 per cent of the debt portfolio is held to back the shareholder business.

In the general account of the Group's US business, $58.5 billion of debt securities are held to support shareholder liabilities including those from our fixed annuities, fixed index annuities and life insurance products.

The shareholder-backed debt portfolio of the Group's other operations was $1.3 billion as at 31 December 2019.

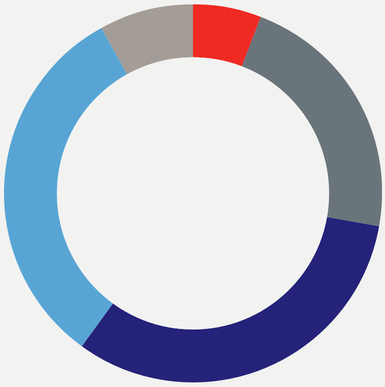
Further details of the composition and quality of our debt portfolio, and exposure to loans, can be found in the IFRS financial statements.

Group sovereign debt
Prudential also invests in bonds issued by national governments. This sovereign debt holdings represented 21 per cent or $18.0 billion[1] of the shareholder debt portfolio of the Group as at 31 December 2019 (31 December 2018: 20 per cent or $14.8 billion of the shareholder debt portfolio attributable to continuing operations). One per cent of this was rated AAA and 83 per cent was considered investment grade (31 December 2018: 84 per cent of the sovereign debt holdings attributable to continuing operations was considered investment grade).

The particular risks associated with holding sovereign debt are detailed further in our disclosures on risk factors.

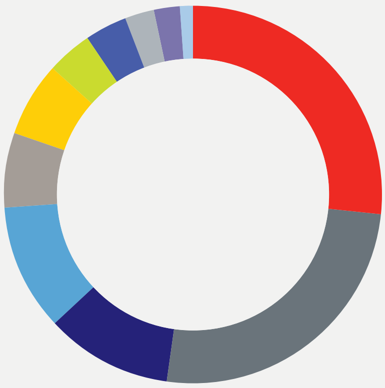
The exposures held by the shareholder-backed business and with-profits funds in sovereign debt securities at 31 December 2019 are given in note C3.2(d) of the Group's IFRS financial statements.

Shareholder exposure by rating



AAA	6%
AA	22%
A	32%
BBB	32%
BB or below	8%

Shareholder exposure by sector



Government	26.74%
Financial	25.72%
Consumer, non-cyclical	10.74%
Utilities	10.72%
Industrial	6.59%
Energy	6.34%
Communications	3.78%
Consumer, cyclical	3.61%
Basic materials	2.57%
Technology	2.09%
Other	1.10%

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 31 December 2019 are given in note C3.2(d) of the Group's IFRS financial statements for continuing 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 31 December 2019:

- 92 per cent of the Group's shareholder portfolio is investment grade rated[2]. In particular, 61 per cent of the portfolio is rated[2] A- and above (or equivalent); and
- The Group's shareholder portfolio is well diversified: no individual sector[3] makes up more than 15 per cent of the total portfolio (excluding the financial and sovereign sectors).

c Liquidity risk
(Audited)
Prudential's liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due. 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 £2.0 billion of undrawn committed facilities that can be made use of, expiring in 2024. Access to further liquidity is available through the debt capital markets and an extensive commercial paper programme is in place, and Prudential has maintained a consistent presence as an issuer in the market for the past decade.

A number of risk management tools are used to manage and mitigate this liquidity risk, including the following:

- The Group's liquidity risk policy;
- Risk appetite statements, limits and triggers;
- Regular assessment by the Group and business units of LCRs which are calculated under both base case and stressed scenarios and are reported to committees and the Board;
- The Group's Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as gap analysis of liquidity risks and the adequacy of available liquidity resources under normal and stressed conditions;
- Regular stress testing;
- Our contingency plans and identified sources of liquidity;
- The Group's ability to access the money and debt capital markets;
- Regular deep dive assessments; and
- The Group's access to external committed credit facilities.

6.2 Risks arising from the nature of the Group's business and industry

a Transformation risk

A number of significant change programmes are currently running in order to implement the Group's strategic vision, comply with impending regulatory changes and to maintain market competitiveness. Many of these programmes are interconnected with complex dependencies and/or of large scale, and may have financial and non-financial implications if they fail to meet their objectives. Additionally, these programmes inherently give rise to design and execution risks, and may introduce new, or increase existing, business risks. These include an increased strain on the operational capacity, newly-implemented controls being ineffective or general weakening of 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's Transformation Risk Framework, to mitigate the risks to the business.

The Group's current significant change programmes relate to an expansion of its use of technology, platforms and analytics, improving the efficiency of certain business functions and processes (data, systems, people) and the establishment of new third-party arrangements. The Group's transformation portfolio also includes programmes related to regulatory change, including but not limited to, the transition to the Hong Kong IA's GWS framework, the discontinuation of IBORs and the implementation of IFRS 17 – see section 6.3 for further information.

b Non-financial risks

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.

Operational risk

Prudential defines operational risk as the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel or systems, or from external events. This 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 is processed by the Group across a number of diverse products and are subject to a high number of varying legal, regulatory and tax regimes. Prudential has no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement or monitor appropriate controls to manage operational risks.

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

The Group's requirements for the management of material outsourcing arrangements, which are in accordance with relevant applicable regulations, are included through its well-established Group-wide third-party supply policy. Third-party management is also included 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, provided by our external IT and technology partners, 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. Exposure to operational and other external events could impact operational resilience by significantly disrupting systems, operations and services to customers, which may result in financial loss, customer impacts and reputational damage.

Operational challenges also exist in keeping pace with regulatory changes. This requires implementing processes to ensure we are, and remain, compliant on an ongoing basis, including regular monitoring and reporting. See section 6.3 for further detail on the Group's regulatory and legal risks.

Business disruption risk
Prudential recognises that business disruption is a key risk to effective business operations and delivery of business services, and has the potential to impact our customers and the market more broadly. The Group therefore continuously seeks to develop greater business resilience through planning, preparation, testing and adaption. Business continuity management (BCM) is one of a number of activities undertaken by the Group Security function that helps the Group to protect its key stakeholders and its systems, and business resilience is at the core of the Group's embedded BCM programme. The BCM programme and framework are appropriately linked to all business activities, and includes business impact analyses, risk assessments, incident management plans, disaster recovery plans, and the exercising and execution of these plans. Based on industry standards, the BCM programme is designed to provide business continuity that matches the Group's evolving business needs and is appropriate to the size, complexity and nature of the Group's operations. Prudential is also taking a broader, multi-functional approach to building greater business resilience, working with our external third-party providers and our service delivery teams to improve our ability to withstand, absorb and recover from disruption to our business services, while minimising the impact on our customers. The Group continuously reviews and develops its contingency plans and its ability to respond effectively when disruptive incidents occur, such as those resulting from the Hong Kong protests and the recent COVID-19 outbreak.

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

Information security risk and data privacy
Information security 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 requirements, such as GDPR that came into force in May 2018 and the California Consumer Protection Act which came into force on 1 January 2020, continue to evolve worldwide. This increases financial and reputational implications for Prudential in the event of a breach of its (or third-party suppliers') IT systems. As well as protecting data, stakeholders expect companies and organisations to use personal information transparently and appropriately. Given this, both information security and data privacy are key risks for the Group. As well as having preventative risk management in place, it is fundamental that the Group has robust critical recovery systems in place in the event of a successful attack on its infrastructure, a breach of its information security or a failure of its systems in order to retain its customer relationships and trusted reputation.

During 2019, the revised organisational structure and governance model for cyber security management was implemented. This change has resulted in a centralised Group-wide Information Security and Privacy function, leveraging skills, tools and resources across the business under a 'centre of excellence' model. This organisational change has increased the Group's efficiency and agility in responding to cyber security related incidents and has facilitated increased collaboration between business units leveraging their respective strengths in delivering the Group-wide information security programme.

The strategic objectives of the programme include achieving consistency in the execution of security disciplines across the Group, improving visibility across Prudential's businesses and deployment of automation to detect and address threats. It also includes 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. Implementation of the operating model and progress against these strategic objectives have continued over the year.

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.

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

Prudential operates in some high-risk countries where, for example, the acceptance of cash premiums from customers may be common practice, large-scale agency networks may be in operation where sales are incentivised by commission and fees or where there is 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 performed annually at higher risk locations. Due diligence reviews and assessments against Prudential's financial crime policies are performed as part of the Group's business acquisition process. The Group continues to undertake strategic activity to monitor and evaluate the evolving fraud risk landscape, mitigate the likelihood of fraud occurring and increase the rate of detection.

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

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.

c Insurance risks

(Audited)

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

The 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 and 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.

In Asia, Prudential writes significant volumes of health and protection business, and so a key assumption is the rate of medical inflation, which is often in excess of general price inflation. There is a risk that the expenses of medical treatment increase more than expected, so the medical claim cost passed on to Prudential is higher than anticipated. Medical expense inflation risk is best mitigated by retaining the right to reprice our products each year and by having suitable overall 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 assumptions. Persistency risk is managed by appropriate training and sales processes (including active customer engagement and service quality) and managed locally post-sale through regular experience monitoring and the identification of common characteristics of business with high lapse rates. Where appropriate, allowance is made for the relationship (either assumed or observed historically) between persistency and investment returns and any additional risk is accounted for. Modelling this dynamic policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within certain products. The effect of persistency on the Group's financial results can vary but depends mostly on the value of the product features and market conditions.

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

— The Group's insurance, product and underwriting risk policies;

— The risk appetite statements, limits and triggers;

— Using persistency, morbidity and longevity assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;

— Using reinsurance to mitigate mortality and morbidity risks;

— Ensuring appropriate medical underwriting when policies are issued and appropriate claims management practices when claims are received in order to mitigate morbidity risk;

— Maintaining the quality of sales processes, training and using initiatives to increase customer retention in order to mitigate persistency risk;

— Using product repricing and other claims management initiatives in order to mitigate medical expense inflation risk; and

— Regular deep dive assessments.

6.3 Risks related to regulatory and legal compliance

Regulatory risks may impact Prudential's business or the way in which it is conducted. This covers a broad range of risks including changes in government policy and legislation, capital control measures, and new regulations at either national or international level. In addition to the risks arising from regulatory change, the breadth of local and Group-wide regulatory arrangements presents the risk that regulatory requirements are not fully met, resulting in specific regulator interventions or actions including retrospective interpretation of standards by regulators which may result in regulatory censure or significant additional costs to the business.

On 21 October 2019, the Hong Kong IA became Prudential's Group-wide supervisor, and the Group continues to engage with the supervisor on the Group-wide Supervision (GWS) Framework, which is expected to be finalised in the second half of 2020.

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 under way. At the international level, the Financial Stability Board (FSB) continues to develop recommendations for the asset management and insurance sectors, including ongoing assessment of systemic risk measures. The International Association of Insurance Supervisors (IAIS) has continued its focus on the following two key developments.

