05

Financial statements

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Consolidated income statement

	Note	2019 $m	2018* $m
Continuing operations:			
Gross premiums earned		45,064	45,614
Outward reinsurance premiums		(1,583)	(1,183)
Earned premiums, net of reinsurance	B1.4	43,481	44,431
Investment return	B1.4	49,555	(9,117)
Other income	B1.4	700	531
Total revenue, net of reinsurance	B1.4	93,736	35,845
Benefits and claims	C4.1(iii)	(85,475)	(26,518)
Reinsurers' share of benefits and claims	C4.1(iii)	2,985	1,598
Movement in unallocated surplus of with-profits funds	C4.1(iii)	(1,415)	1,494
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	B1.4	(83,905)	(23,426)
Acquisition costs and other expenditure	B2	(7,283)	(8,527)
Finance costs: interest on core structural borrowings of shareholder-financed businesses		(516)	(547)
(Loss) on disposal of businesses and corporate transactions	D1.1	(142)	(107)
Total charges net of reinsurance	B1.4	(91,846)	(32,607)
Share of profit from joint ventures and associates net of related tax	D7	397	319
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note		2,287	3,557
Remove tax charge attributable to policyholders' returns		(365)	(107)
Profit before tax attributable to shareholders' returns	B1.1	1,922	3,450
Total tax charge attributable to shareholders' and policyholders' returns	B4.1	(334)	(676)
Remove tax charge attributable to policyholders' returns		365	107
Tax credit (charge) attributable to shareholders' returns	B4.1	31	(569)
Profit from continuing operations		1,953	2,881
Discontinued UK and Europe operations' profit after tax	D2	1,319	1,142
Re-measurement of discontinued operations on demerger	D2	188	–
Cumulative exchange loss recycled from other comprehensive income	D2	(2,668)	–
(Loss) profit from discontinued operations		(1,161)	1,142
Profit for the year		792	4,023
Attributable to:			
Equity holders of the Company			
From continuing operations		1,944	2,877
From discontinued operations		(1,161)	1,142
Non-controlling interests from continuing operations		9	4
Profit for the year		792	4,023

Earnings per share (in cents)	Note	2019	2018*
Based on profit attributable to equity holders of the Company:	B5		
Basic			
Based on profit from continuing operations		75.1¢	111.7¢
Based on (loss) profit from discontinued operations		(44.8)¢	44.3¢
		30.3¢	156.0¢
Diluted			
Based on profit from continuing operations		75.1¢	111.7¢
Based on (loss) profit from discontinued operations		(44.8)¢	44.3¢
		30.3¢	156.0¢

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars (as described in note A1) and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019 (as described in note A2).

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

Consolidated statement of comprehensive income

	Note	2019 $m	2018* $m
Profit for the year from continuing operations		1,953	2,881
Other comprehensive income (loss) from continuing operations:			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		152	(39)
Related tax		(15)	7
		137	(32)
Valuation movements on available-for-sale debt securities:			
Net unrealised gains (losses) on holdings		4,208	(2,144)
Deduct net gains included in the income statement on disposal and impairment		(185)	(15)
		4,023	(2,159)
Related change in amortisation of deferred acquisition costs	C5.2	(631)	328
Related tax		(713)	385
		2,679	(1,446)
Total items that may be reclassified subsequently to profit or loss		2,816	(1,478)
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Net actuarial (losses) gains on defined benefit pension schemes		(108)	26
Related tax		19	(5)
Total items that will not be reclassified to profit or loss		(89)	21
Other comprehensive income (loss) from continuing operations		2,727	(1,457)
Total comprehensive income from continuing operations		4,680	1,424
(Loss) profit from discontinued operations	D2	(1,161)	1,142
Cumulative exchange loss recycled through profit or loss	D2	2,668	–
Other items, net of related tax	D2	203	(605)
Total comprehensive income from discontinued operations		1,710	537
Total comprehensive income for the year		6,390	1,961
Attributable to:			
Equity holders of the Company			
From continuing operations		4,669	1,419
From discontinued operations		1,710	537
Non-controlling interests from continuing operations		11	5
Total comprehensive income for the year		6,390	1,961

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars (as described in note A1) and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019 (as described in note A2).

Consolidated statement of changes in equity

	Note	Share capital	Share premium	Retained earnings	Translation reserve*	Available-for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
		Year ended 31 Dec 2019 $m							
Reserves									
Profit from continuing operations		–	–	1,944	–	–	1,944	9	1,953
Other comprehensive income (loss) from continuing operations:									
Exchange movements on foreign operations and net investment hedges net of related tax		–	–	–	135	–	135	2	137
Net unrealised valuation movements net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	2,679	2,679	–	2,679
Shareholders' share of actuarial gains and losses on defined benefit pension schemes net of related tax		–	–	(89)	–	–	(89)	–	(89)
Total other comprehensive income (loss) from continuing operations		–	–	(89)	135	2,679	2,725	2	2,727
Total comprehensive income from continuing operations		–	–	1,855	135	2,679	4,669	11	4,680
Total comprehensive income (loss) from discontinued operations		–	–	(1,098)	2,808	–	1,710	–	1,710
Total comprehensive income for the year		–	–	757	2,943	2,679	6,379	11	6,390
Demerger dividend in specie of M&G plc	B6.1	–	–	(7,379)	–	–	(7,379)	–	(7,379)
Other dividends	B6.2	–	–	(1,634)	–	–	(1,634)	–	(1,634)
Reserve movements in respect of share-based payments		–	–	64	–	–	64	–	64
Change in non-controlling interests		–	–	–	–	–	–	158	158
Movements in respect of option to acquire non-controlling interests		–	–	(143)	–	–	(143)	–	(143)
Share capital and share premium									
New share capital subscribed	C10	–	22	–	–	–	22	–	22
Impact of change in presentation currency in relation to share capital and share premium	C10	6	101	–	–	–	107	–	107
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	38	–	–	38	–	38
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	55	–	–	55	–	55
Net increase (decrease) in equity		6	123	(8,242)	2,943	2,679	(2,491)	169	(2,322)
Balance at beginning of year		166	2,502	21,817	(2,050)	(467)	21,968	23	21,991
Balance at end of year		172	2,625	13,575	893	2,212	19,477	192	19,669

* The $2,808 million movement in translation reserve from discontinued operations is recognised in other comprehensive income and represents an exchange gain of $140 million on translating the results from discontinued operations during the period of ownership and the recycling of the cumulative exchange loss of $2,668 million through the profit or loss upon the demerger. The Group's accounting principles on foreign exchange translation are described in note A1.

	Note	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserves	Share-holders' equity	Non-controlling interests	Total equity
		Year ended 31 Dec 2018* $m							
Reserves									
Profit from continuing operations		–	–	2,877	–	–	2,877	4	2,881
Other comprehensive income (loss) from continuing operations:									
Exchange movements on foreign operations and net investment hedges net of related tax		–	–	–	(33)	–	(33)	1	(32)
Net unrealised valuation movements net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	(1,446)	(1,446)	–	(1,446)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes net of related tax		–	–	21	–	–	21	–	21
Total other comprehensive income (loss) from continuing operations		–	–	21	(33)	(1,446)	(1,458)	1	(1,457)
Total comprehensive income (loss) from continuing operations		–	–	2,898	(33)	(1,446)	1,419	5	1,424
Total comprehensive income from discontinued operations		–	–	1,218	(681)	–	537	–	537
Total comprehensive income (loss) for the year		–	–	4,116	(714)	(1,446)	1,956	5	1,961
Dividends	B6.2	–	–	(1,662)	–	–	(1,662)	–	(1,662)
Reserve movements in respect of share-based payments		–	–	92	–	–	92	–	92
Change in non-controlling interests		–	–	–	–	–	–	9	9
Movements in respect of option to acquire non-controlling interests		–	–	(146)	–	–	(146)	–	(146)
Share capital and share premium									
New share capital subscribed	C10	1	22	–	–	–	23	–	23
Impact of change in presentation currency in relation to share capital and share premium	C10	(10)	(155)	–	–	–	(165)	–	(165)
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	39	–	–	39	–	39
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	69	–	–	69	–	69
Net increase (decrease) in equity		(9)	(133)	2,508	(714)	(1,446)	206	14	220
Balance at beginning of year		175	2,635	19,309	(1,336)	979	21,762	9	21,771
Balance at end of year		166	2,502	21,817	(2,050)	(467)	21,968	23	21,991

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars (as described in note A1) and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019 (as described in note A2).

Consolidated statement of financial position

	Note	31 Dec 2019 $m note (iii)	31 Dec 2018 $m notes (iii),(iv)	1 Jan 2018 $m notes (iii),(iv)
Assets				
Goodwill	C5.1	**969**	2,365	2,005
Deferred acquisition costs and other intangible assets	C5.2	**17,476**	15,185	14,896
Property, plant and equipment note (i)	C13	**1,065**	1,795	1,067
Reinsurers' share of insurance contract liabilities	C4.1(iv)	**13,856**	14,193	13,086
Deferred tax assets	C8.2	**4,075**	3,305	3,554
Current tax recoverable	C8.1	**492**	787	829
Accrued investment income	C1	**1,641**	3,501	3,620
Other debtors	C1	**2,054**	5,207	4,009
Investment properties		**25**	22,829	22,317
Investments in joint ventures and associates accounted for using the equity method		**1,500**	2,207	1,916
Loans	C3.3	**16,583**	22,938	23,054
Equity securities and holdings in collective investment schemes note (ii)		**247,281**	273,484	302,203
Debt securities note (ii)	C3.2	**134,570**	223,333	231,835
Derivative assets	C3.4	**1,745**	4,450	6,495
Other investments note (ii)		**1,302**	8,294	7,605
Deposits		**2,615**	15,023	15,200
Assets held for sale		**–**	13,472	51
Cash and cash equivalents		**6,965**	15,442	14,461
Total assets	C1	**454,214**	647,810	668,203
Equity				
Shareholders' equity		**19,477**	21,968	21,762
Non-controlling interests		**192**	23	9
Total equity		**19,669**	21,991	21,771
Liabilities				
Insurance contract liabilities	C4.1	**380,143**	410,947	443,952
Investment contract liabilities with discretionary participation features	C4.1	**633**	85,858	84,789
Investment contract liabilities without discretionary participation features	C4.1	**4,902**	24,481	27,589
Unallocated surplus of with-profits funds	C4.1	**4,750**	20,180	22,931
Core structural borrowings of shareholder-financed businesses	C6.1	**5,594**	9,761	8,496
Operational borrowings note (i)	C6.2	**2,645**	6,289	7,450
Obligations under funding, securities lending and sale and repurchase agreements		**8,901**	8,901	7,660
Net asset value attributable to unit holders of consolidated investment funds		**5,998**	14,839	12,025
Deferred tax liabilities	C8.2	**5,237**	5,122	6,378
Current tax liabilities	C8.1	**396**	723	726
Accruals, deferred income and other liabilities		**14,488**	19,421	19,190
Provisions	C11	**466**	1,373	1,519
Derivative liabilities	C3.4	**392**	4,465	3,727
Liabilities held for sale		**–**	13,459	–
Total liabilities	C1	**434,545**	625,819	646,432
Total equity and liabilities		**454,214**	647,810	668,203

The parent company statement of financial position is presented on page 310.

Notes

(i) As at 1 January 2019, the Group applied IFRS 16 'Leases', using the modified retrospective approach. Under this approach, comparative information is not restated. The application of the standard has resulted in the recognition of an additional lease liability and a corresponding 'right-of-use' asset of a similar amount as at 1 January 2019. See note A3 and note C13 for further details.

(ii) Included within equity securities and holdings in collective investment schemes, debt securities and other investments are $90 million of lent securities as at 31 December 2019 (31 December 2018: $10,543 million, of which $107 million were from continuing operations).

(iii) The Group has adopted a change in its presentation currency from pounds sterling to US dollars at 31 December 2019 as described in note A1. Accordingly, the 31 December 2018 and 1 January 2018 comparative statements of financial position and the 2018 related notes have been re-presented retrospectively from the previously published results. As a result of this change, the statement of financial position as at 1 January 2018 has been re-presented in accordance with IAS 1.

(iv) The 31 December 2018 and 1 January 2018 comparative statements of financial position included discontinued UK and Europe operations.

The consolidated financial statements on pages 199 to 309 were approved by the Board of Directors on 10 March 2020. They were signed on its behalf:

Paul Manduca
Chairman

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

Consolidated statement of cash flows

	Note	2019 $m	2018* $m
Continuing operations:			
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*		2,287	3,557
Adjustments to profit before tax for non-cash movements in operating assets and liabilities:			
Investments		(60,812)	2,236
Other non-investment and non-cash assets		(2,487)	(1,996)
Policyholder liabilities (including unallocated surplus)		56,067	(1,641)
Other liabilities (including operational borrowings)		5,097	860
Investment income and interest payments included in profit before tax		(4,803)	(4,148)
Operating cash items:			
Interest receipts and payments		4,277	3,912
Dividend receipts		978	744
Tax paid		(717)	(477)
Other non-cash items		(96)	308
Net cash flows from operating activities		(209)	3,355
Cash flows from investing activities			
Purchases of property, plant and equipment	C13	(64)	(134)
Acquisition of business and intangibles note (i)		(635)	(442)
Disposal of businesses		375	–
Net cash flows from investing activities		(324)	(576)
Cash flows from financing activities			
Structural borrowings of shareholder-financed operations: note (ii)	C6.1		
Issue of subordinated debt, net of costs		367	2,079
Redemption of subordinated debt		(504)	(553)
Fees paid to modify terms and conditions of debt issued by the Group		(182)	(44)
Interest paid		(526)	(502)
Equity capital:			
Issues of ordinary share capital		22	23
External dividends		(1,634)	(1,662)
Net cash flows from financing activities		(2,457)	(659)
Net (decrease) increase in cash and cash equivalents from continuing operations note (iii)		(2,990)	2,120
Net cash flows from discontinued operations note (iii)	D2	(5,690)	(610)
Cash and cash equivalents at beginning of year		15,442	14,461
Effect of exchange rate changes on cash and cash equivalents		203	(529)
Cash and cash equivalents at end of year		6,965	15,442
Comprising:			
Cash and cash equivalents from continuing operations		6,965	9,394
Cash and cash equivalents from discontinued operations	D2	–	6,048

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars (as described in note A1) and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019 (as described in note A2).

Notes

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

(ii) Structural borrowings of shareholder-financed businesses exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed businesses and other borrowings of shareholder-financed businesses. Cash flows in respect of these borrowings are included within cash flows from operating activities. The changes in the carrying value of the structural borrowings of shareholder-financed businesses for the Group are analysed in note C6.1.

(iii) The cash flows shown above are presented excluding any transactions between continuing and discontinued operations.

A Basis of preparation and accounting policies

A1 Basis of preparation and exchange rates

Prudential plc ('the Company') together with its subsidiaries (collectively, 'the Group' or 'Prudential') is an international financial services group. The Group has operations in Asia, the US, Africa and, prior to the demerger of M&G plc in October 2019, UK and Europe. The Group helps individuals to de-risk their lives and deal with their biggest financial concerns through life and health insurance, and retirement and asset management solutions. On 21 October 2019, the Company completed the demerger of M&G plc, its UK and Europe operations, from Prudential plc resulting in two separately-listed companies. It has therefore reclassified these operations as discontinued in these financial statements (see note A2).

Basis of preparation

These statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS may differ from IFRS issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 31 December 2019, there were no unendorsed standards effective for the two years ended 31 December 2019 which impact the consolidated financial statements of the Group and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group. For financial years beginning after 31 December 2020, the Group will prepare its consolidated financial statements in accordance with UK-adopted international accounting standards, instead of the EU-endorsed IFRS.

The Directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements as set out in the Governance Report on page 121. The parent company statement of financial position prepared in accordance with the UK Generally Accepted Accounting Practice (including Financial Reporting Standard 101 Reduced Disclosure Framework) is presented on page 310. The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2018 with the exception of the adoption of the new and amended accounting standards as described in note A3.

Exchange rates

Following the demerger of its UK and Europe operations, the Directors have elected to change the Group's presentation currency in these financial statements from pounds sterling to US dollars which better reflects the economic footprint of our business going forward. The Group believes that the presentation currency change will give investors and other stakeholders a clearer understanding of Prudential's performance over time. The change in presentation currency is a voluntary change which is accounted for retrospectively in the comparative information and all comparative statements and notes have been restated accordingly applying the foreign exchange translation principles as set out below.

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

$: local currency	Closing rate at 31 Dec 2019	Average rate for 2019	Closing rate at 31 Dec 2018	Average rate for 2018	Opening rate at 1 Jan 2018
China	6.97	6.91	6.87	6.61	6.51
Hong Kong	7.79	7.84	7.83	7.84	7.82
Indonesia	13,882.50	14,140.84	14,380.00	14,220.82	13,567.00
Malaysia	4.09	4.14	4.13	4.03	4.05
Singapore	1.34	1.36	1.36	1.35	1.34
Thailand	29.75	31.05	32.56	32.30	32.59
UK	0.75	0.78	0.79	0.75	0.74
Vietnam	23,172.50	23,227.64	23,195.00	23,017.17	22,708.16

Foreign exchange translation

In order to present the consolidated financial statements in US dollars, the results and financial position of entities not using US dollars as functional currency (ie the currency of the primary economic environment in which the entity operates) must be translated into the US dollars. The general principle for converting foreign currency transactions is to translate at the functional currency spot rate prevailing at the date of the transactions. This includes external dividends determined and paid to shareholders in pounds sterling. Prudential will determine and declare its dividend in US dollars commencing with dividends paid in 2020, including the 2019 second interim dividend. All assets and liabilities of entities not operating in US dollars are converted at closing exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income. At 31 December 2019 the functional currency of the Group's parent company changed to US dollars. The Group and parent company have chosen, for presentational purposes, to retranslate their share capital and share premium as at 31 December 2019 using the closing exchange rate as at that date, and comparative amounts at the relative closing exchange rates. The foreign exchange adjustments arising on the share capital and share premium balances of $2,797 million (31 December 2018: $2,668 million) adjust the translation reserve movement in the statement of other comprehensive income. As this amount arises on the translation of the parent company's share capital and share premium, the corresponding impact to the currency translation reserve of $980 million will never be recycled on disposal of any foreign operations.

During 2019 and 2018, borrowings that are used to provide a hedge against Group equity investments in overseas entities were translated at year end exchange rates and movements recognised in other comprehensive income. Other foreign currency monetary items are translated at year end exchange rates with changes recognised in the income statement.

A1 Basis of preparation and exchange rates continued

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

The effect of foreign exchange movement from continuing operations arising during the years shown recognised in other comprehensive income is:

	2019 $m	**2018** $m
Asia operations	194	(206)
Unallocated to a segment (other funds)	(42)	167
	152	(39)

A2 Discontinued operations

The Group completed the demerger of its UK and Europe operations, M&G plc, from the Prudential plc group on 21 October 2019. In accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', the results of M&G plc have been reclassified as discontinued operations in these consolidated financial statements.

Consistent with IFRS 5 requirements, profit after tax attributable to the discontinued UK and Europe operations in 2019 have been shown in a single line in the income statement with 2018 comparatives being restated accordingly, with further analysis provided in note D2. Notes B1 to B5 have also been prepared on this basis.

IFRS 5 does not permit the comparative 31 December 2018 and 1 January 2018 statement of financial position to be re-presented, as the UK and Europe operations were not reclassified as held for sale at these dates. In the related balance sheet notes, prior year balances have been presented to show the amounts from discontinued operations separately from continuing operations in order to present the results of the continuing operations on a comparable basis. Additionally, in the analysis of movements in Group's assets and liabilities between the beginning and end of the years, the balances of the discontinued UK and Europe operations are removed from the opening balances to show the underlying movements from continuing operations.

Profit from the discontinued UK and Europe operations up to the demerger is presented in the consolidated income statement after the elimination of intragroup transactions with continuing operations where it is appropriate to provide a more meaningful presentation of the position of the Group immediately after the demerger. The statement of cash flows is presented excluding intragroup cash flows between the continuing and discontinued UK and Europe operations up to demerger.

A3 New accounting pronouncements in 2019

IFRS 16 'Leases'

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

IFRS 16 applies primarily to operating leases of major properties occupied by the Group's businesses where Prudential is a lessee.

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

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

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

Effect of adoption of IFRS 16 at 1 January 2019	Continuing operations $m	Discontinued operations $m	Total Group $m
Assets			
Property, plant and equipment (right-of-use assets)	527	368	895
Total assets	527	368	895
Liabilities			
Operational borrowings (lease liability)	541	414	955
Accruals, deferred income and other liabilities (accrued lease payment balance under IAS 17)	(14)	(46)	(60)
Total liabilities	527	368	895

Reconciliation of IFRS 16 lease liability and IAS 17 lease commitments

	Total Group $m
IFRS 16 operating lease liability shown in the table above	955
Add back impact of discounting	210
IFRS 16 operating lease liability on an undiscounted basis	1,165
Difference in lease rental payments due to probable renewals or early termination decisions reflected above	(48)
Other	(6)
Total operating lease commitments at 31 December 2018*	1,111

* As disclosed in note D5 of the Group's IFRS financial statements for the year ended 31 December 2018 and after excluding $76 million for the amount relating to certain lease commitments from the central operations to the discontinued UK with-profits fund.

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

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

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

Other new accounting pronouncements

In addition to the above, the following new accounting pronouncements were also effective from 1 January 2019:

— IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments';
— Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures';
— Amendments to IFRS 9 'Prepayment Features with Negative Compensation';
— Annual Improvements to IFRSs 2015-2017 cycle; and
— Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement'.

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

A4 Accounting policies

Note A4.1 presents the critical accounting policies, accounting estimates and judgements applied in preparing the Group's consolidated financial statements. Other accounting policies, where significant, are presented in the relevant individual notes. All accounting policies are applied consistently for both years presented and normally are not subject to changes unless new accounting standards, interpretations or amendments are introduced by the IASB.

A4.1 Critical accounting policies, estimates and judgements

The preparation of these financial statements requires Prudential to make estimates and judgements about the amounts of assets, liabilities, revenues and expenses, which are both recognised and unrecognised (eg contingent liabilities) in the primary financial statements. Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets as required. The notes below set out those critical accounting policies, the application of which requires the Group to make critical estimates and judgements. Also set out are further critical accounting policies affecting the presentation of the Group's results and other items that require the application of critical estimates and judgements.

(a) Critical accounting policies with associated critical estimates and judgements

Classification of insurance and investment contracts

IFRS 4 requires contracts written by insurers to be classified as either 'insurance' contracts or 'investment' contracts. The classification of the contract determines its accounting.

Impacts $397.6 billion of reported contract liabilities, requiring classification, including those held by the joint venture and associate.

Judgement is applied in considering whether the material features of a contract gives rise to the transfer of significant insurance risk.

Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. This judgement is made at the point of contract inception and is not revisited.

For the majority of the Group's contracts, classification is based on a readily identifiable scenario that demonstrates a significant difference in cash flows if the covered event occurs (as opposed to does not occur) reducing the level of judgement involved. Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts. Certain investment contracts contain discretionary participating features as discussed in IFRS 4. Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4. Investment contracts without such discretionary participation features are accounted for as financial instruments under IAS 39.

Insurance business units	Insurance contracts and investment contracts with discretionary participation features	Investment contracts without discretionary participation features
Asia	— With-profits contracts — Non-participating term contracts — Whole life contracts — Unit-linked policies — Accident and health policies	— Minor amounts for a number of small categories of business
US	— Variable annuity contracts — Fixed annuity contracts — Fixed index annuity contracts — Group pay-out annuity contracts — Life insurance contracts	— Guaranteed investment contracts (GICs) — Minor amounts of 'annuity certain' contracts
Discontinued UK and Europe	— With-profits contracts — Bulk and individual annuity business — Non-participating term contracts	— Certain unit-linked savings and similar contracts

Measurement of policyholder liabilities and unallocated surplus of with-profits

The measurement basis of policyholder liabilities is dependent upon the classification of the contracts under IFRS 4 described above. Impacts $402.3 billion of policyholder liabilities and unallocated surplus of with-profits. Policyholder liabilities are estimated based on a number of actuarial assumptions (eg mortality, morbidity, policyholder behaviour and expenses).	IFRS 4 permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP) for insurance contracts and investment contracts with discretionary participating features. A modified statutory basis of reporting was adopted by the Group on first time adoption of IFRS in 2005. This was set out in the Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP). An exception was for UK regulated with-profits funds which were measured under FRS 27, 'Life Assurance' as discussed below. FRS 27 and the ABI SORP were withdrawn for the accounting periods beginning in or after 2015. As used in these consolidated financial statements, the terms 'grandfathered' FRS 27 and the 'grandfathered' ABI SORP refer to the requirements of these pronouncements prior to their withdrawal. For investment contracts that do not contain discretionary participating features, IAS 39 is applied and, where the contract includes an investment management element, IFRS 15 'Revenue from Contracts with Customers' applies. The policies applied in each business unit are noted below. When measuring policyholder liabilities, a number of assumptions are applied to estimate future amounts due to or from the policyholder. The nature of assumptions varies by product and among the most significant is policyholder behaviour, particularly in the US. Additional details of valuation methodologies and assumptions applied for material product types are discussed in note C4.2.
Measurement of insurance contract liabilities and investment contract liabilities with discretionary participation features	
Asia insurance operations	The policyholder liabilities for businesses in Asia are generally determined in accordance with methods prescribed by local GAAP, adjusted to comply with the modified statutory basis where necessary. Refinements to the local reserving methodology are generally treated as changes in estimates, dependent on their nature. In Taiwan and India, US GAAP principles are applied. The sensitivity of Asia insurance operations to variations in key estimates and assumptions, including mortality and morbidity, is discussed in note C7.2.
US insurance operations (Jackson)	The policyholder liabilities for Jackson's conventional protection-type policies are determined under US GAAP principles with locked in assumptions for mortality, interest, policy lapses and expenses along with provisions for adverse deviations. For other policies, the policyholder liabilities include the policyholder account balance. For those investment contracts in the US with fixed and guaranteed terms, the Group uses the amortised cost model to measure the liability. The US has no investment contracts with discretionary participation features. The sensitivity of US insurance operations to variations in key estimates and assumptions, including policyholder behaviour, is discussed in note C7.3.
Discontinued UK and Europe insurance operations	The UK regulated with-profits funds' liabilities are the realistic basis liabilities in accordance with 'grandfathered' FRS 27. The realistic basis requires the value of liabilities to be calculated as the sum of a with-profits benefits reserve, future policy-related liabilities and the realistic current liabilities of the fund. The interest rates used in establishing policyholder benefit provisions for pension annuities in the course of payment are adjusted each reporting period and include an allowance for credit risk. Mortality rates used in establishing policyholder benefits are based on published mortality tables adjusted to reflect actual experience.
Measurement of investment contract liabilities without discretionary participation features	Investment contracts without discretionary participation features are measured in accordance with IAS 39 to reflect the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals, and taken directly to the statement of financial position as movements in the financial liability balance. Investment contracts without fixed and guaranteed terms are classified as financial instruments and designated as fair value through profit or loss because the resulting liabilities are managed and their performance is evaluated on a fair value basis. Where the contract includes a surrender option, its carrying value is subject to a minimum carrying value equal to its surrender value. Other investment contracts are measured at amortised cost.

A4 Accounting policies continued

A4.1 Critical accounting policies, estimates and judgements continued

Measurement of policyholder liabilities and unallocated surplus of with-profits continued

Measurement of unallocated surplus of with-profits funds	Unallocated surplus of with-profits funds represents the excess of assets over policyholder liabilities determined in accordance with the Group's accounting policies and based on local GAAP for the Group's with-profits funds in Hong Kong, Malaysia and, up to its demerger, the UK and Europe operations that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess or shortfall of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to or from the unallocated surplus each period through a charge or credit to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation or depreciation on investments.
Liability adequacy test	The Group performs adequacy testing on its insurance liabilities to ensure that the carrying amounts (net of related deferred acquisition costs) and, where relevant, present value of acquired in-force business is sufficient to cover current estimates of future cash outflows. Any deficiency is immediately charged to the income statement. Jackson's liabilities for insurance contracts, which include those for separate accounts (reflecting separate account assets), policyholder account values and guarantees measured as described in note C4.2 and the associated deferred acquisition cost asset, are measured under US GAAP and liability adequacy testing is performed in this context. Under US GAAP, most of Jackson's products are accounted for under Accounting Standards Codification Topic 944, Financial Services – Insurance of the Financial Accounting Standards Board (ASC 944) whereby deferred acquisition costs are amortised in line with expected gross profits. Recoverability of the deferred acquisition costs in the balance sheet is tested against the projected value of future profit using current estimates and therefore no additional liability adequacy test is required under IFRS 4. The deferred acquisition cost asset recoverability test is performed in line with US GAAP requirements, which in practice is at a grouped level of those contracts managed together.

(b) Further critical accounting policies affecting the presentation of the Group's results

Measurement and presentation of derivatives and debt securities of US insurance operations (Jackson)

Jackson holds a number of derivative instruments and debt securities. The selection of the accounting approach for these items significantly affects the volatility of profit before tax. $(4,225) million of the US investment return in the income statement arises from such derivatives and debt securities.	Jackson enters into derivative instruments to mitigate economic exposures. The Group has considered whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. The key factors considered in this assessment were the complexity of asset and liability matching in Jackson's product range and the difficulty and cost of applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book. The Group has decided that, except for occasional circumstances, applying hedge accounting using IAS 39 to derivative instruments held by Jackson would not improve the relevance or reliability of the financial statements to such an extent that would justify the difficulty and cost of applying these provisions. As a result of this decision, the total income statement results are more volatile as the movements in the fair value of Jackson's derivatives are reflected within it. This volatility is reflected in the level of short-term fluctuations in investment returns, as shown in notes B1.1 and B1.2. Under IAS 39, unless carried at amortised cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are carried at fair value. The Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements, unless impaired, being recorded as movements within other comprehensive income. Impairments are recorded in the income statement, as discussed in note (c) below.

Presentation of results before tax attributable to shareholders

Profit before tax is a significant IFRS income statement item. The Group has chosen to present a measure of profit before tax attributable to shareholders which distinguishes between tax borne by shareholders and tax attributable to policyholders to support understanding of the performance of the Group.

Profit from continuing operations before tax attributable to shareholders is $1,922 million and compares to profit from continuing operations before tax of $2,287 million.

The total tax charge for the Group reflects tax that, in addition to that relating to shareholders' profit, is also attributable to policyholders through the interest in with-profits or unit-linked funds. Further detail is provided in note B4. Reported IFRS profit before the tax measure is therefore not representative of pre-tax profit attributable to shareholders. Accordingly, in order to provide a measure of pre-tax profit attributable to shareholders, the Group has chosen to adopt an income statement presentation of the tax charge and pre-tax results that distinguishes between policyholders and shareholders returns.

Segmental analysis of results and earnings attributable to shareholders

The Group uses adjusted IFRS operating profit based on longer-term investment returns as the segmental measure of its results.

Total segmental adjusted IFRS operating profit from continuing operations based on longer-term investment returns is $6,346 million and is shown in note B1.1.

The basis of calculation of adjusted IFRS operating profit based on longer-term investment returns is provided in note B1.3.

For shareholder-backed business, with the exception of debt securities held by Jackson and the Group's new treasury company, which are treated as available-for-sale, and assets classified as loans and receivables at amortised cost, all financial investments and investment properties are designated as assets at fair value through profit or loss. Short-term fluctuations in fair value affect the result for the year and the Group provides additional analysis of results before and after the effects of short-term fluctuations in investment returns, together with other items that are of a short-term, volatile or one-off nature. The effects of short-term fluctuations include asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described in note B1.2.

Short-term fluctuations in investment returns on assets held by with-profits funds in Hong Kong, Malaysia and Singapore do not affect directly reported shareholder results. This is because (i) the unallocated surplus of with-profits funds is accounted for as a liability and (ii) excess or deficit of income and expenditure of the funds over the required surplus for distribution are transferred to or from policyholder liabilities (including the unallocated surplus).

(c) Other items requiring application of critical estimates or judgements

Deferred acquisition costs (DAC) for insurance contracts

The Group applies judgement in determining qualifying costs that should be capitalised (ie those costs of acquiring new insurance contracts that meet the criteria under the Group's accounting policy for deferred acquisition costs).

The Group estimates projected future profits/margins to assess whether adjustments to the carrying value or amortisation profile of deferred acquisition cost asset are necessary.

Impacts $14.2 billion of deferred acquisition costs as shown in note C5.2(i).

Costs of acquiring new insurance business are accounted for in a way that is consistent with the principles of the 'grandfathered' ABI SORP with deferral and amortisation against margins in future revenues on the related insurance policies. The recoverability of the deferred acquisition costs (DAC) is measured and the DAC asset is deemed impaired if the projected margins (which are estimated based on a number of assumptions similar to those underlying policyholder liabilities) are less than the carrying value. To the extent that the future margins differ from those anticipated, an adjustment to the carrying value will be necessary either through an impairment (if the projected margins are lower than carrying value) or through a change in the amortisation profile.

A4 Accounting policies continued

A4.1 Critical accounting policies, estimates and judgements continued

Deferred acquisition costs (DAC) for insurance contracts continued	
Asia insurance operations	For those business units applying US GAAP to insurance assets and liabilities, as permitted by the 'grandfathered' ABI SORP, principles similar to those set out in the US insurance operations paragraph below are applied to the deferral and amortisation of acquisition costs. For other business units in Asia, the general principles of the 'grandfathered' ABI SORP are applied. In general, deferral of acquisition costs is shown by an explicit carrying value in the balance sheet. However, in some Asia operations the deferral is implicit through the reserving basis.
US insurance operations	The most material estimates and assumptions applied in the measurement and amortisation of DAC balances relate to the US insurance operations. The Group's US insurance operations apply FASB ASU 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' and capitalise only those incremental costs directly relating to successfully acquiring a contract. For term life business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For fixed and fixed index annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders. For variable annuity business, a key assumption is the long-term investment return from the separate accounts, which for 2019 is 7.4 per cent (2018: 7.4 per cent). The impact of using this return is reflected in two principal ways, namely: — Through the projected expected gross profits that are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique which is described in more detail below; and — The required level of provision for claims for guaranteed minimum death, 'for life' withdrawal, and income benefits. In addition, expected gross profits depend on mortality assumptions, lapses (including the related charges), assumed unit costs and future hedge costs, which are based on a combination of Jackson's actual experience, industry benchmarking and future expectations. Jackson uses a mean reversion methodology that sets the projected level of return for each of the next five years such that these returns in combination with the actual rates of return for the preceding three years (including the current year) average the assumed long-term annual return (gross of asset management fees and other charges to policyholders, but net of external fund management fees) over the eight-year period. Projected returns after the mean reversion period revert back to the long-term investment return. For further details on current balances, assumptions and sensitivity, refer to note C5.2 (i). To ensure that the methodology in extreme market movements produces future expected returns that are realistic, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than zero per cent per annum (both gross of asset management fees and other charges to policyholders, but net of external fund management fees) in each year. Jackson makes certain adjustments to the DAC assets which are recognised directly in other comprehensive income ('shadow accounting') to match the recognition of unrealised gains or losses on available-for-sale securities causing the adjustments. More precisely, shadow DAC adjustments reflect the change in DAC that would have arisen if the assets held in the statement of financial position had been sold, crystallising unrealised gains or losses, and the proceeds reinvested at the yields currently available in the market.