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

The FSB has endorsed a new holistic framework (HF) for systemic risk for implementation by the IAIS in 2020 and suspended G-SII designations until a review to be undertaken in 2022. Many of the previous G-SII measures have already been adopted into the insurance core principles (ICPs) and ComFrame – the common framework for the supervision of internationally active insurance groups (IAIGs). Prudential is likely to satisfy the criteria of an IAIG and therefore continue to be subject to these measures. The HF also includes a monitoring element for the identification of a build-up of systemic risk and to enable supervisors to take action where appropriate. The IAIS has already consulted on an application paper on the liquidity risk elements introduced into the ICPs and ComFrame with a further consultation focused on macroeconomic elements expected to follow in 2021.

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

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. As a result of comments on this exposure draft, the IASB plans to redeliberate on a number of areas of IFRS 17, with an amended standard expected to be issued in mid-2020. 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 under way to introduce fiduciary obligations for distributors of investment products, which may reshape the distribution of retirement products. Jackson has introduced fee-based variable annuity products in response to the potential introduction of such rules, and we anticipate that the business's strong relationships with distributors, history of product innovation and efficient operations should further mitigate any impacts.

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

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

Risk management and mitigation of regulatory risk at Prudential includes the following:

- Risk assessment of the Business Plan which includes consideration of current strategies;
- Close monitoring and assessment of our business environment and strategic risks;
- The consideration of risk themes in strategic decisions; and
- Ongoing engagement with national regulators, government policy teams and international standard setters.

6.4 Environmental, social and governance risks

The business environment in which Prudential operates is continually changing and responding effectively to those material risks associated with ESG themes 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 as it responds to ESG-related matters, including investors, customers, employees, governments, policymakers and regulators in its key markets, as well as with international institutions – all of whom have expectations in this area which may differ.

Policies and procedures to support how the Group operates in relation to certain ESG topics are included in the Group Governance Manual. Prudential manages key ESG issues through 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.

The environmental risks associated with climate change is one ESG area that poses significant risks to Prudential and its customers. The global transition to a lower carbon economy could potentially see the financial assets of carbon-intensive companies re-price as a result of facing significantly higher costs or decreasing demand for their products and services. The speed of this transition, including the extent to which it is orderly and managed, will be influenced by factors such as public policy, technology and changes in market or investor sentiment. This 'transition risk' may adversely impact the valuation of investments held by the Group. The Group expects the physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term changes in the natural environment, to increasingly influence the longevity, mortality and morbidity risk assessments of the Group's product offerings. Climate-driven change in countries in which Prudential, or its key third parties, operate could impact on its operational resilience and could change its claims profile. More information about the activities the Group is undertaking to increase its understanding and risk management of these climate-related risks can be found in the climate section of the ESG Summary.

Social risks that could impact Prudential include the emerging population risks associated with public health trends (such as an increase in obesity) and demographic changes (such as population urbanisation) which may impact customer lifestyles and therefore may impact claims against the Group's insurance product offerings. As a life and health insurer, we are committed to playing a greater role in preventing and postponing illness in order to protect our customers. Further information about how we are investing in artificial intelligence technology to enable access to an affordable and quality healthcare digital offering can be found within the Pulse case study included in the ESG Summary. Other social risks may arise from a failure to consider the rights, diversity, well-being, and interests of people and communities in which the Group, or its third parties, operates. These risks are increased as Prudential operates in multiple jurisdictions with distinct local cultures and considerations. As an employer, the Group is also exposed to the risk of being unable to attract, retain and develop highly-skilled staff, which can be increased where Prudential does not have responsible working practices.

A failure to maintain high standards of corporate governance may adversely impact the Group and its customers, staff and employees, through poor decision-making and a lack of oversight of its key risks, particularly in joint ventures or partnerships where Prudential does not have direct overall control. Poor governance may arise where key governance committees have insufficient independence, a lack of diversity, skills or experience in their members, or unclear (or insufficient) oversight responsibilities and mandates. Inadequate oversight over remuneration increases the risk of poor senior management behaviours. Prudential operates across multiple jurisdictions and has a group and subsidiary governance structure which may add further complexity to these considerations.

Further information on how Prudential addresses material risks associated with ESG themes is included in the ESG Summary.

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

The Group's longer-term prospects

Prudential aims to meet the savings and investment needs of its customers, which by their very nature can often be over a timeframe of many years. Aligned with this objective, in the markets in which it operates it seeks to provide products and services that align with important global social needs, such as access to healthcare, protection against poverty, security for ageing populations and investment in infrastructure and the real economy. Prudential is focused on capturing the structural growth opportunity arising from these needs. The drivers for this structural growth, such as the low penetration rates across the Asian region, are discussed on pages 18 to 27 alongside the activities we undertook to expand our product set and customer reach during 2019. In undertaking these activities we aim to both meet the evolving needs of our customers and provide sustainable growth for our shareholders, which will ultimately lead to the viability of our business over the longer term. In the US, the Group is focused on delivering products that will help mitigate the worry many retirees have of running out of money during retirement, as employer-based plans are disappearing and many individuals have insufficient accumulation of assets over their working life. Further details of how Jackson is meeting this need are set out on pages 28 to 33.

As well as capturing the structural growth opportunities outlined above, the Group seeks to continually enhance its capabilities with a view to remaining relevant in an ever-changing world. Recent focus has been on digital development and investing in new and existing partnerships to ensure our products reach the customers we seek to serve. In Asia, we developed 'Pulse by Prudential' Health Ecosystem, an all-in-one digital app, and entered into a new strategic partnership with OVO, the largest digital payment platform in Indonesia. In the US, we have been actively engaged with FinTech partners to help illustrate the benefits a lifetime income solution can provide within a comprehensive wealth management plan. This is intended to give the financial adviser the necessary tools to customise according to the unique needs and goals of the client.

All of the Group's activities are underpinned by ongoing risk management, implemented via the Group Risk Framework and risk appetite limits described on pages 55 to 58. The Group's management of wider environmental, social and governance issues that could pose a risk in the future to the Group is set out in the Environmental, Social and Governance summary report on pages 76 to 87. This focus supports the sustainability of our business over the longer term.

The Group as a whole and each of its life assurance operations are subject to extensive regulation and supervision, which are designed primarily to reinforce the Group's management of its long-term solvency, liquidity and viability to ensure that it can continue to meet obligations to policyholders. Further details on the current capital strength of the Group are provided on pages 37 to 39.

Period of viability assessment

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

The Directors performed the assessment by reference to the three-year plan period to 31 December 2022. Three years is considered an appropriate period as it represents the period covered by the detailed business plan that is prepared annually on a rolling three-year basis. In approving the business plan, the Directors reviewed the Group's projected performance with regards to profitability, cash generation and capital position, together with the parent company's liquidity over this three-year period. This projection involves setting a number of economic and other assumptions that are inherently volatile over a much longer reporting period. Such assumptions include foreign exchange rates, interest rates, economic growth rates, the impact on the business environment arising from geopolitical events and continued level of changes in regulation and supervision.

The Directors are satisfied that this period is sufficient to enable a reasonable assessment of viability to be made.

Assessment of principal risks over the period

The Group's business plan implements the Group's strategic objectives through the business model and activities discussed on pages 12 to 15. Matters considered as part of that planning process included the impact of pursuing a more diversified product mix in the US, the impact of the recent protests in Hong Kong on sales and the economic outlook for Hong Kong. Assessment of the risks to achieving the projected performance remains an integral part of the planning process. The Group's approach to risk management and a summary of the key risks facing the Group are set out on pages 51 to 71.

For the purposes of assessing the Group's viability, the Directors considered those risks where the impact of possible adverse external developments could be of such speed and severity to present a shock to the Group's financial position. The risks considered, from those detailed on pages 59 to 61 are: market risk, credit risk, liquidity risk and regulatory risk. The Directors considered the macroeconomic environment and geopolitical risks in the markets which the Group operates, as well as subsequently considering the impact of the outbreak of coronavirus ('COVID-19'), which could trigger wider economic consequences such as slow down or recession in key economies and negative impacts in the global financial market.

Stress and scenario testing
As noted above, underpinning the projections in the business plan are a number of economic and other assumptions. To evaluate the Group's resilience to significant deteriorations in market and credit conditions and other shock events, these risks are grouped together into scenarios which are then applied to the assumptions underlying the business plans considered. For example, scenarios were used to assess the potential impact of up or down interest rate movements combined with corporate credit spread widening, falling equity values and insurance stresses (such as changes in policyholder behaviour, including lapses, and increased morbidity in Asia), together with the impact on central liquidity of a scenario assuming the closure of short-term debt markets, as well as additional calls on liquidity by the business units.

The scenarios tested showed that the Group would be able to maintain viability over the three-year period under assessment, after taking account of the actions available to management to mitigate the impacts on capital and liquidity in such scenarios. In addition, the Group conducts an annual reverse stress test which gives the Directors an understanding of the maximum resilience of the Group to extremely severe adverse scenarios. This analysis assists in identifying management actions that could be implemented to restore the Group's capital and liquidity resources from extreme positions. This analysis also informs the Group's recovery plan and liquidity risk management plan.

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

Conclusion on viability
Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year plan period to December 2022.

Notes
1 Excluding assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds.
2 Based on hierarchy of Standard & Poor's, Moody's and Fitch, where available and if unavailable, NAIC and other external ratings have been used.
3 Source of segmentation: Bloomberg Sector, Bloomberg Group and Merrill Lynch. Anything that cannot be identified from the three sources noted is classified as other. Excludes debt securities from other operations.

ESG SUMMARY

Purpose and responsibility

We exist to take the financial risk out of the biggest events in the lives of our customers, enabling them to face the future with confidence. As well as providing life and health protection, savings opportunities to meet family goals, and retirement income, we aspire to lead in new areas aligned with this purpose.

We are helping consumers postpone and prevent ill-health through digital innovation, increasing access to finance and providing solutions for an ageing world. At the same time, we are investing our customers' savings in the real economy, helping to drive sustainable growth. We are working every day to be a better and more sustainable business that continues, through our strong and clear sense of purpose, to have a positive impact. We are committed to delivering the best possible performance across all areas of our environmental, social and governance (ESG) activity, and we are continuing to develop to improve the way we work in the interest of all our stakeholders.

Non-financial information statement

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

This strategic report complies with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. This ESG summary provides an overview of our activities and progress in 2019 across a range of areas in which we have helped to provide benefits to stakeholders throughout the markets in which we operate. For us, ESG means:

- **What we do** – the products we offer, our customer service, our human capital and the assets we own and operate; and
- **How we do it** – understanding our customers and providing suitable solutions that meet their needs, fostering long-term relationships with our stakeholders, investing in our people and making responsible investments, in order to generate sustainable long-term returns in line

People
Overview, relevant risks and associated management practices – page 81

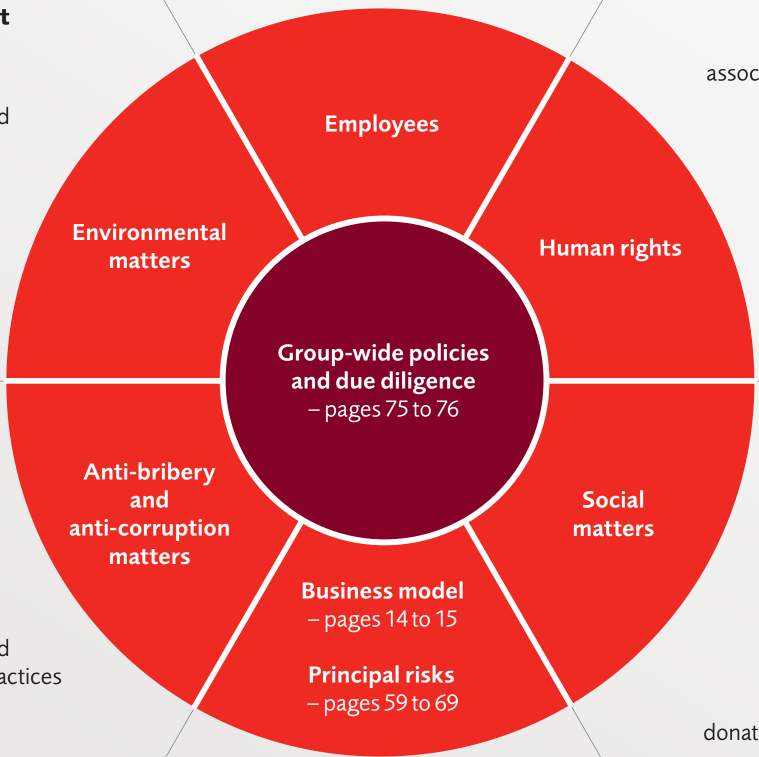
Relevant KPIs: gender diversity – page 81

Responsible investment
Environment
Climate

Overview, relevant risks and associated management practices – page 78

Relevant KPIs: greenhouse gas emissions – page 84

People
Overview, relevant risks and associated management practices – page 82



Business integrity
Overview, relevant risks and associated management practices – page 80

Communities
Technology
Relevant KPIs: community investment, fundraising and donations, employee volunteering hours – page 86

with our risk appetite, meet our customers' needs and help build the communities in which we operate. Our ESG approach underpins the delivery of our strategy, generating sustainable earnings and resilient capital growth, enabling us to deliver on our promises to our customers. More detailed information on our ESG activities is available in our 2019 ESG report found at www.prudentialplc.com/investors/reports/2019.

UK Companies Act, Section 172 Statement

Section 172 of the UK Companies Act requires each Director to act in a way that he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, Section 172 requires a Director to have regard (among other matters) to the needs of employees, suppliers, customers and other wider stakeholder interests. During 2019 we engaged with our various stakeholder groups closely and we took account of their concerns in our decision-making. Below we have outlined how we have engaged with our stakeholders and the outcome of that engagement.

How we meet our Section 172 duty

We ensure that our Board meets its duty under Section 172 of the UK Companies Act in a number of ways. A briefing note is circulated in advance of each Board meeting reminding Directors of their statutory duties under Section 172 and reiterating who the Group's key stakeholders are. The annual Board evaluation process takes into account how the operation of the Board affects the consideration of stakeholder issues and seeks to identify improvements in this area. We ensure that our Section 172 obligations are taken into account in our Board succession planning and training, stakeholder engagement is addressed in the Board's Terms of Reference, and there is guidance for individuals who prepare Board papers that references Section 172 duties and our key stakeholders. We ensure that we take account of any conflicts between different stakeholder concerns, and resolve such conflicts as smoothly as possible at the highest level necessary. The Board ensures that it listens to and acts on the views of a diverse range of shareholders, from large institutions to individuals, recognising that different types of investor have different investment mandates and varied stewardship approaches. Information on the independence of our Non-executive Directors can be found in the Governance report on page 115. Through our Group Code of Business Conduct, we ensure that we maintain the highest standards of behaviour throughout our business. Our Group Code of Business Conduct sets out the standards the Board expects in relation to employee behaviour and our business units run mandatory training programmes to highlight the personal obligations applicable to each individual. The Board reviews both the content of the Group Code of Business Conduct and business unit compliance each year. Meanwhile our Group-wide whistleblowing programme, Speak Out, enables all stakeholders to raise concerns, helping to maintain the highest standards of behaviour.

Alongside continuing to build our business and serve the needs of our customers, during 2019 our main activity was the demerger of M&G plc from the Group, which we completed successfully on 21 October 2019. The demerger had an impact for all our stakeholders, and we took steps to ensure that we engaged with all our stakeholder groups on the long-term consequences of this significant step in the history of our business. We are confident that this decision was the right one for the long-term interests of the Group.

Customers

Helping to de-risk the lives of our customers and deal with their biggest financial concerns is at the centre of what we do, and listening to and understanding their concerns is key to the sustainability of our business. We engage directly with our customers through face-to-face advice, contact centres, dedicated account managers, sales support units, business processing and servicing, mobile phone apps and telephone technical support teams. The outcome of our engagements with customers is transmitted through the business and used to shape the design of our products and how and where we distribute those products, and ultimately to inform strategic decisions made at Board level. Decisions about which markets to access, what kind of products to offer and how to develop our agency force, our bank partnerships and our digital capabilities, are all driven by an understanding of what customers want, based on engagement with those customers.

During 2019, as well as making decisions on markets, products and platforms provided by the business, the Board paid close attention to the effect on customers of the progress towards and conclusion of the demerger of M&G plc, including steps to ensure that customers were not disadvantaged and ensuring that they were fully informed of developments and prepared for the demerger when it was concluded. Other concerns raised by customers during the year included service delivery and issues with business processing, and these were dealt with through the business units, applying the highest standards of professional care and service in line with our Customer Commitments Policy.

Investors

We engaged with our investors through our annual and half-year reports, ESG Report and other regular reporting, including press releases and regulatory announcements. We held regular meetings with investors, including our Annual General Meeting, analyst meetings and investor roadshows, and a General Meeting to propose the demerger for approval by shareholders. Our Chairman met key investors on governance matters to address any other concerns they may have had, and our Senior Independent Director and the Chairs of our Board Committees made themselves available to meet investors.

The main concerns of investors during this period were around the demerger, in particular its execution and timing, as well as the nature and strategy of the post-demerger Group and our post-demerger dividend policy. The demerger was subject to shareholders' approval and was approved in line with the Board's recommendation. The demerger dividend policy was approved by the Board. Investors were also consulted on the principal changes to the Directors' Remuneration Policy. To strengthen the alignment between Executive Directors and the workforce, the policy includes pension benefits for new Executive Directors of 13 per cent of salary and a reduction in the pension benefits of incumbent Executive Directors. Climate-related financial risk also emerged as an issue of increasing importance to investors during the year, and we have responded to that concern by proceeding with our intensive work towards meeting the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD).

Colleagues

During 2019 two of our Non-executive Directors, Kai Nargolwala for Asia and Africa and Tom Watjen for the US and the UK, were appointed to represent employee interests in line with new requirements under the revised UK Corporate Governance Code. They both conducted formal meetings with colleagues, including town halls and smaller-group meetings, and informal activities, including job shadowing and floorwalking. The Board is updated biannually on their activity and reflections. Across the business, we also held a variety of events to engage with colleagues, including town halls, smaller-group meetings and one-to-ones, and we used our various intranets for two-way communication, encouraging colleagues to submit questions and suggestions.

In 2019 the key concerns of colleagues were around the demerger, including what it meant for jobs, working arrangements and transfer of roles to M&G plc, and what it meant for the future of the business. Throughout this process, we kept our people informed about the progress of the demerger and the outlook for the Group, responded to all questions promptly and transparently, and escalated concerns to senior executives and the Board as appropriate. Ahead of the demerger, we also initiated a consultation on a set of proposed changes to our pension schemes for all our UK colleagues. A formal 60-day consultation took place to enable colleagues to understand the proposed changes in detail and respond to them. One-to-one, group and education sessions were held, and we received individual feedback submissions and questions to our helpline. Having discussed and reviewed the feedback, the pensions proposals were updated for both defined benefit and defined contribution members. Colleagues were also concerned about the impact of the demerger on shares, share options and existing employee share plans. In response, the Remuneration Committee approved a method for converting the value of the demerger dividend in specie into additional Prudential plc shares in respect of outstanding share awards of employees.

In order to support the Group's strategic direction and the focus of our technology resources on the development of customer-facing applications, the Board took the decision to outsource certain IT infrastructure and operations activities that were previously performed in-house within Prudential Corporation Asia and Jackson. A significant factor in the choice of supplier was the strength of the employee proposition offered by the successful supplier. The vendor chosen committed to re-hire all identified impacted employees on substantially similar terms and conditions, for a minimum of 12 months. The firm was noted as a growing IT-focused service company, which would provide transferred staff with greater opportunities for growth and exposure and to work on new innovative technologies, and around 97 per cent of the affected colleagues agreed to transfer to the new provider.

Regulators

Prior to the demerger of M&G plc, the Group was subject to the consolidated supervision of the UK's Prudential Regulation Authority. Following the demerger, the Hong Kong Insurance Authority (IA) became Prudential's Group-wide supervisor. We have engaged with both regulators on a regular basis, sharing an agreed range of management information. The Board receives regular updates on our engagement with the Hong Kong IA regarding the shape of its legislative and regulatory framework. Hong Kong IA applies principles and standards to the Group through existing requirements to ensure that we are a fit and proper controller of regulated insurance companies. Hong Kong IA's principles include financial integrity, effective corporate governance and sound risk management. We undertook gap analysis of the Group's policies and processes against Hong Kong IA requirements.

Governments

We regard governments and legislatures in the markets in which we operate as important stakeholders. We monitor governmental and legislative activity, and meet periodically with government ministers and officials, elected or permanent, and legislators, legislative committees and committee members, either bilaterally or as part of wider groups, to help us understand their objectives, priorities and concerns, and how they affect or shape our business. Across the many markets where we operate, the company engages governmental and political stakeholders (including ministers, officials and legislators) to inform and influence public policy debate in a range of areas, including regulatory development, financial inclusion, fairness and consumer protection, capital market development, sustainable finance, job creation and skills, tax policy, trade policy, demography and ageing, health and wellbeing, and the digital economy. During 2019 a number of key points emerged from these exchanges. One key area that arose and prompted action from us was life insurance penetration. Prudential was granted a life insurance licence from the Ministry of Planning and Finance of Myanmar, enabling us to start offering life insurance products and solutions in this market. Another was the gap in structural protection in Asia. After meeting with the former Deputy Prime Minister of Singapore, we committed to supporting the Global Asia Insurance Partnership for five years. A third area was digital innovation, and during the 2019 UK-Singapore Economic and Financial Dialogue, Prudential Singapore expanded its PruFintegrate initiative to London. Another key area was financial inclusion, and in Zambia we partnered with the Securities and Exchange Commission and Junior Achievement Zambia to roll out our global financial education and responsibility programme for children, Cha-Ching.