Carrying value of distribution rights intangible assets

The Group applies judgement to assess whether factors such as the financial performance of the distribution arrangement, changes in relevant legislation and regulatory requirements indicate an impairment of intangible assets representing distribution rights.

To determine the impaired value, the Group estimates the discounted future expected cash flows arising from distribution rights.

Affects $3.0 billion of assets as shown in note C5.2.

Distribution rights relate to bancassurance partnership arrangements for the distribution of products for the term of the contractual agreement with the bank partner, for which an asset is recognised based on fees paid. Distribution rights impairment testing is conducted when there is an indication of impairment.

To assess indicators of an impairment, the Group monitors a number of internal and external factors, including indications that the financial performance of the arrangement is likely to be worse than expected and changes in relevant legislation and regulatory requirements that could impact the Group's ability to continue to sell new business through the bancassurance channel, and then applies judgement to assess whether these factors indicate that an impairment has occurred.

If an impairment has occurred, a charge is recognised in the income statement for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset or the cash generating unit to which it is allocated.

Financial investments – Valuation

Financial investments held at fair value represent $388.1 billion of the Group's total assets.

Financial investments held at amortised cost represent $15.6 billion of the Group's total assets.

The Group estimates the fair value of financial investments that are not actively traded using quotations from independent third parties or internally developed pricing models.

The Group holds the majority of its financial investments at fair value (either through profit or loss or available-for-sale). Financial investments held at amortised cost primarily comprise loans and deposits.

Determination of fair value

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

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

Current market bid prices are used to value investments having quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties such as brokers or pricing services. Financial investments measured at fair value are classified into a three-level hierarchy as described in note C3.1(b).

If the market for a financial investment of the Group is not active, the Group establishes fair value by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as 'level 3' to which valuation techniques are applied and the sensitivity of profit before tax to a change in the valuation of these items, are presented in note C3.1(d).

A4 Accounting policies continued

A4.1 Critical accounting policies, estimates and judgements continued

Financial investments – Determining impairment of "available-for-sale" and "amortised cost" assets

The Group applies judgement to assess whether factors such as the severity and duration of the decline in fair value, the financial condition and the prospects of the issuer indicate an impairment in value of financial investments classified as 'available-for-sale' or 'held at amortised cost'.

If evidence for impairment exists, valuation techniques, including estimates, are then applied in determining the impaired value, which is based on its expectation of discounted future cash flows. If the impaired value is less than book cost, an impairment loss is recognised in the income statement.

Affects $73.9 billion of assets.

For financial investments classified as 'available for sale' or 'at amortised cost', if a loss event that will have a detrimental effect on cash flows is identified, an impairment loss is recognised in the income statement. The loss recognised is determined as the difference between the book cost and the fair value or estimated future cash flows of the relevant impairment assets. The loss comprises the effect of the expected loss of contractual cash flows and any additional market-price driven temporary reductions in values.

Available-for-sale securities

The Group's available-for-sale securities are principally held by the US insurance operations. For these securities, the consideration of evidence of impairment requires management's judgement. In making this determination, a range of market and industry indicators are considered including the severity and duration of the decline in fair value and the financial condition and prospects of the issuer. The factors reviewed include economic conditions, credit loss experience, other issuer-specific developments and future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/ask spreads and a change in cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial statements, unrealised losses currently in equity may be recognised in the income statement in future periods.

For US residential mortgage-backed and other asset-backed securities, all of which are classified as available-for-sale, impairment is estimated using a model of expected future cash flows. Key assumptions used in the model include assumptions about how much of the currently delinquent loans will eventually default and assumed loss severity.

Additional details on the methodology and estimates used to determine impairments of the available-for-sale securities of Jackson are described in note C3.2(e).

Assets held at amortised cost

When assets held at amortised cost are subject to impairment testing, estimated future cash flows are compared to the carrying value of the asset. In estimating future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist, or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

Reversal of impairment losses

If, in subsequent periods, an impaired debt security held on an available-for-sale basis or an impaired loan or receivable recovers in value (in part or in full) and this recovery can be objectively related to an event occurring after the impairment, then any amount determined to have been recovered is reversed through the income statement.

A4.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective in 2019, including those which have not yet been adopted in the EU. Following UK's withdrawal from the European Union, the Group will continue to prepare these statements in accordance with IASB issued standards as endorsed by the EU until the end of the transition period on 31 December 2020. This includes accounting standards already endorsed by the EU but not yet effective as well as any new or amended standards adopted by the EU before the 31 December 2020. For financial years beginning after 31 December 2020, the Group will be required to prepare financial statements in accordance with UK-adopted international accounting standards. The Government is in the process of establishing the UK Endorsement Board to undertake the work of assessing, endorsing and adopting any new or amended International Accounting Standards published by the IASB.

This is not intended to be a complete list as only those standards, interpretations and amendments that could have a material impact on the Group's financial statements are discussed.

IFRS 9 'Financial instruments: Classification and measurement'

In July 2014, the IASB published a complete version of IFRS 9 with the exception of macro hedge accounting. The standard became mandatorily effective for the annual periods beginning on or after 1 January 2018, with early application permitted and transitional rules apply.

The Group met the eligibility criteria for temporary exemption under the Amendments to IFRS 4 from applying IFRS 9 in 2018 and has accordingly deferred the adoption of IFRS 9 until the date when IFRS 17 'Insurance Contracts' is expected to be adopted upon its current mandatory effective date. The Group made a reassessment during the year following the demerger of the UK and Europe operations in October 2019 and confirmed that it remained qualified for the temporary exemption. The Group is eligible as its activities are predominantly to issue insurance contracts based on the criteria as set out in the amendments to IFRS 4. The disclosure of the fair value of the Group's financial assets, showing the amounts for instruments that meet the 'Solely for Payment of Principal and Interest' (SPPI) criteria that do not meet the definition of held for trading or are managed and evaluated on a fair value basis separately from all other financial assets, as required for entities applying the temporary exemption is provided below.

When adopted IFRS 9 replaces the existing IAS 39 'Financial Instruments – Recognition and Measurement' and will affect the following three areas:

The classification and the measurement of financial assets and liabilities

IFRS 9 redefines the classification of financial assets. Based on the way in which the assets are managed in order to generate cash flows and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'), financial assets are classified into one of the following categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). An option is also available at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces accounting mismatches.

Under IAS 39, 82 per cent of the Group's investments are valued at FVTPL and the Group's current expectation is that a significant proportion will continue to be designated as such under IFRS 9.

The existing IAS 39 amortised cost measurement for financial liabilities is largely maintained under IFRS 9. For financial liabilities designated at FVTPL IFRS 9 requires changes in fair value due to changes in entity's own credit risk to be recognised in other comprehensive income.

The calculation of the impairment charge relevant for financial assets held at amortised cost or FVOCI

A new impairment model based on an expected credit loss approach replaces the existing IAS 39 incurred loss impairment model, resulting in earlier recognition of credit losses compared to IAS 39. This aspect is the most complex area of IFRS 9 to implement and will involve significant judgements and estimation processes. The Group is currently assessing the scope of assets to which these requirements will apply.

The hedge accounting requirements which are more closely aligned with the risk management activities of the Company

No significant change to the Group's hedge accounting is currently anticipated, but this remains under review.

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with IFRS 17 as permitted. Further details on IFRS 17 are provided below.

The parent company and a number of intermediate holding companies in the UK and non-insurance subsidiaries in Asia adopted IFRS 9 in 2018 in their individual or separate financial statements where these statements are prepared in accordance with IFRS, including the UK Financial Reporting Standard 101 Reduced Disclosure Framework. The public availability of the financial statements for these entities varies according to the local laws and regulations of each jurisdiction. The results for these entities continue to be accounted for on an IAS 39 basis in these consolidated financial statements.

The fair value of the Group's directly held financial assets at 31 December 2019 and 2018 are shown below. The 2018 comparative information includes financial assets related to M&G plc, which was demerged from the Group in October 2019. Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) as defined by IFRS 9 are shown separately. This excludes financial assets that meet the definition of held for trading or are managed and evaluated on a fair value basis.

A4 Accounting policies continued

A4.2 New accounting pronouncements not yet effective continued

Financial assets, net of derivative liabilities, on the Group's statement of financial position at 31 Dec 2019	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
	Fair value at 31 Dec 2019 $m	Movement in the fair value during the year $m	Fair value at 31 Dec 2019 $m	Movement in the fair value during the year $m
Accrued investment income	1,641	–	–	–
Other debtors	2,054	–	–	–
Loans note (1)	13,484	517	3,614	2
Equity securities and holdings in collective investment schemes	–	–	247,281	44,250
Debt securities note (2)	56,365	4,114	78,205	5,594
Derivative assets, net of derivative liabilities	–	–	1,353	(5,825)
Other investments	–	–	1,302	44
Deposits	2,615	–	–	–
Cash and cash equivalents	6,965	–	–	–
Total financial assets, net of derivative liabilities	83,124	4,631	331,755	44,065

Financial assets, net of derivative liabilities, on the Group's statement of financial position at 31 Dec 2018	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
	Fair value at 31 Dec 2018 $m	Movement in the fair value during the year $m	Fair value at 31 Dec 2018 $m	Movement in the fair value during the year $m
Accrued investment income	3,501	–	–	–
Other debtors	5,207	–	–	–
Loans note (1)	15,175	(658)	8,284	(233)
Equity securities and holdings in collective investment schemes	–	–	273,484	(21,843)
Debt securities note (2)	50,335	(2,102)	172,998	(4,464)
Derivative assets, net of derivative liabilities	–	–	(15)	(1,256)
Other investments	–	–	8,294	622
Deposits	15,023	–	–	–
Cash and cash equivalents	15,442	–	–	–
Total financial assets, net of derivative liabilities	104,683	(2,760)	463,045	(27,174)

Notes

(1) The loans that pass the SPPI test in the table above are primarily carried at amortised cost under IAS 39. Further information on these loans is as provided in note C3.3.

(2) The debt securities that pass the SPPI test in the table above are primarily held by Jackson and are classified as available-for-sale under IAS 39. The credit ratings of these securities, analysed on the same basis of those disclosed in note C3.2, are as follows:

Available-for-sale debt securities that pass the SPPI test	31 Dec 2019 $m	31 Dec 2018 $m
AAA	1,117	830
AA+ to AA-	11,328	9,236
A+ to A-	15,140	13,009
BBB+ to BBB-	17,972	18,232
Below BBB-	814	1,074
Other	9,994	7,954
Total fair value	56,365	50,335

The underlying financial assets of the Group's joint ventures and associates accounted for using the equity method are analysed below into those which meet the SPPI condition of IFRS 9, excluding any financial assets that meet the definition of held for trading or are managed and evaluated on a fair value basis, and all other financial assets. Fair value information for joint ventures and associates is also set out in the table below:

Financial assets, net of derivative liabilities, held by the Group's joint ventures and associates accounted for using the equity method at 31 Dec 2019	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
	Fair value at 31 Dec 2019 $m	Movement in the fair value during the year $m	Fair value at 31 Dec 2019 $m	Movement in the fair value during the year $m
Accrued investment income	161	–	–	–
Other debtors	329	–	–	–
Loans	197	–	–	–
Equity securities and holdings in collective investment schemes	–	–	5,999	444
Debt securities	–	–	6,080	86
Deposits	521	–	–	–
Cash and cash equivalents	513	–	–	–
Total financial assets, net of derivative liabilities	1,721	–	12,079	530

Financial assets, net of derivative liabilities, held by the Group's joint ventures and associates accounted for using the equity method at 31 Dec 2018	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
	Fair value at 31 Dec 2018 $m	Movement in the fair value during the year $m	Fair value at 31 Dec 2018 $m	Movement in the fair value during the year $m
Accrued investment income	167	–	–	–
Other debtors	270	–	–	–
Loans	149	–	–	–
Equity securities and holdings in collective investment schemes	–	–	4,683	(375)
Debt securities	–	–	5,409	115
Deposits	452	–	–	–
Cash and cash equivalents	504	–	–	–
Total financial assets, net of derivative liabilities	1,542	–	10,092	(260)

IFRS 17 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17 'Insurance Contracts' to replace the existing IFRS 4 'Insurance Contracts'. The standard, which is subject to endorsement in the EU and other regions, applies to annual periods beginning on or after 1 January 2021. In June 2019, the IASB issued an exposure draft proposing amendments to IFRS 17 which includes a delay of the effective date of IFRS 17 by one year to periods beginning on or after 1 January 2022. As a result of comments on this exposure draft, the IASB redeliberated on a number of areas of the IFRS 17 with an amended standard expected to be issued in mid-2020. The IASB staff have proposed that the IASB Board delay the effective date by a further year to 1 January 2023. The IASB will make a decision on this proposal at its 16-20 March 2020 meeting. Early application of IFRS 17 is permitted after the standard has been endorsed, provided the entity also applies IFRS 9 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9.

IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. IFRS 17 replaces this with a new measurement model for all insurance contracts.

IFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin (CSM) that is initially set equal and opposite to any day-one gain arising on initial recognition. Losses are recognised directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

Profit for insurance contracts under IFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and investment profit.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders), the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non-economic assumptions. The scope of contracts subject to the variable fee remains under consideration by the Group.

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A4 Accounting policies continued

A4.2 New accounting pronouncements not yet effective continued

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement. In order to transition to IFRS 17, the amount of deferred profit, being the CSM at transition date, needs to be determined.

IFRS 17 requires this CSM to be calculated as if the standard had applied retrospectively. However if this is not practical an entity is required to choose either a simplified retrospective approach or to determine the CSM by reference to the fair value of the liabilities at the transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profits on in-force business in future reporting periods.

IFRS 17 Implementation Programme

IFRS 17 is expected to have a significant impact as the requirements of the new standard are complex and requires a fundamental change to accounting for insurance contracts as well as the application of significant judgement and new estimation techniques. The effect of changes required to the Group's accounting policies as a result of implementing these standards are currently uncertain, particularly as the requirements of the standard continue to be deliberated by the IASB. These changes can be expected to, among other things, alter the timing of IFRS profit recognition. Given the implementation of this standard will involve significant enhancements to IT, actuarial and finance systems of the Group, it will also have an impact on the Group's expenses.

The Group has a Group-wide implementation programme underway to implement IFRS 17 and IFRS 9. The programme is responsible for setting Group-wide accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing appropriate data and implementing actuarial and finance system changes.

A Group-wide Steering Committee, chaired by the Group Chief Financial Officer and Chief Operating Officer with participation from the Group Risk function and the Group's and business units' senior finance managers, provides oversight and strategic direction to the implementation programme. A number of sub-committees are also in place to provide governance over the technical interpretation and accounting policies selected, programme management, design and delivery of the programme.

The Group is making progress towards providing IFRS 17 financial statements in line with the requirements for interim reporting at its effective date.

Other new accounting pronouncements

In addition to the above, the following new accounting pronouncements have also been issued and are not yet effective but the Group is not expecting them to have a significant impact on the Group's financial statements:

- Revised Conceptual Framework for Financial Reporting, issued in March 2018 and effective from 1 January 2020;
- Amendment to IFRS 3 'Business Combinations' issued in October 2018 and effective from 1 January 2020;
- Amendments to IAS 1 and IAS 8 'Definition of material' issued in October 2018 and effective from 1 January 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform' issued in September 2019 and effective from 1 January 2020; and
- Amendments to IAS 1 'Classification of liabilities as current or non-current' issued in January 2020 and effective from 1 January 2022.

For those IASB standards and amendments that have an effective date after 31 December 2020, the Group's financial statements will be prepared in accordance with UK-adopted international accounting standards, which is currently being finalised, instead of EU-endorsed IFRS.

B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results

	Note	2019 $m	2018 $m		2019 vs 2018 %	
			AER note (i)	CER note (i)	AER note (i)	CER note (i)
Asia						
Insurance operations	B3(a)	2,993	2,646	2,633	13%	14%
Asset management		283	242	239	17%	18%
Total Asia		3,276	2,888	2,872	13%	14%
US						
Jackson (US insurance operations)	B3(b)	3,038	2,552	2,552	19%	19%
Asset management		32	11	11	191%	191%
Total US		3,070	2,563	2,563	20%	20%
Total segment profit from continuing operations		6,346	5,451	5,435	16%	17%
Other income and expenditure						
Investment return and other income		50	70	67	(29)%	(25)%
Interest payable on core structural borrowings note (ii)		(516)	(547)	(523)	6%	1%
Corporate expenditure note (iii)		(460)	(490)	(477)	6%	4%
Total other income and expenditure		(926)	(967)	(933)	4%	1%
Restructuring costs note (iv)		(110)	(75)	(73)	(47)%	(51)%
Adjusted IFRS operating profit based on longer-term investment returns		5,310	4,409	4,429	20%	20%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(3,203)	(791)	(796)	(305)%	(302)%
Amortisation of acquisition accounting adjustments note (v)		(43)	(61)	(61)	30%	30%
(Loss) on disposal of businesses and corporate transactions	D1	(142)	(107)	(106)	(33)%	(34)%
Profit from continuing operations before tax attributable to shareholders		1,922	3,450	3,466	(44)%	(45)%
Tax credit (charge) attributable to shareholders' returns	B4	31	(569)	(570)	105%	105%
Profit from continuing operations		1,953	2,881	2,896	(32)%	(33)%
Profit from discontinued operations	D2	1,319	1,142	1,092	15%	21%
Re-measurement of discontinued operations on demerger	D2	188	–	–	–	–
Cumulative exchange loss recycled from other comprehensive income	D2	(2,668)	–	–	–	–
(Loss) profit from discontinued operations		(1,161)	1,142	1,092	(202)%	(206)%
Profit for the year		792	4,023	3,988	(80)%	(80)%
Attributable to:						
Equity holders of the Company						
From continuing operations		1,944	2,877	2,892	(32)%	(33)%
From discontinued operations		(1,161)	1,142	1,092	(202)%	(206)%
Non-controlling interests from continuing operations		9	4	4	125%	125%
		792	4,023	3,988	(80)%	(80)%

Basic earnings per share (in cents)	Note	2019	2018		2019 vs 2018 %	
			AER note (i)	CER note (i)	AER note (i)	CER note (i)
Based on adjusted IFRS operating profit based on longer-term investment returns, net of tax, from continuing operations note (vi)	B5	175.0¢	145.2¢	146.0¢	21%	20%
Based on profit for the year from continuing operations	B5	75.1¢	111.7¢	112.5¢	(33)%	(33)%
Based on (loss) profit for the year from discontinued operations	B5	(44.8)¢	44.3¢	42.4¢	(201)%	(206)%

Notes

(i) For definitions of AER and CER refer to note A1.
(ii) Interest charged to the income statement on debt that was substituted to M&G plc in October 2019 for 2019 was $(179) million (2018: $(128) million).
(iii) Corporate expenditure as shown above is primarily for head office functions in London and Hong Kong.
(iv) Restructuring costs include group-wide costs incurred for IFRS 17 implementation in 2019 from continuing operations.
(v) Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson which was acquired in 2012.
(vi) Tax charges have been reflected as operating and non-operating in the same way as for the pre-tax items. Further details on tax charges are provided in note B4.

B1 Analysis of performance by segment continued

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

	2019 $m	2018 $m
Asia operations note (i)	657	(684)
US operations note (ii)	(3,757)	(134)
Other operations	(103)	27
Total	(3,203)	(791)

Notes

(i) *Asia operations*
In Asia, the positive short-term fluctuations of $657 million (2018: negative $(684) million) principally reflect net value movements on shareholders' assets and related liabilities following decreases in bond yields during the year.

(ii) *US operations*
The short-term fluctuations in investment returns for US insurance operations are reported net of the related credit for amortisation of deferred acquisition costs of $1,248 million as shown in note C5.2(i) (2018: debit of $(152) million) and comprise amounts in respect of the following items:

	2019 $m	2018 $m
Net equity hedge result note (a)	(4,582)	(78)
Other than equity-related derivatives note (b)	678	(85)
Debt securities note (c)	156	(42)
Equity-type investments: actual less longer-term return	18	51
Other items	(27)	20
Total net of related DAC amortisation	(3,757)	(134)

Notes

(a) Net equity hedge result
The purpose of the inclusion of this item in short-term fluctuations in investment returns is to segregate the amount included in pre-tax profit that relates to the accounting effect of market movements on both the value of guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. The level of fees recognised in non-operating profit is determined by reference to that allowed for within the reserving basis. The variable annuity guarantees are valued in accordance with either Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (formerly FAS 157) or ASC Topic 944, Financial Services – Insurance (formerly SOP 03-01) depending on the type of guarantee. Both approaches require an entity to determine the total fee ('the fee assessment') that is expected to fund future projected benefit payments arising using the assumptions applicable for that method. The method under FAS 157 requires this fee assessment to be fixed at the time of issue. As the fees included within the initial fee assessment are earned, they are included in non-operating profit to match the corresponding movement in the guarantee liability. Other guarantee fees are included in operating profit, which in 2019 was $699 million (2018: $657 million), net of related DAC amortisation. As the Group applies US GAAP for the measured value of the product guarantees, the net equity hedge result also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ.

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

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

The net equity hedge result can be summarised as follows:

	2019 $m	2018 $m
Fair value movements on equity hedge instruments*	(5,314)	399
Accounting value movements on the variable and fixed index annuity guarantee liabilities	(22)	(1,194)
Fee assessments net of claim payments	754	717
Total net of related DAC amortisation	(4,582)	(78)

* Held to manage equity exposures of the variable annuity guarantees and fixed index annuity options as discussed in the Group Chief Financial Officer and Chief Operating Officer's report.

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

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

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

(c) Short-term fluctuations related to debt securities

	2019 $m	2018 $m
(Charges) credits in the year:		
Losses on sales of impaired and deteriorating bonds	(28)	(6)
Bond write-downs	(15)	(5)
Recoveries/reversals	1	25
Total (charges) credits in the year	(42)	14
Risk margin allowance deducted from adjusted IFRS operating profit based on longer-term investment returns*	109	104
	67	118
Interest-related realised gains (losses):		
Gains (losses) arising in the year	220	(12)
Less: Amortisation of gains and losses arising in current and prior years to adjusted IFRS operating profit based on longer-term investment returns	(129)	(155)
	91	(167)
Related amortisation of deferred acquisition costs	(2)	7
Total short-term fluctuations related to debt securities net of related DAC amortisation	156	(42)

* The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in adjusted IFRS operating profit based on longer-term investment returns with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in adjusted IFRS operating profit based on longer-term investment returns of Jackson for 2019 is based on an average annual risk margin reserve of 17 basis points (2018: 18 basis points) on average book values of $62.6 billion (2018: $57.1 billion) as shown below:

	2019			2018		
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	**Average book value** $m	**RMR** %	**Annual expected loss** $m	**Average book value** $m	**RMR** %	**Annual expected loss** $m
A3 or higher	38,811	0.10	(38)	29,982	0.10	(31)
Baa1, 2 or 3	22,365	0.24	(53)	25,814	0.21	(55)
Ba1, 2 or 3	1,094	0.85	(9)	1,042	0.98	(10)
B1, 2 or 3	223	2.56	(6)	289	2.64	(8)
Below B3	75	3.39	(3)	11	3.69	–
Total	62,568	0.17	(109)	57,138	0.18	(104)
Related amortisation of deferred acquisition costs			19			22
Risk margin reserve charge to adjusted IFRS operating profit based on longer-term investment returns for longer-term credit-related losses			(90)			(82)

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax gain of $3,392 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (2018: charge of $(1,831) million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

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

Operating segments

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

Under the Group's management and reporting structure, its chief operating decision maker is the Group Executive Committee (GEC). In the management structure, responsibility is delegated to the Chief Executive Officers of Prudential Corporation Asia, the North American Business Unit and, up to the date of demerger, M&G plc for the day-to-day management of their business units (within the framework set out in the Group Governance Manual). Financial management information used by the GEC aligns with these business segments. These operating segments derive revenue from both insurance and asset management activities.

On 21 October 2019, the Group completed the demerger of M&G plc from the Prudential plc group, resulting in two separately listed companies. Accordingly, UK and Europe operations do not represent an operating segment at the year end. The results of M&G plc have been reclassified as discontinued operations in these consolidated financial statements in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and have therefore been excluded in the analysis of performance measure of operating segments.

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

B1 Analysis of performance by segment continued

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

Performance measure

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

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

Determination of adjusted IFRS operating profit based on longer-term investment returns for investment and liability movements

(a) With-profits business

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

(b) Unit-linked business including the US variable annuity separate accounts

The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the adjusted IFRS operating profit based on longer-term investment returns reflect the current period value movements in both the unit liabilities and the backing assets.

(c) US variable annuity and fixed index annuity business

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

The following value movements for Jackson's variable and fixed index annuity business are excluded from adjusted IFRS operating profit based on longer-term investment returns. See note B1.2 note (ii):

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

Guaranteed benefit options for the 'not for life' portion of GMWB and equity index options for the fixed index annuity business

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

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

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

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

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

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

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

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

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

At 31 December 2019, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of $916 million (2018: $776 million).

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

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

B1 Analysis of performance by segment continued

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

Equity-type securities

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

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed business amounted to $3,473 million as at 31 December 2019 (31 December 2018: $2,733 million). The rates of return applied in 2019 ranged from 5.0 per cent to 17.6 per cent (2018: 5.3 per cent to 17.6 per cent) with the rates applied varying by business unit. These rates are broadly stable from year to year but may be different between regions, reflecting, for example, differing expectations of inflation in each local business unit. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

The longer-term investment returns for the Asia insurance joint ventures and associate accounted for using the equity method are determined on a similar basis as the other Asia insurance operations described above.

For US insurance operations, as at 31 December 2019, the equity-type securities for non-separate account operations amounted to $1,481 million (31 December 2018: $1,731 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2019	2018
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	5.5% to 6.7%	6.7% to 7.2%
Other equity-type securities such as investments in limited partnerships and private equity funds	7.5% to 8.7%	8.7% to 9.2%

Derivative value movements

Generally, derivative value movements are excluded from adjusted IFRS operating profit based on longer-term investment returns. The exception is where the derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in adjusted IFRS operating profit based on longer-term investment returns. The principal example of derivatives whose value movements are excluded from adjusted IFRS operating profit based on longer-term investment returns arises in Jackson.

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

(f) Fund management and other non-insurance businesses

For these businesses, the determination of adjusted IFRS operating profit based on longer-term investment returns reflects the underlying economic substance of the arrangements. Generally, realised gains and losses are included in adjusted IFRS operating profit based on longer-term investment returns with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, realised gains and losses on derivatives and other financial instruments are amortised to adjusted IFRS operating profit based on longer-term investment returns over a time period that reflects the underlying economic substance of the arrangements.

B1.4 Segmental income statement

Premiums for conventional with-profits policies and other protection type insurance policies are recognised as revenue when due. Premiums and annuity considerations for linked policies, unitised with-profits and other investment type policies are recognised as revenue when received or, in the case of unitised or unit-linked policies, when units are issued. These amounts exclude premium taxes and similar duties where Prudential collects and settles taxes borne by the policyholder.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

	2019 $m				
	Asia	**US**	**Total segment**	**Unallocated to a segment (central operations)** note (vi)	**Group total continuing operations**
Gross premiums earned	23,757	21,209	44,966	98	45,064
Outward reinsurance premiums	(1,108)	(467)	(1,575)	(8)	(1,583)
Earned premiums, net of reinsurance	22,649	20,742	43,391	90	43,481
Other income note (i)	548	61	609	91	700
Total external revenue notes (ii), (iii)	23,197	20,803	44,000	181	44,181
Intra-group revenue	–	34	34	(34)	–
Interest income note (iv)	1,569	2,971	4,540	67	4,607
Other investment return note B1.5	13,406	31,623	45,029	(81)	44,948
Total revenue, net of reinsurance	38,172	55,431	93,603	133	93,736
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(29,119)	(54,734)	(83,853)	(52)	(83,905)
Acquisition costs and other operating expenditure note B2.	(5,157)	(1,402)	(6,559)	(724)	(7,283)
Interest on core structural borrowings	–	(20)	(20)	(496)	(516)
Gain (loss) on disposal of businesses and corporate transactions note D1.1	265	–	265	(407)	(142)
Total charges, net of reinsurance and loss on disposal of businesses	(34,011)	(56,156)	(90,167)	(1,679)	(91,846)
Share of profit from joint ventures and associates, net of related tax	397	–	397	–	397
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)* note (v)	4,558	(725)	3,833	(1,546)	2,287
Tax charge attributable to policyholders' returns	(365)	–	(365)	–	(365)
Profit (loss) before tax attributable to shareholders' returns from continuing operations	4,193	(725)	3,468	(1,546)	1,922
Analysis of profit (loss) before tax attributable to shareholders' returns from continuing operations:					
Adjusted IFRS operating profit (loss) based on longer-term investment returns	3,276	3,070	6,346	(1,036)	5,310
Short-term fluctuations in investment returns on shareholder-backed business	657	(3,757)	(3,100)	(103)	(3,203)
Amortisation of acquisition accounting adjustments	(5)	(38)	(43)	–	(43)
Profit (loss) on disposal of businesses and corporate transactions note D1.1	265	–	265	(407)	(142)
	4,193	(725)	3,468	(1,546)	1,922

B1 Analysis of performance by segment continued

B1.4 Segmental income statement continued

	2018 $m				
	Asia	US	Total segment	Unallocated to a segment (central operations) note (vi)	Group total continuing operations
Gross premiums earned note (vii)	21,989	23,573	45,562	52	45,614
Outward reinsurance premiums	(768)	(412)	(1,180)	(3)	(1,183)
Earned premiums, net of reinsurance	21,221	23,161	44,382	49	44,431
Other income note (i)	412	67	479	52	531
Total external revenue notes (ii),(iii)	21,633	23,228	44,861	101	44,962
Intra-group revenue	56	67	123	(123)	–
Interest income note (iv)	1,450	2,692	4,142	68	4,210
Other investment return note B1.5	(4,326)	(9,085)	(13,411)	84	(13,327)
Total revenue, net of reinsurance	18,813	16,902	35,715	130	35,845
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance note (vii)	(11,664)	(11,736)	(23,400)	(26)	(23,426)
Acquisition costs and other operating expenditure note B2, note (vii)	(5,162)	(2,773)	(7,935)	(592)	(8,527)
Interest on core structural borrowings	–	(20)	(20)	(527)	(547)
Loss on disposal of businesses and corporate transactions note D1.1	(15)	(51)	(66)	(41)	(107)
Total charges, net of reinsurance and gain on disposal of business	(16,841)	(14,580)	(31,421)	(1,186)	(32,607)
Share of profit from joint ventures and associates, net of related tax	319	–	319	–	319
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)* note (v)	2,291	2,322	4,613	(1,056)	3,557
Tax charge attributable to policyholders' returns	(107)	–	(107)	–	(107)
Profit (loss) before tax attributable to shareholders' returns from continuing operations	2,184	2,322	4,506	(1,056)	3,450
Analysis of profit (loss) before tax attributable to shareholders' returns from continuing operations:					
Adjusted IFRS operating profit (loss) based on longer-term investment returns	2,888	2,563	5,451	(1,042)	4,409
Short-term fluctuations in investment returns on shareholder-backed business	(684)	(134)	(818)	27	(791)
Amortisation of acquisition accounting adjustments	(5)	(56)	(61)	–	(61)
Loss on disposal of businesses and corporate transactions note D1.1	(15)	(51)	(66)	(41)	(107)
	2,184	2,322	4,506	(1,056)	3,450

Notes

(i) Included within other income is revenue from the Group's continuing asset management business of $453 million (2018: $287 million). The remaining other income consists primarily of policy fee income from external customers. Other income also includes $3 million (2018: $7 million) relating to the fee income on financial instruments that are not held at fair value through profit or loss.

(ii) In Asia, external revenue from no one individual market exceeds 10 per cent of the Group total except for Hong Kong in both 2019 and 2018 and Singapore in 2019. Total external revenue of Hong Kong is $9,821 million (2018: $10,307 million) and Singapore is $4,401 million.

(iii) Due to the nature of the business of the Group, there is no reliance on any major customers.

(iv) Interest income includes $4 million (2018: $5 million) accrued in respect of impaired securities.

(v) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders.

(vi) Unallocated to a segment includes central operations (Head Office functions and Group borrowings), the Group's treasury function and Africa operations.

(vii) In October 2018, Jackson entered into a 100 per cent reinsurance agreement with John Hancock Life Insurance Company (John Hancock USA) to acquire a closed block of group pay-out annuity business. The transaction resulted in an addition to gross premiums earned of $5.0 billion and a corresponding increase in benefits and claims of $5.5 billion for the increase in policyholder liabilities and a decrease in other operating expenditure for negative ceding commissions of $0.5 billion at the inception of the contract. There was no material impact on adjusted IFRS operating profit based on longer-term investment returns or total profit as a result of the transaction.

B1.5 Other investment return

Investment return included in the income statement principally comprises interest income, dividends, investment appreciation and depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit or loss, and realised gains and losses (including impairment losses) on items held at amortised cost and Jackson's debt securities designated as available-for-sale. Movements in unrealised appreciation or depreciation of debt securities designated as available-for-sale are recorded in other comprehensive income. Interest income is recognised as it accrues, taking into account the effective yield on investments. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accrual basis.

	2019 $m	2018 $m
Realised and unrealised gains (losses) on securities at fair value through profit or loss	49,809	(14,867)
Realised and unrealised (losses) gains on derivatives at fair value through profit or loss	(5,825)	705
Realised gains on available-for-sale securities, including impairment previously recognised in other comprehensive income	185	15
Realised (losses) on loans	(3)	(1)
Dividends	1,000	740
Other investment (loss) income	(218)	81
Other investment return	44,948	(13,327)

Realised gains and losses on the Group's investments for 2019 recognised in the income statement amounted to a net loss of $2.0 billion (2018: a net gain of $2.5 billion) from continuing operations.