Suppliers

Each of our critical suppliers has a nominated contact within Prudential, and we meet those suppliers on a regular basis to address concerns on both sides. Ahead of the demerger of M&G plc, we engaged with 217 suppliers in the UK to explain the impacts of the demerger and contracting changes. During 2019, we found that our suppliers were primarily concerned about revenue protection during the demerger. We introduced an e-procurement system in our London head office to improve the control and monitoring of our purchasing activities and to provide suppliers with greater visibility over their payments.

Civil society

We respond to ad hoc requests from NGOs and hold meetings with them throughout the year. Our AGM provides the Board with an opportunity to engage with a range of NGOs that are shareholders, and the Board also receives an annual update on our community investment activity. During 2019, NGOs were primarily concerned with our climate impact, and in response we have proceeded with our work around meeting the recommendations of the TCFD, as well as closely monitoring our impact on the environment. In response to questions about our modern slavery risk, we conducted an analysis of all supplier spend in our London head office against the Walk Free Foundation's Global Slavery Index. Further details will be available in our 2019 Modern Slavery Statement, which will be published on the Group website in May.

How we govern ESG

Our ESG Executive Committee leads on how we identify, manage and report on material ESG risks and opportunities. The ESG Executive Committee is chaired by our ESG sponsor, our Group Director of Communications, supported by senior leaders from Group functions across financial reporting, risk, governance and human resources, with representation from our business units. The ESG Executive Committee meets quarterly and raises matters to the Nomination & Governance Committee as appropriate.

We make sure that the ESG issues that are important to our stakeholders are understood and managed. This enables the Group to manage risks more effectively and better inform key decision-making. We strive to meet the expectations of our stakeholders in a transparent and fair manner, and this is underpinned by our comprehensive identification process, which enables us to address our material ESG issue effectively and constructively.

ESG policy framework – Group Governance Manual

The Group Governance Manual (GGM) establishes standards for managing key material ESG issues across the Group, setting out the policies and procedures to support how we operate. The GGM is used to ensure that we comply with relevant statutory and regulatory requirements. Our Group-wide policies relating to our identified material issues include:

Material ESG issues	*Our Group-wide policies*
Business integrity	The Group Code of Business Conduct details our required Standards of Business Conduct to be used across the Group and covers our employees and individuals or organisations acting on our behalf. The Code sets out our values around ownership, partnership and stewardship, and the personal standards we adhere to in the areas of: protection from financial crime, avoiding conflicts of interest, managing information, communicating as a Group and providing equality for our people.
	Anti-Bribery and Corruption Policy covers our values for reputation, ethical behaviour and reliability. As an organisation we are focused on financial practices that align to those values and we prohibit corruption or bribery within our working practices.
	Anti-Money Laundering and Sanctions Policy outlines how we prohibit money laundering or terrorist financing in our working practices, setting out how we establish parameters to prevent this taking place across the organisation and the commitment we have to comply with sanctions, laws and regulations by screening, prohibiting or restricting business activity, and following up through investigation.
	Security Policy outlines our commitment to ensuring security aligns to industry recommended practice for managing our regulatory and legal obligations. This includes how we manage incidents under the 'Speak Out' programme, our whistleblowing process.
	Tax Risk Policy includes our processes to manage tax-related risk, by identifying, measuring, controlling and reporting on issues considered an operational, reputational or regulatory risk.
	Political Donations Policy outlines our position that as an organisation we do not donate to political parties.
	Third-Party Supply Policy covers how we manage and oversee our third-party arrangements, through due diligence/ selection criteria, contractual requirements, the ongoing monitoring of such relationships and reporting and escalation. Additionally, our policy considers the requirements of the UK Modern Slavery Act and the principles of the UN's Universal Declaration of Human Rights.
Customers	Customer Commitments Policy covers our five key commitments to our customers and how we assess, manage and report on these: 1 Treat customers fairly, openly and honestly; 2 Provide and promote a range of products and services that meet customer needs, are easy to understand and that deliver real value; 3 Maintain the confidentiality of our customer information (except where the law requires disclosure); 4 Provide and promote high standards of customer service and monitor these standards rigorously; and 5 Ensure that our complaints processes provide an effective and fair means of arbitration between the Group's businesses and customers.
Environment	Environment Policy outlines our approach to understand and manage the direct environmental impact of the Group. This covers our measurement, monitoring, review and reporting of issues associated with our environmental performance.

Material ESG issues	*Our Group-wide policies*
Responsible investment	Owing to the distinct investment risks faced by our asset management and ownership businesses, with each investing in different markets and asset classes, each business manages ESG-related matters through the pursuit of business-specific responsible investment policies. This is overlain by our Group-wide Responsible Investment Framework, aligned to our Group Code of Business Conduct and underpinned by our Group Responsible Investment Standards.
Technology	Privacy Policy governs the protection of data and complies with the General Data Protection Regulation.
People	Diversity and Inclusion Policy sets out how we foster an inclusive workforce and ensure all our employees are treated fairly and feel valued, and together have the diversity in skill sets and backgrounds that enriches the organisation. Our policy considers a range of diversity aspects of our employees, including gender, age, ethnicity, disability, sexual orientation and background. Further information on the diversity of our Board, our policy in respect of this, how this is implemented and the associated results in 2019 can be found in our Governance statement on pages 110 to 117. Employee Relations Policy outlines the way we engage our employees and motivate them to achieve success for the Group: promoting positive relationships with employees, representative organisations and trade unions, and maintaining a positive reputation for the treatment of employees. Performance and Learning Policy sets out the importance of our people and frames how we invest in their development to deliver against our strategy and the future success of the organisation. This includes our Performance Management Framework. Remuneration Policy outlines our effective approach to appropriately rewarding our employees in a way that aligns incentives to business objectives and enables the recruitment, retention and incentivisation of high-calibre employees in line with our risk appetite and Group Reward Principles. Talent Policy demonstrates how we attract and select the best people for roles that will ensure high performance in the short term and improve the longer-term succession and talent pipeline. It sets out our fair and effective approach to pursuing this. Health and Safety Policy covers our employees, business partners, customers and others that may be affected by our operations. This details our health and safety core principles, our commitments and the measuring and reporting on our health and safety performance.
Communities	Community Investment Policy covers how we are committed to working with the communities in which we operate as active and supportive members. This also outlines our strategy for investing in the community and how we make investments and report against them.

Summary of ESG issues

Our key ESG issues can be categorised into the following areas: customers, responsible investments, climate, business integrity, people, technology, environment and supporting our communities.

Customers

Our relationships with our customers are at the heart of our business. We deliver products that meet their needs and help them to de-risk their lives, and we ensure that we treat them with the highest standards of care. We are continually innovating to find new ways to improve the products we deliver, how we deliver them and how we serve our customers.

Our customer commitments

Helping customers achieve their long-term financial needs through our products and services lies at the heart of our business strategy. Our Customer Commitments Policy applies to all members of the Prudential Group that deal directly or indirectly with customers. These commitments are:

1. Treat customers fairly, openly and honestly
2. Provide and promote a range of products and services that meet customer needs, are clearly explained and deliver real value
3. Maintain the confidentiality of our customer information
4. Provide and promote high standards of customer service
5. Act fairly to address customer complaints and any errors.

Customer-first brand commitment in Asia

In 2019 Prudential Corporation Asia launched its new brand commitment, 'Listening. Understanding. Delivering.' The commitment reinforces our focus on human connections, simplicity and innovation for our customers. The commitment is about:

— Focusing on customers, anticipating their needs and enhancing their experience with easy access to information and services;

— Delivering comprehensive solutions for protection, health and wellness, savings and retirements; and

— Capturing innovation with a human touch.

In line with our commitment to help protect our customers' health, we have continued our efforts to create best-in-class health capabilities by offering more comprehensive and flexible coverage and a wider range of value-added services. Across Asia, consumers, healthcare providers, insurers and governments are confronted with problems such as a rising, underinsured middle class and a growing ageing population. As lifestyles in Asia have changed and income levels have risen, there has been a rise in non-communicable diseases such as diabetes. This has led to a growing demand for healthcare for more complex conditions, many of which require long-term treatment or management. We are taking steps to meet the needs of an ageing workforce and help people prepare for longer life. Our digital health tools aim to empower the broader consumer group to take control of their personal health and wellbeing anytime and anywhere. We also offer a wide range of insurance products that are tailored to local market requirements and fast-changing individual needs, such as Prudential Malaysia PRUMy Critical Care, which provides comprehensive financial protection against 160 critical illnesses, and Prudential Hong Kong's first-in-market cancer protection plan for cancer sufferers.

Financial security in the US

In the US, for those nearing the end of their working careers, a financially secure retirement is at risk due to insufficient accumulation of savings and the current combination of low yields and market volatility. Through our distribution partners, Jackson provides products that offer Americans the retirement strategies they need. Jackson seeks to provide the best retirement solutions that we can, while striving to communicate information about those products in a fair and transparent way. Jackson continues to be a leader in shifting perspectives and simplifying the language around financial products.

Expanding our distribution

We continue to expand our distribution platform in 2019, including by:

- Completing our acquisition of a majority stake in a leading life insurer in West and Central Africa
- Renewing our strategic Asian bancassurance alliance with United Overseas Banks, increasing its geographical scope
- Signing long-term exclusive partnerships with two banks in Vietnam.

Customer care

We are committed to offering our customers the highest standards of professional care and service. We take our commitment seriously when training our personnel, who deliver service consistent with our values. Where customers have cause to complain to us, we have documented procedures in place to manage complaints received through multiple touchpoints, in a timely, robust and professional manner and in accordance with our Customer Commitments Policy and local regulatory requirements. Business units conduct analysis of complaints to understand their underlying causes, with the aim of reducing the overall number of complaints, and perform ongoing monitoring to identify issues that could lead to customer detriment and take prompt action to address any errors.

Awards

In Asia in 2019, we won awards for our services to customers in Hong Kong, Malaysia, Thailand and Vietnam, and in the US we won awards for the quality of our customer contact, our service and our digital initiatives.

Responsible investment

As a life insurer, asset owner and manager, we believe that the quality of corporate governance practices, and how companies manage the environmental and social aspects of their operations, can be material to delivering superior financial returns and longer-term shareholder value. Responsible investment at Prudential involves incorporating ESG factors into our investment decisions, alongside traditional financial analysis, to better manage risk and generate sustainable, long-term returns for our customers.

Responsible investment landscape

Across the Group's footprint, the policy and regulatory landscape continues to evolve with respect to sustainable finance and ESG. For example, the Monetary Authority of Singapore (MAS) has signalled its commitment to promote sustainable practices by encouraging financial institutions to adopt ESG best practices and encourage the development of the green bond market. We are highly supportive of these efforts and are an active industry contributor, working closely with the regulator to advance this aim. Among policymakers, we continue to see increasing focus on the need to develop a view of the exposure of the insurance sector to climate-related financial risk. The Task Force on Climate-related Financial Disclosures (TCFD) recommendations were released in 2017 to provide a framework for companies to develop voluntary, climate-related financial risk disclosures. Following Board discussion, Prudential plc became a signatory to the recommendations in 2018 in order to meet the growing expectations of our investors and regulators, and to support the ambitions of our business units in the local markets in which we operate.

Strengthening our governance of responsible investment

Following the successful completion of the demerger of M&G plc in late 2019, we took the opportunity to further integrate our responsible investment activities within the ESG Executive Committee by extending membership of the Committee to the chief investment officers of our asset owner businesses.

Our Group-wide Responsible Investment Framework is designed to draw together the ESG-related approaches of our asset management businesses (Eastspring in Asia and PPM America in the US) and our asset owner insurance businesses (Prudential Corporation Asia in Asia and Jackson in the US). The ESG Executive Committee now maintains our Group-wide Responsible Investment Standards, which are based upon our Group Code of Business Conduct and set minimum requirements for each of our business units. These Group-level standards require all of our businesses to develop and maintain their own local responsible investment policies, which capture their own approaches to responsible investment and are appropriate to the jurisdictions in which they operate. The strength of the commitment of our asset management businesses to responsible investment and helping to build a sustainable financial system can be demonstrated by the fact that they are both signatories to the United Nations-supported Principles for Responsible Investment (Eastspring since February 2018 and PPM America since October 2018).

ESG integration in the investment process

Integrating ESG analysis into our investment processes is an ongoing activity that will continue to progress over time as the characteristics of each asset class and each of our investment strategies evolve. When making investment decisions, PPM America and Eastspring's Singapore-based equity team look to identify all material risks to sustainable earnings for a company. ESG issues are incorporated into our fundamental analysis and integrated into our decision-making process when we believe they could have a material impact on a company's valuation and financial performance. This analysis incorporates the governance of a company, as well as its social and environmental impact, including any plans or strategies to improve environmental performance and resilience, in our assessment of the drivers of longer-term returns.

In 2019, both PPM America and Eastspring made progress in enhancing the integration of ESG factors into their respective investment processes. Since implementing its Responsible Investment Policy in 2018, PPM America has continued to integrate ESG information in its processes, wherever possible, so that its investment professionals can assess and evaluate potential ESG risks. During 2019, the fixed income team at Eastspring Singapore built on its ESG approach and launched its first investment strategy focusing on sustainable bonds. For Eastspring Singapore's fixed income team, assessment and monitoring of ESG factors are an integral part of the bottom-up credit research process. ESG issues are incorporated in the fundamental analysis of individual companies to assess their impact on an issuer's financial performance, its risk of default and the valuation of the bonds it issues. This process involves an assessment of the quality of corporate governance, as well as material environmental and social issues that could have an impact on a business's day-to-day operation, financial performance, and subsequently the ability to pay back its obligations.

Industry engagement, memberships and collaborative bodies

During 2019, Eastspring continued to engage with industry participants to promote awareness and understanding of responsible investment across Asia, organising a number of workshops in Asia to continue to help improve the understanding of climate-related risks across the region. These were jointly held in partnership with organisations including the Asia Investor Group on Climate Change (AIGCC), the World Wildlife Fund and ISS Climate. Eastspring is an active member of the AIGCC, which aims to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low-carbon investing.

Eastspring continued to participate in industry roundtable discussions throughout 2019 and was a Sustainable Finance panel member at Euromoney's Asia Sustainable & Responsible Capital Markets Forum in June. In April, Eastspring Singapore also hosted a Bloomberg Buy-side Women's Network on Responsible Investment and ESG Integration. Both Eastspring and Prudential Corporation Asia are members of the Asian Corporate Governance Association (ACGA), and during 2019 Eastspring contributed to a number of ACGA white papers on corporate governance in the China and Japan equity markets. Eastspring Indonesia also engaged with the ACGA regarding strategies related to improved corporate governance practices in relation to proxy voting.

Climate

We recognise that climate change presents long-term risks to the sustainability of our business, as well as a range of opportunities associated with the transition to a low-carbon economy. In 2018, following Board discussion, Prudential became a supporter of the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). This reflects both the growing expectations of our external stakeholders and colleagues, and the ambition among our businesses to develop their capabilities to pursue products and services aligned to the global need to address the impacts of climate change.

Risks and opportunities

We are committed to developing a more granular understanding of the diverse risks we face and to working collaboratively with governments, peers and business partners to identify opportunities at scale for our businesses. During 2019, we focused on enhancing access to ESG and climate risk data sources and the carbon footprinting of sample Asian investment portfolios. During 2020, our priorities are to determine the Group's exposure to carbon-intensive sectors and companies, extend carbon footprinting across the Group's investment book and to refine the initial stress testing of the investment book for climate-related scenarios.

Governance

Our ESG Executive Committee, established in 2018, is focused on the holistic assessment of ESG matters material to the Group, raising matters to the Nomination & Governance Committee as appropriate. One of the ESG Executive Committee's principal responsibilities is to oversee the Group's progress towards fulfilling our commitment to report against the TCFD recommendations. This involves oversight of our Group-wide efforts to assess the climate-related risks and opportunities facing our businesses, and to subsequently identify and deliver the supporting implementation activities.

Following the successful completion of the demerger of M&G plc in late 2019, we took the opportunity to increase Committee representation from our businesses in Asia. We also took steps to further integrate our responsible investment activities within the ESG Executive Committee by extending participation on the Committee to the chief investment officers of our asset owner businesses, reflecting the increasing importance of our investment activities within the development of our overall ESG strategies. Committee members include: the chief investment officers of our asset management businesses (PPM America and Eastspring), the Chief Investment Officer of Prudential Corporation Asia, Jackson's General Counsel, Prudential Corporation Asia's Chief Operating Officer, and representatives from Group functions.

The ESG Executive Committee meets quarterly and is required to report to the Board at least twice each year, with additional ad hoc reporting provided as necessary. The ESG Executive Committee reports to the Board through the Group Nomination & Governance Committee, which comprises the Group's Chairman, the Senior Independent Director, and the chairs of the Audit, Remuneration and Risk Committees, and is regularly attended by the Group Chief Executive.

Strategy

As an asset owner and asset manager, we rely on investment returns to fulfil the longer-term obligations of our saving, annuity and health and protection liabilities. We recognise that in the transition to a low-carbon economy, there may be a disorderly adjustment to the value of the assets that we hold, arising from regulatory and technological change. The physical impacts of climate change, such as rising temperatures, rising sea levels and increased occurrence of extreme weather events, may also impact the value of the Group's assets. Such physical risks may also cause disruption to our customers, employees and property portfolio.

We also recognise that climate-related opportunities can support the delivery of the Group's strategy. For example, Eastspring is a member of the Sustainable Development Investment Partnership initiative, coordinated by the World Economic Forum with support from the OECD, working with others to scale the use of finance in sustainable infrastructure investments in emerging and developing countries. Since 2016, our US asset manager's approach to ESG integration was a key factor in the sale of $55 million of utilities credits that generate electricity primarily by coal, and the purchase of $105 million of single-asset project bonds that generate 100 per cent of their electricity through renewables.

As a life insurer, the potential impact of climate change on life expectancy (mortality risk) and medical health and well-being (morbidity risk) could impact the profitability of our protection and health insurance products respectively. The long-term impact of climate change on the life insurance sector is complex, as climate change acts in conjunction with other factors, including demographic and social change and rapid urbanisation, all of which place increased demand on health services. As the risks from climate change intensify, so will the consequences for humanity and the natural environment – from disruptions in food, water and energy supplies to rising sea levels and increased occurrence of extreme weather events. In some regions, the negative impacts of climate change may have serious implications on public health, for example increasing the levels of life-threatening vector-borne diseases. Against this backdrop, there is a need for us to develop products and services that help to provide protection and support climate change adaptation.

Risk management

As a long-term investor, the Group's most significant exposure to climate-related risk is through our role as an asset owner and manager, with $543.9 billion of assets under management. Our portfolio is exposed both to physical risk and transition risk as a result of climate change and we are using a range of methodologies to develop a more accurate understanding of the carbon intensity of our asset book and its exposure under a range of climate change scenarios. Through this process, we are seeking to develop metrics for actionable insights, which will help to inform the Group's Responsible Investment Standards and to direct our investments in the low-carbon economy, and reduce our exposure to climate risk.

We have begun to assess the climate transition risk exposure of our portfolios using a third-party carbon footprinting data and software provider. Our Asian asset manager, Eastspring, has taken the lead across the Group in starting to measure and interpret the carbon footprint for listed equities in sample portfolios. This tool allows us to assess the carbon footprint of the portfolio constituents compared to historical constituents, the carbon efficiency of the portfolio, the exposure of a portfolio to fossil fuels, potential emissions from fossil fuels, the strength of carbon risk management relative to industry peers and a portfolio's exposure to clean technology.

In order to assess our exposure to transition and physical risk, respectively, we have begun to explore the impact of temperature increase scenarios, over medium and long-term time horizons, on our investment portfolios. For this, we are using the guidance provided by the UK's insurance regulator, the Prudential Regulation Authority, and informed by the IPCC, as part of the regulator's August 2019 stress test exercise.

As a global business, we recognise the need for the Group to understand and mitigate the physical risks associated with climate change. The location of a significant number of our markets increases their vulnerability to climate change. Local environmental risks, including their potential short and medium-term impacts, are tracked and managed by our business units, with support from Group Risk and Security teams. This includes but is not limited to forecasts and reporting, business continuity advice and incident management planning. We manage the physical risk to our operations through comprehensive risk assessment during the selection of properties, including factors such as location, geography and weather events.

Our business units manage morbidity and mortality risk by analysing our experience from our customers, supplemented by industry data and stress testing. We assess changes in morbidity and mortality that have been observed in the past and consider how they may emerge in the future. As a life and health insurer, we are committed to playing a greater role in preventing and postponing illness in order to protect our customers. We are investing in artificial intelligence technology to enable access to affordable and quality healthcare and enhancing our digital offering to help improve access to finance and health protection products.

We continue to engage with policymakers and NGOs on this topic. We also work collaboratively with our peers through a range of networks, including the CRO Forum, the Asian Investor Group on Climate Change and ClimateWise. During 2019, we contributed to a ShareAction/AODP report entitled 'Insuring a low-carbon future', exploring leading practice and common barriers in managing climate-related risks and opportunities.