B1.6 Additional analysis of performance by segment components

(a) Asia

	2019 $m				2018 $m
	Insurance	Asset management	Eliminations	Total	Total
Earned premiums, net of reinsurance	22,649	–	–	22,649	21,221
Other income	143	405	–	548	412
Total external revenue	22,792	405	–	23,197	21,633
Intra-group revenue	–	160	(160)	–	56
Interest income	1,564	5	–	1,569	1,450
Other investment return	13,407	(1)	–	13,406	(4,326)
Total revenue, net of reinsurance	37,763	569	(160)	38,172	18,813
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(29,119)	–	–	(29,119)	(11,664)
Acquisition costs and other expenditure note B2	(4,925)	(392)	160	(5,157)	(5,162)
Gain (loss) on disposal of businesses and corporate transactions note D1.1	265	–	–	265	(15)
Total charges, net of reinsurance and gain (loss) on disposal of businesses	(33,779)	(392)	160	(34,011)	(16,841)
Share of profit from joint ventures and associates, net of related tax	291	106	–	397	319
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	4,275	283	–	4,558	2,291
Tax charge attributable to policyholders' returns	(365)	–	–	(365)	(107)
Profit before tax attributable to shareholders' returns	3,910	283	–	4,193	2,184
Analysis of profit before tax:					
Adjusted IFRS operating profit based on longer-term investment returns	2,993	283	–	3,276	2,888
Short-term fluctuations in investment returns on shareholder-backed business	657	–	–	657	(684)
Amortisation of acquisition accounting adjustments	(5)	–	–	(5)	(5)
Profit (loss) on disposal of businesses and corporate transactions note D1.1	265	–	–	265	(15)
	3,910	283	–	4,193	2,184

B1 Analysis of performance by segment continued

B1.6 Additional analysis of performance by segment components continued

(b) US

	2019 $m				2018 $m
	Insurance	Asset management	Eliminations	Total	Total
Earned premiums, net of reinsurance*	20,742	–	–	20,742	23,161
Other income	6	55	–	61	67
Total external revenue	20,748	55	–	20,803	23,228
Intra-group revenue	–	127	(93)	34	67
Interest income	2,971	–	–	2,971	2,692
Other investment return	31,621	2	–	31,623	(9,085)
Total revenue, net of reinsurance	55,340	184	(93)	55,431	16,902
Benefits and claims*	(54,734)	–	–	(54,734)	(11,736)
Acquisition costs and other operating expenditure*	(1,343)	(152)	93	(1,402)	(2,773)
Interest on core structural borrowings	(20)	–	–	(20)	(20)
Loss on disposal of businesses and corporate transactions note D1.1	–	–	–	–	(51)
Total charges, net of reinsurance and loss on disposal of businesses	(56,097)	(152)	93	(56,156)	(14,580)
(Loss) profit before tax	(757)	32	–	(725)	2,322
Analysis of (loss) profit before tax:					
Adjusted IFRS operating profit based on longer-term investment returns	3,038	32	–	3,070	2,563
Short-term fluctuations in investment returns on shareholder-backed business	(3,757)	–	–	(3,757)	(134)
Amortisation of acquisition accounting adjustments	(38)	–	–	(38)	(56)
(Loss) on disposal of businesses and corporate transactions note D1.1	–	–	–	–	(51)
	(757)	32	–	(725)	2,322

* In October 2018, Jackson entered into an agreement with John Hancock Life to reinsure 100 per cent of the group pay-out annuity business. The transaction resulted in an addition to gross premiums earned of $5.0 billion and a corresponding increase in benefits and claims of $5.5 billion for the increase in policyholder liabilities and a decrease in other operating expenditure for negative ceding commissions of $0.5 billion at the inception of the contract. There was no material impact on adjusted IFRS operating profit based on longer-term investment returns or total profit as a result of the transaction.

B2 Acquisition costs and other expenditure

	2019 $m	2018 $m
Acquisition costs incurred for insurance policies	(4,177)	(4,313)
Acquisition costs deferred less amortisation of acquisition costs note (i)	2,116	59
Administration costs and other expenditure* notes (ii),(iii)	(5,019)	(3,877)
Movements in amounts attributable to external unit holders of consolidated investment funds	(203)	(396)
Total acquisition costs and other expenditure from continuing operations	(7,283)	(8,527)

* The 2018 administration costs and other expenditure included a credit of $0.5 billion for the negative ceding commissions arising from the group payout annuity business reinsurance agreement entered into by Jackson with John Hancock in 2018.

Notes

(i) The credit for acquisition costs deferred less amortisation of those costs of $2,116 million (2018: $59 million) arises in Asia operations of $358 million (2018: $362 million) and in US operations of $1,758 million (2018: a charge of $(303) million) as set out in note C5.2. The credit of $1,758 million for US operations (2018: a charge of $(303) million) comprises additional costs deferred in the year of $807 million (2018: $759 million) driven by higher new business sales and a credit of $951 million (2018: a charge of $(1,062) million) for DAC amortisation, driven by the hedging losses arising in 2019.

(ii) During the year, the Group paid $182 million of upfront fees to modify the terms and condition of two subordinated debt instruments, which are expensed to the income statement as described in note C6.1. All other fee expenses relating to financial liabilities held at amortised cost in 2019 and 2018 are part of the determination of the effective interest rate and are included in 'Administration costs and other expenditure' above.

(iii) Total depreciation and amortisation expense is included in 'Acquisition costs incurred for insurance policies', 'Administration costs and other expenditure' and 'Acquisition costs deferred less amortisation of acquisition costs' and relates primarily to amortisation of deferred acquisition costs of insurance contracts and asset management contracts. The segmental analysis of interest expense (other than interest expense in core structural borrowings) and depreciation and amortisation included within total acquisition costs and other expenditure was as follows:

	Other interest expense		Depreciation and amortisation	
	2019* $m	2018 $m	2019* $m	2018 $m
Asia operations:				
Insurance	(13)	–	(641)	(482)
Asset management	–	–	(14)	(5)
US operations:				
Insurance	(264)	(212)	901	(1,110)
Asset management	(2)	–	(4)	(8)
Total segment	(279)	(212)	242	(1,605)
Unallocated to a segment (other operations)	(27)	(38)	(30)	(3)
Total continuing operations	(306)	(250)	212	(1,608)

* In 2019, these amounts also include interest on lease liabilities of $20 million and depreciation on right-of-use assets of $141 million recognised under IFRS 16.

B2.1 Staff and employment costs

The average number of staff employed by the Group, for both continuing and discontinued operations, during the years shown was:

	2019	2018
Asia operations	14,471	16,798
US operations	4,014	4,285
Other operations*	519	676
Total continuing operations	19,004	21,759
Discontinued UK and Europe operations†	5,672	6,447
Total Group	24,676	28,206

* The Other operations' staff numbers include staff from central operations and Africa which are unallocated to a segment.
† Average staff numbers of the discontinued UK and Europe operations are for the period up to the demerger in October 2019.

The costs of employment, for both continuing and discontinued operations, were:

	2019 $m			2018 $m		
	Continuing	Discontinued	Group total	Continuing	Discontinued	Group total
Wages and salaries	1,435	573	2,008	1,517	694	2,211
Social security costs	53	68	121	71	84	155
Defined benefit schemes*	(91)	(5)	(96)	7	(46)	(39)
Defined contribution schemes	69	41	110	77	50	127
Total Group†	1,466	677	2,143	1,672	782	2,454

* The charge (credit) incorporated the effect of actuarial gains and losses. Post-demerger of the UK and Europe operations, the Group's defined benefit schemes costs are expected to be negligible. See note C9.
† Total costs of employment in the table above include the costs of employment of the discontinued UK and Europe operations up to the demerger in October 2019.

B2 Acquisition costs and other expenditure continued

B2.2 Share-based payment

The Group offers discretionary share awards to certain key employees and all-employee share plans for all UK and a number of Asian locations.

The compensation expense charged to the income statement is primarily based upon the fair value of the options granted, the vesting period and the vesting conditions.

The Company has established trusts to facilitate the delivery of Prudential plc shares under these plans. The cost to the Company of acquiring these newly issued shares held in trusts is shown as a deduction from shareholders' equity.

(a) Description of the plans

The Group operates a number of share award plans that provides Prudential plc shares, or ADRs, to participants upon vesting. The plans in operation include the Prudential Long Term Incentive Plan (PLTIP), the Prudential Annual Incentive Plan (AIP), savings-related share option schemes, share purchase plans and deferred bonus plans. Where Executive Directors participate in these plans, details are provided in the Directors' remuneration report. In addition, the following information is provided.

Share scheme	*Description*
Prudential Corporation Asia Long-Term Incentive Plan (PCA LTIP)	The PCA LTIP provides eligible employees with conditional awards. Awards are discretionary and vest after three years subject to the employee being in employment. Vesting of awards may also be subject to performance conditions. All awards are generally made in Prudential shares, or ADRs. In countries where share awards are not feasible due to securities and/or tax considerations, awards will be replaced by the cash value of the shares that would otherwise have vested.
Prudential Agency Long-Term Incentive Plan	Certain agents in Asia are eligible to be granted awards under the Prudential Agency Long-Term Incentive Plan. These awards are structured in a similar way to the PCA LTIP described above.
Restricted Share Plan (RSP)	The Company operates the RSP for certain employees. Awards under this plan are discretionary, and the vesting of awards may be subject to performance conditions. All awards are made in Prudential shares or ADRs.
Deferred bonus plans	The Company operates a number of deferred bonus plans including the Group Deferred Bonus Plan (GDBP) and the Prudential Corporation Asia Deferred Bonus Plan (PCA DBP). There are no performance conditions attached to deferred share awards made under these arrangements.
Savings-related share option schemes	Employees and eligible agents in a number of geographies are eligible for plans similar to the HMRC-approved Save As You Earn (SAYE) share option scheme in the UK. During the year ended 31 December 2019 eligible employees participated in the International Savings-Related Share Option Scheme while eligible agents based in certain regions of Asia can participate in the International Savings-Related Share Option Scheme for Non-Employees.
Share purchase plans	Eligible employees outside the UK are invited to participate in arrangements similar to the Company's HMRC-approved UK SIP, which allows the purchase of Prudential plc shares. Staff based in Asia are eligible to participate in the Prudential Corporation Asia All Employee Share Purchase Plan.

(b) Outstanding options and awards

The following table shows the movement in outstanding options and awards under the Group's share-based compensation plans:

	Options outstanding under SAYE schemes				Awards outstanding under incentive plans	
	2019		2018		2019	2018
	Number of options millions	Weighted average exercise price £	Number of options millions	Weighted average exercise price £	Number of awards millions	
Balance at beginning of year:	4.9	12.10	6.4	11.74	32.8	33.6
Granted	0.6	11.13	0.3	13.94	13.4	10.7
Modification	0.3	11.95	–	–	4.3	–
Exercised	(1.7)	10.87	(1.4)	10.85	(9.8)	(8.7)
Forfeited	–	12.87	(0.1)	12.25	(2.5)	(2.6)
Cancelled	(0.1)	12.82	(0.2)	12.43	(0.7)	–
Lapsed/Expired	(0.1)	12.93	(0.1)	12.60	(1.0)	(0.2)
M&G plc awards derecognised on demerger	(0.1)	13.37	–	–	(3.5)	–
Balance at end of year	3.8	12.38	4.9	12.10	33.0	32.8
Options immediately exercisable at end of year	0.9	11.33	0.8	10.37		

On demerger of the M&G plc business from the Prudential Group, outstanding share / ADR awards for Prudential plc participants were adjusted to receive the demerger dividend in the form of additional Prudential plc shares / ADRs, to be released on the same timetable and to the same extent as their original share awards. In the case of the International Savings-Related Share Option Scheme for Non-Employees the adjustments to outstanding options were confirmed as being fair and reasonable by an independent financial adviser in accordance with the rules of that plan and the Hong Kong Stock Exchange Listing Rules.

Employees of M&G plc were granted replacement awards over M&G plc shares, in exchange for existing Group awards outstanding under incentive plans. As designated replacement awards were granted, no cancellation was recognised in respect of the original awards. As the replacement awards are an obligation of M&G plc, these awards were derecognised by the Group on demerger.

M&G plc employees with outstanding SAYE options on demerger were treated as 'good leavers', with both the vesting period and number of options exercisable curtailed on demerger.

The weighted average share price of Prudential plc for 2019 was £15.05 (2018: £17.36).

The following table provides a summary of the range of exercise prices for Prudential plc options outstanding at 31 December:

	Outstanding						Exercisable			
	Number outstanding (millions)		Weighted average remaining contractual life (years)*		Weighted average exercise prices £		Number exercisable (millions)		Weighted average exercise prices £	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Between £9 and £10	–	0.3	–	0.4	–	9.01	–	0.3	–	9.01
Between £11 and £12	2.4	3.0	2.0	1.6	11.19	11.19	0.9	0.5	11.33	11.11
Between £13 and £14	0.3	0.3	3.2	4.1	13.94	13.94	–	–	–	–
Between £14 and £15	1.1	1.3	2.0	2.6	14.55	14.55	–	–	–	–
Weighted average	3.8	4.9	2.1	2.1	12.38	12.10	0.9	0.8	11.33	10.37

* The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

B2 Acquisition costs and other expenditure continued

B2.2 Share-based payment continued

(c) Fair value of options and awards

The fair value amounts estimated on the date of grant relating to all options and awards were determined by using the following assumptions:

	2019				2018		
		SAYE options					
	Prudential LTIP (TSR)	Granted in October 2019	Granted in November 2019	Other awards	Prudential LTIP (TSR)	SAYE options	Other awards
Dividend yield (%)	–	3.66	2.10	–	–	2.52	–
Expected volatility (%)	22.14	25.58	23.92	–	24.03	21.09	–
Risk-free interest rate (%)	0.97	0.31	1.60	–	1.19	0.97	–
Expected option life (years)	–	3.96	3.47	–	–	3.94	–
Weighted average exercise price (£)	–	11.12	11.18	–	–	13.94	–
Weighted average share price at grant date (£)	16.07	13.94	13.77	–	17.46	16.64	–
Weighted average fair value at grant date (£)	6.32	2.90	3.35	15.39	6.64	3.29	17.04

The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods. The Group uses the Black-Scholes model to value all options and awards other than those which have TSR performance conditions attached (some Prudential LTIP and RSP awards) for which the Group uses a Monte Carlo model in order to allow for the impact of these conditions. These models are used to calculate fair values for share options and awards at the grant date based on the quoted market price of the stock at the measurement date, the amount, if any, that the employees are required to pay, the dividend yield, expected volatility, risk-free interest rates and exercise prices.

For all options and awards, the expected volatility is based on the market implied volatilities as quoted on Bloomberg. The Prudential specific at-the-money implied volatilities are adjusted to allow for the different terms and discounted exercise price on SAYE options by using information on the volatility surface of the FTSE 100.

Risk-free interest rates are taken from swap spot rates with projections for two-year, three-year and five-year terms to match corresponding vesting periods. For 2019 awards issued prior to demerger, dividend yields are determined as the average yield over a period of 12 months up to and including the date of grant, and data is based on sterling risk free rates. For 2019 awards issued after demerger, dividend yields are estimated based on £750 million target dividend included in the demerger investor circular and data is based on US dollar risk free rates. For awards with a TSR condition, volatilities and correlations between Prudential and a basket of 12 competitor companies is required. For grants in 2019, the average volatility for the basket of competitors was 23.10 per cent (2018: 21.32 per cent). Correlations for the basket are calculated for each pairing from the log of daily TSR returns for the three years prior to the valuation date. Market implied volatilities are used for both Prudential and the basket of competitors. Changes to the subjective input assumptions could materially affect the fair value estimate.

(d) Share-based payment expense charged to the income statement

Total expense recognised in 2019 in the consolidated financial statements relating to share-based compensation is $181 million (2018: $191 million), all accounted for as equity-settled.

The Group has no liabilities outstanding at the year-end relating to awards that are settled in cash.

B2.3 Key management remuneration

Key management constitutes the Directors of Prudential plc as they have authority and responsibility for planning, directing and controlling the activities of the Group and following reorganisations during 2019, key management also includes other non-director members of the Group Executive Committee from August 2019.

Total key management remuneration is analysed in the following table:

	2019 $m	2018 $m
Salaries and short-term benefits	25.2	22.0
Post-employment benefits	1.5	2.0
Share-based payments	13.1	19.0
	39.8	43.0

The share-based payments charge comprises $8.4 million (2018: $13.0 million), which is determined in accordance with IFRS 2 'Share-based Payment' (see note B2.2) and $4.8 million (2018: $6.4 million) of deferred share awards.

B2.4 Fees payable to the auditor

	2019 $m	2018 $m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2.2	2.8
Fees payable to the Company's auditor and its associates for other services:		
Audit of subsidiaries pursuant to legislation	9.5	12.3
Audit-related assurance services*	5.7	6.3
Other assurance services	5.7	1.5
Services relating to corporate finance transactions	7.3	0.3
All other services	–	1.2
Total fees paid to the auditor	30.4	24.4
Analysed into:		
Fees payable to the auditor attributable to the continuing operations:		
Non-audit services associated with the demerger of the UK and Europe operations†	11.7	1.0
Other audit and non-audit services	15.3	15.1
	27.0	16.1
Fees payable to the auditor attributable to the discontinued UK and Europe operations	3.4	8.3
	30.4	24.4

* Of the audit-related assurance service fees of $5.7 million in 2019 (2018: $6.3 million), $1.1 million relates to services that are required by law.
† Of the $11.7 million one-off non-audit services fees in 2019 associated with the demerger of the UK and Europe operations, $4.4 million was for other assurance services and $7.3 million was for services relating to corporate finance transactions. In 2018, the $1.0 million was for all other services associated with the preparation for the demerger.

In addition, there were fees incurred by pension schemes of $0.1 million (2018: $0.3 million) for audit services. These pension schemes were transferred to UK and Europe operations in 2019 as part of the demerger.

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

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

(a) Asia insurance operations

In 2019, the adjusted IFRS operating profit based on longer-term investment returns for Asia insurance operations includes a net credit of $142 million (2018: credit of $126 million) representing a small number of items that are not expected to reoccur, including the impact of a refinement to the run-off of the allowance for prudence within technical provisions.

(b) US insurance operations

Changes in the policyholder liabilities held for variable and fixed index annuity guarantees are reported as part of non-operating profit and are as described in note B1.2.

B4 Tax charge from continuing operations

Prudential is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. The positions taken in tax returns where applicable tax regulation is subject to interpretation are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, provisions are established based on management's estimate and judgement of the likely amount of the liability, or recovery by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple outcomes.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, life insurance companies are taxed on both their shareholders' profits and on their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's consolidated income statement, they are presented separately in the consolidated income statement to provide the most relevant information about tax that the Group pays on its profits.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 'Income Taxes' does not require all temporary differences to be provided for, in particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

B4 Tax charge from continuing operations continued

B4.1 Total tax charge by nature of expense

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

	2019 $m			2018 $m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
Attributable to shareholders:				
Asia operations	(306)	(162)	(468)	(369)
US operations	(307)	652	345	(340)
Other operations	182	(28)	154	140
Tax (charge) credit attributable to shareholders' returns	(431)	462	31	(569)
Attributable to policyholders:				
Asia operations	(130)	(235)	(365)	(107)
Total tax (charge) credit	(561)	227	(334)	(676)

The principal reason for the decrease in the tax charge attributable to shareholders' returns from continuing operations is the increase in the tax credit on US derivative losses which largely offset the tax charge on Asia profits in 2019.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in B4.2 below. The tax charge attributable to policyholders of $365 million above is equal to the profit before tax attributable to policyholders of $365 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses on an after-tax basis.

The total tax (charge) credit comprises:

	2019 $m	2018 $m
Current tax expense:		
Corporation tax	(589)	(380)
Adjustments in respect of prior years	28	15
Total current tax charge	(561)	(365)
Deferred tax arising from:		
Origination and reversal of temporary differences	235	(331)
Impact of changes in local statutory tax rates	7	11
Credit in respect of a previously unrecognised tax loss, tax credit or temporary difference from a prior period	(15)	9
Total deferred tax credit (charge)	227	(311)
Total tax charge	(334)	(676)

The reduction in the deferred tax charge from $311 million in 2018 to a credit of $227 million in 2019 principally relates to the increase in the tax credit on US derivative losses, which are tax deductible over a three year period.

In 2019, a tax charge of $709 million (2018: charge of $387 million from continuing operations), principally relating to an increase in the market value on securities of US insurance operations classified as available-for-sale, has been taken through other comprehensive income.

B4.2 Reconciliation of shareholder effective tax rate for continuing operations

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

	2019					2018	
	Asia operations $m	US operations $m	Other* operations $m	Total attributable to shareholders $m	Percentage impact on ETR %	Total attributable to shareholders $m	Percentage impact on ETR %
Adjusted IFRS operating profit (loss) based on longer-term investment returns	3,276	3,070	(1,036)	5,310		4,409	
Non-operating profit (loss)	917	(3,795)	(510)	(3,388)		(959)	
Profit (loss) before tax	4,193	(725)	(1,546)	1,922		3,450	
Expected tax rate:	20%	21%	19%	20%		22%	
Tax at the expected rate	839	(152)	(294)	393	20.4%	759	22.0%
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(94)	(29)	(3)	(126)	(6.6)%	(71)	(2.1)%
Deductions not allowable for tax purposes	40	10	5	55	2.9%	69	2.0%
Items related to taxation of life insurance businesses note (i)	(192)	(125)	–	(317)	(16.5)%	(128)	(3.7)%
Deferred tax adjustments	(28)	(1)	(4)	(33)	(1.7)%	(55)	(1.6)%
Unrecognised tax losses note (ii)	–	–	46	46	2.4%	–	–
Effect of results of joint ventures and associates note (iii)	(100)	–	–	(100)	(5.2)%	(83)	(2.4)%
Irrecoverable withholding taxes note (iv)	–	–	59	59	3.1%	63	1.8%
Other	5	5	3	13	0.7%	9	0.3%
Total	(369)	(140)	106	(403)	(20.9)%	(196)	(5.7)%
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	4	(53)	(18)	(67)	(3.5)%	(4)	(0.1)%
Movements in provisions for open tax matters note (v)	17	–	(18)	(1)	(0.0)%	10	0.3%
Demerger related activities note (vi)	–	–	76	76	4.1%	–	–
Adjustments in relation to business disposals	(23)	–	(6)	(29)	(1.4)%	–	–
Total	(2)	(53)	34	(21)	(1.1)%	6	0.2%
Total actual tax charge (credit)	468	(345)	(154)	(31)	(1.6)%	569	16.5%
Analysed into:							
Tax on adjusted IFRS operating profit (loss) based on longer-term investment returns	436	437	(100)	773		666	
Tax on non-operating profit (loss)	32	(782)	(54)	(804)		(97)	
Actual tax rate on:							
Adjusted IFRS operating profit (loss) based on longer-term investment returns:							
Including non-recurring tax reconciling items	13%	14%	10%	15%		15%	
Excluding non-recurring tax reconciling items	13%	16%	10%	15%		15% note (vii)	
Total profit (loss)	11%	48%	10%	(2)%		16% note (vii)	

* Other operations include restructuring costs.

B4 Tax charge from continuing operations continued

B4.2 Reconciliation of shareholder effective tax rate for continuing operations continued

Notes

(i) The $125 million (2018: $111 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business. The principal reason for the increase in the Asia operations reconciling items from $17 million in 2018 to $192 million in 2019 reflects an increase in investment gains in Hong Kong which are not taxable due to the taxable profit being computed as 5 per cent of net insurance premiums.

(ii) The $46 million adverse reconciling item in unrecognised tax losses reflects losses arising after the demerger of the Group's UK and Europe operations where it is unlikely that relief for the losses will be available in future periods.

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

(iv) The $59 million (2018: $63 million) adverse reconciling items reflects local withholding taxes on dividends paid by certain non-UK subsidiaries, principally Indonesia, to the UK. The dividends are exempt from UK tax and consequently the withholding tax cannot be offset against UK tax payments.

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

	$m
Balance at beginning of year	**190**
Movements in the current year included in:	
Tax charge attributable to shareholders	**(1)**
Other movements*	**9**
Balance at end of year	**198**

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

(vi) The $76 million adverse reconciling items in Demerger related activities relates to non-tax deductible costs incurred in preparation for, or as a result of, the demerger of the Group's UK and Europe operations.

(vii) 2018 actual tax rate of the relevant business operations are shown below:

	2018			
	Asia operations	**US operations**	**Other operations**	**Total attributable to shareholders**
Adjusted IFRS operating profit based on longer-term investment returns	14%	16%	14%	15%
Profit before tax	17%	15%	13%	16%

B5 Earnings per share

Accounting principles

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders (after related tax and non-controlling interests) by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts and consolidated investment funds, which are treated as cancelled.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. No adjustment is made if the impact is anti-dilutive overall.

		2019					
	Note	**Before tax** $m B1.1	**Tax** $m B4	**Non-controlling interests** $m	**Net of tax and non-controlling interests** $m	**Basic earnings per share** cents	**Diluted earnings per share** cents
Based on adjusted IFRS operating profit based on longer-term investment returns		5,310	(773)	(9)	4,528	175.0¢	175.0¢
Short-term fluctuations in investment returns on shareholder-backed business		(3,203)	772	–	(2,431)	(94.0)¢	(94.0)¢
Amortisation of acquisition accounting adjustments		(43)	8	–	(35)	(1.3)¢	(1.3)¢
Loss on disposal of businesses and corporate transactions		(142)	24	–	(118)	(4.6)¢	(4.6)¢
Based on profit for the year from continuing operations		1,922	31	(9)	1,944	75.1¢	75.1¢
Based on (loss) for the year from discontinued operations	D2				(1,161)	(44.8)¢	(44.8)¢
Based on profit for the year					783	30.3¢	30.3¢

		2018					
	Note	**Before tax** $m B1.1	**Tax** $m B4	**Non-controlling interests** $m	**Net of tax and non-controlling interests** $m	**Basic earnings per share** cents	**Diluted earnings per share** cents
Based on adjusted IFRS operating profit based on longer-term investment returns		4,409	(666)	(4)	3,739	145.2¢	145.1¢
Short-term fluctuations in investment returns on shareholder-backed business		(791)	70	–	(721)	(28.0)¢	(28.0)¢
Amortisation of acquisition accounting adjustments		(61)	11	–	(50)	(1.9)¢	(1.9)¢
Loss on disposal of businesses and corporate transactions		(107)	16	–	(91)	(3.6)¢	(3.5)¢
Based on profit for the year from continuing operations		3,450	(569)	(4)	2,877	111.7¢	111.7¢
Based on profit for the year from discontinued operations	D2				1,142	44.3¢	44.3¢
Based on profit for the year					4,019	156.0¢	156.0¢

	Number of shares (in millions)	
Weighted average number of shares* for calculation of:	**2019**	**2018**
Basic earnings per share	2,587	2,575
Shares under option at end of year	4	5
Shares that would have been issued at fair value on assumed option price	(4)	(4)
Diluted earnings per share	2,587	2,576

* Excluding those held in employee share trusts and consolidated investment funds.

B6 Dividends

B6.1 Demerger dividend in specie of M&G plc

On 21 October 2019, following approval by the Group's shareholders, Prudential plc demerged M&G plc its UK and Europe operations via a dividend in specie. As required by IFRIC 17 'Distributions of Non-cash Assets to Owners', the dividend has been recorded at the fair value of M&G plc being $7,379 million.

B6.2 Other dividends

First and second interim dividends are recorded in the period in which they are paid. Final dividends (if applicable) are recorded in the period in which they are approved by shareholders.

	2019		2018	
	Cents per share	$m	Cents per share	$m
Dividends relating to reporting year:				
First interim ordinary dividend	20.29¢	528	20.55¢	530
Second interim ordinary dividend	25.97¢	675	42.89¢	1,108
Total	46.26¢	1,203	63.44¢	1,638
Dividends paid in reporting year:				
Current year first interim ordinary dividend	20.29¢	526	20.55¢	530
Second interim ordinary dividend for prior year	42.89¢	1,108	43.79¢	1,132
Total	63.18¢	1,634	64.34¢	1,662

Dividend per share

The 2019 first interim ordinary dividend of 20.29 cents per ordinary share was paid to eligible shareholders on 26 September 2019.

The second interim ordinary dividend for the year ended 31 December 2019 of 25.97 cents per ordinary share will be paid on 15 May 2020 to shareholders on the UK register on 27 March 2020 (Record Date), and to shareholders on the Hong Kong register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends on 15 May 2020. The second interim ordinary dividend will be paid on or about 22 May 2020 to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders).

The Group's 2020 dividend under the new progressive dividend policy will be determined from a 2019 US dollar base of $958 million (36.84 cents per share), equivalent to the circa £750 million previously disclosed in the Circular. This represents the first interim ordinary dividend relating to 2019 of $528 million plus the second interim ordinary dividend of $675 million less the contribution of remittances from the discontinued M&G plc business to the second interim ordinary dividend of $245 million.

Prudential plc now determines and declares its dividends in US dollars, commencing with dividends paid in 2020, including the 2019 second interim dividend. Shareholders holding shares on the UK or Hong Kong share registers will continue to receive their dividend payments in either pounds sterling or Hong Kong dollars respectively, unless they elect otherwise. Shareholders holding shares on the UK or Hong Kong registers may elect to receive dividend payments in US dollars. Elections must be made through the relevant UK or Hong Kong share registrar on or before 23 April 2020. The corresponding amount per share in pounds sterling and Hong Kong dollars is expected to be announced on or about 30 April 2020.The US dollar to pound sterling and Hong Kong dollar conversion rates will be determined by the actual rates achieved by Prudential buying those currencies during the two working days preceding the subsequent announcement. Holders of American Depositary Receipts (ADRs) will continue to receive their dividend payments in US dollars. Shareholders holding an interest in Prudential shares through the Central Depository (Pte) Limited (CDP) in Singapore will continue to receive their dividend payments in Singapore dollars at an exchange rate determined by CDP.

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

C Financial position notes

C1 Analysis of Group statement of financial position by segment

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

		31 Dec 2019 $m				
By operating segment	Note	**Asia** C2.1	**US** C2.2	**Unallocated to a segment (central operations)** note (i)	**Elimination of intra-group debtors and creditors**	**Group total**
Assets						
Goodwill	C5.1	926	–	43	–	969
Deferred acquisition costs and other intangible assets	C5.2	5,154	12,264	58	–	17,476
Reinsurers' share of insurance contract liabilities		5,458	8,394	4	–	13,856
Other assets note (ii)		3,208	5,432	3,339	(2,652)	9,327
Investment properties		7	7	11	–	25
Investment in joint ventures and associates accounted for using the equity method	D7	1,500	–	–	–	1,500
Financial investments note (v)		131,499	271,190	1,407	–	404,096
Cash and cash equivalents note (iii)		2,490	1,960	2,515	–	6,965
Total assets		150,242	299,247	7,377	(2,652)	454,214
Equity						
Shareholders' equity		10,866	8,929	(318)	–	19,477
Non-controlling interests		155	–	37	–	192
Total equity		11,021	8,929	(281)	–	19,669
Liabilities						
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1	115,943	269,549	186	–	385,678
Unallocated surplus of with-profits funds	C4.1	4,750	–	–	–	4,750
Core structural borrowings of shareholder-financed businesses	C6.1	–	250	5,344	–	5,594
Operational borrowings	C6.2	473	1,501	671	–	2,645
Other liabilities note (iv)		18,055	19,018	1,457	(2,652)	35,878
Total liabilities		139,221	290,318	7,658	(2,652)	434,545
Total equity and liabilities		150,242	299,247	7,377	(2,652)	454,214

C1 Analysis of Group statement of financial position by segment continued

		31 Dec 2018 $m						
		Before elimination of intra-group debtors and creditors						
By operating segment	Note	Asia C2.1	US C2.2	Unallocated to a segment (central operations) note (i)	Total continuing operations	Discontinued UK and Europe operations	Elimination of intra-group debtors and creditors	Group Total
Assets								
Goodwill	C5.1	634	–	–	634	1,731	–	2,365
Deferred acquisition costs and other intangible assets	C5.2	3,741	11,140	55	14,936	249	–	15,185
Reinsurers' share of insurance contract liabilities		3,537	8,485	2	12,024	3,581	(1,412)	14,193
Other assets note (ii)		4,987	4,569	2,829	12,385	9,044	(6,834)	14,595
Investment properties		6	8	–	14	22,815	–	22,829
Investment in joint ventures and associates accounted for using the equity method		1,262	–	–	1,262	945	–	2,207
Financial investments note (v)		103,016	232,955	2,998	338,969	208,553	–	547,522
Assets held for sale		–	–	–	–	13,472	–	13,472
Cash and cash equivalents note (iii)		2,789	3,827	2,778	9,394	6,048	–	15,442
Total assets		119,972	260,984	8,662	389,618	266,438	(8,246)	647,810
Equity								
Shareholders' equity		8,175	7,163	(4,450)	10,888	11,080	–	21,968
Non-controlling interests		12	–	11	23	–	–	23
Total equity		8,187	7,163	(4,439)	10,911	11,080	–	21,991
Liabilities								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1	93,248	236,380	50	329,678	193,020	(1,412)	521,286
Unallocated surplus of with-profits funds	C4.1	3,198	–	–	3,198	16,982	–	20,180
Core structural borrowings of shareholder-financed businesses	C6.1	–	250	9,511	9,761	–	–	9,761
Operational borrowings	C6.2	102	418	640	1,160	5,129	–	6,289
Other liabilities note (iv)		15,237	16,773	2,900	34,910	26,768	(6,834)	54,844
Liabilities held for sale		–	–	–	–	13,459	–	13,459
Total liabilities		111,785	253,821	13,101	378,707	255,358	(8,246)	625,819
Total equity and liabilities		119,972	260,984	8,662	389,618	266,438	(8,246)	647,810

Notes

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

(ii) 'Other assets' at 31 December 2019 included property, plant and equipment of $1,065 million relating to continuing operations (31 December 2018: $1,795 million, of which $482 million related to continuing operations). On 1 January 2019, $527 million of right-of-use assets was recognised for continuing operations upon adoption of IFRS 16 (see note A3). Movements in the right-of-use assets in 2019 is provided in note C13.

Also included in 'Other assets' are accrued investment income and other debtors at 31 December 2019 of $3,695 million (31 December 2018: $8,708 million), of which $3,191 million (31 December 2018: $7,834 million) are expected to be settled within one year. These are further analysed as follows:

	31 Dec 2019 $m	31 Dec 2018 $m
Interest receivable	1,064	2,221
Other	577	1,280
Total accrued investment income	1,641	3,501
Premiums receivable due from:		
Policyholders	574	576
Intermediaries	4	4
Reinsurers	216	277
Other receivables	1,260	4,350
Total other debtors	2,054	5,207
Total accrued investment income and other debtors	3,695	8,708
Analysed as:		
From continuing operations		4,356
From discontinued operations		4,352
		8,708

(iii) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition and are analysed as follows:

	31 Dec 2019 $m	31 Dec 2018 $m
Cash	2,071	7,335
Cash equivalents	4,894	8,107
Total cash and cash equivalents	6,965	15,442
Analysed as:		
Held centrally and available for general use by the Group	2,491	445
Other funds not available for general use by the Group, including funds held for the benefit of policyholders	4,474	14,997
Total cash and cash equivalents	6,965	15,442
Comprising:		
Cash and cash equivalents from continuing operations		9,394
Cash and cash equivalents from discontinued operations		6,048
		15,442

The Group's cash and cash equivalents are held in the following currencies: US dollars 52 per cent, pounds sterling 20 per cent, Euro 1 per cent and other currencies 27 per cent (2018: US dollars 38 per cent, pounds sterling 32 per cent, Euro 15 per cent and other currencies 15 per cent).