Metrics and targets

We participate in external benchmarks that assess our management of climate change risks and opportunities. In 2019 we continued to participate in CDP (formerly the Carbon Disclosure Project) and maintained our score with a B grading (2018: B). We continue to participate in ClimateWise, which in 2019 changed significantly to align itself with the TCFD framework. The Group score, similar to other organisations, is down from our previous submission (2019: 51, 2018: 78), but we remain committed to enhancing our climate change disclosures, in line with TCFD. Our scoring in CDP and ClimateWise is based on the performance of the pre-demerger Group, including M&G plc. We seek to minimise the impact of our direct operations on the environment. More detail on our environmental performance is included in the Environment section on page 84 of this report.

Business integrity

We are strongly aware of our purpose, which is to help people de-risk their lives and deal with their biggest financial concerns. In line with this purpose, responsible and ethical behaviour are embedded in our business. Our governance framework is clear about our standards of behaviour and those standards flow into every part of what we do, from our financial performance and tax practices to the way we fight financial crime and deal with our suppliers.

Our Code of Conduct

Our governance framework, setting out the principles by which we conduct our business and ourselves, includes our Group Code of Business Conduct, which is a central feature of our Group Governance Manual. Our Group Code of Business Conduct sets outs the ethical standards that the Board expects of itself, our employees, our agents and others working on behalf of the Group. The Group Governance Manual consists of a range of policies covering all of our business units, setting out our principles for good governance. We review these policies on a regular basis to ensure that we meet the expectations of our stakeholders.

Financial strength

We contribute to financial stability and sustainability in all of the markets in which we operate. We fulfil our purpose by seeking to provide products and services that align with important global social needs and thereby generate sustainable value for stakeholders. Our products and services are designed and delivered with that purpose clearly in mind. Through the combination of our consistent strategy, our diversified portfolio of businesses and our disciplined execution, we have continued to create long-term value for customers, shareholders and other stakeholders.

Responsible tax practices

The responsible and sustainable management of our tax affairs helps us to maintain constructive relations with our stakeholders and play a positive role in the economy. Tax revenues are fundamental to sustainable development in those communities.

We understand the importance of paying the right amount of tax on time. We manage our tax affairs transparently and seek to build constructive relationships with tax authorities in all the countries in which we operate. Our Tax Risk Policy outlines our processes to identify, measure, control and report on risk across four categories: technical judgements, operations, regulations and reputation.

Our tax strategy is published annually and, as well as complying with the mandatory requirements under the UK 2016 Finance Act, includes additional disclosures, including a breakdown of the types and amounts of taxes we pay globally, which includes taxes borne and collected on employee income, for example social security. Furthermore, we disclose the revenues, profits, average employee numbers and taxes on a country-by-country basis where more than $5 million of tax was paid.

We are due to publish our updated tax strategy, which will include more information on the tax we paid in 2019, how we manage our tax affairs and the governance and management of tax risk, by 31 May 2020.

Fighting financial crime

We take the fight against money laundering, terrorist financing, bribery and corruption and fraud seriously and are committed to implement and maintain industry-leading policies and standards. In the majority of our markets we maintain business relationships with agents and intermediaries, who act on our behalf. We provide training to our staff to ensure they are familiar with international standards and best practice, as well as being well equipped to implement our policies in their respective markets.

Our Group-wide financial crime policies were updated in 2019 to reflect the requirements of our new lead regulator, the Hong Kong Insurance Authority. Our Group anti-bribery and corruption policy provides guidance to our diverse businesses on gifts and hospitality and how we deal with government officials, and highlights the importance of due diligence when dealing with third parties.

All of our Group-level financial crime policies are cascaded down to local business units through regional compliance teams, which ensure adherence to the Group requirements and applicable laws and expectations of local regulators. These policies are part of the Group governance framework, with business units attesting their compliance in addition to compliance and internal audit reviews.

The Group Risk Committee continues to review the effectiveness of the financial crime programme and the Group Financial Crime Compliance team regularly updates the Committee on risks and controls, and on the improvements made to processes in the financial crime framework. Any material matters on financial crime are reported to the Committee.

Whistleblowing

Our Group-wide whistleblowing procedures apply to all our colleagues and are supported by Speak Out, our Group-wide whistleblowing programme. Speak Out is available both internally and externally to staff, contractors, vendors, agents, clients and the public, enabling reporters to raise concerns in a choice of languages through web and hotline channels. Reporters are able to log concerns covering a range of issues, including but not limited to anti-bribery and corruption, compliance breaches, discrimination and harassment and health and safety. Concerns are recorded by an independent third party and investigated by appropriately trained and skilled investigators. Qualitative programme improvements in 2019 included updates to the website, case management system upgrades, refreshed staff training and enhanced training for line managers. Since launching Speak Out in 2016, the number of concerns reported has increased by nearly 200 per cent.

Supply chain

Our Group Code of Business Conduct outlines the values and standards that are required by each of our suppliers. Our Group Third-Party Supply policy is core to our supply chain governance and specifies our position on supply chain management, setting out our approach to due diligence, selection criteria, contractual requirements and ongoing monitoring of relationships. Business units conduct due diligence before engaging with and ultimately selecting a new supplier. We perform regular due diligence, review meetings and audits where required, and our policies and procedures are supported by regular employee training exercises. In July 2019, we introduced the Workday platform, an e-procurement and general ledger system, at our London head office to improve the control and monitoring of purchasing activities. This system also allows us to better understand the composition of our supply chain and to automate our payments to help make sure we pay businesses in a timely way.

Being a responsible business also requires organisations to ensure that they meet and strive to surpass commitments to the UN's Declaration of Human Rights. We act with integrity to ensure that modern slavery, human trafficking, child labour or any other issue that subjugates human rights is eradicated from our supply chain.

People

We provide an inclusive working environment in which we develop our talent, reward great performance, protect our people and value our differences, and we believe that such an environment is essential to enabling us to deliver for our customers, shareholders and communities.

Diversity and inclusion

Having the benefit of diverse perspectives and experiences within our organisation is important to our success and fulfilling our purpose. Diversity and Inclusion (D&I) is an important priority for Prudential and the Group HR Director is the executive sponsor for D&I across the Group. Through the Group D&I Policy we ensure that we provide equal opportunities to our workforce, fostering a collaborative and supportive environment in which our employees are treated with dignity and respect.

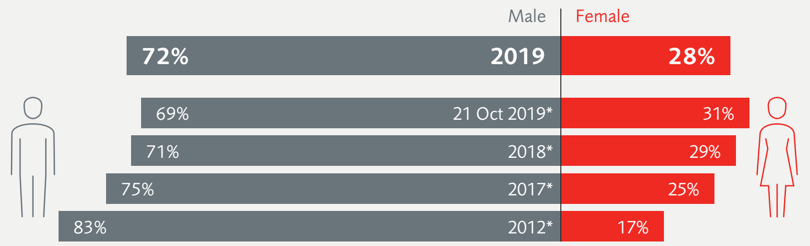
Our strategic, long-term approach to D&I is reviewed regularly to ensure that it remains outcomes-focused and enables Prudential plc to be appropriately placed to become a more diverse and inclusive organisation over time. The Board of Prudential plc is committed to recruiting the best available talent and appointing the best candidate for a role, from Board level to any role within the wider company, ensuring the necessary diversity of experience, skillsets and professional backgrounds.

As a signatory to the HMT Women in Finance Charter since 2016, we have an externally disclosed target of having 30 per cent women in senior management by the end of 2021. At 31 December 2019 the figure was 28 per cent and we remain on track to meet our 2021 target.

We give full and fair consideration to applications for employment by disabled people. If an employee incurs a disability while employed by us, efforts are made to continue their employment. Training, career development and promotion opportunities are equally applied for all our employees, regardless of disability.

Prudential headcount as at 31 December 2019

Gender diversity: senior management



* Pre-demerger position

Gender diversity: all employees

Headcount	Total	Male	Female	Undisclosed[2]	Unspecified[3]
Chairman and Independent Non-executive Directors	10	7	3	–	–
Executive Directors	3	3	0	–	–
Group Executive Committee (GEC) Includes Executive Directors	7	6	1	–	–
Senior managers Excludes the Chairman, all Directors and GEC members	53	38	15	–	–
Whole company[1] Full-time equivalent Includes the Chairman, all Directors, GEC members and Senior Managers	18,125	8,137	9,914	41	33

Notes

1 Excludes Prudential Corporation Asia joint ventures.

2 In many of our businesses, we provide our employees with the option to not disclose their gender. For these employees, gender is recorded as 'undisclosed'.

3 No specification or information is captured on gender for an immaterial number of our employees. These employees are recorded as 'unspecified'.

Responsible working practices
We are committed to supporting human rights and to acting responsibly and with integrity at all times. Our policies are guided by the principles of the UN's Universal Declaration of Human Rights and the International Labor Organization's core labour standards, which are incorporated into our Group Code of Business Conduct, setting out our values and standards of employee behaviour, and into our Group Third-Party Supply Policy.

Our Group Employee Relations and Resourcing polices are available on the Group website at www.prudentialplc.com/investors/governance-and-policies/employee-relations-policy, along with our Board-approved Modern Slavery Act statement at www.prudentialplc.com/investors/governance-and-policies/modern-slavery-statement. Our business units implement policies and practices at a local level that aim to ensure compliance with statutory and regulatory requirements in the local labour market and the prevention of slavery, human trafficking and child and forced labour. Compliance with Group policies is certified annually through our Group Governance Manual attestation process.

In 2019, we again participated in ShareAction's Workforce Disclosure Initiative (WDI), which aims to create transparency for investors about how companies manage their workers, both in their direct operations and supply chains.

Talent development
Developing our people is key to achieving our strategic objectives as a responsible business and to the long-term success of the company. Prior to the demerger of M&G plc from the Group, we created two full boards and senior management teams for two FTSE 100 companies, providing individuals with development opportunities and career progression. Our priority now is to ensure that we have the diverse short, medium and long-term talent we need in an inclusive environment to deliver on the strategic priorities of the newly shaped organisation. Group HR focuses on developing senior leadership through an annual process of talent review, and we use succession planning to continue developing leaders and critical specialists, segmenting our talent to identify short, medium and long-term successors. We develop our senior executive leaders through a bespoke exercise based on their aspirations and the skillsets they need to continue to be successful, including fostering innovation, leading transformation and driving digital capability and execution through collaboration. The Board receives an in-depth talent review, led by the Group HR Director, once a year.

Employee engagement
We want to foster an environment in which employees feel empowered and which provides them with an opportunity to make an active contribution to the organisation and the communities we serve. We drive employee engagement through a number of initiatives, including colleague appreciation programmes, wellbeing programmes, networking opportunities with peers and senior leaders across functions and employee focus groups. In the US, Jackson's Organisational Survey ensures that all associates have an opportunity to share their thoughts and make the organisation an even better place to work. The 2019 results show that associates are satisfied with their work and proud to be a part of Jackson. The areas of ethics and corporate responsibility were among the highest-scoring.