(iv) Accruals, deferred income and other liabilities are analysed as follows (maturity analysis is provided in note C3.4(a)):

	31 Dec 2019 $m	31 Dec 2018 $m
Accruals and deferred income	582	2,165
Other creditors	6,724	9,010
Creditors arising from direct insurance and reinsurance operations	2,831	3,010
Interest payable	68	149
Funds withheld under reinsurance of the REALIC business	3,760	3,745
Other items	523	1,342
Total accruals, deferred income and other liabilities	14,488	19,421
Analysed as:		
From continuing operations		13,338
From discontinued operations		6,083
		19,421

(v) Of the total financial investments of $404,096 million as at 31 December 2019 (31 December 2018: $547,522 million), $260,896 million (2018: $304,843 million) are due to be recovered within one year.

C2 Analysis of segment statement of financial position by business type

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

C2.1 Asia

		31 Dec 2019 $m							31 Dec 2018 $m
		Total insurance							
	Note	With-profits business*	Unit-linked assets and liabilities	Other business	Total	Asset management	Eliminations	Total	Total
Assets									
Goodwill		–	–	327	327	599	–	926	634
Deferred acquisition costs and other intangible assets		67	–	5,072	5,139	15	–	5,154	3,741
Reinsurers' share of insurance contract liabilities		152	–	5,306	5,458	–	–	5,458	3,537
Other assets		1,210	237	1,584	3,031	212	(35)	3,208	4,987
Investment properties		–	–	7	7	–	–	7	6
Investment in joint ventures and associates accounted for using the equity method		–	–	1,263	1,263	237	–	1,500	1,262
Financial investments		76,581	24,628	29,982	131,191	308	–	131,499	103,016
Cash and cash equivalents		963	356	1,015	2,334	156	–	2,490	2,789
Total assets		78,973	25,221	44,556	148,750	1,527	(35)	150,242	119,972
Total equity		–	–	9,803	9,803	1,218	–	11,021	8,187
Liabilities									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.2	65,558	23,571	26,814	115,943	–	–	115,943	93,248
Unallocated surplus of with-profits funds	C4.2	4,750	–	–	4,750	–	–	4,750	3,198
Operational borrowings		302	21	123	446	27	–	473	102
Other liabilities		8,363	1,629	7,816	17,808	282	(35)	18,055	15,237
Total liabilities		78,973	25,221	34,753	138,947	309	(35)	139,221	111,785
Total equity and liabilities		78,973	25,221	44,556	148,750	1,527	(35)	150,242	119,972

* The statement of financial position for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore operations. 'Other business' includes assets and liabilities of other participating businesses and other non-linked shareholder-backed business.

C2.2 US

	Note	31 Dec 2019 $m Total insurance Variable annuity separate account assets and liabilities	Fixed annuity, GICs and other business	Total	Asset manage-ment	Elimin-ations	Total	31 Dec 2018 $m Total
Assets								
Goodwill		–	–	–	–	–	–	–
Deferred acquisition costs and other intangible assets		–	12,264	12,264	–	–	12,264	11,140
Reinsurers' share of insurance contract liabilities		–	8,394	8,394	–	–	8,394	8,485
Other assets		–	5,293	5,293	228	(89)	5,432	4,569
Investment properties		–	7	7	–	–	7	8
Financial investments		195,070	76,106	271,176	14	–	271,190	232,955
Cash and cash equivalents		–	1,912	1,912	48	–	1,960	3,827
Total assets		195,070	103,976	299,046	290	(89)	299,247	260,984
Total equity		–	8,923	8,923	6	–	8,929	7,163
Liabilities								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.3	195,070	74,479	269,549	–	–	269,549	236,380
Core structural borrowings of shareholder-financed businesses	C6.1	–	250	250	–	–	250	250
Operational borrowings		–	1,460	1,460	41	–	1,501	418
Other liabilities		–	18,864	18,864	243	(89)	19,018	16,773
Total liabilities		195,070	95,053	290,123	284	(89)	290,318	253,821
Total equity and liabilities		195,070	103,976	299,046	290	(89)	299,247	260,984

C3 Assets and liabilities

C3.1 Group assets and liabilities – measurement

The Group holds financial investments in accordance with IAS 39, whereby subject to specific criteria, financial instruments are required to be accounted for under one of the following categories:

- *Financial assets and liabilities at fair value through profit or loss – this comprises assets and liabilities designated by management as fair value through profit or loss on inception and derivatives that are held for trading. This includes instruments that are managed and the performance evaluated on a fair value basis and includes liabilities related to net assets attributable to unit holders of consolidated investment funds and, in Asia, policyholder liabilities for investment contracts without discretionary participation features. All investments within this category are measured at fair value with all changes thereon being recognised in investment return in the income statement;*
- *Financial investments on an available-for-sale basis – this comprises assets that are designated by management as available-for-sale and/or do not fall into any of the other categories. These assets are initially recognised at fair value plus attributable transaction costs. Available-for-sale assets are subsequently measured at fair value. Interest income is recognised on an effective interest basis in the income statement. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. Except for foreign exchange gains and losses on debt securities, which are included in the income statement, unrealised gains and losses are recognised in other comprehensive income. Upon disposal or impairment, accumulated unrealised gains and losses are transferred from other comprehensive income to the income statement as realised gains or losses; and*
- *Loans and receivables – except for those designated as at fair value through profit or loss or available-for-sale, these instruments comprise non-quoted investments that have fixed or determinable payments. These instruments include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method.*

The Group uses the trade date method to account for regular purchases and sales of financial assets.

(a) Fair value measurement hierarchy of Group assets and liabilities

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

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

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for $58,302 million (31 December 2018: $52,025 million) of debt securities classified as available-for-sale, principally in the US operations. All assets and liabilities held at fair value are measured on a recurring basis. As of 31 December 2019, the Group did not have any financial instruments that are measured at fair value on a non-recurring basis.

Financial instruments at fair value

	31 Dec 2019 $m			
	Level 1	Level 2	Level 3	
Analysis of financial investments, net of derivative liabilities by business type from continuing operations	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
With-profits				
Equity securities and holdings in collective investment schemes	25,850	3,268	254	29,372
Debt securities	40,291	4,485	6	44,782
Other investments (including derivative assets)	57	103	–	160
Derivative liabilities	(137)	(94)	–	(231)
Total financial investments, net of derivative liabilities	66,061	7,762	260	74,083
Percentage of total (%)	90%	10%	0%	100%
Unit-linked and variable annuity separate account				
Equity securities and holdings in collective investment schemes	213,797	365	–	214,162
Debt securities	4,036	1,117	–	5,153
Other investments (including derivative assets)	6	4	–	10
Derivative liabilities	(1)	–	–	(1)
Total financial investments, net of derivative liabilities	217,838	1,486	–	219,324
Percentage of total (%)	99%	1%	0%	100%
Non-linked shareholder-backed				
Loans	–	–	3,587	3,587
Equity securities and holdings in collective investment schemes	3,638	87	22	3,747
Debt securities	23,600	61,035	–	84,635
Other investments (including derivative assets)	7	1,569	1,301	2,877
Derivative liabilities	(47)	(113)	–	(160)
Total financial investments, net of derivative liabilities	27,198	62,578	4,910	94,686
Percentage of total (%)	29%	66%	5%	100%
Group total analysis, including other financial liabilities held at fair value from continuing operations				
Loans	–	–	3,587	3,587
Equity securities and holdings in collective investment schemes	243,285	3,720	276	247,281
Debt securities	67,927	66,637	6	134,570
Other investments (including derivative assets)	70	1,676	1,301	3,047
Derivative liabilities	(185)	(207)	–	(392)
Total financial investments, net of derivative liabilities	311,097	71,826	5,170	388,093
Investment contract liabilities without discretionary participation features held at fair value	–	(1,011)	–	(1,011)
Net asset value attributable to unit holders of consolidated investment funds	(5,973)	(23)	(2)	(5,998)
Other financial liabilities held at fair value	–	–	(3,760)	(3,760)
Total financial instruments at fair value	305,124	70,792	1,408	377,324
Percentage of total (%)	81%	19%	0%	100%

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

Analysis of financial investments, net of derivative liabilities by business type	31 Dec 2018 $m Level 1 Quoted prices (unadjusted) in active markets	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	Total
With-profits				
Loans	–	–	2,168	2,168
Equity securities and holdings in collective investment schemes	66,636	6,937	621	74,194
Debt securities	39,750	62,382	1,033	103,165
Other investments (including derivative assets)	183	4,156	5,508	9,847
Derivative liabilities	(108)	(1,568)	–	(1,676)
Total financial investments, net of derivative liabilities	106,461	71,907	9,330	187,698
Percentage of total (%)	57%	38%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and holdings in collective investment schemes	194,845	643	11	195,499
Debt securities	6,070	12,388	–	18,458
Other investments (including derivative assets)	8	4	8	20
Derivative liabilities	(3)	(4)	–	(7)
Total financial investments, net of derivative liabilities	200,920	13,031	19	213,970
Percentage of total (%)	94%	6%	0%	100%
Non-linked shareholder-backed				
Loans	–	–	3,886	3,886
Equity securities and holdings in collective investment schemes	3,764	3	24	3,791
Debt securities	22,525	78,713	472	101,710
Other investments (including derivative assets)	77	1,602	1,198	2,877
Derivative liabilities	(2)	(2,241)	(539)	(2,782)
Total financial investments, net of derivative liabilities	26,364	78,077	5,041	109,482
Percentage of total (%)	24%	71%	5%	100%
Group total analysis, including other financial liabilities held at fair value				
Loans	–	–	6,054	6,054
Equity securities and holdings in collective investment schemes	265,245	7,583	656	273,484
Debt securities	68,345	153,483	1,505	223,333
Other investments (including derivative assets)	268	5,762	6,714	12,744
Derivative liabilities	(113)	(3,813)	(539)	(4,465)
Total financial investments, net of derivative liabilities	333,745	163,015	14,390	511,150
Investment contract liabilities without discretionary participation features held at fair value	–	(20,446)	–	(20,446)
Borrowings attributable to with-profits businesses	–	–	(2,045)	(2,045)
Net asset value attributable to unit holders of consolidated investment funds	(8,727)	(4,854)	(1,258)	(14,839)
Other financial liabilities held at fair value	–	(3)	(4,335)	(4,338)
Total financial instruments at fair value	325,018	137,712	6,752	469,482
Percentage of total (%)	70%	29%	1%	100%
Analysed as:				
Total from continuing operations				
With-profits	49,914	5,003	203	55,120
Unit-linked and variable annuity separate account	182,833	(82)	–	182,751
Non-linked shareholder-backed	21,077	55,972	339	77,388
	253,824	60,893	542	315,259
Percentage of total continuing operations (%)	81%	19%	0%	100%
Total from discontinued UK and Europe operations	71,194	76,819	6,210	154,223
Percentage of total discontinued operations (%)	46%	50%	4%	100%

Assets and liabilities at amortised cost and their fair value

The table below shows the financial assets and liabilities carried at amortised cost on the statement of financial position and their fair value. Cash deposits, accrued income, other debtors, accruals, deferred income and other liabilities are excluded from the analysis below, as these are carried at amortised cost, which approximates fair value.

	31 Dec 2019 $m				31 Dec 2018 $m			
	Level 2 Valuation based on significant observable market inputs	**Level 3 Valuation based on significant unobservable market inputs**	**Fair value**	**Carrying value**	**Level 2 Valuation based on significant observable market inputs**	**Level 3 Valuation based on significant unobservable market inputs**	**Fair value**	**Carrying value**
Assets								
Loans	1,865	11,646	13,511	12,996	3,691	13,714	17,405	16,884
Liabilities								
Investment contract liabilities without discretionary participation features	–	(3,957)	(3,957)	(3,891)	–	(4,021)	(4,021)	(4,035)
Core structural borrowings of shareholder-financed businesses	(6,227)	–	(6,227)	(5,594)	(9,994)	–	(9,994)	(9,761)
Operational borrowings (excluding lease liabilities)	(2,015)	–	(2,015)	(2,015)	(3,857)	(92)	(3,949)	(4,244)
Obligations under funding, securities lending and sale and repurchase agreements	(48)	(9,087)	(9,135)	(8,901)	(1,602)	(7,323)	(8,925)	(8,901)
Total financial instruments carried at amortised cost	(6,425)	(1,398)	(7,823)	(7,405)	(11,762)	2,278	(9,484)	(10,057)
Analysed as:								
Total from continuing operations							(10,240)	(9,996)
Total from discontinued UK and Europe operations							756	(61)
							(9,484)	(10,057)

The fair value of the assets and liabilities in the table above, with the exception of the subordinated and senior debt issued by the parent company, has been estimated from the discounted cash flows expected to be received or paid. Where appropriate, the observable market interest rate has been used and the assets and liabilities are classified within level 2. Otherwise, they are included as level 3 assets or liabilities. The fair value included for the subordinated and senior debt issued by the parent company is determined using quoted prices from independent third parties. These are presented as level 2 liabilities.

(b) Valuation approach for level 2 fair valued assets and liabilities

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

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

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

Of the total level 2 debt securities of $66,637 million at 31 December 2019 (31 December 2018: $63,247 million from continuing operations), $8,915 million are valued internally (31 December 2018: $7,462 million from continuing operations). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

C3 Assets and liabilities continued

C3.1 Group assets and liabilities – measurement continued

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

Reconciliation of movements in level 3 assets and liabilities measured at fair value

The following table reconciles the value of level 3 fair valued assets and liabilities at 1 January 2019 to that presented at 31 December 2019.

Total investment return recorded in the income statement represents interest and dividend income, realised gains and losses, unrealised gains and losses on the assets classified at fair value through profit and loss and foreign exchange movements on an individual entity's overseas investments.

Total gains and losses recorded in other comprehensive income includes unrealised gains and losses on debt securities held as available-for-sale principally within Jackson and foreign exchange movements arising from the retranslation of the Group's overseas subsidiaries and branches.

Reconciliation of movements in level 3 assets and liabilities measured at fair value	Loans	Equity securities and holdings in collective investment schemes	Debt securities	Other investments (including derivative assets)	Derivative liabilities	Borrowings attributable to with-profits businesses	Net asset value attributable to unit holders of consolidated investment funds	Other financial liabilities	Total
	2019 $m								
Balance at 1 January	6,054	656	1,505	6,714	(539)	(2,045)	(1,258)	(4,335)	6,752
Demerger of UK and Europe operations	(2,509)	(440)	(1,498)	(5,513)	–	2,045	1,258	451	(6,206)
Total gains (losses) in income statement*	1	(11)	6	30	539	–	–	(28)	537
Total gains (losses) recorded in other comprehensive income	–	3	–	(6)	–	–	–	(11)	(14)
Purchases	–	69	–	269	–	–	(2)	–	336
Sales	–	(1)	(7)	(193)	–	–	–	–	(201)
Issues	275	–	–	–	–	–	–	(143)	132
Settlements	(234)	–	–	–	–	–	–	306	72
Balance at 31 December	3,587	276	6	1,301	–	–	(2)	(3,760)	1,408
	2018 $m								
Balance at 1 January	6,543	502	885	5,985	(693)	(2,553)	(559)	(4,100)	6,010
Total gains (losses) in income statement*	(104)	51	(9)	540	36	(31)	89	7	579
Total gains (losses) recorded in other comprehensive income	(162)	(28)	(85)	(331)	34	133	111	36	(292)
Purchases	83	167	889	1,605	–	–	–	–	2,744
Sales	(238)	(47)	(175)	(1,085)	–	–	–	–	(1,545)
Issues	373	–	–	–	–	–	(931)	(642)	(1,200)
Settlements	(441)	–	–	–	–	406	76	364	405
Transfers into level 3	–	11	–	–	–	–	–	–	11
Transfers out of level 3	–	–	–	–	84	–	(44)	–	40
Balance at 31 December	6,054	656	1,505	6,714	(539)	(2,045)	(1,258)	(4,335)	6,752

* Of the total net gains and (losses) in the income statement of $537 million for continuing operations in 2019, $19 million relates to net unrealised gains and losses of financial instruments still held at the end of the year (2018: $111 million of the $579 million shown above was for continuing operations, of which $153 million related to financial instruments still held at the end of the year), which can be analysed as follows:

	2019 $m	**2018** $m
Equity securities and holdings in collective investment schemes	(11)	(10)
Debt securities	–	3
Other investments	34	133
Derivative liabilities	–	36
Net asset value attributable to unit holders of consolidated investment funds	–	(9)
Other financial liabilities	(4)	–
Total	19	153

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

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

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

Included within these net assets and liabilities are policy loans of $3,587 million at 31 December 2019 measured as the loan outstanding balance, plus accrued investment income, attached to acquired REALIC business and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of $3,760 million at 31 December 2019 is also classified within level 3. The fair value of the liabilities is equal to the fair value of the underlying assets held as collateral, which primarily consist of policy loans and debt securities. The assets and liabilities broadly offset and therefore their movements have minimal impact on shareholders' profit and equity.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of $173 million, the level 3 fair valued financial assets net of financial liabilities were a net asset of $1,581 million, which are all externally valued and comprise the following:

- Other financial investments of $1,301 million consisting primarily of private equity limited partnerships held by Jackson, which are externally valued in accordance with International Private Equity and Venture Capital Association guidelines using management information available for these investments;
- Equity securities and holdings in collective investment schemes of $276 million consisting primarily of property and infrastructure funds held by the Asia participating funds, which are externally valued using the net asset value of the invested entities; and
- Other sundry individual financial instruments of a net asset of $4 million.

Of the net asset of $1,581 million referred to above:

- A net asset of $258 million is held by the Group's Asia participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments; and
- A net asset of $1,323 million is held to support non-linked shareholder-backed business. All of these instruments are externally valued and are therefore inherently less subjective than internal valuations. These instruments consist primarily of private equity limited partnerships held by Jackson as described above. If the value of all these Level 3 financial instruments decreased by 10 per cent, the change in valuation would be $132 million, which would reduce shareholders' equity by this amount before tax. All of this amount would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of adjusted IFRS operating profit based on longer-term investment returns.

(d) Transfers into and transfers out of levels
The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer. Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities of the securities.

During 2019, the transfers between levels within the Group's portfolio, excluding those held by the discontinued UK and Europe operations, were primarily transfers from level 1 to level 2 of $678 million and transfers from level 2 to level 1 of $1,121 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observed valuation inputs and in certain cases, the change in the level of trading activities of the securities. There were no transfers excluding those related to the discontinued UK and Europe operations, into and out of level 3 in the year.

C3 Assets and liabilities continued

C3.2 Debt securities

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

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

(a) Credit rating

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available, if this isn't the case Moody's and then Fitch have been used as alternatives. For the US, NAIC ratings have also been used where relevant (as shown in 'Other' in the tables below). In the table below, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB- ratings. Financial assets which fall outside this range are classified as below BBB-.

	31 Dec 2019 $m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other (including NAIC rated)	Total
Asia:							
With-profits	5,205	21,911	5,863	5,874	2,382	3,547	44,782
Unit-linked	770	135	674	2,074	522	978	5,153
Non-linked shareholder-backed	1,611	6,050	6,293	4,639	3,749	2,304	24,646
Asset management	14	–	112	–	–	3	129
US:							
Non-linked shareholder-backed	1,154	10,300	15,229	18,489	1,995	11,361	58,528
Other operations	–	1,211	–	–	55	66	1,332
Total debt securities	8,754	39,607	28,171	31,076	8,703	18,259	134,570

	31 Dec 2018 $m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other (including NAIC rated)	Total
Asia:							
With-profits	3,659	15,766	5,275	4,788	2,225	2,934	34,647
Unit-linked	1,040	127	627	1,822	542	912	5,070
Non-linked shareholder-backed	1,317	4,524	4,734	3,738	2,805	1,455	18,573
Asset management	14	–	76	–	–	–	90
US:							
Non-linked shareholder-backed	864	9,403	13,100	18,667	1,820	9,120	52,974
Other operations	788	1,387	193	52	62	24	2,506
Total continuing operations	7,682	31,207	24,005	29,067	7,454	14,445	113,860
Total discontinued UK and Europe operations	13,931	23,185	23,746	25,126	4,387	19,098	109,473
Total debt securities	21,613	54,392	47,751	54,193	11,841	33,543	223,333

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

Credit ratings for securities classified as 'Other'

Securities for continuing operations with credit ratings classified as 'Other' can be further analysed as follows for Asia and US non-linked shareholder-backed.

Asia	31 Dec 2019 $m	31 Dec 2018 $m
Government bonds*	323	46
Corporate bonds rated by local external rating agencies		
AAA	184	239
AA+ to AA-	958	702
A+ to A-	345	241
BBB+ to BBB-	91	39
Below BBB- and unrated	32	25
	1,610	1,246
Other (asset-backed securities)†	371	163
Total Asia	2,304	1,455

* 99.7 per cent are investment grade (2018: 92 per cent).
† Primarily unrated.

US	31 Dec 2019 $m Mortgage-backed securities	31 Dec 2019 $m Other securities	31 Dec 2019 $m Total	31 Dec 2018 $m Total
Implicit ratings based on NAIC valuations*				
NAIC 1	3,367	4,430	7,797	6,376
NAIC 2	1	3,470	3,471	2,697
NAIC 3-6	2	91	93	47
Total US†	3,370	7,991	11,361	9,120

* The Securities Valuation Office of the NAIC classifies debt securities into six quality categories ranging from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5 and securities in or near default are designated Class 6.
† Mortgage-backed securities totalling $3,180 million at 31 December 2019 have credit ratings issued by Standard & Poor's of BBB- or above and hence are designated as investment grade. Other securities totalling $7,900 million at 31 December 2019 with NAIC ratings 1 or 2 are also designated as investment grade.

(b) Additional analysis of US insurance operations debt securities

	31 Dec 2019 $m	31 Dec 2018 $m
Corporate and government security and commercial loans:		
Government	7,890	6,960
Publicly traded and SEC Rule 144A securities*	34,781	33,363
Non-SEC Rule 144A securities	9,842	8,061
Asset-backed securities (see note (c))	6,015	4,590
Total US debt securities†	58,528	52,974

* A 1990 SEC rule that facilitates the resale of privately placed securities under Rule 144A that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.
† Debt securities for US operations included in the statement of financial position comprise:

	31 Dec 2019 $m	31 Dec 2018 $m
Available-for-sale	57,091	52,025
Fair value through profit and loss	1,437	949
	58,528	52,974

C3 Assets and liabilities continued

C3.2 Debt securities continued

Movements in unrealised gains and losses on Jackson available-for-sale securities

The movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised loss of $527 million to a net unrealised gain of $3,496 million as analysed in the table below.

	31 Dec 2019 $m	Changes in unrealised appreciation reflected in other comprehensive income $m	31 Dec 2018 $m
Assets fair valued at below book value			
Book value*	3,121		32,260
Unrealised gain (loss)	(27)	1,151	(1,178)
Fair value (as included in statement of financial position)	3,094		31,082
Assets fair valued at or above book value			
Book value*	50,474		20,292
Unrealised gain (loss)	3,523	2,872	651
Fair value (as included in statement of financial position)	53,997		20,943
Total			
Book value*	53,595		52,552
Net unrealised gain (loss)	3,496	4,023	(527)
Fair value (as included in the footnote above in the overview table and the statement of financial position)	57,091		52,025

* Book value represents cost or amortised cost of the debt securities.

Jackson debt securities classified as available-for-sale in an unrealised loss position

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

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

	31 Dec 2019 $m		31 Dec 2018 $m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	3,083	(25)	30,136	(1,030)
Between 80% and 90%	11	(2)	900	(132)
Below 80%	–	–	46	(16)
Total	3,094	(27)	31,082	(1,178)

(ii) Unrealised losses by maturity of security

	31 Dec 2019 $m	31 Dec 2018 $m
1 year to 5 years	(1)	(92)
5 years to 10 years	(12)	(555)
More than 10 years	(7)	(474)
Mortgage-backed and other debt securities	(7)	(57)
Total	(27)	(1,178)

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

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

Age analysis	31 Dec 2019 $m Non-investment grade	31 Dec 2019 $m Investment grade*	31 Dec 2019 $m Total	31 Dec 2018 $m Non-investment grade	31 Dec 2018 $m Investment grade*	31 Dec 2018 $m Total
Less than 6 months	(1)	(20)	(21)	(26)	(179)	(205)
6 months to 1 year	(1)	(1)	(2)	(28)	(560)	(588)
1 year to 2 years	–	(1)	(1)	(13)	(181)	(194)
2 years to 3 years	–	(1)	(1)	–	(157)	(157)
More than 3 years	–	(2)	(2)	(2)	(32)	(34)
Total	(2)	(25)	(27)	(69)	(1,109)	(1,178)

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

Further, the following table shows the age analysis of the securities whose fair values were below 80 per cent of the book value:

Age analysis	31 Dec 2019 $m Fair value	31 Dec 2019 $m Unrealised loss	31 Dec 2018 $m Fair value	31 Dec 2018 $m Unrealised loss
Less than 3 months	–	–	41	(13)
3 months to 6 months	–	–	2	(1)
More than 6 months	–	–	3	(2)
Total below 80%	–	–	46	(16)

(c) Asset-backed securities

The Group's holdings in asset-backed securities (ABS), which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities, as at 31 December 2019 are as follows:

	31 Dec 2019 $m	31 Dec 2018 $m
Asia operations: note (i)		
Shareholder-backed business	189	154
With-profits business	369	299
US operations note (ii)	6,015	4,590
Other operations	–	566
Total for continuing operations	6,573	5,609
Total for discontinued UK and Europe operations	–	8,503
Group total	6,573	14,112

Notes

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

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

	31 Dec 2019 $m	31 Dec 2018 $m
RMBS		
Sub-prime (31 Dec 2019: 2% AAA, 3% AA, 3% A)	93	122
Alt-A (31 Dec 2019: 51% A)	116	134
Prime including agency (2019: 23% AAA, 61% AA, 10% A)	862	562
CMBS (31 Dec 2019: 76% AAA, 16% AA, 4% A)	3,080	2,477
CDO funds (31 Dec 2019: 46% AAA, 38% AA, 16% A), including $nil exposure to sub-prime	696	17
Other ABS (31 Dec 2019: 16% AAA, 11% AA, 54% A), including $84 million exposure to sub-prime	1,168	1,278
Total (31 Dec 2019: 50% AAA, 24% AA, 17% A)	6,015	4,590

C3 Assets and liabilities continued

C3.2 Debt securities continued

(d) Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities are analysed below. The tables exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the tables below exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

Exposure to sovereign debts

	31 Dec 2019 $m		31 Dec 2018 $m	
	Shareholder-backed business*	With-profits funds	Shareholder-backed business	With-profits funds
Eurozone	–	–	481	560
United Kingdom	615	–	4,109	3,837
United States	9,526	20,338	7,192	15,102
Indonesia	420	–	359	–
Singapore	230	3,514	209	2,112
Thailand	1,416	–	1,173	–
Vietnam	2,900	–	2,383	–
Other Asia	2,722	562	2,266	1,103
Other	143	32	159	282
Total	17,972	24,446	18,331	22,996
Analysed as:				
Total from continuing operations			14,848	16,740
Total from discontinued UK and Europe operations			3,483	6,256
			18,331	22,996

* Includes $1.4 billion of sovereign debt held by the Group's treasury function, Africa operations and asset management operations.

Exposure to bank debt securities

	31 Dec 2019 $m					31 Dec 2018 $m
	Senior debt	Subordinated debt				
Shareholder-backed business	Total	Tier 1	Tier 2	Total	Total	Total
Eurozone	310	–	27	27	337	608
United Kingdom	568	17	138	155	723	1,714
United States	3,084	7	43	50	3,134	3,397
Asia	439	165	389	554	993	754
Other	516	–	131	131	647	821
Total	4,917	189	728	917	5,834	7,294
Analysed as:						
Total from continuing operations						5,910
Total from discontinued UK and Europe operations						1,384
						7,294
With-profits funds						
Eurozone	29	–	102	102	131	1,243
United Kingdom	41	3	111	114	155	2,794
United States	30	1	3	4	34	3,477
Asia	307	479	344	823	1,130	1,293
Other	73	–	211	211	284	2,305
Total	480	483	771	1,254	1,734	11,112
Analysed as:						
Total from continuing operations						1,639
Total from discontinued UK and Europe operations						9,473
						11,112

(e) Impairment of US available-for-sale debt securities and other financial assets
In accordance with the Group's accounting policy set out in note A3.1, impairment reviews were performed for available-for-sale securities and loans and receivables.

During the year ended 31 December 2019, a charge for recoveries net of impairment of $17 million (2018: credit of $19 million) was recognised for available-for-sale securities loans and receivables held by Jackson.

Jackson, with the support of internal credit analysts, regularly monitors and reports on the credit quality of its holdings of debt securities. In addition, there is a periodic review of its investments on a case-by-case basis to determine whether any decline in fair value represents an impairment. Investments in structured securities are subject to a review of their future estimated cash flows, including expected and stress case scenarios, to identify potential shortfalls in contractual payments (both interest and principal). Impairment charges are recorded on structured securities when the Company forecasts a contractual payment shortfall. Situations where such a shortfall would not lead to a recognition of a loss are rare. The impairment loss reflects the difference between the fair value and book value.

In 2019, the Group realised gross losses on sales of available-for-sale securities of $70 million (2018: $55 million) with 51 per cent (2018: 49 per cent) of these losses related to the disposal of fixed maturity securities of the top 10 individual issuers, which were disposed of to limit future credit loss exposure. Of the $70 million (2018: $55 million), $28 million (2018: $6 million) relates to losses on sales of impaired and deteriorating securities.

The effect of changes in the key assumptions that underpin the assessment of whether impairment has taken place depends on the factors described in note A3.1. A key indicator of whether such impairment may arise in future, and the potential amounts at risk, is the profile of gross unrealised losses for fixed maturity securities accounted for on an available-for-sale basis by reference to the time periods by which the securities have been held continuously in an unrealised loss position and by reference to the maturity date of the securities concerned.

For 2019, the amount of gross unrealised losses for fixed maturity securities classified as available-for-sale under IFRS in an unrealised loss position was $27 million (2018: $1,178 million). Note B1.2 provides further details on the impairment charges and unrealised losses of Jackson's available-for-sale securities.

C3.3 Loans portfolio

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

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

	31 Dec 2019 $m				31 Dec 2018 $m			
	Mortgage loans note (i)	Policy loans note (ii)	Other loans	Total	Mortgage loans note (i)	Policy loans note (ii)	Other loans	Total
Asia								
With-profits	–	1,089	374	1,463	–	926	83	1,009
Non-linked shareholder-backed	165	316	19	500	199	288	259	746
US								
Non-linked shareholder-backed	9,904	4,707	–	14,611	9,406	4,688	–	14,094
Other operations	–	9	–	9	–	–	–	–
Total continuing operations	10,069	6,121	393	16,583	9,605	5,902	342	15,849
Total discontinued UK and Europe operations					5,241	4	1,844	7,089
Total Group					14,846	5,906	2,186	22,938

Notes
(i) All mortgage loans are secured by properties.
(ii) In the US, $3,587 million of policy loans held at 31 December 2019 (31 December 2018: $3,544 million) are backing liabilities for funds withheld under reinsurance arrangements and are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

(b) Additional information on US mortgage loans
In the US, mortgage loans are all commercial mortgage loans that are secured by the following property types: industrial, multi-family residential, suburban office, retail or hotel. The average loan size is $19.3 million (31 December 2018: $17.8 million). The portfolio has a current estimated average loan to value of 54 per cent (31 December 2018: 53 per cent).

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

C3 Assets and liabilities continued

C3.4 Financial instruments – additional information

(a) Financial risk

Liquidity analysis

Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities and investment contracts that are separately presented. The financial liabilities are included in the column relating to the contractual maturities of the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

	31 Dec 2019 $m								
Financial liabilities	**Total carrying value**	**1 year or less**	**After 1 year to 5 years**	**After 5 years to 10 years**	**After 10 years to 15 years**	**After 15 years to 20 years**	**Over 20 years**	**No stated maturity**	**Total undis-counted cash flows**
Core structural borrowings of shareholder-financed businesses C6.1	5,594	105	1,146	888	648	–	–	3,725	6,512
Lease liabilities under IFRS 16	630	145	388	113	37	18	1	–	702
Other operational borrowings	2,015	941	188	232	1,132	2	–	–	2,495
Obligations under funding, securities lending and sale and repurchase agreements	8,901	2,067	5,476	1,902	278	–	–	–	9,723
Accruals, deferred income and other liabilities	14,488	9,172	636	1	–	248	–	4,431	14,488
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	5,998	5,998	–	–	–	–	–	–	5,998
Total	37,626	18,428	7,834	3,136	2,095	268	1	8,156	39,918

	31 Dec 2018 $m								
Financial liabilities	**Total carrying value**	**1 year or less**	**After 1 year to 5 years**	**After 5 years to 10 years**	**After 10 years to 15 years**	**After 15 years to 20 years**	**Over 20 years**	**No stated maturity**	**Total undis-counted cash flows**
Core structural borrowings of shareholder-financed businesses C6.1	9,761	380	2,240	1,944	2,347	1,363	8,371	3,725	20,370
Operational borrowings	6,289	1,961	1,703	1,002	349	181	2,657	–	7,853
Obligations under funding, securities lending and sale and repurchase agreements	8,901	2,450	4,908	2,131	289	–	–	–	9,778
Accruals, deferred income and other liabilities	19,421	13,811	599	90	115	138	448	4,503	19,704
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	14,839	14,839	–	–	–	–	–	–	14,839
Total	59,211	33,441	9,450	5,167	3,100	1,682	11,476	8,228	72,544
Analysed as:									
Continuing operations	32,839	12,284	7,479	4,167	2,636	1,363	8,412	7,983	44,324
Discontinued UK and Europe operations	26,372	21,157	1,971	1,000	464	319	3,064	245	28,220
Total	59,211	33,441	9,450	5,167	3,100	1,682	11,476	8,228	72,544

Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with a maturity profile of the net derivative position:

	Carrying value of net derivatives $m			Maturity profile of net derivative position $m				
	Derivative assets	Derivative liabilities	Net derivative position	1 year or less	After 1 year to 3 years	After 3 years to 5 years	After 5 years	Total undiscounted cash flows
2019	**1,745**	**(392)**	**1,353**	**1,353**	**–**	**–**	**–**	**1,353**
2018	4,450	(4,465)	(15)	372	(10)	(5)	38	395

The majority of derivative assets and liabilities have been included at fair value within the one year or less column, representing the basis on which they are managed (ie to manage principally asset or liability value exposures). The Group has no cash flow hedges and, in general, contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments. The only exception is that in 2018 certain identified interest rate swaps were expected to be held until maturity for the purposes of matching cash flows on separately held assets and liabilities. These swaps were closed as part of the preparation for the demerger of UK and Europe operations.

Maturity analysis of investment contracts

The table below shows the maturity profile for investment contracts based on undiscounted cash flow projections of expected benefit payments. Total carrying value of investment contracts at 31 December 2019 was $5,535 million as shown in the statement of financial position (31 December 2018: $110,339 million, of which $5,142 million was from continuing operations).

	Maturity profile for investment contracts from continuing operations $m						
	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total undiscounted cash flows
31 Dec 2019	**1,557**	**5,197**	**3,866**	**3,049**	**3,196**	**5,890**	**22,755**
31 Dec 2018	1,409	4,779	3,352	2,487	2,830	4,257	19,114

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but the additional charges and term of the contracts mean these are unlikely to be exercised in practice and the more useful information is to present information on expected payment.

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit, this asset/liability matching is performed on a portfolio-by-portfolio basis.

In terms of liquidity risk, a large proportion of the policyholder liabilities contain discretionary surrender values or surrender charges, meaning that many of the Group's liabilities are expected to be held for the long term. Much of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets.

For the reasons provided above, an analysis of the Group's assets by contractual maturity is not considered meaningful to evaluate the nature and extent of the Group's liquidity risk.

Credit risk

The Group's maximum exposure to credit risk of financial instruments before any allowance for collateral or allocation of losses to policyholders is represented by the carrying value of financial instruments on the balance sheet that have exposures to credit risk comprising cash and cash equivalents, deposits, debt securities, loans and derivative assets, accrued investment income and other debtors, the carrying value of which are disclosed at the start of this note and note C3.4(b) below for derivative assets. The collateral in place in relation to derivatives is described in note C3.4(c) below. Note C3.3 describes the security for the loans held by the Group. The Group's exposure to credit risk is further discussed in note C7 below.

Of the total loans and receivables held, $7 million (31 December 2018: $18 million from continuing operations) are past their due date but are not impaired. Of the total past due but not impaired, $1 million are less than one year past their due date (31 December 2018: $11 million from continuing operations). The Group expects full recovery of these loans and receivables.

Financial assets that would have been past due or impaired had the terms not been renegotiated amounted to nil (31 December 2018: $29 million from continuing operations).

In addition, during 2019 and 2018, the Group did not take possession of any other collateral held as security.

Further details of collateral in place in relation to derivatives, securities lending, repurchase agreements and other transactions are provided in note C3.4(c) below.

C3 Assets and liabilities continued

C3.4 Financial instruments – additional information continued

Foreign exchange risk

As at 31 December 2019, the Group held 8 per cent of its financial assets and 25 per cent of its financial liabilities in currencies, mainly US Dollar, other than the functional currency of the relevant business units or the currency to which the functional currency is pegged (eg financial assets and liabilities of US dollar denominated business in Hong Kong).

The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts (note C3.4(b) below).

The amount of exchange loss recognised in the income statement in 2019, except for those arising on financial instruments measured at fair value through profit or loss, is $72 million (2018: $88 million gain from continuing operations).

(b) Derivatives and hedging

Accounting principles for derivatives and embedded derivatives

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39. The Group has no fair value and cash flows hedges under IAS 39 at 31 December 2019 and 2018. All derivatives that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded in the income statement.

Embedded derivatives are embedded within other non-derivative host financial instruments and insurance contracts to create hybrid instruments. Embedded derivatives meeting the definition of an insurance contract are accounted for under IFRS 4. Where economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with the changes in fair value recognised in the income statement, the embedded derivative is bifurcated and carried at fair value as a derivative measured in accordance with IAS 39.

In addition, the Group applies the option under IFRS 4 to not separate and fair value surrender options embedded in host contracts and with-profits investment contracts whose strike price is either a fixed amount or a fixed amount plus interest.

Derivatives held and their purpose

The Group enters into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions, with the exception of transactions in some Asia operations, are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

The majority of the Group's derivatives are held by Jackson. Derivatives are used for efficient portfolio management to obtain cost effective and management of exposure to various markets in accordance with the Group's investment strategies and to manage exposure to interest rate, currency, credit and other business risks. The Group also uses interest rate derivatives to reduce exposure to interest rate volatility. In particular:

— US operations hold large amounts of interest-rate sensitive investments that contain credit risks on which a certain level of defaults is expected. These businesses have purchased some swaptions to manage the default risk on certain underlying assets and hence reduce the amount of regulatory capital held to support the assets; and
— Some products, especially in the US, have guarantee features linked to equity indices. A mismatch between guaranteed product liabilities and the performance of the underlying assets exposes the Group to equity index risk. In order to mitigate this risk, the relevant business units purchase swaptions, equity options and futures to better match asset performance with liabilities under equity-indexed products.

Additional information on Jackson derivative programme

Jackson enters into financial derivative transactions, including those noted below, to reduce and manage business risks. These transactions manage the risk of a change in the value, yield, price, cash flows or quantity of, or a degree of exposure, with respect to assets, liabilities or future cash flows, which Jackson has acquired or incurred.

Jackson uses free-standing derivative instruments for hedging purposes. Additionally, certain liabilities, primarily trust instruments supported by funding agreements, fixed index annuities, certain variable annuity guaranteed benefit features and reinsured Guaranteed Minimum Income Benefit variable annuity features are similar to derivatives. Jackson does not account for such items as either fair value or cash flow hedges as might be permitted if the specific hedge documentation requirements of IAS 39 were followed. Financial derivatives are carried at fair value, including derivatives embedded in certain host liabilities where these are required to be valued separately.

The principal types of derivatives used by Jackson and their purpose are as follows:

Derivative	*Purpose*
Interest rate swaps	These generally involve the exchange of fixed and floating payments over the period for which Jackson holds the instrument without an exchange of the underlying principal amount. These agreements are used to hedge Jackson's exposure to movements in interest rates.
Swaption contracts	These contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-duration interest rate swap at future exercise dates. Jackson both purchases and writes swaptions in order to hedge against significant movements in interest rates.
Treasury futures contracts	These derivatives are used to hedge Jackson's exposure to movements in interest rates.
Equity index futures contracts and equity index options	These derivatives (including various call and put options and options contingent on interest rates and currency exchange rates) are used to hedge Jackson's obligations associated with its issuance of certain VA guarantees. Some of these annuities and guarantees contain embedded options that are fair valued for financial reporting purposes.
Cross-currency swaps	Cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated funding agreements supporting trust instrument obligations.
Credit default swaps	These swaps represent agreements under which the buyer has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow Jackson to sell the protected bonds at par value to the counterparty if a default event occurs in exchange for periodic payments made by Jackson for the life of the agreement.

Hedging

The Group has formally assessed and documented the effectiveness of the following net investment hedges under IAS 39. During 2019, up to 31 December 2019, the Group had designated perpetual subordinated capital securities totalling $3.7 billion (31 December 2018: $3.7 billion) as a net investment hedge to hedge the currency risks related to the net investment in Jackson. Accordingly, the foreign exchange loss of $150 million (2018: loss of $266 million) on translation of Prudential plc's borrowings to pounds sterling (the functional currency of Prudential plc until 31 December 2019) is recognised in the translation reserve in shareholders' equity rather than the income statement. This net investment hedge was 100 per cent effective.

The Group has no cash flow hedges or fair value hedges in place.

(c) Derecognition, collateral and offsetting

Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

Reverse repurchase agreements

The Group is party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments in the statement of financial position but the right to receive the cash paid is recognised as deposits.

At 31 December 2019, the Group had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions, which is represented by the purchased securities, was $1,011 million (31 December 2018: $3,039 million from continuing operations).

Securities lending and repurchase agreements

The Group is also party to various securities lending agreements (including repurchase agreements) under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. To the extent cash collateral is received it is recognised on the statement of financial position. Other collateral is not recognised.

At 31 December 2019, the Group has $90 million (31 December 2018: $107 million from continuing operations) of lent securities and assets subject to repurchase agreements. The cash and securities collateral held or pledged under such agreements were $95 million (31 December 2018: $112 million from continuing operations).

C3 Assets and liabilities continued

C3.4 Financial instruments – additional information continued

Collateral and pledges under derivative transactions

At 31 December 2019, the Group had pledged $1,301 million (31 December 2018: $2,896 million from continuing operations) for liabilities and held collateral of $1,883 million (31 December 2018: $810 million from continuing operations) in respect of over-the-counter derivative transactions. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

The Group has entered into collateral arrangements in relation to over-the-counter derivative transactions, which permit sale or re-pledging of underlying collateral. During 2019, the Group has not sold any collateral held (2018: nil). As of 31 December 2019, the value of collateral re-pledged by the Group amounted to $nil (31 December 2018: $5 million from continuing operations). All over-the-counter derivative transactions, with the exception of transactions in some Asia operations, are conducted under standardised International Swaps and Derivatives Association (ISDA) master agreements. The collateral management for these transactions is conducted under the usual and customary terms and conditions set out in the Credit Support Annex to the ISDA master agreement.

Other collateral

At 31 December 2019, the Group had pledged collateral of $3,299 million (31 December 2018: $3,053 million from continuing operations) in respect of other transactions. This principally arises from Jackson's membership of the Federal Home Loan Bank of Indianapolis primarily for the purpose of participating in the bank's collateralised loan advance programme with short-term and long-term funding facilities.

Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis within the consolidated balance sheets.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

	31 Dec 2019 $m				
	Gross amount included in the consolidated statement of financial position note (i)	Related amounts not offset in the consolidated statement of financial position			
		Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	Net amount note (iv)
Financial assets:					
Derivative assets	1,708	(115)	(901)	(618)	74
Reverse repurchase agreements	953	–	–	(953)	–
Total financial assets	2,661	(115)	(901)	(1,571)	74
Financial liabilities:					
Derivative liabilities	(216)	115	86	–	(15)
Securities lending and repurchase agreements	(48)	–	48	–	–
Total financial liabilities	(264)	115	134	–	(15)

	31 Dec 2018 $m				
	Gross amount included in the consolidated statement of financial position note (i)	Related amounts not offset in the consolidated statement of financial position			
		Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	Net amount note (iv)
Financial assets:					
Derivative assets	4,112	(1,606)	(2,149)	(211)	146
Reverse repurchase agreements	14,771	–	–	(14,782)	(11)
Total financial assets	18,883	(1,606)	(2,149)	(14,993)	135
Financial liabilities:					
Derivative liabilities	(4,062)	1,606	905	1,346	(205)
Securities lending and repurchase agreements	(1,602)	–	43	1,535	(24)
Total financial liabilities	(5,664)	1,606	948	2,881	(229)
Analysed as:					
Financial assets from continuing operations	3,709	(308)	(435)	(2,947)	19
Financial assets from discontinued UK and Europe operations	15,174	(1,298)	(1,714)	(12,046)	116
Total financial assets	18,883	(1,606)	(2,149)	(14,993)	135
Financial liabilities from continuing operations	(1,637)	308	86	1,095	(148)
Financial liabilities from discontinued UK and Europe operations	(4,027)	1,298	862	1,786	(81)
Total financial liabilities	(5,664)	1,606	948	2,881	(229)

Notes

(i) The Group has not offset any of the amounts included in the consolidated statement of financial position.

(ii) Represents the amount that could be offset under master netting or similar arrangements where the Group does not satisfy the full criteria to offset on the consolidated statement of financial position.

(iii) Excludes initial margin amounts for exchange-traded derivatives.

(iv) In the tables above, the amounts of assets or liabilities included in the consolidated statement of financial position would be offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables.

C4 Policyholder liabilities and unallocated surplus

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

C4.1 Group overview

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

	Asia $m note C4.2	US $m note C4.3	Discontinued UK and Europe operations $m	Total $m
Balance at 1 January 2018	99,890	244,483	244,946	589,319
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position note (c) *(excludes $43 million classified as unallocated to a segment)*	85,089	244,483	226,715	556,287
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	4,700	–	18,231	22,931
– Group's share of policyholder liabilities of joint ventures and associate note (d)	10,101	–	–	10,101
Reclassification of reinsured UK annuity contracts as held for sale	–	–	(14,689)	(14,689)
Net flows:				
Premiums	17,607	18,613	18,707	54,927
Surrenders	(3,729)	(16,211)	(9,053)	(28,993)
Maturities/deaths	(2,641)	(2,687)	(9,074)	(14,402)
Net flows	11,237	(285)	580	11,532
Addition for closed block of group payout annuities in the US	–	5,532	–	5,532
Shareholders' transfers post-tax	(87)	–	(346)	(433)
Investment-related items and other movements	(3,718)	(13,350)	(7,318)	(24,386)
Foreign exchange translation differences	(1,914)	–	(13,171)	(15,085)
Balance at 31 December 2018/1 January 2019	**105,408**	**236,380**	**210,002**	**551,790**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position note (c) *(excludes $50 million classified as unallocated to a segment)*	**91,836**	**236,380**	**193,020**	**521,236**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**3,198**	**–**	**16,982**	**20,180**
– Group's share of policyholder liabilities of joint ventures and associate note (d)	**10,374**	**–**	**–**	**10,374**
Demerger of UK and Europe operations	**–**	**–**	**(210,002)**	**(210,002)**
Net flows:				
Premiums	**20,094**	**20,976**	**–**	**41,070**
Surrenders	**(4,156)**	**(17,324)**	**–**	**(21,498)**
Maturities/deaths	**(2,800)**	**(3,387)**	**–**	**(6,187)**
Net flows	**13,138**	**247**	**–**	**13,385**
Shareholders' transfers post-tax	**(99)**	**–**	**–**	**(99)**
Investment-related items and other movements	**12,824**	**32,922**	**–**	**45,746**
Foreign exchange translation differences	**1,299**	**–**	**–**	**1,299**
Balance at 31 December 2019	**132,570**	**269,549**	**–**	**402,119**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes $186 million classified as unallocated to a segment)	**115,943**	**269,549**	**–**	**385,492**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**4,750**	**–**	**–**	**4,750**
– Group's share of policyholder liabilities of joint ventures and associate note (d)	**11,877**	**–**	**–**	**11,877**
Average policyholder liability balances note (e)				
2019	**115,015**	**252,965**	**n/a**	**367,980**
2018	98,698	239,049	213,492	551,239

Notes

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

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

(c) The policyholder liabilities of the Asia insurance operations at 31 December 2018 of $91,836 million were after deducting the intra-group reinsurance liabilities ceded by the discontinued UK and Europe operations of $1,412 million to the Hong Kong with-profits business, which were recaptured in October 2019 upon demerger. Including this amount, total Asia policyholder liabilities at 31 December 2018 were $93,248 million.

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

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

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

	Asia $m	**US** $m	**Discontinued UK and Europe operations** $m	**Total** $m
Balance at 1 January 2018	50,598	244,483	76,254	371,335
Reclassification of reinsured UK annuity contracts as held for sale	–	–	(14,689)	(14,689)
Net flows:				
Premiums	9,015	18,613	1,984	29,612
Surrenders	(3,278)	(16,211)	(2,692)	(22,181)
Maturities/deaths	(1,396)	(2,687)	(2,996)	(7,079)
Net flows note	4,341	(285)	(3,704)	352
Addition for closed block of group payout annuities in the US	–	5,532	–	5,532
Investment-related items and other movements	(1,608)	(13,350)	(2,637)	(17,595)
Foreign exchange translation differences	(1,626)	–	(3,313)	(4,939)
Balance at 31 December 2018/1 January 2019	**51,705**	**236,380**	**51,911**	**339,996**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes $50 million classified as unallocated to a segment)	41,331	236,380	51,911	329,622
– Group's share of policyholder liabilities relating to joint ventures and associate	10,374	–	–	10,374
Demerger of UK and Europe operations	–	–	(51,911)	(51,911)
Net flows:				
Premiums	10,372	20,976	–	31,348
Surrenders	(3,610)	(17,342)	–	(20,952)
Maturities/deaths	(1,168)	(3,387)	–	(4,555)
Net flows note	5,594	247	–	5,841
Investment-related items and other movements	4,186	32,922	–	37,108
Foreign exchange translation differences	777	–	–	777
Balance at 31 December 2019	**62,262**	**269,549**	**–**	**331,811**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes $186 million classified as unallocated to a segment)	50,385	269,549	–	319,934
– Group's share of policyholder liabilities relating to joint ventures and associate	11,877	–	–	11,877

Note

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

C4 Policyholder liabilities and unallocated surplus continued

C4.1 Group overview continued

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

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

	Gross insurance contract liabilities $m	Reinsurers' share of insurance contract liabilities $m note (a)	Investment contracts $m note (b)	Unallocated surplus of with-profits funds $m
Balance at 1 January 2018	(443,952)	13,086	(112,378)	(22,931)
Income and expense included in the income statement note (c)				
– continuing operations	512	548	(104)	1,494
– discontinued operations	11,497	14,727	(5,249)	227
Other movements note (d)	13,375	(13,375)	859	(51)
Foreign exchange translation differences	7,621	(793)	6,533	1,081
Balance at 31 December 2018/1 January 2019	**(410,947)**	**14,193**	**(110,339)**	**(20,180)**
Demerger of UK and Europe operations note (e)	87,824	(2,169)	105,196	16,982
Income and expense included in the income statement for continuing operations note (c)	(55,579)	1,795	(311)	(1,415)
Other movements note (d)	–	–	(63)	(112)
Foreign exchange translation differences	(1,441)	37	(18)	(25)
Balance at 31 December 2019	**(380,143)**	**13,856**	**(5,535)**	**(4,750)**

Notes

(a) Includes reinsurers' share of claims outstanding of $1,094 million (31 December 2018: $1,280 million).

(b) This comprises investment contracts with discretionary participation features of $633 million at 31 December 2019 (31 December 2018: $85,858 million) and investment contracts without discretionary participation features of $4,902 million at 31 December 2019 (31 December 2018: $24,481 million).

(c) The total charge for benefits and claims from continuing operations in 2019 shown in the income statement comprises the amounts shown as 'income and expense included in the income statement' in the table above of $(55,510) million (2018: $2,450 million) together with claims paid of $(29,585) million (2018: $(26,926) million), net of amounts attributable to reinsurers of $1,190 million (2018: $1,050 million).

(d) Other movements for 2019 are for continuing operations only and include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the statement of financial position in accordance with IAS 39 and changes in the unallocated surplus of with-profits funds resulting from the recapture of the intra-group reinsurance agreement between the with-profits discontinued UK and Europe operations and Asia insurance operations prior to the demerger, which is eliminated in the income statement for the continuing operations of the Group. For 2018, in addition to premiums received and claims paid on investment contracts without discretionary participating features, other movements also included the reclassification of the reinsured UK annuity business as held for sale at 31 December 2018 and the changes in the unallocated surplus of with-profits funds resulting from actuarial gains and losses on the Group's defined benefit pension schemes allocated to the with-profits funds of the discontinued UK and Europe operations, which were recognised directly in other comprehensive income.

(e) The balances of the discontinued UK and Europe operations are removed from the opening balances to show the underlying movement from continuing operations. The $2,169 million of reinsurer's share of insurance contract liabilities in the table above excluded the intra-group reinsurance assets of $1,412 million for the with-profits business ceded to the Asia insurance operations.

(iv) Reinsurers' share of insurance contract liabilities

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. The treatment of any gains or losses arising on the purchase of reinsurance contracts is dependent on the underlying accounting basis of the entity concerned.

	31 Dec 2019 $m				31 Dec 2018 $m
	Asia note (a)	US note (b)	Unallocated to a segment	Total	Total
Insurance contract liabilities	5,311	7,447	4	12,762	12,913
Claims outstanding	147	947	–	1,094	1,280
Total	5,458	8,394	4	13,856	14,193
Analysed as:					
From continuing operations					12,024
From discontinued UK and Europe operations					2,169
					14,193

Notes

(a) The reinsurers' share of insurance contract liabilities for Asia primarily relates to protection business written in Hong Kong.

(b) The reinsurer's share of insurance contract liabilities for Jackson as shown in the table above primarily relates to certain fully collateralised former REALIC business retained by Swiss Re through 100 per cent reinsurance agreements. Apart from the reinsurance of REALIC business, the principal reinsurance ceded by Jackson outside the Group is on term-life insurance, direct and assumed accident and health business and GMIB variable annuity guarantees.

The Group cedes certain business to other insurance companies. Although the ceding of insurance does not relieve the Group from its liability to its policyholders, the Group participates in such agreements for the purpose of managing its loss exposure. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk from similar geographic regions, activities or economic characteristics of the reinsurers to minimise its exposure from reinsurer insolvencies. Of the reinsurers' share of insurance contract liabilities balance of $13,856 million at 31 December 2019 (31 December 2018: $12,024 million from continuing operations), 97 per cent (31 December 2018: 95 per cent from continuing operations) of the balance was from reinsurers with rating A- and above by Standard & Poor's or other external rating agencies.

Net commissions received on ceded business and claims incurred ceded to external reinsurers for Asia totalled $355 million and $552 million respectively during 2019 (2018: $294 million and $362 million, respectively). Net commissions received on ceded business and claims incurred ceded to external reinsurers for Jackson totalled $20 million and $630 million respectively during 2019 (2018: $9 million and $653 million, respectively). There were no deferred gains or losses on reinsurance contracts for Asia and Jackson in either 2019 or 2018.

C4.2 Asia insurance operations

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

		Shareholder-backed business		
	With-profits business $m	**Unit-linked liabilities** $m	**Other business** $m	**Total** $m
Balance at 1 January 2018	49,292	27,093	23,505	99,890
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	44,592	22,001	18,496	85,089
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	4,700	–	–	4,700
– Group's share of policyholder liabilities relating to joint ventures and associate [note (a)]	–	5,092	5,009	10,101
Premiums				
New business	1,542	1,904	1,449	4,895
In-force	7,050	2,359	3,303	12,712
	8,592	4,263	4,752	17,607
Surrenders [note (b)]	(451)	(2,542)	(736)	(3,729)
Maturities/deaths	(1,245)	(187)	(1,209)	(2,641)
Net flows	6,896	1,534	2,807	11,237
Shareholders' transfers post-tax	(87)	–	–	(87)
Investment-related items and other movements [note (c)]	(2,110)	(1,903)	295	(3,718)
Foreign exchange translation differences [note (d)]	(288)	(1,020)	(606)	(1,914)
Balance at 31 December 2018/1 January 2019	**53,703**	**25,704**	**26,001**	**105,408**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	**50,505**	**20,846**	**20,485**	**91,836**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**3,198**	**–**	**–**	**3,198**
– Group's share of policyholder liabilities relating to joint ventures and associate [note (a)]	**–**	**4,858**	**5,516**	**10,374**
Premiums				
New business	**1,611**	**1,837**	**2,419**	**5,867**
In-force	**8,111**	**2,361**	**3,755**	**14,227**
	9,722	**4,198**	**6,174**	**20,094**
Surrenders [note (b)]	**(546)**	**(2,929)**	**(681)**	**(4,156)**
Maturities/deaths	**(1,632)**	**(149)**	**(1,019)**	**(2,800)**
Net flows	**7,544**	**1,120**	**4,474**	**13,138**
Shareholders' transfers post-tax	**(99)**	**–**	**–**	**(99)**
Investment-related items and other movements [note (c)]	**8,638**	**1,663**	**2,523**	**12,824**
Foreign exchange translation differences [note (d)]	**522**	**363**	**414**	**1,299**
Balance at 31 December 2019	**70,308**	**28,850**	**33,412**	**132,570**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	**65,558**	**23,571**	**26,814**	**115,943**
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	**4,750**	**–**	**–**	**4,750**
– Group's share of policyholder liabilities relating to joint ventures and associate [note (a)]	**–**	**5,279**	**6,598**	**11,877**
Average policyholder liability balances [note (e)]				
2019	**58,032**	**27,277**	**29,706**	**115,015**
2018	47,548	26,398	24,752	98,698

C4 Policyholder liabilities and unallocated surplus continued

C4.2 Asia insurance operations continued

Notes

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

(b) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening policyholder liabilities) was 7.0 per cent in 2019 (2018: 6.6 per cent).

(c) Investment-related items and other movements in 2019 primarily represent equity market gains from the with-profits business and effects from lower interest rates.

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

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

(ii) Duration of policyholder liabilities

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

	31 Dec 2019 $m	31 Dec 2018 $m
Policyholder liabilities	115,943	91,836

Expected maturity:	31 Dec 2019 %	31 Dec 2018 %
0 to 5 years	18	20
5 to 10 years	18	19
10 to 15 years	15	15
15 to 20 years	13	12
20 to 25 years	11	10
Over 25 years	25	24

(iii) Summary policyholder liabilities (net of reinsurance) and unallocated surplus

At 31 December 2019, the policyholder liabilities and unallocated surplus for Asia operations (excluding joint ventures and associate), net of external reinsurance of $5,458 million (31 December 2018: $3,537 million), comprised the following:

	31 Dec 2019 $m	31 Dec 2018 $m
Hong Kong	58,800	43,997
Indonesia	4,933	4,687
Malaysia	7,725	6,937
Singapore	27,427	23,121
Taiwan	6,801	5,353
Other operations	9,549	7,402
Total Asia operations	115,235	91,497

C4.3 US insurance operations

(i) Analysis of movements in policyholder liabilities

	Variable annuity separate account liabilities $m	Fixed annuity, GICs and other business $m	Total $m
Balance at 1 January 2018	176,578	67,905	244,483
Premiums	14,646	3,967	18,613
Surrenders	(11,746)	(4,465)	(16,211)
Maturities/deaths	(1,449)	(1,238)	(2,687)
Net flows	1,451	(1,736)	(285)
Addition for closed block of group payout annuities in the US	–	5,532	5,532
Transfers from general to separate account	708	(708)	–
Investment-related items and other movements	(15,436)	2,086	(13,350)
Balance at 31 December 2018/1 January 2019	**163,301**	**73,079**	**236,380**
Premiums	12,776	8,200	20,976
Surrenders	(12,767)	(4,575)	(17,342)
Maturities/deaths	(1,564)	(1,823)	(3,387)
Net flows note (a)	(1,555)	1,802	247
Transfers from general to separate account	951	(951)	–
Investment-related items and other movements note (b)	32,373	549	32,922
Balance at 31 December 2019	**195,070**	**74,479**	**269,549**
Average policyholder liability balances note (c)			
2019	179,186	73,779	252,965
2018	169,940	69,109	239,049

Notes

(a) Net inflows in 2019 are $247 million with new inflows into fixed annuity, fixed index annuity and the general account exceeding withdrawals and surrenders on this business, partially offset by net outflows from variable annuity business as the portfolio matures.

(b) Positive investment-related items and other movements largely represent positive separate account returns following the increase in the US equity market in the year and asset gains arising from declining bond yields.

(c) Average policyholder liabilities have been based on opening and closing balances, adjusted for any acquisitions, disposals and other corporate transactions arising in the year.

(ii) Duration of policyholder liabilities

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

	31 Dec 2019			31 Dec 2018		
	Variable annuity separate account liabilities $m	Fixed annuity, GICs and other business $m	Total $m	Variable annuity separate account liabilities $m	Fixed annuity, GICs and other business $m	Total $m
Policyholder liabilities	195,070	74,479	269,549	163,301	73,079	236,380
Expected maturity:	%	%	%	%	%	%
0 to 5 years	41	45	42	40	51	43
5 to 10 years	27	27	27	28	24	27
10 to 15 years	16	13	15	16	12	15
15 to 20 years	9	8	9	9	7	8
20 to 25 years	4	4	4	4	3	4
Over 25 years	3	3	3	3	3	3

C4 Policyholder liabilities and unallocated surplus continued

C4.3 US insurance operations continued

(iii) Aggregate account values

The table below shows the distribution of account values for fixed annuities (fixed interest rate and fixed index), the fixed account portion of variable annuities, and interest-sensitive life business within the range of minimum guaranteed interest rates as described in note C4.4(b). As at 31 December 2019, approximately 87 per cent (31 December 2018: 87 per cent) of Jackson's fixed annuities, variable annuity fixed account options and interest-sensitive life business account values correspond to crediting rates that are at the minimum guaranteed interest rates.

	Fixed annuities and the fixed account portion of variable annuities		Interest-sensitive life business	
Minimum guaranteed interest rate	31 Dec 2019 $m	31 Dec 2018 $m	31 Dec 2019 $m	31 Dec 2018 $m
> 0% – 1.0%	6,952	9,660	–	–
> 1.0% – 2.0%	12,994	8,646	–	–
> 2.0% – 3.0%	13,701	12,832	270	291
> 3.0% – 4.0%	1,561	1,623	3,018	3,049
> 4.0% – 5.0%	2,236	2,285	2,597	2,683
> 5.0% – 6.0%	278	286	2,031	2,168
Total	37,722	35,332	7,916	8,191

C4.4 Products and determining contract liabilities

C4.4(a) Asia

Contract type	*Description and material features*	*Determination of liabilities*
With-profits and participating contracts	Provides savings and/or protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the Company. Participating products often offer a guaranteed maturity or surrender value. Declared regular bonuses are guaranteed once vested. Future bonus rates and cash dividends are not guaranteed. Market value adjustments and surrender penalties are used for certain products where the law permits such adjustments. Guarantees are predominantly supported by segregated life funds and their estates.	With-profits contracts are predominantly sold in Hong Kong, Malaysia and Singapore. The total value of the with-profits funds is driven by the underlying asset valuation with movements reflected principally in the accounting value of policyholder liabilities and unallocated surplus.

C4.4(a) Asia continued

Contract type	*Description and material features*	*Determination of liabilities*
Term, whole life and endowment assurance	Non-participating savings and/or protection where the benefits are guaranteed, or determined by a set of defined market-related parameters. These products often offer a guaranteed maturity and surrender value. It is common in Asia for regulations or market-driven demand and competition to provide some form of capital value protection and minimum crediting interest rate guarantees. This is reflected within the guaranteed maturity and surrender values. Guarantees are borne by shareholders.	The approach to determining the contract liabilities is generally driven by the local solvency basis. A gross premium valuation method is used in those local businesses where a risk-based capital framework is adopted for local solvency. Under the gross premium valuation method, all cash flows are valued explicitly using best estimate assumptions with a suitable margin for prudence. This is achieved either through adding an explicit allowance for assumptions to deviate from best estimate or by applying an overlay constraint so that on day one no negative reserves (ie where future premium inflows are expected to exceed prudent future claims and outflows) are derived at an individual policyholder level, or a combination of both. In Vietnam, the Company uses an estimation basis aligned substantially to that used by the countries applying the gross premium valuation method. For India and Taiwan, US GAAP is applied for measuring insurance liabilities. For these businesses, the future policyholder benefit provisions for non-linked business are determined using the net level premium method, with an allowance for surrenders, maintenance and claims expenses. Rates of interest used in establishing the policyholder benefit provisions vary by operation depending on the circumstances attaching to each block of business. The Hong Kong business unit applies a net premium valuation method to determine the future policyholder benefit provisions.
Unit-linked	Combines savings with protection, the cash value of the policy depends on the value of the underlying unitised funds.	The attaching liabilities reflect the unit value obligation driven by the value of the investments of the unit fund. Additional technical provisions are held for guaranteed benefits beyond the unit fund value using a gross premium valuation method. These additional provisions are recognised as a component of other business liabilities.
Health and protection	Health and protection features are offered as supplements to the products listed above or sold as standalone products. Protection covers mortality or morbidity benefits including health, disability, critical illness and accident coverage.	The determination of the liabilities of health and protection contracts are driven by the local solvency basis. A gross premium valuation method is used in those countries where a risk-based capital framework is adopted for local solvency. Under the gross premium valuation method, all cash flows are valued explicitly using best estimate assumptions with a suitable margin for prudence. This is achieved either through adding an explicit allowance for assumptions to deviate from best estimate or by applying an overlay constraint so that on day one no negative reserves (ie where future premium inflows are expected to exceed prudent future claims and outflows) are derived at an individual policyholder level, or a combination of both. The Hong Kong business unit applies a net premium valuation method to determine the future policyholder benefit provisions.

C4 Policyholder liabilities and unallocated surplus continued

C4.4 Products and determining contract liabilities continued

C4.4(b) US

Contract type	*Description and material features*	*Determination of liabilities*
Fixed interest rate annuities At 31 December 2019, fixed interest rate annuities accounted for 6 per cent (31 December 2018: 7 per cent) of Jackson's policy and contract liabilities.	Fixed interest rate annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. The policyholder of a fixed interest rate annuity pays Jackson a premium, which is credited to the policyholder's account. Periodically, interest is credited to the policyholder's account and in some cases administrative charges are deducted from the policyholder's account. Jackson makes benefit payments at a future date as specified in the policy based on the value of the policyholder's account at that date. On more than 90 per cent (2018: 94 per cent) of in-force business, Jackson may reset the interest rate on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, Jackson either pays the contract holder the account value or a series of payments in the form of an immediate annuity product. The policy provides that at Jackson's discretion it may reset the interest rate, subject to a guaranteed minimum. Approximately 65 per cent (31 December 2018: 64 per cent) of the fixed interest rate annuities Jackson wrote in 2019 provide for a (positive or negative) market value adjustment (MVA) on surrender. This formula-based adjustment approximates the change in value that assets supporting the product would realise as interest rates move. Guaranteed minimum interest rate. At 31 December 2019, Jackson had fixed interest rate annuities totalling $15.9 billion (31 December 2018: $16.1 billion) in account value with minimum guaranteed rates ranging from 1.0 per cent to 5.5 per cent and a 2.88 per cent average guaranteed rate (31 December 2018: 1.0 per cent to 5.5 per cent and a 2.91 per cent average guaranteed rate), depending on the particular product, jurisdiction where issued and the date of issue.	As explained in note A4.1, all of Jackson's insurance liabilities are based on US GAAP. An overview of the deferral and amortisation of acquisition costs for Jackson is provided in note C5.2(i)(b). With minor exceptions, the following is applied to most of Jackson's contracts. Contracts are accounted for as investment contracts as defined for US GAAP purposes by applying a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by: — Any amounts that have been assessed to compensate the insurer for services to be performed over future periods (ie deferred income); — Any amounts previously assessed against policyholders that are refundable on termination of the contract; and — Any probable future loss on the contract (ie premium deficiency). Capitalised acquisition costs and deferred income for these contracts are amortised over the life of the book of contracts. See the variable annuity section below for further discussion. The interest guarantees are not explicitly valued but are reflected as they are earned in the current account liability value.