The Group's community investment strategy is closely aligned with our business purpose and one of the principal themes is employee engagement. Many of our employees play an active role in their communities through volunteering, charitable donations and fundraising. Chairman's Challenge is our flagship international volunteering programme, bringing people together across the Group to help their communities. More information is available in the Supporting our communities section on page 86.

The Board has considered options to ensure its decisions are informed by an appreciation of employees' views and in line with expectations of the UK Corporate Governance Code.

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

We also believe in the importance of giving employees the opportunity to benefit from the Group's success through share ownership, and operate share plans for employees in the UK and Asia. This includes the award-winning PruSharePlus plan, which enables employees in Asia to share in the longer-term success of the business and actively encourages share ownership and engagement. Similar all-employee share plans operate in the UK.

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

For the seventh consecutive year, salary increases in 2019 for executives were aligned with the bottom of the range of pay budgets for the wider workforce. In order to strengthen the community of interest between executives and other shareholders, remuneration is linked to sustained performance over the longer term. For example, 40 per cent of Executive Directors' bonus is deferred in shares for three years. The Remuneration Committee's Terms of Reference were updated in 2019 to incorporate updates to the Corporate Governance Code and to reference the Hong Kong Insurance Authority's remuneration requirements. More details on executive remuneration can be found in the Directors' Remuneration Report on page 136.

Technology
In the face of technological advancements and evolving customer needs, we actively embrace the latest technology and embed digital capabilities in our business model. We continually increase the automation of our operations in order to improve both business efficiency and customer satisfaction.

Increasing access to digital health tools in Asia
Access to physicians remains a challenge for many communities across Asia. To aid the expansion of our role from providing protection to preventing and postponing adverse health events, we have launched Pulse by Prudential, an all-in-one digital app that forms the core component of our pioneering digital health proposition. Accessible to everyone, Pulse uses artificial intelligence-powered self-help tools and real-time information to offer holistic health management to customers in Asia. Pulse is an evolving platform and consists of a range of partnerships with health and technology companies. Our partnership with Babylon enables users to monitor their health status online. We are also working

with a range of local and regional partners to provide increasingly personalised health management services to consumers. For example, through our partnership with Tictrac, we are able to provide personalised wellness services to consumers by combining a user's lifestyle signals from their apps and wearables with contextual information about their surroundings. This information helps guide users to achieve their health objectives, such as preventing diabetes or reducing stress levels, by establishing good nutritional and fitness habits or instilling behaviours that are beneficial to their health.

Using technology to enhance our capabilities

In 2019, Jackson invested significant time and resources with fintech partners to help illustrate the benefits a lifetime income solution can provide within a comprehensive wealth management plan. The fintech platforms where Jackson is actively engaged include eMoney, MoneyGuidePro, and Envestnet. The technology solutions provided by eMoney reach more that 60,000 financial professionals, serving nearly four million households nationwide. During 2019, Prudential Singapore strengthened its partner network of fintech, insurtech, healthtech and medtech companies with the third edition of its flagship innovation initiative – the PRU Fintegrate Partnership. Our smart underwriting tool, which is now used in 64 per cent of all new sales, offers dynamic underwriting that streamlines the application process and communicates instant underwriting decisions to customers.

Promoting financial inclusion, protection and participation

In June, we announced a strategic partnership with OVO, a digital payments, rewards and financial services platform in Indonesia. Available on over 115 million devices, OVO is the preferred digital payments platform for Indonesians, with over 500,000 merchants and a presence in 319 cities. The partnership significantly enhances our reach to digitally minded consumers in one of Asia's fastest-growing insurance markets and is a key step in our broader commitment to make health and wealth services affordable and accessible to all Asians. Recognising the high cost of and unequal access to healthcare in the Philippines, Pru Life UK, our life insurance business in the Philippines, has the ambition to make health accessible and affordable to all through the use of mobile digital health. In 2019 PruLife UK published an independent study, which it commissioned to examine the readiness of the country's regulatory and legal framework to support the development of mobile digital health.

Information security

As consumers seek on-demand, 24-hour access to our products and services, loss of access has the potential to have a significant impact on our customer relationships and our brand reputation. Furthermore, many of the social benefits of new technology, such as financial inclusion and greater access to primary healthcare, may not be realised. In this context, information risk remains an area of prominent concern and focus for ourselves, regulators and businesses globally. For us, information security is rated as a principal risk, demonstrating our continued commitment to securely managing the information our customers entrust to us.

During 2019, we implemented a long-term shift from federated information security teams within each business unit to a single Group-wide team leveraging skills, experience and resource globally via a "centres of excellence" model. This new model will support collaboration and skills-sharing across the whole Group. Throughout 2019, the transition to the new model has been progressing under the newly appointed Group Chief Information Security Officer. To support the new model, we developed a new Global Information Security Policy, which came into force in 2020. The policy has been mapped to numerous international and local standards.

How we manage information security risk

Effective risk management is key to the successful execution of our objectives and the newly formed Group-wide Information Security and Privacy Committee defines and provides governance and the risk management framework for information security risks across the Group. This Committee meets at least quarterly and is a sub-committee of the Group Executive Risk Committee (GERC), which is chaired by the Group Chief Risk and Compliance Officer and of which the Group Chief Information Security Officer is a standing member. The Information Security team also works closely with the Group Risk function to define information security as a risk within the business. The Information Security team regularly reports on security risk and performance to the Group Risk Committee and the GERC, demonstrating the priority and level of executive oversight assigned to information security risk and the management of these risks. We monitor our information security risks through our Group-wide key performance indicators, which map to the industry-leading National Institute of Standards and Technology Cyber Security Framework and other frameworks.Our Security function retains its overarching commitment to protect the business, comply with all applicable laws and regulations, and support the growth of the Group securely.

In 2019 we launched several projects to enhance our approach to information security assurance using automation and analytics. In Asia we have introduced automated firewall rule analytics to provide deep-dive real-time reviews on the performance of our on-premise firewalls. Projects such as these are driving our approach to innovating our assurance processes to provide greater visibility in a faster and more efficient manner, while protecting the information entrusted to us.

Training, awareness and Board oversight of information security risk

Our staff are critical to protecting the information entrusted to us by our customers. Consequently, information security awareness training is integral to ensuring that our information and systems remain safe. All members of staff, including temporary staff, across all of our businesses are mandated to complete this training at least annually. Training is provided locally to support local languages and reflect any local regulatory and legal requirements. Completion is tracked within each business. This training is supplemented with simulated phishing campaigns quarterly to test how staff respond to these attacks in 'real world' scenarios. This focus extends to our Board and executives. Throughout the year our Non-executive Directors have access to one-to-one training, often delivered by the Group Chief Information Security Officer, on topics including cyber threat and privacy.

Incident response and resilience

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

Privacy and data protection
In 2019, our focus was dedicated to maintaining awareness as well as enhancing and embedding activities that were implemented as part of the General Data Protection Regulation programme, in order to strengthen and sustain ongoing compliance. Our Group Privacy Office, which we established in 2018, continues to maintain oversight of privacy compliance. In addition, the Office works with Group businesses across Asia, Africa and the US to support and advise on ongoing privacy compliance as well as to provide a point of escalation for resolving data privacy issues.

Environment
We are determined to minimise our impact on the environment in line with our purpose of improving the lives of our customers and their communities. We are responsible for understanding our impact on the environment and doing what we can to minimise any damaging effects. We measure our environmental performance and take action to ensure that we improve that performance year after year.

Managing our direct impact
Our Group Governance Manual underpins all our activities, including minimising the direct impacts of our operations on the environment. Our Group Environmental Policy applies to our operational properties worldwide, guiding our approach to the management of the direct impacts of our business units, including compliance with environmental laws and regulations with respect to emissions, energy consumption, water use, waste disposal, environmental supply chain management and the adoption of risk management principles for all property-related matters. Business unit performance is monitored against the Group Environmental Policy and updates are provided to the Board. We participate in external benchmarks that assess our management of climate change risks and opportunities. More information is available in the Climate section on page 78 and information on our wider environmental impact can be found in the Responsible Investment section, on page 77.

Global environmental targets framework
In 2016 we developed a global environmental targets framework to drive improvements in environmental operational performance. This framework was aligned to the operational footprint of the pre-demerger Prudential Group and, as such, a number of targets are no longer relevant to the demerged Group. The Group's new operational footprint provides an opportunity to develop targets that are more closely aligned with that footprint and our ambition in this area. During 2020, we are reviewing our global environmental targets framework for the demerged Group and new targets will be established to start from 2021.

The highlights of our 2019 environmental performance are available below. These metrics cover the performance of the demerged Prudential Group for 2019 and form the new baseline data from which we will measure future environmental performance. The demerged Prudential Group is 24 per cent smaller (based on headcount) than the Prudential Group including M&G plc. Consequently, the reported figures are much lower than the values reported in 2018.

Our environmental performance
1 Energy and climate change – understanding our impacts, reducing our greenhouse gas emissions and developing longer-term actions
In 2019, our global energy use (for the provision of small power, heating and cooling) across our occupied estate was 91,921 MWh. Across our occupied estate, our global absolute Scope 1 and 2 (market-based) greenhouse gas emissions were 56,421 tCO_2e. When normalised against net lettable floor area, our Scope 1 and 2 emissions were 105 kg CO_2e/m^2.

In Asia, we completed seven site assessments as part of our work towards achieving our target to conduct energy assessments of our 20 highest energy-consuming sites. In the US, Jackson continues to reduce energy usage and decrease our carbon footprint, and in 2019 completed a range of projects at our Corporate Way campus in Lansing, including installing high-efficiency rooftop CO_2 sensors, high-efficiency water heaters, an energy recovery ventilation unit and a new dust-collector filtration system to reduce exhaust and recover energy in printing facilities.

As in 2018, we have disclosed our Scope 3 air travel booked from the UK. We will continue to work with our business units across all of our regions to extend our Scope 3 emissions reporting. In 2019 our reported air travel emissions were 6,092 tCO_2e. During 2019 we chose to offset our air travel, covering both our reported and unreported emissions.

Our full greenhouse gas emissions statement can be found below.

2 Construction and refurbishment – delivering sustainable outcomes through property projects and improved wellbeing of our employees
Refurbishment projects and new office builds provide an opportunity to improve the environmental performance of our estate. Each business unit has the autonomy to deliver sustainable building certification most relevant to its region and develop standards or guidelines considered most appropriate in its market. Our new London office, which we occupied in April 2019, is rated as BREEAM Excellent. In Malaysia we have consolidated our headquarters operations into a new LEED Gold building in the Tun Razak Exchange, part of Kuala Lumpur's new business and international Financial District. In order to align and promote sustainable best practices throughout the life-cycle of our occupied estate, Prudential Corporation Asia developed a Smart Leasing Toolkit and an Environmental Design and Construction Guide.