C4.4(b) US continued

Contract type	*Description and material features*	*Determination of liabilities*
Fixed index annuities At 31 December 2019, fixed index annuities accounted for 5 per cent (31 December 2018: 5 per cent) of Jackson's policy and contract liabilities.	Fixed index annuities vary in structure but are generally deferred annuities that enable policyholders to obtain a portion of an equity-linked return (based on participation rates, caps and spreads), and provide a guaranteed minimum return. Most fixed index annuities are subject to early surrender charges for the first five to 12 years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson offers a fully liquid fixed index annuity product that has no surrender charges. Jackson hedges the equity return risk on fixed index products using offsetting equity exposure in the variable annuity product. The cost of hedging is taken into account in setting the index participation rates, caps or spreads. Guaranteed minimum rates are generally set at 1.0 to 3.0 per cent. At 31 December 2019, Jackson had fixed index annuities allocated to indexed funds totalling $9.8 billion (31 December 2018: $7.6 billion) in account value with minimum guaranteed rates on index accounts ranging from 1.0 per cent to 3.0 per cent and a 1.46 per cent average guaranteed rate (31 December 2018: 1.0 per cent to 3.0 per cent and a 1.77 per cent average guarantee rate). Jackson offers an optional lifetime income rider, which can be elected for an additional fee. Jackson also offers fixed interest accounts on some fixed index annuity products. At 31 December 2019, fixed interest accounts of fixed index annuities totalled $4.3 billion (31 December 2018: $3.4 billion) in account value. Minimum guaranteed rates on fixed interest accounts range from 1.0 per cent to 3.0 per cent and a 2.75 per cent average guaranteed rate (31 December 2018: 1.0 per cent to 3.0 per cent and a 2.58 per cent average guaranteed rate).	The liability for policyholder benefits that represent the guaranteed minimum return is determined similarly to the liabilities of the fixed interest annuity above. The equity-linked return option within the contract is treated as an embedded derivative liability under US GAAP and therefore this element of the liability is recognised at fair value. The liability for the lifetime income rider is determined each period end by estimating the expected value of benefits in excess of the projected account balance and recognising the excess on a prorated basis over the life of the contract based on total expected assessments.

C4 Policyholder liabilities and unallocated surplus continued

C4.4 Products and determining contract liabilities continued

C4.4(b) US continued

Contract type	*Description and material features*	*Determination of liabilities*
Group pay-out annuities At 31 December 2019, group pay-out annuities accounted for 2 per cent (31 December 2018: 2 per cent) of Jackson's policy and contract liabilities.	Group pay-out annuities consist of a block of defined benefit annuity plans assumed from John Hancock USA and John Hancock New York. A single premium payment from an employer (contract holder) funds the pension benefits for its employees (participants). The contracts are tailored to meet the requirements of the specific pension plan being covered. This is a closed block of business from two standpoints: (1) John Hancock USA and John Hancock New York are no longer selling new contracts, and (2) contract holders (companies) are no longer adding additional participants to these defined benefit pension plans. The contracts provide annuity payments that meet the requirements of the specific pension plan being covered. In some cases, the contracts have pre-retirement death and/or withdrawal benefits, pre-retirement surviving spouse benefits, and/or subsidised early retirement benefits.	The liability for future benefits is determined under US GAAP methodology for limited-payment contracts, using assumptions as of the acquisition date as to mortality and expense plus provisions for adverse deviation.

C4.4(b) US continued

Contract type	*Description and material features*	*Determination of liabilities*
Variable annuities At 31 December 2019, variable annuities accounted for 78 per cent (31 December 2018: 75 per cent) of Jackson's policy and contract liabilities.	Variable annuities are deferred annuities that have the same tax advantages and pay-out options as fixed interest rate and fixed index annuities. They are also used for asset accumulation in retirement planning and to provide income in retirement. The rate of return depends upon the performance of the selected fund portfolio. Policyholders may allocate their investment to either the fixed account or a selection of variable accounts. Most variable annuities are subject to early surrender charges for the first three to nine years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson offers some fully liquid variable annuity products that have no surrender charges. Subject to benefit guarantees, investment risk on the variable account is borne by the policyholder, while investment risk on the fixed account is borne by Jackson through guaranteed minimum fixed rates of interest. At 31 December 2019, 4 per cent (31 December 2018: 5 per cent) of variable annuity funds were in fixed accounts. Jackson had variable annuity funds in fixed accounts totalling \$7.8 billion (31 December 2018: \$8.1 billion) with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 2.19 per cent average guaranteed rate (31 December 2018: 1.0 per cent to 3.0 per cent and a 1.7 per cent average guaranteed rate). Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which can be elected for additional fees. These guaranteed benefits might be expressed as the return of either: (a) total deposits made to the contract adjusted for any partial withdrawals, (b) total deposits made to the contract adjusted for any partial withdrawals, plus a minimum return, or (c) the highest contract value on a specified anniversary date adjusted for any withdrawals following that contract anniversary. Jackson hedges these risks using derivative instruments as described in note C7.3.	The general principles for fixed annuity and fixed index annuity also apply to variable annuities. The impact of any fixed account interest guarantees is reflected as they are earned in the current account value. Jackson regularly evaluates estimates used and adjusts the benefit guarantee liability balances, with a related charge or credit to benefit expense if actual experience or other evidence suggests that earlier assumptions should be revised. The benefit guarantee types are further set out below: *Benefits that are payable in the event of death (guaranteed minimum death benefit)* The liability for Guaranteed Minimum Death Benefit (GMDB) is determined at each period end by estimating the expected value of benefits in excess of the projected account balance and recognising the excess rateably over the life of the contract based on total expected assessments. At 31 December 2019, these liabilities were valued using a series of stochastic investment performance scenarios, a mean investment return of 7.4 per cent (31 December 2018: 7.4 per cent) net of external fund management fees, and assumptions for policyholder behaviour, mortality and expense. *Benefits that are payable upon the depletion of funds (guaranteed minimum withdrawal benefit)* The liability for the Guaranteed Minimum Withdrawal Benefit (GMWB) 'for life' portion is determined similarly to GMDB above. Provisions for benefits under GMWB 'not for life' features are recognised at fair value under US GAAP. Non-performance risk is incorporated into the fair value calculation through the use of discount interest rates sourced from an AA corporate credit curve as a proxy for Jackson's own credit risk. Other risk margins, particularly for policyholder behaviour and long-term volatility, are also incorporated into the model through the use of explicitly conservative assumptions. On a periodic basis, Jackson validates the resulting fair values based on comparisons to other models and market movements. The value of future fees to offset payments made under the guarantees are established so that on day one no gain arises.

C4 Policyholder liabilities and unallocated surplus continued

C4.4 Products and determining contract liabilities continued

C4.4(b) US continued

Contract type	*Description and material features*	*Determination of liabilities*
Variable annuities continued		*Benefits that are payable at annuitisation (guaranteed minimum income benefit)* This feature is no longer offered and existing coverage is substantially reinsured, subject to deductibles and annual claim limits. The direct Guaranteed Minimum Income Benefit (GMIB) liability is determined by estimating the expected value of the annuitisation benefits in excess of the projected account balance at the date of annuitisation and recognising the excess rateably over the life of the contract based on total expected assessments. Guaranteed Minimum Income Benefits are reinsured, subject to a deductible and annual claim limits. Due to the net settlement provisions of the reinsurance agreement, under the 'grandfathered' US GAAP, it is recognised at fair value with the change in fair value included as a component of short-term fluctuations. Volatility and non-performance risk is considered as per GMWB above.
		Benefits that are payable at the end of a specified period (guaranteed minimum accumulation benefit) This feature is no longer offered. Provisions for Guaranteed Minimum Accumulation Benefit (GMAB) are recognised at fair value under US GAAP. Volatility and non-performance risk is considered as per GMWB above. *Deferred acquisition costs (DAC)* Capitalised acquisition costs and deferred income for these contracts are amortised over the life of the book of contracts. The majority of Jackson's DAC relates to its variable annuities business. The present value of the estimated gross profit is computed using the rate of interest that accrues to policyholder balances (sometimes referred to as the contract rate). Estimated gross profits for the fixed interest rate annuities, fixed index annuities and variable annuities include estimates of the following, each of which will be determined based on the best estimate of amounts over the life of the book of contracts without provision for adverse deviation: — Amounts expected to be assessed against policyholder balances for mortality less benefit claims in excess of related policyholder balances; — Amounts expected to be assessed for contract administration less costs incurred for contract administration; — Amounts expected to be earned from the investment of policyholder balances less interest credited to policyholder balances; — Amounts expected to be assessed against policyholder balances upon termination of contracts (sometimes referred to as surrender charges); — Assumptions for the long-term investment return for the separate accounts and future hedge costs; and — Other expected assessments and credits.

C4.4(b) US continued

Contract type	*Description and material features*	*Determination of liabilities*
Life insurance At 31 December 2019, life insurance products accounted for 7 per cent (31 December 2018: 9 per cent) of Jackson's policy and contract liabilities.	Jackson discontinued new sales of life insurance products in 2012. Life products include term life, traditional life and interest-sensitive life (universal life and variable universal life). — Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. — Traditional life provides protection for either a defined period or until a stated age and includes a predetermined cash value. — Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. — Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the policyholder account to be invested in separate account funds. Excluding the business that is subject to the retrocession treaties at 31 December 2019, Jackson had interest-sensitive life business in force with total account value of $7.9 billion (31 December 2018: $8.2 billion), with minimum guaranteed interest rates ranging from 2.5 per cent to 6.0 per cent with a 4.68 per cent average guaranteed rate (31 December 2018: 2.5 per cent to 6.0 per cent with a 4.67 per cent average guaranteed rate).	For term and traditional life insurance contracts, provisions for future policy benefits are determined under US GAAP using the net level premium method and assumptions as of the issue or acquisition date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation for directly sold business and assumptions at purchase for acquired business. For universal life and variable universal life a retrospective deposit method is used to determine the liability for policyholder benefits. This is then augmented by additional liabilities to account for no-lapse guarantees, profits followed by losses, contract features such as persistency bonuses, and cost of interest rate guarantees.
Institutional products At 31 December 2019, institutional products accounted for 1 per cent (31 December 2018: 1 per cent) of Jackson's policy and contract liabilities.	Institutional products are: guaranteed investment contracts (GICs), funding agreements (including agreements issued in conjunction with Jackson's participation in the US Federal Home Loan Bank programme) and Medium Term Note funding agreements. GICs feature a lump sum policyholder deposit on which interest is paid at a rate fixed at inception. Market value adjustments are made to the value of any early withdrawals. Funding agreements feature either lump sum or periodic policyholder deposits. Interest is paid at a fixed or index linked rate. Funding agreements have a duration of between one and 30 years. In 2019 and 2018 there were no funding agreements terminable by the policyholder with less than 90 days' notice.	Institutional products are classified as investment contracts, and are accounted for as financial liabilities at amortised cost. The currency risk on contracts that represent currency obligations other than US dollars are hedged using cross-currency swaps.

C5 Intangible assets

C5.1 Goodwill

Business combination

Business acquisitions are accounted for by applying the purchase method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The excess of the acquisition consideration over the fair value of the assets and liabilities of the acquired business is recorded as goodwill. The Group chooses the full goodwill method or the partial goodwill method to calculate goodwill on an acquisition by acquisition basis. Expenses related to acquiring new subsidiaries are charged to the income statement in the period in which they are incurred and not included in goodwill. Income and expenses of acquired businesses are included in the income statement from the date of acquisition.

Where the Group writes a put option over its non-controlling interests as part of its business acquisition, which if exercised triggers the purchase by the Group of the non-controlling interests, the put option is recognised as a financial liability at the acquisition date with a corresponding amount, deducted directly from shareholder's equity due to the significant risks and rewards of ownership remaining with the non-controlling interests. Any subsequent changes to the carrying amount of the put liability are also recognised within equity.

Goodwill

Goodwill is capitalised and carried on the Group consolidated statement of financial position as an intangible asset at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment.

Goodwill shown on the consolidated statement of financial position at 31 December 2019 is wholly attributable to shareholders and represents amounts allocated to businesses in Asia and Africa in respect of both acquired asset management and life businesses.

	31 Dec 2019 $m	**31 Dec 2018** $m
Carrying value at beginning of year	**2,365**	2,005
Demerger of UK and Europe operations	**(1,731)**	–
Additions in the year	**299**	503
Disposals/reclassifications to held for sale	**–**	(13)
Exchange differences	**36**	(130)
Carrying value at end of year	**969**	2,365

Impairment testing

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash-generating units for the purposes of impairment testing. These cash-generating units are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis.

Goodwill is tested for impairment by comparing the cash-generating unit's carrying amount, including any goodwill, with its recoverable amount. The Group's methodology of assessing whether goodwill may be impaired for acquired life and asset management operations is discussed below:

For acquired life businesses, the Company routinely compares the aggregate of net asset value and acquired goodwill on an IFRS basis of the acquired life business with the value of the current in-force business as determined using the EEV methodology. Any excess of IFRS value over EEV carrying value is then compared with EEV basis value of current and projected future new business to determine whether there is any indication that the goodwill in the IFRS statement of financial position may be impaired. The methodology and assumptions underpinning the Group's EEV basis of reporting are included in the EEV basis supplementary information in this Annual Report.

The goodwill in respect of asset management businesses comprised mainly the goodwill arising from the acquisition of Thanachart Fund Management Co., Ltd. (TFUND) in 2019 and TMB Asset Management Co., Ltd. (TMBAM) in Thailand in 2018. At 31 December 2019, the recoverable amount of these businesses has been determined by calculating the value in use of each of these businesses (considered to be the cash-generating units) using a discounted cash flow valuation.

For TMBAM, the discounted cash flow valuation is based on the latest three-year plan and cash flow projections for the later years. For TFUND, which was acquired in December 2019, the valuation is based on the 10-year cash flow projections used in assessing the acquisition. The value in use for these acquired asset management businesses is particularly sensitive to a number of key assumptions as follows:

- The set of economic, market and business assumptions used to derive the cash flow projections for the businesses;
- The assumed growth rate on forecast cash flows beyond the terminal year of the cash flow projections after considering expected future and past growth rates. At 31 December 2019, a growth rate of 2.25 per cent has been used to extrapolate beyond the projection period (2018: 2.25 per cent in respect of TMBAM);
- The risk discount rate applied in accordance with the nature of the businesses. The pre-tax discount rate applied at 31 December 2019 was 9 per cent (2018: 9 per cent in respect of TMBAM); and
- The continuation of asset management contracts on similar terms.

Management believes that any reasonable change in the key assumptions would not cause the recoverable amount of the asset management businesses acquired to fall below its carrying amount.

C5.2 Deferred acquisition costs and other intangible assets

Intangible assets acquired on the purchase of a subsidiary or portfolio of contracts are measured at fair value on acquisition. Deferred acquisition costs are accounted for as described in note A4.1(c). Other intangible assets, such as distribution rights and software, are valued initially at the price paid to acquire them and are subsequently carried at cost less amortisation and any accumulated impairment losses. For intangibles other than DAC, amortisation follows the pattern in which the future economic benefits are expected to be consumed. If the pattern cannot be determined reliably, a straight-line method is applied. For software, the amortisation generally represents the licence period of the software acquired. Amortisation of intangible assets is charged to the 'acquisition costs and other expenditure' line in the consolidated income statement. Impairment testing is conducted when there is an indication of impairment.

	31 Dec 2019 $m	31 Dec 2018 $m
Deferred acquisition costs and other intangible assets attributable to shareholders		
From continuing operations	17,409	14,865
From discontinued operations	–	143
Total note (i)	17,409	15,008
Other intangible assets, including computer software, attributable to with-profits funds		
From continuing operations	67	71
From discontinued operations	–	106
Total	67	177
Total of deferred acquisition costs and other intangible assets	17,476	15,185

(i) Deferred acquisition costs and other intangible assets attributable to shareholders

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

	31 Dec 2019 $m	31 Dec 2018 $m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	14,206	12,758
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	33	99
Deferred acquisition costs related to insurance and investment contracts note (ii)	14,239	12,857
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	38	43
Distribution rights and other intangibles	3,132	2,108
Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders note (iii)	3,170	2,151
Total of deferred acquisition costs and other intangible assets note (a)	17,409	15,008

C5 Intangible assets continued

C5.2 Deferred acquisition costs and other intangible assets continued

Notes

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

	31 Dec 2019 $m					31 Dec 2018 $m
	Deferred acquisition costs					
	Asia insurance	US insurance* note (b)	Discontinued UK and Europe operations	PVIF and other intangibles†	Total	Total
Balance at 1 January	1,610	11,113	134	2,151	15,008	14,700
Demerger of UK and Europe operations	–	–	(134)	(9)	(143)	–
Additions‡	615	807	–	1,179	2,601	1,666
Amortisation to the income statement:						
Adjusted IFRS operating profit based on longer-term investment returns	(257)	(297)	–	(238)	(792)	(1,370)
Non-operating profit (loss)	–	1,248	–	(5)	1,243	(156)
	(257)	951	–	(243)	451	(1,526)
Disposals and transfers	–	–	–	(11)	(11)	(19)
Exchange differences and other movements	31	–	–	103	134	(141)
Amortisation of DAC related to net unrealised valuation movements on the US insurance operation's available-for-sale securities recognised within other comprehensive income	–	(631)	–	–	(631)	328
Balance at 31 December	1,999	12,240	–	3,170	17,409	15,008

* Under the Group's application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of the US insurance operation's products are accounted for under Accounting Standard no. 97 of the Financial Accounting Standards Board (FAS 97) whereby deferred acquisition costs are amortised in line with the emergence of actual and expected gross profits which are determined using an assumption for long-term investment returns for the separate account of 7.4 per cent (2018: 7.4 per cent), gross of asset management fees and other charges to policyholders, but net of external fund management fees. The other assumption impacting expected gross profits include mortality assumptions, lapses, assumed unit costs and future hedge costs. The amounts included in the income statement and other comprehensive income affect the pattern of profit emergence and thus the DAC amortisation attaching. DAC amortisation is allocated to the operating and non-operating components of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items.

† PVIF and other intangibles comprise present value of acquired in-force (PVIF), distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time. Software rights include additions of $51 million, amortisation of $(33) million, disposals of $5 million, foreign exchange of $2 million and closing balance at 31 December 2019 of $85 million (31 December 2018: $70 million for continuing operations).

‡ In January 2019, the Group renewed its regional strategic bancassurance alliance with United Overseas Bank Limited (UOB). The new agreement extends the original alliance, which commenced in 2010, to 2034 and increases the geographical scope to include a fifth market, Vietnam, alongside the existing markets of Singapore, Malaysia, Thailand and Indonesia. As part of this transaction, Prudential has agreed to pay UOB an initial fee of $853 million (equivalent to SGD1,150 million) for distribution rights which are not dependent on future sales volumes. Of the $853 million, $301 million was paid in 2019, with another two instalments being payable in 2020 and 2021. After allowing for discounting, the amount included in additions in the table above is $834 million.

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

	31 Dec 2019 $m	31 Dec 2018 $m
Variable annuity business	12,406	10,796
Other business	529	381
Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income)*	(695)	(64)
Total DAC for US operations	12,240	11,113

* A loss of $(631) million (2018: a gain of $328 million) for shadow DAC amortisation is booked within other comprehensive income to reflect the impact from the positive unrealised valuation movement of $4,023 million (2018: negative unrealised valuation movement of $(2,159) million). These adjustments reflect the movement from year to year, in the changes to the pattern of reported gross profit that would have happened if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market. At 31 December 2019, the cumulative shadow DAC balance as shown in the table above was negative $(695) million (31 December 2018: negative $(64) million).

(c) *Sensitivity of US DAC amortisation charge*

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

— A core amount that reflects a relatively stable proportion of underlying premiums or profit; and
— An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor features of the mean reversion technique (which is used for moderating the effect of short-term volatility in investment returns) are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect.

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

In 2019, the DAC amortisation charge for adjusted IFRS operating profit based on longer-term investment returns was determined after including a credit for decelerated amortisation of $280 million (2018: $259 million charge for acceleration). The deceleration arising in 2019 reflects a mechanical decrease in the projected separate account return for the next five years under the mean-reversion technique. Under this technique, the projected level of return for each of the next five years is adjusted so that, in combination with the actual rates of return for the preceding three years (including the current year), the assumed long-term annual separate account return of 7.4 per cent is realised on average over the entire eight-year period. The deceleration in DAC amortisation in 2019 is primarily driven by the actual separate account return in the year being higher than that assumed.

The application of the mean reversion formula (described in note A4.1) has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. At 31 December 2019, it would take approximate movements in separate account values of more than either negative 26 per cent or positive 49 per cent for mean reversion assumption to move outside the corridor.

(ii) Deferred acquisition costs related to insurance and investment contracts

The movements in deferred acquisition costs relating to insurance and investment contracts are as follows:

	2019 $m		2018 $m	
	Insurance contracts	Investment contracts note	Insurance contracts	Investment contracts note
Balance at 1 January	12,758	99	12,406	85
Demerger of UK and Europe operations	(62)	(72)	–	–
Additions	1,411	11	1,324	35
Amortisation	699	(5)	(1,266)	(16)
Exchange differences	31	–	(34)	(5)
Change in shadow DAC related to movement in unrealised appreciation of debt securities classified as available-for-sale	(631)	–	328	–
Balance at 31 December	14,206	33	12,758	99

Note

All of the additions of investment contracts are through internal development. The carrying amount of the DAC balance comprises the following gross and accumulated amortisation amounts:

	31 Dec 2019 $m	31 Dec 2018 $m
Gross amount	34	231
Accumulated amortisation	(1)	(132)
Carrying amount	33	99

(iii) PVIF and other intangibles attributable to shareholders

	2019 $m				2018 $m			
	PVIF note (a)	Distribution rights note (b)	Other intangibles (including software)	Total	PVIF note (a)	Distribution rights note (b)	Other intangibles (including software)	Total
Balance at 1 January								
Cost	295	2,546	399	3,240	307	2,426	491	3,224
Accumulated amortisation	(252)	(587)	(250)	(1,089)	(258)	(423)	(334)	(1,015)
	43	1,959	149	2,151	49	2,003	157	2,209
Demerger of UK and Europe operations	(1)	–	(8)	(9)	–	–	–	–
Additions	–	1,110	69	1,179	–	242	65	307
Amortisation charge	(5)	(196)	(42)	(243)	(5)	(190)	(49)	(244)
Disposals and transfers	–	–	(11)	(11)	–	–	(19)	(19)
Exchange differences and other movements	1	98	4	103	(1)	(96)	(5)	(102)
Balance at 31 December	38	2,971	161	3,170	43	1,959	149	2,151
Comprising:								
Cost	175	3,783	379	4,337	295	2,546	399	3,240
Accumulated amortisation	(137)	(812)	(218)	(1,167)	(252)	(587)	(250)	(1,089)
	38	2,971	161	3,170	43	1,959	149	2,151

Notes

(a) All of the net PVIF balances relate to insurance contracts. The PVIF attaching to investment contracts have been fully amortised. Amortisation is charged over the period of provision of asset management services as those profits emerge.

(b) Distribution rights relate to fees paid in relation to the bancassurance partnership arrangements for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed businesses

Accounting principles

Although initially recognised at fair value, net of transaction costs, borrowings, excluding liabilities of consolidated collateralised debt obligations, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the income statement to the date of maturity or for hybrid debt, over the expected life of the instrument.

	31 Dec 2019 $m	31 Dec 2018 $m
Central operations:		
Subordinated debt substituted to M&G plc in 2019:		
£600m 5.56% (30 Jun and 31 Dec 2018: 5.0%) Notes 2055 note (i)	–	753
£700m 6.34% (30 Jun and 31 Dec 2018: 5.7%) Notes 2063 note (i)	–	886
£750m 5.625% Notes 2051	–	947
£500m 6.25% Notes 2068	–	634
US$500m 6.5% Notes 2048	–	498
Total subordinated debt substituted to M&G plc in 2019 note (ii)	–	3,718
Subordinated and other debt not substituted to M&G plc:		
US$250m 6.75% Notes note (iii)	250	250
US$300m 6.5% Notes note (iii)	300	299
Perpetual Subordinated Capital Securities	550	549
US$700m 5.25% Notes	700	700
US$1,000m 5.25% Notes	996	993
US$725m 4.375% Notes	721	720
US$750m 4.875% Notes	744	743
Perpetual Subordinated Capital Securities	3,161	3,156
€20m Medium Term Notes 2023	22	23
£435m 6.125% Notes 2031	571	549
£400m 11.375% Notes 2039 note (iv)	–	508
Subordinated notes	593	1,080
Subordinated debt total	4,304	4,785
Senior debt: note (v)		
£300m 6.875% Bonds 2023	392	375
£250m 5.875% Bonds 2029	298	283
Bank loans note (vi)		
$350m Loan 2024	350	–
£275m Loan 2022	–	350
Total debt not substituted to M&G plc in 2019	5,344	5,793
Total central operations	5,344	9,511
Jackson US$250m 8.15% Surplus Notes 2027 note (vii)	250	250
Total core structural borrowings of shareholder-financed businesses note (viii)	5,594	9,761

Notes

(i) In 2019, the Group agreed with the holders of these two subordinated debt instruments that, in return for an increase in the coupon of the two instruments and upfront fees totalling $182 million for both instruments, they would permit the substitution of M&G plc as the issuer of the instruments, together with other modifications of terms to ensure the debt meet the requirements of Solvency II. In accordance with IAS 39, this has been accounted for as an extinguishment of the old debt and the issuance of new debt, recognised at fair value. The debt was substituted to M&G plc in October 2019. The $182 million of upfront fees have been paid by Prudential plc and have been treated as a non-operating expense from continuing operations.

(ii) In 2019, Prudential plc transferred subordinated debt to M&G plc as part of the demerger. In addition to the subordinated debt held at 31 December 2018 as shown in the table above, the debt transferred included the further £300 million 3.875 per cent subordinated debt raised in July 2019

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

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

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

(vi) The bank loan of $350 million was drawn in November 2019 at a cost of LIBOR plus 0.2 per cent. The loan matures on 7 November 2024. The £275 million bank loan was repaid by the Group in October 2019.

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

(viii) The changes in the carrying value of the structural borrowings of shareholder-financed businesses for the Group (including both continuing and discontinued operations) are analysed below:

	Cash movements $m				Non-cash movements $m			
	Balance at beginning of year	Issue of debt	Redemption of debt	Payment for change to terms of debt	Foreign exchange movement	Demerger of UK and Europe operations	Other movements	Balance at end of year
2019	9,761	367	(504)	(182)	298	(4,161)	15	5,594
2018	8,496	2,079	(553)	(44)	(232)	–	15	9,761

Ratings

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

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

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

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

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

C6.2 Operational borrowings

	31 Dec 2019 $m	31 Dec 2018 $m
Borrowings in respect of short-term fixed income securities programmes – commercial paper	520	601
Lease liabilities under IFRS 16 note (a)	371	–
Non-recourse borrowings of consolidated investment funds note (b)	1,045	448
Bank loans and overdrafts	29	115
Finance lease liability under IAS 17 note (a)	–	25
Other	377	82
Other borrowings note (c)	406	222
Operational borrowings attributable to shareholder-financed businesses	2,342	1,271
Non-recourse borrowings of consolidated investment funds note (b)	–	2,153
Lease liabilities under IFRS 16 note (a)	259	–
Other borrowings	44	2,865
Operational borrowings attributable to with-profits businesses note (d)	303	5,018
Total operational borrowings	2,645	6,289
Analysed as:		
Total from continuing operations		1,160
Total from discontinued UK and Europe operations		5,129
		6,289

Notes

(a) The Group adopted IFRS 16 that replaces IAS 17 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (as described in note A3). The finance lease liabilities recognised under IAS 17 in the comparative was principally held by the discontinued UK and Europe operations. Further details on the Group's IFRS 16 adoption and operating leases are provided in notes A3 and C13.

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

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

(d) Operational borrowings attributable to with-profits businesses at 31 December 2018 were mainly attributable to the discontinued UK and Europe operations ($4,994 million) held in consolidated investment funds.

C7 Risk and sensitivity analysis

C7.1 Group overview

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

The financial and insurance assets and liabilities on the Group's balance sheet are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity. The market and insurance risks, including how they affect Group's operations and how these are managed are discussed in the Risk report referred to above.

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

Type of business	*Market and credit risk*			*Insurance and lapse risk*
	Investments/derivatives	*Liabilities/unallocated surplus*	*Other exposure*	
Asia insurance operations (see also section C7.2)				
All business				Mortality and morbidity risk Persistency risk
With-profits business	Net neutral direct exposure (indirect exposure only)		Investment performance subject to smoothing through declared bonuses	
Unit-linked business	Net neutral direct exposure (indirect exposure only)		Investment performance through asset management fees	
Non-participating business	Asset/liability mismatch risk			
	Credit risk	Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements		
	Interest rate and price risk			
US insurance operations (see also section C7.3)				
All business	Currency risk			Persistency risk
Variable annuity business	Net effect of market risk arising from incidence of guarantee features and variability of asset management fees offset by derivative hedging programme			Risk that utilisation of withdrawal benefits or lapse levels differ from those assumed in pricing
Fixed index annuity business	Derivative hedge programme to the extent not fully hedged against liability	Incidence of equity participation features and meeting contractual accumulation requirements		Minimal lapse risk
Fixed index annuities, Fixed annuities and GIC business	Credit risk and interest rate risk on investments Profit and loss and shareholders' equity are volatile for the incidence of these risks on unrealised appreciation of fixed income securities classified as available-for-sale under IAS 39	Interest rate risk on liabilities (meeting guaranteed rates of accumulation on fixed annuity products)	Spread difference between earned rate and rate credited to policyholders	Lapse risk, but the effects of extreme events may be mitigated by the application of market value adjustments

Detailed analyses of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks by business unit are provided in notes C7.2, C7.3 and C7.4. The sensitivity analyses provided show the effect on profit or loss and shareholders' equity to changes in the relevant risk variables, all of which are reasonably possible at the relevant balance sheet date. In the equity risk sensitivity analysis shown, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a period of time during which the hedge positions within Jackson, where equity risk is greatest, would be rebalanced. The equity risk sensitivity analysis provided assumes that all equity indices fall by the same percentage.

The published sensitivities only allow for limited management actions such as changes to policyholder bonuses, where applicable. If the economic conditions set out in the sensitivities persisted, the financial impacts may differ to the instantaneous impacts. In this case management could also take additional actions to help mitigate the impact of these stresses, including (but not limited to) rebalancing investment portfolios, further market risk hedging, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

Following the adoption of US dollar as the Group's presentation currency, the Group has no exposure to currency fluctuation from business units that operate in US dollars, or currencies pegged to the US dollar (such as Hong Kong dollars), and reduced exposure to currencies partially managed to the US dollar within a basket of currencies (such as Singapore dollars). Sensitivities to exchange rate movements in the Group's key markets are therefore expected to be limited.

Impact of diversification on risk exposure

The Group benefits from diversification benefits achieved through the geographical spread of the Group's operations and, within those operations, through a broad mix of product types. Relevant correlation factors include:

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

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

C7.2 Asia insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

The Asia operations sell with-profits and unit-linked policies, and the investment portfolio of the with-profits funds contains a proportion of equities. Shareholder exposure to market risk on these products is muted given the shareholders share this risk with the policyholders through its joint participation in with-profits funds results or through fees that vary with the size of the unit-linked funds. Non-participating business is largely backed by debt securities or deposits, which means that value of its assets fluctuate with interest rates. Depending on the reserving basis in the business unit, this may be offset by a consequential change in insurance liabilities as discount rates change accordingly. The Group's exposure to market risk arising from its Asia operations is therefore at modest levels.

Asia also sells regular premium health and protection business (which may attach to a unit-linked or other savings products). This exposes Asia to persistency, mortality and morbidity risk. This is discussed further below.

In summary, for Asia operations, the adjusted IFRS operating profit based on longer-term investment returns is mainly affected by the impact of market levels on unit-linked persistency and other insurance risks. At the total IFRS profit level, the Asia result is affected by short-term value movements on the asset portfolio for non-linked shareholder-backed business offset by the impact of changing interest rates on the discount rate used to determine insurance liabilities.

(i) Sensitivity to interest rate risk

Excluding with-profits and unit-linked businesses, the results of the Asia business are sensitive to the movements in interest rates, as described above.

For the purposes of analysing sensitivity to variations in interest rates, reference has been made to the movements in the 10-year government bond rates of the regions. At 31 December 2019, 10-year government bond rates vary from region to region and range from 0.7 per cent to 7.2 per cent (31 December 2018: 0.9 per cent to 8.1 per cent).

For the sensitivity analysis as shown in the table below, the reasonably possible interest rate movement used is 1 per cent for all local business units (subject to a floor of zero).

The estimated sensitivity to the decrease and increase in interest rates is as follows:

	2019 $m		2018 $m	
	Decrease of 1%	Increase of 1%	Decrease of 1%	Increase of 1%
Profit before tax attributable to shareholders	(705)	(744)	397	(430)
Related deferred tax (where applicable)	3	26	(19)	33
Net effect on profit after tax and shareholders' equity	(702)	(718)	378	(397)

C7 Risk and sensitivity analysis continued

C7.2 Asia insurance operations continued

The pre-tax impacts, if they arose, would mostly be recorded within short-term fluctuations in investments returns in the Group's segmental analysis of profit before tax.

The degree of sensitivity of the results of the non-linked shareholder-backed business of the Asia operations to movements in interest rates depends upon the degree to which the liabilities under the 'grandfathered' IFRS 4 measurement basis reflects market interest rates from year to year. This varies by local business unit. For example, for businesses applying US GAAP, the results can be more sensitive as the effect of interest rate movements on the backing investments may not be offset by liability movements. Further, the level of options and guarantees in the products written in the particular business unit will also affect the degree of sensitivity to interest rate movements. The direction of the sensitivity of the Asia operations as a whole in a given year can also be affected by a change in the geographical mix.

In addition, the degree of sensitivity of the results is dependent on the interest rate level at that point of time.

At 31 December 2018 the sensitivities were dominated by the impact of interest rate movements on the value of government and corporate bond investments, which are expected to increase in value as interest rates fall to a greater extent than the offsetting increase in liabilities (and vice versa if rates rise). This arises because the discount rate in some operations does not fluctuate in line with interest rate movements. This feature remains for most local business units at 31 December 2019 and is evident in the 'increase of 1%' sensitivity. The 'decrease of 1%' sensitivity at 31 December 2019 reflects that some local business units' liabilities become more sensitive at lower interest rates and the fluctuations in liabilities begin to exceed asset gains. As noted above, the results only allow for limited management actions, and if such economic conditions persisted management could take additional actions to help mitigate the impact of these stresses, including (but not limited to) rebalancing investment portfolios, increased use of reinsurance, changes to new business pricing and the mix of new business being sold.

(ii) Sensitivity to equity price risk

The non-linked shareholder-backed business has limited exposure to equity and property investment (31 December 2019: $3,480 million; 31 December 2018: $2,740 million). The increase in 2019 reflects higher equity markets and business growth. Generally, changes in equity and property investment values are not directly offset by movements in non-linked policyholder liabilities. Movements in equities backing with-profits and unit-linked business have been excluded as they are generally matched by an equal movement in insurance liabilities (including unallocated surplus of with-profits funds).

The estimated sensitivity to a 10 per cent and 20 per cent change in equity and property prices for shareholder-backed Asia other business (including those held by the Group's joint venture and associate businesses), which would be reflected in short-term fluctuations in investment returns of the Group's segmental analysis of profit before tax, is as follows:

	2019 $m		2018 $m	
	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%
Profit before tax attributable to shareholders	(864)	(432)	(709)	(355)
Related deferred tax (where applicable)	48	24	21	10
Net effect on profit after tax and shareholders' equity	(816)	(408)	(688)	(345)

A 10 or 20 per cent increase in equity and property values would have an approximately equal and opposite net effect on profit and shareholders' equity to the sensitivities shown above. The impacts at 31 December 2019 are similar to those at 31 December 2018, and reflect the growth in the business.

(iii) Sensitivity to insurance risk

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

Many of the business units in Asia are exposed to mortality and morbidity risk and a provision is made within policyholder liabilities to cover the potential exposure. If all these assumptions were strengthened by 5 per cent then it is estimated that post-tax profit and shareholders' equity would decrease by approximately $77 million (2018: $73 million). Weakening these assumptions by 5 per cent would have a similar equal and opposite impact.

C7.3 US insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

Jackson's reported adjusted IFRS operating profit based on longer-term investment returns is sensitive to market conditions, both with respect to income earned on spread-based products and indirectly with respect to income earned on variable annuity asset management fees. Jackson's main exposures to market risk are to interest rate risk and equity risk.

Jackson is exposed primarily to the following risks:

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

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

Jackson's derivative programme, which is described in note C3.4(b), is used to manage the economic interest rate risk associated with a broad range of products and equity market risk attaching to its equity-based products. Movements in equity markets, equity volatility, interest rates and credit spreads materially affect the carrying value of derivatives that are used to manage the liabilities to policyholders and backing investment assets. Movements in the carrying value of derivatives combined with the use of US GAAP measurement (as 'grandfathered' under IFRS 4) for the insurance contracts assets and liabilities, which is largely insensitive to current period market movements, mean that the Jackson total profit (ie including short-term fluctuations in investment returns) is sensitive to market movements. In addition to these effects the Jackson shareholders' equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealised appreciation on these securities are included as movement in shareholders' equity (ie outside the income statement).

C7 Risk and sensitivity analysis continued

C7.3 US insurance operations continued

(i) Sensitivity to equity risk

Jackson had variable annuity contracts with guarantees, for which the net amount at risk (NAR) is defined as the amount of guaranteed benefit in excess of current account value, as follows:

31 Dec 2019	Minimum return‡ %	Account value $m	Net amount at risk $m	Weighted average attained age Years	Period until expected annuitisation Years
Return of net deposits plus a minimum return					
GMDB	0-6%	150,576	2,477	66.9 years	
GMWB – premium only	0%	2,753	16		
GMWB*	0-5%‡	257	14		
GMAB – premium only	0%	37	–		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		12,547	69	67.7 years	
GMWB – highest anniversary only		3,232	51		
GMWB*		698	52		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	8,159	687	70.0 years	
GMIB†	0-6%	1,688	616		0.5 years
GMWB*	0-8%‡	140,529	7,160		

31 Dec 2018	Minimum return‡ %	Account value $m	Net amount at risk $m	Weighted average attained age Years	Period until expected annuitisation Years
Return of net deposits plus a minimum return					
GMDB	0-6%	125,644	5,652	66.5 years	
GMWB – premium only	0%	2,450	80		
GMWB*	0-5%‡	251	25		
GMAB – premium only	0%	34	–		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		10,865	1,418	67.1 years	
GMWB – highest anniversary only		2,827	400		
GMWB*		682	113		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	6,947	1,550	69.5 years	
GMIB†	0-6%	1,599	825		0.1 years
GMWB*	0-8%‡	116,902	21,442		

* Amounts shown for GMWB comprise sums for the 'not for life' portion (where the guaranteed withdrawal base less the account value equals to the net amount at risk (NAR)), and a 'for life' portion (where the NAR has been estimated as the present value of future expected benefit payment remaining after the amount of the 'not for life' guaranteed benefits is zero).
† The GMIB guarantees are substantially reinsured.
‡ Ranges shown based on simple interest. The upper limits of 5 per cent or 8 per cent simple interest are approximately equal to 4.1 per cent and 6 per cent respectively, on a compound interest basis over a typical 10-year bonus period. For example 1 + 10 x 0.05 is similar to 1.04 growing at a compound rate of 4 per cent for a further nine years. The "Combination GMWB" category also includes benefits with a defined increase in the withdrawal percentage under pre-defined non-market conditions.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

	31 Dec 2019 $m	31 Dec 2018 $m
Mutual fund type:		
Equity	121,520	99,834
Bond	19,341	17,705
Balanced	30,308	25,349
Money market	956	1,049
Total	172,125	143,937

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

Due to the nature of valuation under IFRS of the free-standing derivatives and the variable annuity guarantee features, this hedge, while highly effective on an economic basis, would not automatically offset within the financial statements as the impact of equity market movements resets the free-standing derivatives immediately while the hedged liabilities reset more slowly and fees are recognised prospectively in the period in which they are earned. Jackson's hedging programme is focused on managing the economic risks in the business and protecting statutory solvency in the circumstances of large market movements. The hedging programme does not aim to hedge IFRS accounting results, which can lead to volatility in the IFRS results in a period of significant market movements, as was seen in 2019.

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

The estimated sensitivity of Jackson's profit and shareholders' equity to immediate increases and decreases in equity markets is shown below. The sensitivities are shown net of related changes in DAC amortisation.

Sensitivity to equity risk – Jackson

	2019 $m				2018 $m			
	Decrease		Increase		Decrease		Increase	
	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%
Profit before tax (net of related changes in amortisation of DAC)	964	256	1,848	770	1,347	544	74	(159)
Related deferred tax	(202)	(54)	(388)	(162)	(282)	(115)	(15)	33
Net effect on profit after tax and shareholders' equity*	762	202	1,460	608	1,065	429	59	(126)

* The table above has been prepared to exclude the impact of the instantaneous equity movements on the separate account fees. The sensitivity movements shown include those relating to the fixed index annuity and the reinsurance of GMIB guarantees.

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

The directional movements in the sensitivities reflect the hedging programme in place at 31 December 2019 and 2018 respectively. The impacts shown under a decrease in equity markets reflect the mismatch discussed in note B1.2(ii)(a), with the gains on equity derivatives exceeding the increase in IFRS liabilities given the measurement basis applied. Following the equity market gains during 2019, the equity call options held at 31 December 2019 act to limit losses on equity derivatives under equity market increases. If equity markets therefore increase the main effect is a reduction in liabilities as guarantees move further out-of-the-money. The sensitivities above reflect the actual hedging portfolio at 31 December 2019 and the nature of Jackson's dynamic hedging programme means that the portfolio, and hence the results of these sensitivities, will change on an ongoing basis.

C7 Risk and sensitivity analysis continued

C7.3 US insurance operations continued

(ii) Sensitivity to interest rate risk

Except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the IFRS measurement basis of fixed annuity liabilities of Jackson's products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement. The GMWB features attached to variable annuity business (other than 'for life' components) are accounted for under US GAAP at fair-value and, therefore, will be sensitive to changes in interest rates, as discount rates and fund earned rates will be updated on an ongoing basis.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within the income statement. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income. The estimated sensitivity of these items and policyholder liabilities to a 1 per cent and 2 per cent decrease (with no floor of zero applied) and increase in interest rates is as follows:

	2019 $m				2018 $m			
	Decrease		Increase		Decrease		Increase	
	of 2%	of 1%	of 2%	of 1%	of 2%	of 1%	of 2%	of 1%
Profit or loss:								
Profit before tax (net of related changes in amortisation of DAC)	(6,238)	(2,815)	3,914	2,141	(4,502)	(2,188)	2,815	1,530
Related deferred tax	1,310	591	(822)	(450)	945	460	(591)	(321)
Net effect on profit after tax	(4,928)	(2,224)	3,092	1,691	(3,557)	(1,728)	2,224	1,209
Other comprehensive income:								
Direct effect on carrying value of debt securities (net of related changes in amortisation of DAC)	5,342	2,840	(5,342)	(2,840)	5,265	2,988	(5,265)	(2,988)
Related deferred tax	(1,122)	(596)	1,122	596	(1,105)	(628)	1,105	628
Net effect on other comprehensive income	4,220	2,244	(4,220)	(2,244)	4,160	2,360	(4,160)	(2,360)
Total net effect on shareholders' equity	(708)	20	(1,128)	(553)	603	632	(1,936)	(1,151)

These sensitivities above are shown for interest rates in isolation only and do not include other movements in credit risk that may affect credit spreads and valuations of debt securities. Similar to the sensitivity to equity risk, the sensitivity movements provided in the table above are at a point in time and reflect the hedging programme in place on the balance sheet date, while the actual impact on financial results would vary contingent upon a number of factors. The increase in the magnitude of the sensitivities at 31 December 2019 mainly reflects the lower interest rates at 31 December 2019 and the consequential reduction on assumed future separate account return, that is based on risk-free rates under grandfathered US GAAP. This has the effect of the IFRS liability reflecting a greater potential for policyholder payments under the variable annuity guarantees as interest rates fall. Jackson's hedging programme is focused on managing the economic risks in the business and protecting statutory solvency under large market movements, and does not aim to hedge the IFRS accounting results.

(iii) Sensitivity to insurance risk

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

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

Note A4.1 describes the methodology applied by Jackson to amortise deferred acquisition costs. The amount of amortisation charged in any one period is sensitive to separate account investment returns.

C7.4 Asset management and other operations

(i) Asset management

The profit for the year of asset management operations are sensitive to the level of assets under management, as this significantly affects the value of management fees earned by the business in the current and future years. The Group's asset management operations do not hold significant financial investments.

(ii) Other operations

At 31 December 2019, the financial investments of the other operations are principally short-term treasury bills held by the Group's treasury function for liquidity purposes and so there is limited sensitivity to credit risk and interest rate movements.

C8 Tax assets and liabilities

Accounting policies on deferred tax are included in note B4.

C8.1 Current tax

At 31 December 2019, of the $492 million (31 December 2018: $476 million from continuing operations) current tax recoverable, the majority is expected to be recovered more than twelve months after the reporting period.

At 31 December 2019, the current tax liability of $396 million (31 December 2018: $411 million from continuing operations) includes $198 million (31 December 2018: $190 million from continuing operations) of provisions for uncertain tax matters. Further detail is provided in note B4.

C8.2 Deferred tax

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

	2019 $m					
	Balance at 1 Jan	Demerger of UK and Europe operations	Movement in income statement	Movement through other comprehensive income and equity	Other movements including foreign currency movements	Balance at 31 Dec
Deferred tax assets						
Unrealised losses or gains on investments	144	–	(16)	–	(128)	–
Balances relating to investment and insurance contracts	1	–	60	–	(29)	32
Short-term temporary differences	2,979	(146)	1,069	(15)	1	3,888
Capital allowances	19	(14)	(3)	–	(1)	1
Unused tax losses	162	–	8	–	(16)	154
Total	3,305	(160)	1,118	(15)	(173)	4,075
Deferred tax liabilities						
Unrealised losses or gains on investments	(1,104)	1,053	(231)	(713)	118	(877)
Balances relating to investment and insurance contracts	(1,276)	–	(246)	–	15	(1,507)
Short-term temporary differences	(2,671)	233	(414)	19	(14)	(2,847)
Capital allowances	(71)	65	–	–	–	(6)
Total	(5,122)	1,351	(891)	(694)	119	(5,237)

Of the short-term temporary differences of $3,888 million relating to deferred tax assets, $3,068 million relating to the US insurance operations is expected to be recovered in line with the run off of the in-force book, and the majority of the remaining balances are expected to be recovered within 5 years.

C8 Tax assets and liabilities continued

C8.2 Deferred tax continued

The deferred tax balances are further analysed as follows:

	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2019 $m	31 Dec 2018 $m	31 Dec 2019 $m	31 Dec 2018 $m
Asia operations	270	152	(2,146)	(1,601)
US operations	3,804	2,923	(3,091)	(2,150)
Other operations	1	70	–	(20)
Total continuing operations	4,075	3,145	(5,237)	(3,771)
Discontinued UK and Europe operations	–	160	–	(1,351)
Total Group	4,075	3,305	(5,237)	(5,122)

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. For the 2019 results and financial position at 31 December 2019, the following tax benefits and losses have not been recognised:

	31 Dec 2019 $m		31 Dec 2018 $m					
	Tax benefits	Losses	Tax benefits			Losses		
			Continuing	Discontinued	Total group	Continuing	Discontinued	Total group
Trading losses	36	175	61	1	62	301	6	307
Capital losses	1	5	55	7	62	270	38	308

Of the benefit from unrecognised trading losses, $34 million will expire within the next ten years and the rest have no expiry date.

Some of the Group's businesses are located in jurisdictions in which a withholding tax charge is incurred upon the distribution of earnings. At 31 December 2019, deferred tax liabilities of $247 million (2018: $149 million from continuing operations) have not been recognised in respect of such withholding taxes as the Group is able to control the timing of the distributions and it is probable that the timing differences will not reverse in the foreseeable future.

C9 Defined benefit pension schemes

The Group has historically operated a number of defined benefit pension schemes in the UK, with all pension surplus and deficit attributable to subsidiaries of M&G plc except for 30 per cent of the surplus attaching to the Prudential Staff Pension Scheme (PSPS), which was allocated to Prudential plc. In preparation for the demerger of M&G plc, at 30 June 2019, the 30 per cent of surplus attaching to PSPS was formally reallocated to M&GPrudential Services Limited. All UK schemes left the Group upon the demerger of M&G plc and Prudential plc will incur no further costs in respect of these schemes. Outside of the UK, there are two small defined benefit schemes in Taiwan which have negligible deficits.

C10 Share capital, share premium and own shares

Shares are classified as equity when their terms do not create an obligation to transfer assets. Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of the shares, net of share issue costs, and the nominal value of the shares issued, is credited to share premium. Where the Company purchases shares for the purposes of employee incentive plans, the consideration paid, net of issue costs, is deducted from retained earnings. Upon issue or sale any consideration received is credited to retained earnings net of related costs.

	2019			2018		
Issued shares of 5p each fully paid	Number of ordinary shares	Share capital $m	Share premium $m	Number of ordinary shares	Share capital $m	Share premium $m
Balance at 1 January	2,593,044,409	166	2,502	2,587,175,445	175	2,635
Shares issued under share-based schemes	8,115,540	–	22	5,868,964	1	22
Impact of change in presentation currency	–	6	101	–	(10)	(155)
Balance at 31 December	2,601,159,949	172	2,625	2,593,044,409	166	2,502

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

	Number of shares to subscribe for	Share price range from	Share price range to	Exercisable by year
31 Dec 2019	**3,805,447**	**1,104p**	**1,455p**	**2025**
31 Dec 2018	4,885,804	901p	1,455p	2024

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc shares ('own shares') either in relation to its employee share schemes or up until the demerger of its UK and Europe operations via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of $183 million at 31 December 2019 (31 December 2018: $217 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2019, 8.4 million (31 December 2018: 9.6 million) Prudential plc shares with a market value of $161 million (31 December 2018: $172 million) were held in such trusts, all of which are for employee incentive plans. The maximum number of shares held during the year was 14.1 million which was in March 2019.

Within the trusts, shares are notionally allocated by business unit reflecting the employees to which the awards were made. On demerger, shares allocated to M&G plc were transferred to a separate trust established by M&G plc.

The Company purchased the following number of shares in respect of employee incentive plans. The shares purchased each month are as follows:

	2019				2018			
		Share price				Share price		
	Number of shares	Low £	High £	Cost* $	Number of shares	Low £	High £	Cost* $
January	75,165	14.25	14.29	1,384,926	51,555	19.18	19.40	1,378,409
February	71,044	15.00	15.18	1,390,865	55,765	17.91	18.10	1,402,089
March	68,497	15.20	16.32	1,385,182	55,623	18.25	18.54	1,432,155
April	2,638,429	15.65	16.73	54,052,710	1,664,334	16.67	17.95	40,997,710
May	73,417	16.35	16.45	1,550,109	63,334	18.91	19.38	1,636,433
June	217,800	16.20	16.36	4,484,773	181,995	18.21	18.65	4,432,511
July	60,514	17.47	17.71	1,321,427	55,888	17.68	17.86	1,308,608
August	72,671	14.86	15.21	1,318,593	60,384	18.04	18.10	1,404,285
September	73,284	14.14	14.76	1,318,767	82,612	16.95	16.98	1,829,814
October	178,359	13.78	14.24	3,148,811	148,209	15.62	16.84	3,223,238
November	75,904	13.38	13.85	1,309,146	67,162	15.95	15.96	1,382,514
December	68,573	13.07	13.13	1,178,206	73,744	13.99	14.30	1,323,949
Total	3,673,657			73,843,515	2,560,605			61,751,715

* The cost in US dollars for the shares purchased each month shown has been calculated from the share prices in pounds sterling using the monthly average exchange rate.

Prior to the demerger of UK and Europe operations in October 2019, the Group consolidated a number of authorised investment funds of M&G plc that hold shares in Prudential plc. In the prior year, at 31 December 2018, the total number of shares held by these funds was 3.0 million and the cost of acquiring these shares of $25 million was included in the cost of own shares. The market value of these shares as at 31 December 2018 was $53 million. These funds were deconsolidated upon the demerger.

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

Other than set out above, the Group did not purchase, sell or redeem any Prudential plc listed securities during 2019 or 2018.

C11 Provisions

	31 Dec 2019 $m	31 Dec 2018 $m
Provision in respect of defined benefit pension schemes C9	1	222
Other provisions note	465	1,151
Total provisions	**466**	**1,373**
Analysed as:		
Continuing operations		427
Discontinued UK and Europe operations		946
		1,373

Note
Analysis of movement in other provisions:

	2019 $m	2018 $m
Balance at 1 January	1,151	1,275
Demerger of UK and Europe operations	(725)	–
Charged to income statement:		
Additional provisions	188	307
Unused amounts released	(7)	(24)
Utilisation during the year	(154)	(349)
Exchange differences	12	(58)
Balance at 31 December	465	1,151

Other provisions for continuing operations comprise staff benefits provisions of $408 million (31 December 2018: $364 million) that are generally expected to be paid out within the next three years and other provisions of $57 million (31 December 2018: $63 million).

C12 Capital

C12.1 Group objectives, policies and processes for managing capital

(i) Capital measure

The Group manages its Group LCSM available capital as its measure of capital. At 31 December 2019 estimated Group shareholder LCSM available capital is $14.0 billion (31 December 2018: $13.5 billion).

(ii) External capital requirements

Following the demerger of the UK and Europe operations from Prudential plc, the Hong Kong Insurance Authority (IA) has assumed the role of the group-wide supervisor for the Prudential Group with the Group no longer subject to Solvency II capital requirements. Ultimately, Prudential plc will become subject to the Group Wide Supervision (GWS) framework which is currently under development by the Hong Kong IA and is expected to be finalised in the second half of 2020.

Until Hong Kong's GWS framework comes into force, Prudential will apply the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine group regulatory capital requirements (both minimum and prescribed levels). The LCSM surplus represents the summation of available capital across local solvency regimes for regulated entities of the Group and IFRS net assets (with some adjustments) for non-regulated entities less the summation of local statutory capital requirements across the Group, with no allowance for diversification between business operations.

(iii) Meeting of capital management objectives

The Group minimum capital requirement has been met during 2019. Prior to the demerger of the UK and Europe operations, the Group capital requirement was met in accordance with the Solvency II regime.

As well as holding sufficient capital to meet LCSM requirements at Group level, the Group also closely manages the cash it holds within its central holding companies so that it can:

- Maintain flexibility, fund new opportunities and absorb shock events;
- Fund dividends; and
- Cover central costs and debt payments.

More details on holding company cash flows and balances are given in section I(iii) of the Additional unaudited financial information.

Reserve adequacy testing under a range of scenarios and dynamic solvency testing is carried out, including under certain scenarios mandated by the US and Asia regulators.

The Group manages its assets, liabilities and capital locally, in accordance with local regulatory requirements and reflecting the different types of liabilities in each business unit. As a result of the diversity of products offered by Prudential and the different regulatory regimes under which it operates, the Group employs differing methods of asset/liability and capital management, depending on the business concerned.

The sensitivity of liabilities and other components of total capital vary depending upon the type of business concerned and this conditions the approach to asset/liability management.

C12.2 Local capital regulations

(i) Asia insurance operations

The local valuation basis for the assets, liabilities and capital requirements of significant operations in Asia are:

China JV

A risk-based capital, risk management and governance framework, known as the China Risk Oriented Solvency System (C-ROSS), applies in China. Under C-ROSS, insurers are required to maintain a core solvency ratio (core capital over minimum capital) and a comprehensive solvency ratio (available capital over minimum capital) of not lower than 50 per cent and 100 per cent, respectively. The China Banking Insurance Regulatory Commission is in the process of reviewing the C-ROSS formulae and parameters. The exact timing of updates is uncertain.

The actual capital is the difference between the admitted assets and admitted liabilities with trading and available-for-sale assets marked-to-market and other assets at book value. Policyholder liabilities are based on a gross premium valuation method using best estimate assumptions with a separate risk margin.

Hong Kong

The capital requirements set out in the regulations vary by underlying risk type and duration of liabilities, but are generally determined as a percentage of mathematical reserves and capital at risk.

Mathematical reserves are based on a net premium valuation method using assumptions which include a suitable margin for prudence. The valuation interest rate used to calculate these reserves is subject to a maximum that reflects a blend between the risk-adjusted portfolio yield and the reinvestment yield. The approach used to determine the reinvestment yield for reserving allows for average yields thus the impact of movements in interest rates are reflected in the valuation interest rate over time. The available capital is based on assets that are marked-to-market. The Hong Kong IA is in the process of developing a risk-based capital framework, targeted to be introduced by 2024, and has performed several quantitative impact studies over the past few years.

Indonesia

Solvency capital is determined using a risk-based capital approach. The available capital is based on assets that are marked-to-market, with policyholder liabilities based on a gross premium valuation method using best estimate assumptions with a suitable margin for prudence. Liabilities are zeroised at a policy level (i.e. negative liabilities are not permitted at a policy level). For unit-linked policies an unearned premium reserve is established.

Malaysia

A risk-based capital framework applies in Malaysia. The local regulator, Bank Negara Malaysia (BNM), has set a Supervisory Target Capital Level of 130 per cent below which supervisory actions of increasing intensity will be taken. Each insurer is also required to set its own Individual Target Capital Level to reflect its own risk profile and this is expected to be higher than the Supervisory Target Capital Level.

The available capital is based on assets that are marked-to-market, with policyholder liabilities based on a gross premium valuation method using best estimate assumptions with a suitable margin for prudence. Liabilities are zeroised at a fund level (i.e. negative liabilities are not permitted at a fund level). The BNM has initiated a review of its RBC framework. An exposure draft on valuation of liabilities was issued in December 2019 to gather industry feedback. The exact timing of implementation of potential revisions is uncertain.

Market liberalisation measures were introduced by BNM in April 2009, which increases the limit from 49 per cent to 70 per cent on foreign equity ownership for insurance companies and Takaful operators in Malaysia. A higher foreign equity limit beyond 70 per cent for insurance companies will be considered by BNM on a case by case basis for companies who support expansion of insurance provision to the most vulnerable in Malaysian society.

Singapore

A risk-based capital framework applies in Singapore. The regulator also has the authority to direct that the insurer satisfies additional capital adequacy requirements in addition to those set forth under the Singapore Insurance Act if it considers such additional requirements appropriate. The available capital is based on assets that are marked-to-market, with policyholder liabilities based on a gross premium valuation method using best estimate assumptions with a suitable margin for prudence. Liabilities are zeroised at a policy level (i.e. negative liabilities are not permitted at a policy level). The updated risk-based capital framework (RBC2) will come into effect on 31 March 2020.

C12 Capital continued

C12.2 Local capital regulations continued

(ii) US insurance operations

The regulatory framework for Jackson is governed by the requirements of the US NAIC-approved Risk-Based Capital standards. Under these requirements life insurance companies report using a formula-based capital standard, which includes components calculated by applying after-tax factors to various asset, premium and reserve items and a separate model-based component for market risk and interest rate risk associated primarily with variable annuity products. The 31 December 2019 Jackson local statutory results reflect early adoption of the NAIC regulatory framework reforms at the valuation date as agreed with the Department of Insurance Financial Services (DIFS), and Jackson's decision not to renew its long-standing permitted practice with the DIFS, which allowed certain derivative instruments, taken out to protect Jackson against declines in long-term interest rates, to be included at book value in the local statutory returns. At 31 December 2019, these derivatives were held at fair value.

(iii) Asset management operations – regulatory and other surplus

Certain asset management subsidiaries of the Group are subject to local regulatory requirements. The movement in the year of the estimated surplus regulatory capital position of those subsidiaries, combined with the movement in the IFRS basis shareholders' funds for unregulated asset management operations, is as follows:

	2019 $m				2018 $m
Regulatory and other surplus	**Eastspring Investments**	**US**	**M&G**	**Total asset management**	**Total asset management**
Balance at 1 January	374	51	846	1,271	1,185
Demerger of UK and Europe operations			(846)	(846)	–
Gains during the year	214	24	–	238	701
Movement in capital requirement	(32)	–	–	(32)	(7)
Capital injection	20	(30)	–	(10)	135
Distributions made to the parent company	(173)	(40)	–	(213)	(531)
Exchange and other movements	(27)	1	–	(26)	(212)
Balance at 31 December	376	6	–	382	1,271

C12.3 Transferability of available capital

For Asia, the amounts retained within the insurance companies are at levels that provide an appropriate level of capital strength in excess of the local regulatory minimum. The businesses in Asia may, in general, remit dividends to parent entities, provided the statutory insurance fund meets the local regulatory solvency requirements and there are sufficient statutory accounting profits. For with-profits funds, the excess of assets over liabilities is retained within the funds, with distribution to shareholders tied to the shareholders' share of declared bonuses.

For Jackson, capital retention is maintained at a level consistent with an appropriate rating by Standard & Poor's (currently rated AA-). Jackson can pay dividends on its capital stock only out of earned surplus unless prior regulatory approval is obtained. Furthermore, dividends that exceed the greater of statutory net gain from operations less net realised investments losses for the prior year or 10 per cent of Jackson's prior year end statutory surplus, excluding any increase arising from the application of permitted practices, require prior regulatory approval.

Available capital of the non-insurance business units is transferable after taking account of an appropriate level of operating capital, based on local regulatory solvency requirements, where relevant.

C13 Property, plant and equipment

Property, plant and equipment comprise Group occupied properties and tangible assets. Following the adoption of IFRS 16 on 1 January 2019 (as described in note A3), property, plant and equipment also includes right-of-use assets for operating leases of properties occupied by the Group and leases of equipment and other tangible assets. All property, plant and equipment, including the right-of-use assets under operating leases, are held at cost less cumulative depreciation calculated using the straight-line method.

The Group does not have any right-of-use assets that would meet the definition of investment property. As at 31 December 2019, total right-of-use assets comprised $569 million of property and $24 million of non-property assets, of which $18 million are attributable to shareholders.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. The Group assesses at lease commencement whether it is reasonably certain to exercise the option. This assertion is revisited if there is a material change in circumstances. The undiscounted value of lease payments beyond the break period not recognised in the lease liabilities as at 31 December 2019 is $185 million.

A reconciliation of the carrying amount of these items from the beginning of the year to the end of the year is as follows:

	2019 $m				2018 $m		
	Group occupied property	Tangible assets	Right-of-use assets	Total	Group occupied property	Tangible assets	Total
Balance at 1 January							
Cost	525	2,089	–	2,614	496	1,408	1,904
Accumulated depreciation	(105)	(714)	–	(819)	(97)	(740)	(837)
Opening net book amount	420	1,375	–	1,795	399	668	1,067
Demerger of UK and Europe operations†	(143)	(1,170)	–	(1,313)	–	–	–
Recognition of right-of-use asset on initial application of IFRS 16	–	–	527	527	–	–	–
Arising on acquisitions of subsidiaries	6	13	1	20	6	691	697
Additions	1	63	196	260	47	339	386
Depreciation and impairment charge	(9)	(77)	(141)	(227)	(14)	(170)	(184)
Disposals and transfers	–	(11)	1	(10)	(11)	(92)	(103)
Effect of movements in exchange rates	–	4	9	13	(7)	(61)	(68)
Balance at 31 December	275	197	593	1,065	420	1,375	1,795
Representing:							
Cost	351	687	734	1,772	525	2,089	2,614
Accumulated depreciation	(76)	(490)	(141)	(707)	(105)	(714)	(819)
Closing net book amount	275	197	593	1,065	420	1,375	1,795
Analysed as:							
Continuing operations					277	205	482
Discontinued operations					143	1,170	1,313
					420	1,375	1,795

The Group has non-cancellable property subleases which have been classified as operating leases in 2019 under IFRS 16. The sublease rental income received for the leases is $11 million in 2019.

Tangible assets from continuing operations

At 31 December 2019, of the $197 million (31 December 2018: $205 million) tangible assets, $83 million (31 December 2018: $94 million) were held by the Group's with-profits businesses.

Capital expenditure: property, plant and equipment by segment

The capital expenditure in 2019 of $64 million (2018: $386 million of which $133 million related to continuing operations) arose as follows: $44 million (2018: $69 million) in Asia and $5 million (2018: $62 million) in US with the remaining balance of $15 million (2018: $2 million) arising from unallocated corporate expenditure.

D Other information

D1 Gain (loss) on disposal of business and corporate transactions

Income and expenses of entities sold during the period are included in the income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds net of selling costs, less the net assets of the entity at the date of disposal, adjusted for foreign exchange movements attaching to the sold entity that are required to be recycled to the income statement under IAS 21.

D1.1 Gain (loss) on disposal of business

	2019 $m	2018 $m
Gain on disposals note (i)	265	–
Other transactions note (ii)	(407)	(107)
Total gain (loss) on disposal of business from continuing operations	(142)	(107)

Notes

(i) In 2019, the $265 million gain on disposals principally relates to profits arising from a reduction in the Group's stake (from 26 per cent to 22 per cent) in its associate in India, ICICI Prudential Life Insurance Company, and the disposal of Prudential Vietnam Finance Company Limited, a wholly owned subsidiary that provides consumer finance.

(ii) In 2019, the $(407) million other transactions reflects costs related to the demerger of M&G plc from Prudential plc. These include the following amounts:
– $(78) million transaction related costs, principally fees to advisors;
– $(182) million being the fee paid to the holders of two subordinated debt instruments as discussed in note C6.1(i); and
– $(147) million for one-off costs arising from the separation of the M&G plc business from Prudential plc.
In 2018, the $(107) million other transactions primarily related to exiting the NPH broker-dealer business in the US and costs related to the preparation for the demerger of M&G plc.

D1.2 Other corporate transactions

Acquisition of Thanachart Fund Management Co., Ltd. in Thailand

On 27 December 2019, the Group completed its acquisition of 50.1 per cent of Thanachart Fund Management Co., Ltd. (TFUND) from Thanachart Bank Public Company Ltd. (TBANK) and Government Savings Bank, with TBANK holding the remaining 49.9 per cent stake of TFUND. The acquisition complements the Group's purchase of 65 per cent of TMB Asset Management, now TMBAM Eastspring, in September 2018.

The terms of the sale agreement include an option for the Group to increase its ownership to 100 per cent in the future. The Group has recognised, in line with IFRS, a financial liability and a reduction in shareholders' equity of $130 million as of the acquisition date for the option, being the discounted expected consideration payable for the remaining 49.9 per cent.

The fair value of the acquired assets, assumed liabilities and resulting goodwill are shown in the table below:

	$m
Assets	
Other assets	28
Cash and cash equivalents	2
Total assets	30
Other liabilities	(7)
Non-controlling interests*	(141)
Net assets acquired and liabilities assumed	(118)
Goodwill arising on acquisition*	260
Purchase consideration	142

* The goodwill on acquisition of $260 million is mainly attributable to the expected benefits from new customers and synergies. Refer to note C5.1 for changes to the carrying amount of goodwill during the year. The Group has chosen to apply the full goodwill method under IFRS 3, 'Business Combinations' for this acquisition, with non-controlling interests being measured at fair value on the acquisition date.

D2 Discontinued UK and Europe operations

On 21 October 2019, the Group completed the demerger of its UK and Europe operations (M&G plc) from the Group, resulting in two separately listed companies. The Group's UK and Europe operations have been reclassified as discontinued operations in these consolidated financial statements in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'.

The results and cash flows for the discontinued UK and Europe operations presented in the consolidated financial statements for the period of ownership up to the demerger in October 2019 are analysed below.

Income statement

	2019 $m	2018 $m
Earned premiums, net of reinsurance	10,920	(101)
Investment return and other income note (1)	22,292	(2,386)
Total revenue, net of reinsurance	33,212	(2,487)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(26,975)	6,645
Acquisition costs and other expenditure	(4,143)	(3,296)
Total charges, net of reinsurance	(31,118)	3,349
Discontinued UK and Europe operations' profit before tax	2,094	862
Re-measurement of the UK and Europe operations on demerger note (2)	188	–
Cumulative exchange loss recycled from other comprehensive income	(2,668)	–
(Loss) profit before tax	(386)	862
Tax (charge) credit note (3)	(775)	280
(Loss) profit for the year from discontinued operations	(1,161)	1,142

Notes

(1) Includes share of profits from joint ventures and associates, net of related tax.

(2) The re-measurement of the discontinued UK and Europe operations on demerger reflects the difference between the fair value of the UK and Europe operations and its net assets at the date of the demerger.

(3) The tax (charge) credit wholly relates to the tax on the ordinary profits of the discontinued UK and Europe operations.

Other comprehensive income

	2019 $m	2018 $m
Cumulative exchange loss recycled through profit or loss	2,668	–
Other items, net of related tax	203	(605)
Other comprehensive income for the year from discontinued operations, net of related tax	2,871	(605)

The profit and other comprehensive income for the period from the discontinued UK and Europe operations were wholly attributable to the equity holders of the Company.

Cash flows

	2019 $m	2018 $m
Cash flows from operating activities	2,375	5
Cash flows from investing activities	(454)	(478)
Cash flows from financing activities*	–	(137)
Cash and cash equivalents divested on demerger	(7,611)	–
Net cash flows in the year	(5,690)	(610)
Net cash flows between discontinued and continuing operations*	(436)	(842)
Cash and cash equivalents at beginning of year	6,048	7,857
Effect of exchange rate changes on cash and cash equivalents	78	(357)
Cash and cash equivalents on the consolidated statement of financial position at end of year	–	6,048

* The net cash flows between discontinued and continuing operations represents the net cash paid for dividend and other items from discontinued operations to continuing operations. In 2019, the net cash flows of $(436) million primarily include pre-demerger dividend of $(3,841) million, other dividends of $(684) million offset by payment for the transfer of debt to M&G plc from Prudential plc prior to the demerger of $4,161 million.