3 Waste and recycling – reducing the waste we generate and diverting waste from landfill through recycling and recovery
During 2019, we generated 864 tonnes of waste in the UK and the US. The quality of the data being collected in Asia on waste continues to become more reliable and will be a focus area for ongoing reporting in 2020. Of the UK and US total, 63 per cent was diverted from landfill through recycling, composting or incineration. Scope 3 carbon emissions associated with our waste are calculated at 42 tCO_2e, a minor contribution to our overall corporate footprint in comparison with the energy use of our buildings and air travel. We continue to work with our suppliers to seek opportunities to increase recycling rates and decrease waste generation in the first instance.

4 Water consumption – assessing and reducing our use of water
In 2019, absolute use of water across our global occupied estate was 229,268 m^3. When normalised against headcount, our use of water was 12.6 m^3/employee. In the US, irrigation central control has been installed and activated for systems in part of Jackson's Corporate Way campus.

Desktop software and mobile phone applications are being used to monitor water usage, providing automated shut-off capability should there be any breaks in water supply lines.

5 Sustainable procurement – partnering our supply chain to deliver sustainable solutions and source responsibly
The continued support of our supply chain is key in becoming a sustainable business. Our procurement team ensures that environmental requirements are integrated into procurement frameworks and form part of the supplier selection criteria.

Prudential plc – greenhouse gas emissions statement
We have compiled our global GHG emissions in accordance with the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. GHG emissions are broken down into three scopes; we have included full reporting for Scope 1 and 2 and select Scope 3 reporting as best practice. Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity, heating and cooling. We have reported our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. Our Scope 3 footprint includes UK booked business travel for the occupied estate, global water consumption from the occupied estate and waste generated from occupied properties (UK and US). We continue to work with our business units to review the extent of our Scope 3 reporting and increase coverage where practicable. Our 2019 reporting covers the period 1 October 2018 to 30 September 2019. Please refer to our Basis of Reporting and supplementary reporting online for further detail on our methodology, reported consumption and drivers of variation.

Group total (including continuing and discontinued operations)

Emissions source	2019	2018	% change
Scope 1	9,353	9,192(1)	2%
Scope 2 – location based	54,155	56,543(1)	(4)%
Scope 2 – market based	50,717	52,127	(3)%
Scope 3	17,747	22,545	(21)%
Total scope 1 & 2	60,070	61,319	(2)%
Total scope 1, 2 & 3	77,817	97,033	(19)%
Carbon intensity			
Kg per m^2 – Scope 1 & 2	96	24	300%
Tonnes per employee – scope 1 & 2	2.5	3.1	(19)%
Kg per m^2 – Scope 1, 2 & 3	124	32	288%

Discontinued operations

Emissions source	2019
Scope 1	2,041
Scope 2 – location based	5,247
Scope 2 – market based	1,609
Scope 3	11,471
Total scope 1 & 2	3,650
Total scope 1, 2 & 3	15,121
Carbon intensity	
Kg per m^2 – Scope 1 & 2	40
Tonnes per employee – scope 1 & 2	0.7
Kg per m^2 – Scope 1, 2 & 3	164

Continuing operations

Emissions source	2019
Scope 1	7,312
Scope 2 – location based	48,908
Scope 2 – market based	49,109
Scope 3	6,275
Total scope 1 & 2	56,421
Total scope 1, 2 & 3	62,696

Carbon intensity	
Kg per m^2 – Scope 1 & 2	105
Tonnes per employee – scope 1 &2	3.1
Kg per m^2 – Scope 1, 2 &3	117

Data notes:
Reporting period: 1 October 2018 to 30 September 2019. Baseline year: 1 October 2017 to 30 September 2018. Independent assurance: Deloitte LLP has provided limited assurance over selected environmental metrics in accordance with the International Auditing and Assurance Standards Board's (ISAE3000 (Revised)) international standard. Consolidation (boundary) approach: Operational Control. Consistency with financial statements: The reporting period does not correspond with the Directors' Report period (01 January 2019 to 31 December 2019) as it was brought forward by three months to improve the availability of invoice data and reduce reliance on estimated data. Prudential owns assets, which are held on its balance sheet in the financial statements, over which it does not have operational control. These are excluded from the data below. Assets not included on the balance sheet but held under an operating lease and where we have operational control are included. Emission factor: Scope 1 and 3 reporting uses the UK DEFRA 2019 GHG Conversion Factors. Scope 2 calculations use the IEA GHG 2019 Conversion Factors for location-based reporting. Market-based reporting uses supplier emission factors for our UK REGO-backed supply and RE-DISS factors where available. Accounting methodology: The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. Materiality threshold: Five per cent. Data restatements: (1) 2018 figure restated as accurate data became available from suppliers.

Supporting our communities

Our community investment strategy is closely aligned with our business purpose and with our stakeholders' concerns and interests, and is focused around four principal themes: social inclusion, education and life skills, disaster preparedness and employee engagement. We take an active approach in helping tackle environmental and social challenges. Our strong contribution, harnessing the commitment of our people, continues to improve lives and build communities, wherever we work.

Our approach to community investment

Our relationships with our charity partners are long-term, involving support through both funding and skills-based employee volunteering. Our business units are guided by the Group's strategy and framework for investing in the community, as laid out in our Group-wide Community Investment Policy, but within that framework they have the autonomy to manage their own community investment programmes. Our Group-wide Community Investment Policy sets minimum standards, as well as prohibiting political funding and contributions to religious organisations that have a clear aim to propagate a set faith.

Understanding the issues faced by local communities is part of being a responsible business, and those best placed to manage community investment are our local businesses. In Asia and Africa this is done through the Prudence Foundation, a unified charitable organisation governed by a statutory board of directors, which maximises the impact of our community investment across these regions. In the US, a governance committee of Jackson and the Jackson Charitable Foundation board of directors regularly review our community investment activity, strategy and spend.

The plc Board reviews the Group's community investment performance and approves our strategy annually, while our Material Subsidiary Boards oversee corporate responsibility initiatives undertaken by our business units. Paul Manduca, Chairman of Prudential plc, is the Board sponsor for corporate responsibility.

Monitoring and measuring our programmes

We take a strategic, long-term approach to community investment, and we ensure that all our community investment activities meet our objectives. We use performance metrics aligned to the London Benchmarking Group (LBG) guidelines, which are used to monitor progress and guide the valuation of both cash and in-kind contributions, employee volunteering and management costs.

In 2019, the Group spent $29.1 million supporting community activities. Direct cash donations to charitable organisations amounted to $20.6 million. The balance includes in-kind donations as set out on the Group website at www.prudentialplc.com/about-us/esg/performance/community-investment that are calculated in accordance with LBG guidelines. This included 10,834 employees who contributed 103,775 hours of volunteer service in their communities. Our 2019 community investment reporting is assured by Deloitte LLP. Further information and Deloitte's assurance statement can be found on the Prudential plc website at www.prudentialplc.com/about-us/esg/performance/external-assurance-of-responsibility-reporting.

2019 highlights

Volunteering across the globe

Many of our employees play an active role in their communities through volunteering, charitable donations and fundraising. Chairman's Challenge is our flagship international volunteering programme, bringing people together across the Group to help their communities. The programme continues to appeal to colleagues, with over 5,400 signing up to participate across 21 projects. Each volunteering project focuses on one or more of our community priorities and enables us to support both large, well established charities and innovative, smaller-scale activities with volunteers and financial support. As well as volunteering on behalf of the Chairman's Challenge, employees around the Group volunteered on a huge range of other charitable projects, from providing disaster relief to mentoring schoolchildren supporting the elderly and skills-sharing.

Cha-Ching – the first global financial education programme

Developed by Prudential to address the gap in financial literacy, Cha-Ching is a global financial education and responsibility programme for children aged from seven to 12. Now in its ninth year, the programme has expanded from its origins in Asia to the US and Africa. It has been very positively received in all markets, with strong feedback from parents, teachers, children and government stakeholders.

Safe Steps

Safe Steps is a ground-breaking, Asia and Africa public service programme aimed at enhancing awareness about natural disasters, road safety and first aid through the dissemination of survival tips. The programme was created and developed by the Prudence Foundation. Principal partners involved in the programme's development and continuing to support its roll-out are National Geographic, the International Federation of Red Cross and Red Crescent Societies and the Federation Internationale de l'Automobile. The programme continues to reach an estimated 250 million people every day across Asia through partnerships with government, humanitarian and private sector organisations.

Safe Schools

During 2019, the Prudence Foundation continued to support the Safe Schools programme in partnership with Plan International and Save the Children in Cambodia, the Philippines and Thailand. This programme primarily focuses on disaster preparedness for students, teachers and local community members. Since 2013, almost 90,000 students and 43,000 adults have participated in the programme.

Early childhood development

The Prudence Foundation has supported the First Read programme since 2013, partnering with Save the Children to invest in early childhood care and development in Cambodia and the Philippines. First Read helps parents to develop their children's numeracy and literacy skills by providing books in the local language or dialect, and encouraging them to read, sing and count together. It also helps parents understand the importance of healthy and nutritious food for their children's development. Since 2013, more than 330,000 children and their parents have benefited through this home-based early childhood development programme, while over one million people have benefited indirectly through shared knowledge and resources developed from First Read.

Jackson Career Exploration Centre

In partnership with Junior Achievement of Middle Tennessee, Jackson has underwritten the Jackson Career Exploration Centre in JA Finance Park. This state-of-the-art programme serves seventh- to 12th-grade students across Middle Tennessee, combining hands-on classroom activities with real-world simulation, which allows students to put their money-management skills to the test, giving them a solid foundation for making intelligent personal finance decisions throughout their lives. The programme will host 10,000 students each school year, serving 22 counties in the region.

Prudential RideLondon

Prudential RideLondon is a major mass-participation and charity fundraising event in the UK which has raised more than £77.5 million for charity in the last seven years. In 2019 it raised more than £11.5 million for over 980 charities. We have sponsored the event since its inception in 2013, and in 2019 our community engagement partnership, PruGOals, supported 273 young people from 21 schools across the UK to improve their self-esteem, aspiration and educational outcomes.

Political donations

It is the Group's policy neither to make donations to political parties nor to incur political expenditure, within the meaning of those expressions as defined in the UK Political Parties, Elections and Referendums Act 2000. The Group did not make any such donations to incur any such expenditure in 2019.

More detailed information on our ESG activities is available in our 2019 ESG report found at www.prudentialplc.com/investors/reports/2019

Strategic report approval by the Board of Directors

The strategic report set out on pages 10 to 87 is approved by the Board of Directors.

Signed on behalf of the Board of Directors

Mike Wells
Group Chief Executive

10 March 2020