D3 Contingencies and related obligations

Litigation and regulatory matters

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

Guarantees

Guarantee funds in the US provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and type of business. The estimated reserve for future guarantee fund assessments is not significant. The directors believe that sufficient provision has been made on the balance sheet for all anticipated payments for known insolvencies.

The Group has provided other guarantees and commitments to third-parties entered into in the normal course of business but the Group does not consider that the amounts involved are significant.

Intra-group capital support arrangements

Prudential has put in place intra-group arrangements to formalise undertakings by Prudential to the regulators of the Hong Kong subsidiaries regarding their solvency levels.

D4 Post balance sheet events

Dividends

The 2019 second interim ordinary dividend approved by the Board of Directors after 31 December 2019 is as described in note B6.

Coronavirus outbreak

The novel coronavirus outbreak, with thousands of cases reported in 2020 to date and the virus spreading to countries across Asia and the world, has disrupted the activity in the markets in which the Group operates, in particular Hong Kong and mainland China, and adversely impacted the economic conditions in the year to date. Given these conditions, lower levels of new business activity in affected markets are to be expected. Further details on the Group capital position are set out in note I(i) of the Additional unaudited financial information.

The Group continues to monitor closely the development of the coronavirus outbreak and its impact on market conditions. If current economic conditions persist, management could take additional actions to mitigate the impact. These actions include, but are not limited to, rebalancing investment portfolios, further market risk hedging, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

It is not practicable to quantify the potential financial effect of the outbreak on the Group at this stage.

D5 Related party transactions

Transactions between the Company and its subsidiaries are eliminated on consolidation.

The Company has transactions and outstanding balances with certain unit trusts, Open-Ended Investment Companies (OEICs), collateralised debt obligations and similar entities that are not consolidated and where a Group company acts as manager, which are regarded as related parties for the purposes of IAS 24. The balances are included in the Group's statement of financial position at fair value or amortised cost in accordance with IAS 39 classifications. The transactions are included in the income statement and include amounts paid on issue of shares or units, amounts received on cancellation of shares or units and amounts paid in respect of the periodic charge and administration fee.

In addition, there are no material transactions between the Group's joint ventures and associates, which are accounted for on an equity method basis, and other Group companies.

Key management personnel of the Company, as described in note B2.3, may from time to time purchase insurance, asset management or annuity products marketed by Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

In 2019 and 2018, other transactions with key management personnel were not deemed to be significant both by virtue of their size and in the context of the individuals' financial positions. All of these transactions were on terms broadly equivalent to those that prevailed in arm's length transactions.

Additional details on the Directors' interests in shares, transactions or arrangements are given in the Directors' remuneration report. Key management remuneration is disclosed in note B2.3.

D6 Commitments

The Group has provided, from time to time, certain guarantees and commitments to third parties.

At 31 December 2019, Asia operations had unfunded commitments of $2,013 million (31 December 2018: $1,554 million) primarily related to investments in infrastructure funds and alternative investment funds. At 31 December 2019, Jackson had unfunded commitments of $889 million (31 December 2018: $846 million) related to investments in limited partnerships and $796 million (31 December 2018: $440 million) related to commercial mortgage loans and other fixed income securities. These commitments were entered into in the normal course of business and a material adverse impact on the operations is not expected to arise from them.

D7 Investments in subsidiary undertakings, joint ventures and associates

(a) Basis of consolidation

The Group consolidates those investees it is deemed to control. The Group has control over an investee if all three of the following are met: (1) it has power over an investee; (2) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (3) it has ability to use its power over the investee to affect its own returns.

(i) Subsidiaries

Subsidiaries are those investees that the Group controls. The majority of the Group's subsidiaries are corporate entities, but the Group's insurance operations also invest in a number of limited partnerships.

The Group performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee. Where the Group is deemed to control an entity it is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity, with no control over the entity, the investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

(ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In a number of these arrangements, the Group's share of the underlying net assets may be less than 50 per cent but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party. Associates are entities over which the Group has significant influence, but it does not control. Generally it is presumed that the Group has significant influence if it holds between 20 per cent and 50 per cent voting rights of the entity.

With the exception of those referred to below, the Group accounts for its investments in joint ventures and associates by using the equity method of accounting. The Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. The equity method of accounting does not apply to investments in associates and joint ventures held by the Group's insurance or investment funds. This includes venture capital business, mutual funds and unit trusts and which, as allowed by IAS 28, 'Investments in Associates and Joint Ventures', are carried at fair value through profit or loss.

(iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- *Collective investment schemes;*
- *Limited partnerships;*
- *Variable interest entities;*
- *Investment vehicles within separate accounts offered through variable annuities;*
- *Collateralised debt obligations;*
- *Mortgage-backed securities; and*
- *Similar asset-backed securities.*

Collective investment schemes

The Group invests in collective investment schemes, which invest mainly in equities, bonds, cash and cash equivalents, and properties. The Group's percentage ownership in these entities can fluctuate on a daily basis according to the participation of the Group and other investors in them.

- *Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity exceeds 50 per cent, the Group is judged to have control over the entity.*
- *Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is between 20 per cent and 50 per cent, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity.*
- *Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is less than 20 per cent, the Group is judged to not have control over the entity.*
- *Where the entity is managed by an asset manager outside the Group, an assessment is made of whether the Group has existing rights that gives it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of investment funds where it considers it has such ability.*

D7 Investments in subsidiary undertakings, joint ventures and associates continued

Where the Group is deemed to control these entities, they are treated as a subsidiary and are consolidated, with the interests of investors other than the Group being classified as liabilities, and appear as net asset value attributable to unit holders of consolidated investment funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Where the Group's asset manager sets up investment funds as part of asset management operations, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with investment funds. For these investment funds, the Group is not deemed to control the entities but to be acting as an agent.

The Group generates returns and retains the ownership risks in investment vehicles commensurate to its participation and does not have any further exposure to the residual risks of these investment vehicles.

Jackson's separate account assets

These are investment vehicles that invest contract holders' premiums in equity, fixed income, bonds and money market mutual funds. The contract holder retains the underlying returns and the ownership risks related to the underlying investments. The shareholder's economic interest in separate accounts is limited to the administrative fees charged. The separate accounts are set up as separate regulated entities governed by a Board of Governors or trustees for which the majority of the members are independent of Jackson or any affiliated entity. The independent members are responsible for any decision making that impacts contract holders' interest and govern the operational activities of the entities' advisers, including asset managers. Accordingly, the Group does not control these vehicles. These investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Limited partnerships

The Group's insurance operations invest in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity. Such interest in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities in which limited partnerships are engaged in. Accounting for the limited partnerships as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the shareholdings in the general partners.

Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities, the majority of which are actively traded in a liquid market.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements.

The majority of such vehicles are not consolidated. In these cases the Group is not the sponsor of the vehicles in which it holds investments and has no administrative rights over the vehicles' activities. The Group generates returns and retains the ownership risks commensurate to its holding and its exposure to the investments. Accordingly the Group does not have power over the relevant activities of such vehicles and all are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

The table below provides aggregate carrying amounts of the investments in unconsolidated structured entities reported in the Group's statement of financial position:

	31 Dec 2019 $m			31 Dec 2018 $m		
Statement of financial position line items	**Investment funds**	**Separate account assets**	**Other structured entities**	**Investment funds**	**Separate account assets**	**Other structured entities**
Equity securities and holdings in collective investment schemes	23,620	195,070	–	27,021	163,301	–
Debt securities	–	–	6,574	–	–	14,113
Total	23,620	195,070	6,574	27,021	163,301	14,113

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments.

As at 31 December 2019, the Group does not have an agreement, contractual or otherwise, or intention to provide financial support to structured entities that could expose the Group to a loss.

(a) Dividend restrictions and minimum capital requirements

Certain Group subsidiaries and joint ventures are subject to restrictions on the amount of funds they may transfer in the form of cash dividends or otherwise to the parent company.

Under UK company law, UK companies can only declare dividends if they have sufficient distributable reserves.

Jackson is subject to state laws that limit the dividends payable to its parent company based on statutory capital, surplus and prior year earnings. Dividends in excess of these limitations require prior regulatory approval.

The Group's subsidiaries, joint ventures and associates in Asia may remit dividends to the Group, in general, provided the statutory insurance fund meets the capital adequacy standard required under local statutory regulations and has sufficient distributable reserves. For further details on local capital regulations in Asia please refer to note C12.2.

(b) Investments in joint ventures and associates

The Group has shareholder-backed joint venture insurance and asset management businesses in China with CITIC Group and a joint venture asset management business in India with ICICI Bank. In addition, there is an asset management joint venture in Hong Kong with Bank of China International Holdings Limited (BOCI) and Takaful insurance joint venture in Malaysia.

For the Group's joint ventures that are accounted for by using the equity method, the net of tax results of these operations are included in the Group's profit before tax.

The Group's associates, which are also accounted for under the equity method, include the Indian insurance entity (with the majority shareholder being ICICI Bank). In addition, the Group has investments in collective investment schemes, funds holding collateralised debt obligations, property funds where the Group has significant influence. As allowed under IAS 28, these investments are accounted for on a fair value through profit or loss basis. The aggregate fair value of associates accounted for at fair value through profit or loss, where there are published price quotations, is approximately $0.7 billion at 31 December 2019 (31 December 2018: $0.1 billion from continuing operations).

For joint ventures and associates accounted for using the equity method, the 12 months financial information of these investments up to 31 December 2019 (covering the same period as that of the Group) has been used in these consolidated financial statements.

The Group's share of the profits (including short-term fluctuations in investment returns), net of related tax, and carrying amount of interest in joint ventures and associates, which are equity accounted as shown in the consolidated income statement at 31 December 2019 is $397 million (2018: $319 million) for shareholder-backed business and comprises the following:

Share of profits from joint ventures and associates, net of related tax	**2019** $m	**2018** $m
Asia insurance operations	291	238
Asia asset management operations	106	81
Total segment and Group total	397	319

There is no other comprehensive income in the joint ventures and associates. There has been no unrecognised share of losses of a joint venture or associate that the Group has stopped recognising in the total income.

The Group's interest in joint ventures gives rise to no contingent liabilities or capital commitments that are material to the Group.

(c) Related undertakings

In accordance with Section 409 of the Companies Act 2006 a list of Prudential Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20 per cent) along with the classes of shares held, the registered office address and the country of incorporation and the effective percentage of equity owned at 31 December 2019 is disclosed below.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. The Group's consolidation policy is described in note A3.1(b). The Group also operates through branches. At 31 December 2019, there is no significant branch outside the UK.

Direct subsidiary undertakings of the parent company, Prudential plc (shares held directly or via nominees)

Name of entity	**Classes of shares held**	**Proportion held**	**Registered office address and country of incorporation**
Prudential Corporation Asia Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential Group Holdings Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom

D7 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees:

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
95th Avenue Retail Building, LLC	MI	100.00%	901 S., Ste. 201, Second St., Springfield, IL, 62704-7909, USA
Aberdeen Standard Cash Creation Fund	U	34.16%	28th Floor Bangkok City Tower, 179 South Sathorn Road, Thungmahamek, Sathorn, Bangkok 10120, Thailand
Aberdeen Standard Singapore Equity	U	60.44%	20 Collyer Quay, #01-01, Singapore 049319
Aberforth Standard Global Opportunities Fund	U	28.46%	
Allied Life Brokerage Agency, Inc	LPI	100.00%	400 East Court Avenue, Des Moines, IA 50309, USA
AMUNDI FTSE China A50 Index ETF	U	38.67%	90, boulevard Pasteur, 75015 Paris - France
BeGeneral Insurance S.A.	OS	51.00%	Immeuble WOODIN Center 1st Floor, Avenue Nogues, Plateaux, Abidjan, Cote d'Ivoire
BeLife Insurance S.A.	OS	50.93%	
Beneficial General Insurance S.A.	OS	50.04%	1944 Blvd de la République, BP 2328, Douala, Cameroon
Beneficial Life Insurance S.A.	OS	51.00%	
Beneficial Life Insurance S.A.	OS	50.99%	2963 Rue De La Chance Agbalepedogan, P.B. 1115, Lome, Togo
BOCHK Aggressive Growth Fund	U	65.61%	27/F., Bank of China Tower, 1 Garden Road, Hong Kong
BOCHK Asia Pacific Equity Fund	U	26.29%	
BOCHK Balanced Growth Fund	U	55.31%	
BOCHK China Equity Fund	U	71.35%	
BOCHK Conservative Growth Fund	U	55.24%	
BOCHK Hong Kong Equity Fund	U	21.94%	
BOCHK US Dollar Money Market Fund	U	34.85%	
BOCI-Prudential Asset Management Limited	OS	36.00%	
BOCI-Prudential Trustee Limited	OS	36.00%	12/F & 25/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong
Brier Capital LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Brooke (Holdco 1) Inc	OS	100.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Brooke Life Insurance Company	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Centre Capital Non-Qualified Investors IV AIV Orion, LP	LPI	27.47%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors IV AIV-RA, L.P.	LPI	44.55%	
Centre Capital Non-Qualified Investors IV, L.P.	LPI	27.16%	
Centre Capital Non-Qualified Investors V AIV-ELS LP	LPI	36.58%	
Centre Capital Non-Qualified Investors V LP	LPI	37.66%	
CEP IV-A Chicago AIV LP	LPI	23.93%	615 South Dupont Highway, Dover, DE 19901, USA
CEP IV-A CWV AIV LP	LPI	23.97%	850 New Burton Road, Suite 201, Dover, DE 19904, USA
CEP IV-A Davenport AIV LP	LPI	23.94%	615 South Dupont Highway, Dover, DE 19901, USA
CEP IV-A Indy AIV LP	LPI	23.94%	
CEP IV-A NMR AIV LP	LPI	23.94%	
CEP IV-A WBCT AIV LP	LPI	23.94%	
CITIC-CP Asset Management Co., Ltd.	MI	26.95%	Room 101-2, No.128 North Zhangjiabang Road, Pudong District, Shanghai, China
CITIC-Prudential Fund Management Company Limited	MI	49.00%	Level 9, HSBC Building, Shanghai IFC, 8 Century Avenue, Pudong, Shanghai, China
CITIC-Prudential Life Insurance Company Limited	MI	50.00%	0507-0510, 1601-1616, East Tower, World Financial Centre, No.1 East Third Ring Middle Road, Chaoyang District, Beijing, 100020, China
Clairvest Equity Partners IV-A LP	LPI	23.90%	22 St Clair Avenue East, Suite 1700, Toronto, ON M4T 2S3, Canada

Key to share classes:

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
MFS	Mutual Fund Shares
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Curian Capital, LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Curian Clearing LLC (Michigan)	OS	100.00%	
Eastspring Al-Wara' Investments Berhad	OS	100.00%	Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia
Eastspring Asset Management Korea Co. Ltd.	OS	100.00%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Yeungdeungpo-gu, Seoul 07325, Korea
Eastspring Global Smart Beta EMP Securities Investment Trust (H)	U	71.97%	Goodmorning Shinhan Tower 15F Yeoido Dong 23-2, Yeungdeungpo-gu, Seoul 150-010, Korea
Eastspring Global Smart Beta EMP Securities Investor Trust (USD)	U	99.46%	
Eastspring Infrastructure Debt Fund L.P.	PI	90.00%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Investment Asia Real Estate Multi Asset Income Fund	U	99.99%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investment Asia Sustainable Bond Fund	U	100.00%	
Eastspring Investment Management (Shanghai) Company Limited	OS	100.00%	Unit 306-308, 3/F Azia Center, 1233 Lujiazui Ring Road, China (Shanghai) Pilot Free Trade Zone, China
Eastspring Investments - Global Growth Equity Fund	U	73.57%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Global Low Volatility Equity Fund	U	98.72%	
Eastspring Investments - Global Technology Fund	U	82.24%	
Eastspring Investments - India Discovery Fund	U	36.63%	
Eastspring Investments- Japan Fundamental Value Fund	U	99.85%	
Eastspring Investments - Pan European Fund	U	61.01%	
Eastspring Investments - US High Yield Bond Fund	U	49.96%	
Eastspring Investments (Hong Kong) Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Eastspring Investments (Luxembourg) SA	OS	100.00%	26 Boulevard Royal, L-2449, Luxembourg
Eastspring Investments (Singapore) Limited	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
Eastspring Investments Asia Oceania High Dividend Equity Fund	U	100.00%	Eastspring Investments Limited, Marunouchi Park Bldg., 2-6-1 Marunochi, Chiyoda-ku, Tokyo, Japan 100-6905
Eastspring Investments Asia Oceania U&I Bond Fund	U	99.93%	
Eastspring Investments Asia Pacific Equity Fund	U	99.99%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	U	53.60%	
Eastspring Investments Asian Dynamic Fund	U	92.59%	
Eastspring Investments Asian Equity Fund	U	85.19%	
Eastspring Investments Asian Equity Income Fund	U	78.33%	
Eastspring Investments Asian High Yield Bond Fund	U	39.86%	
Eastspring Investments Asian High Yield Bond MY Fund	U	86.36%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments Asian Infrastructure Equity Fund	U	50.78%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Investment Grade Bond Fund	U	99.93%	
Eastspring Investments Asian Low Volatility Equity Fund	U	97.27%	
Eastspring Investments Asian Multi Factor Equity Fund	U	100.00%	
Eastspring Investments Asian Property Securities Fund	U	97.72%	
Eastspring Investments Berhad	OS	100.00%	Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia
Eastspring Investments China A Shares Growth Fund	U	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Dragon Peacock Fund	U	53.18%	
Eastspring Investments Emerging Markets Star Players	U	36.99%	Eastspring Investments Limited, Marunouchi Park Bldg., 2-6-1 Marunochi, Chiyoda-ku, Tokyo, Japan 100-6905

D7 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees: continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments Equity Income Fund	U	20.89%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments European Inv Grade Bond Fund	U	99.28%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Fund Management Limited Liability Company	MI	100.00%	23rd Floor, Saigon Trade Center, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Eastspring Investments Global Emerging Markets Bond Fund	U	97.03%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Global Equity Navigator Fund	U	100.00%	
Eastspring Investments Global Market Navigator Fund	U	99.68%	
Eastspring Investments Global Multi Asset Income Plus Growth Fund	U	99.99%	
Eastspring Investments Greater China Equity Fund	U	95.19%	
Eastspring Investments Hong Kong Equity Fund	U	93.10%	
Eastspring Investments Incorporated	OS	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
Eastspring Investments India Consumer Equity Open Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene 72201, Mauritius
Eastspring Investments India Equity Fund	U	68.69%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments India Equity Open (Asset Growth Type)	U	28.90%	Eastspring Investments Limited, Marunouchi Park Bldg., 2-6-1 Marunochi, Chiyoda-ku, Tokyo, Japan 100-6905
Eastspring Investments India Equity Open Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene 72201, Mauritius
Eastspring Investments India Infrastructure Equity Open Limited	OS	100.00%	
Eastspring Investments Japan Dynamic MY Fund	U	27.65%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments Limited	OS	100.00%	Marunouchi Park Building, 6-1 Marunouchi 2-chome, Chiyoda-Ku, Tokyo, Japan
Eastspring Investments MY Focus Fund	U	21.40%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments North America Value Fund	U	99.84%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Services Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments SICAV-FIS – Alternative Investments Fund	U	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS – Asia Pacific Loan Fund	U	100.00%	
Eastspring Investments SICAV-FIS Universal USD Bond Fund	U	100.00%	
Eastspring Investments SICAV-FIS Universal USD Bond II Fund	U	100.00%	
Eastspring Investments Unit Trust – Dragon Peacock Fund	U	97.59%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments US Bond Fund	U	27.84%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments US Corporate Bond Fund	U	70.82%	
Eastspring Investments US High Inv Grade Bond Fund	U	91.67%	
Eastspring Investments US Investment Grade Bond Fund	U	45.41%	
Eastspring Investments US Strategic Income Bond Fund	U	100.00%	
Eastspring Investments US Total Return Bond Fund	U	100.00%	

Key to share classes:

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
MFS	Mutual Fund Shares
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments UT Singapore ASEAN Equity Fund	U	99.76%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments UT Singapore Select Bond Fund	U	77.80%	
Eastspring Investments Vietnam Navigator Fund	U	71.42%	23rd Floor, Saigon Trade Center Building, 37 Ton Duc Thang Street, Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam
Eastspring Investments World Value Equity Fund	U	92.88%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Overseas Investment Fund Management (Shanghai) Company Limited	OS	100.00%	Unit 306-308, 3/F., 1233 Lujiazui Ring Road, China (Shanghai) Pilot Free Trade Zone, China
Eastspring Real Assets Partners	OS	100.00%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Securities Investment Trust Co., Ltd.	OS	99.54%	4th Floor, No.1 Songzhi Road, Taipei 110, Taiwan
First State China Focus Fund	U	66.58%	70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland
First State Global Property A	U	52.26%	38 Beach Road, #06-11 South Beach Tower, Singapore 189767
Fubon China Currency Fund	U	20.59%	8F, No. 108, Sec 1, Tun Hwa, South Road, Taipei, Taiwan
Furnival Insurance Company PCC Limited	OS	100.00%	PO Box 34, St Martin's House Le Bordage, St Peter Port Guernsey, GY1 4AU
GS Twenty Two Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Hermitage Management LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Hyde Holdco 1 Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
ICICI Prudential Asset Management Company Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
ICICI Prudential Life Insurance Company Limited	OS	22.11%	ICICI PruLife Towers, 1089 Appasaheb Marathe Marg, Prabhadevi, Mumbai 400025, India
ICICI Prudential Pension Funds Management Company	OS	22.11%	
ICICI Prudential Trust Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
Invesco Fixed Maturity Selective Emerging Market Bonds 2024	U	61.60%	8F, No 122, Tung Hua N. Rd. Taipei, Taiwan
Invesco Select 6 Year Maturity Global Bond Fund	U	68.28%	
INVEST Financial Company Insurance Agency LLC of Illinois	OS	100.00%	208 South LaSalle Street, Chicago, IL 60604, USA
iShares Core MSCI Europe	U	21.26%	State Street Fund Services (Ireland) Limited, 78 Sir John Rogerson's Quay, Dublin 2, Ireland
iShares Fallen Angels High Yield Corporate Bond UCITS ETF Wing	U	47.36%	79 Sir John Rogerson's Quay, Dublin 2, D02 RK 57, Ireland
iShares S&P 500 Financials Sector UCITS	U	22.98%	
iShares S&P 500 Utilities Sector UCITS ETF	U	53.39%	
Jackson Charitable Foundation Inc	NSB	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Jackson Holdings LLC	OS	100.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Jackson National Asset Management LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life (Bermuda) Limited	OS	100.00%	Cedar House, Hamilton, Bermuda
Jackson National Life Distributors LLC	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Jackson National Life Insurance Company	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life Insurance Company of New York	OS	100.00%	2900 Westchester Avenue, Suite 305, Purchase, NY 10577, USA
Lasalle Property Securities SICAV-FIS	U	99.97%	11-13 Boulevard de la Foire, L-1528 Luxembourg
M&G Asia Property Trust	U	99.97%	8 Marina Boulevard, 05-02 Marina Bay, Financial Centre Tower 1, Singapore, 018981
M&G Luxembourg European Strategic Value Fund	U	50.24%	49 Avenue J.F. Kennedy, L-1855, Luxembourg
M&G Real Estate Asia Holding Company Pte. Ltd.	OS	33.00%	10 Marina Boulevard, #31-03, Marina Bay, Financial Centre Tower 2, Singapore, 018983

D7 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees: continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Manulife Asia Pacific Bond Fund	U	27.29%	9/F, No 89 Son Ren Road, Taipei, Taiwan
Manulife China Dim Sum High Yield Bond Fund	U	58.33%	
Manulife China Offshore Bond Fund	U	39.57%	
Manulife USD High Yield Bond Fund	U	37.47%	
Mission Plans of America, Inc	OS	100.00%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
National Planning Holdings, LLC	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Nomura Six Years Fixed Maturity Asia Pacific Emerging Market Bond Fund	U	33.30%	101 Tower, 30F, No. 7 Sec. 5, Xinyi Rd., Xinyi Dist., Taipei, Taiwan
Nomura Six Years Fixed Maturity Emerging Market Bond Fund	U	42.14%	
Nomura Six Years Ladder Maturity Asia Pacific Emerging Market Bond Fund	U	25.01%	
North Sathorn Holdings Company Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
PCA IP Services Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PCA Life Assurance Co. Ltd.	OS	99.79%	8th Floor, No.1 Songzhi Road, Taipei, 11047, Taiwan
PCA Reinsurance Co. Ltd.	OS	100.00%	Unit Level 13(A), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia
PGDS (US One) LLC	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
PPM America Capital Partners III, LLC	MI	60.50%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM America Capital Partners IV, LLC	MI	34.50%	
PPM America Capital Partners V, LLC	MI	34.00%	
PPM America Capital Partners VI, LLC	MI	32.00%	
PPM America Private Equity Fund III LP	LPI	50.06%	
PPM America Private Equity Fund IV LP	LPI	49.97%	
PPM America Private Equity Fund V LP	LPI	49.97%	
PPM America Private Equity Fund VI LP	LPI	59.94%	
PPM America Private Equity Fund VII LP	LPI	54.00%	
PPM America, Inc	OS	100.00%	
PPM CLO 2 Ltd.	OS	100.00%	PO Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands
PPM CLO 2, LLC	PS	100.00%	4001 Kennet Pike, Suite 301, Wilmington, DE, 19807, USA
PPM CLO 2018-1 Ltd.	PS	100.00%	Queensgate House, South Church Street, George Town, Grand Cayman KY1-1102, Cayman Islands
PPM CLO 3 Ltd.	OS	100.00%	PO Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands
PPM CLO 3, LLC	PS	100.00%	4001 Kennet Pike, Suite 301, Wilmington, DE, 19807, USA
PPM CLO 4 Ltd.	PS	100.00%	PO Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands
PPM Funds - PPM Core plus Fixed Income Fund	MFS	100.00%	84 State Street, 6th Floor, Boston, MA 02109
PPM Funds - PPM Large Cap Value Fund	MFS	99.96%	
PPM Funds - PPM Long Short Credit Fund	MFS	100.00%	
PPM Funds - PPM Mid Cap Value Fund	MFS	99.57%	

Key to share classes:

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
MFS	Mutual Fund Shares
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PPM Holdings, Inc	OS	100.00%	774 Walker Road, Suite C, Dover, DE 19904, USA
PPM Loan Management Company LLC	MI	100.00%	
PPM Loan Management Holding Company LLC	MI	100.00%	
Prenetics Limited	PS	14.27%	7th Floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong
Pru Life Insurance Corporation of U.K.	OS	100.00%	9th Floor, Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, 1634 Taguig City, Metro Manila, Philippines
Pru Life UK Asset Management and Trust Corporation	OS	100.00%	2/F., Uptown Parade 2, 36th Street, Uptown Bonifacio, 1634 Taguig City, Philippines
Prudence Foundation	LBG	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential (Cambodia) Life Assurance Plc	OS	100.00%	20th Floor, #445, Monivong Blvd, Boeung Prolit, 7 Makara, Phnom Penh Tower, Phnom Penh, Cambodia
Prudential (US Holdco 1) Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Africa Holdings Limited	OS	100.00%	
Prudential Africa Services Limited	OS	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Assurance Company Singapore (Pte) Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Assurance Malaysia Berhad*	OS	51.00%	Level 20, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Prudential Assurance Uganda Limited	OS	100.00%	Kampala Road, Kampala, Uganda
Prudential BSN Takaful Berhad†	OS	49.00%	Level 8A, Menara Prudential, No. 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Corporation Australasia Holdings Pty Limited (in liquidation)	OS	100.00%	31 Highgate Circuit, Kellyville, NSW, 2155, Australia
Prudential Corporation Holdings Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Five Limited (in liquidation)	OS	100.00%	c/o Mazars LLP, 45 Church Street, Birmingham, B3 2RT, United Kingdom
Prudential General Insurance Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential Group Secretarial Services HK Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential Group Secretarial Services Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Holdings Limited	OS	100.00%	4th Floor, Saltire Court, 20, Castle Terrace, Edinburgh, EH1 2EN, United Kingdom
Prudential Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential International Staff Pensions Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential International Treasury Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential IP Services Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Life Assurance (Lao) Company Limited	OS	100.00%	5th Floor, Lao international Business and Tourist Center Project (Vientiane Center), Khouvieng Road, Nongchan Village, Sisattanak District, Vientiane Capital, Lao PDR
Prudential Life Assurance (Thailand) Public Company Limited	OS	99.93%	9/9 Sathorn Building, 20th–27th Floor, South Sathorn Road, Yannawa, Sahtorn, Bangkok 10120, Thailand
Prudential Life Assurance Kenya Limited	OS	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Life Assurance Zambia Limited	OS	100.00%	Prudential House, Thabo Mbeki Road, Lusaka, Zambia
Prudential Life Insurance Ghana Limited	OS	100.00%	35 North Street, Accra, Ghana
Prudential Life Vault Limited	OS	100.00%	98 Awolowo Road, South-West Ikoyi, Lagos, Nigeria
Prudential Mauritius Holdings Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene, 72201, Mauritius
Prudential Myanmar Life Insurance Limited	OS	100.00%	#15-01, 15th Floor, Sule Square, 221 Sule Pagoda Road, Kyauktada Township, Yangon, Myanmar
Prudential Pensions Management Zambia Limited	OS	49.00%	Prudential House, Thabo Mbeki Road, Lusaka, Zambia
Prudential Services Asia Sdn. Bhd.	OS PS	100.00% 100.00%	Suite 1005, 10th Floor, Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia

D7 Investments in subsidiary undertakings, joint ventures and associates continued

(c) Related undertakings continued

Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees: continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Services Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Services Singapore Pte. Ltd.	OS	100.00%	1 Wallich Street, #19-01 Guoco Tower, Singapore 078881
Prudential Singapore Holdings Pte. Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Vietnam Assurance Private Limited	OS	100.00%	25th Floor, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Prudential Zenith Life Insurance Limited	OS	51.00%	13th Floor, Civic Towers, Ozumba Mbadiwe Avenue, Victoria Island, Lagos, Nigeria
PT. Eastspring Investments Indonesia	OS	99.95%	Prudential Tower, 23rd Floor, Jl. Jend. Sudirman Kav.79, Jakarta 12910, Indonesia
PT. Prudential Life Assurance	OS	94.62%	Prudential Tower, Jl. Jend. Sudirman Kav. 79, Jakarta 12910, Indonesia
PVFC Financial Limited	OS	100.00%	Suite 509, 5/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
REALIC of Jacksonville Plans, Inc	OS	100.00%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
Reksa Dana Eastspring IDR Fixed Income Fund (NDEIFF)	U	99.91%	Prudential Tower, 23rd Floor, Jl. Jend. Sudirman Kav.79, Jakarta 12910, Indonesia
Reksa Dana Eastspring Investments Alpha Navigator Fund	U	78.29%	
Reksa Dana Eastspring Investments Cash Reserve	U	100.00%	
Reksa Dana Eastspring Investments IDR High Grade	U	91.04%	
Reksa Dana Eastspring Investments Value Discovery	U	91.94%	
Reksa Dana Syariah Eastspring Syariah Equity Islamic Asia Pacific USD	U	94.37%	
Reksa Dana Syariah Eastspring Syariah Fixed Income Amanah	U	65.65%	
Reksa Dana Syariah Eastspring Syariah Money Market Khazanah	U	99.93%	
Reksa Dana Syariah Penyertaan Terbatas Bahana Syariah BUMN Fund	U	99.01%	Graha CIMB Niaga 21st Floor. Jl Jend Sudirman Kav 58, Jakarta - 12190, Indonesia.
Rhodium Investment Fund	U	99.98%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
ROP, Inc	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
SCB SET Banking Sector Index (Accumulation)	U	32.08%	7-8th Floor, SCB Park Plaza 1, 18 Ratchadapisek Road, Chatuchak, Bangkok 10900, Thailand
Schroder Asian Investment Grade Credit	U	41.08%	138 Market Street, #23-01 CapitaGreen, Singapore 048946
Schroder Emerging Markets Fund	U	58.49%	
Schroder Multi-Asset Revolution	U	63.81%	
Schroder US Dollar Money Fund	U	37.19%	HSBC Institutional Trust Service (Asia) Limited, 1 Queen's Road Central, Hong Kong.
Scotts Spazio Pte. Ltd.	OS	45.00%	30 Cecil Street #23-02 Prudential Tower, Singapore, 049712
SINOPAC China High Yield Fixed Income Fund	U	35.38%	9F No.39 Section 1, Chung Hua Road, Taipei, Taiwan
Squire Capital I LLC	MI	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Squire Capital II LLC	OS	100.00%	
Squire Reassurance Company II, Inc	OS	100.00%	40600 Ann Arbor Road, East Suite 201, Plymouth, MI 48170, USA
Squire Reassurance Company LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Sri Han Suria Sdn. Bhd.	OS	51.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Staple Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Taishin Emerging Markets Bond Fund	U	28.78%	1F, No.9, Dehui St., Zhongshan Dist. Taipei, Taiwan

Key to share classes:

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
MFS	Mutual Fund Shares
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Templeton Asian Growth Fund	U	26.08%	8A, rue Albert Borschette, L-1246 Luxembourg
Thanachart Fund Management Co., Ltd.	OS	50.10%	No. 231, MBK Life Building, 5th-7th Floor, Ratchadamri Road, Lumpini Sub-district, Pathumwan District, Bangkok, Thailand
Thanachart Long Term Fixed Income Fund	U	27.79%	
TMB Asset Management Co., Ltd.	OS	65.00%	32nd FL, Abdulrahim Place, 990 Rama IV Rd, Silom, Bangrak, Bangkok 10500, Thailand
UOB Smart Global Healthcare	U	35.44%	23A, 25th Floor, Asia Centre Building, 173/27-30, 32-33 South Sathorn Road, Thungmahamek, Sathorn, Bangkok 10120, Thailand
UOB Smart Millennium Growth Fund	U	36.96%	
VFL International Life Company SPC, Ltd.	OS	100.00%	171 Elgin Avenue, Grand Cayman, Cayman Islands
Wynnefield Private Equity Partners I, L.P.	LPI	99.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA

* Prudential Assurance Malaysia Berhad is consolidated at 100 per cent in the Group's financial statements reflecting the economic interest to the Group.
† Prudential BSN Takaful Berhad is a joint venture that is accounted for using the equity method, for which the Group has an economic interest of 70 per cent for all business sold up to 23 December 2016 and of 49 per cent for new business sold subsequent to this date.

Statement of financial position of the parent company

31 December	Note	2019 $m	2018* $m
Non-current assets			
Investments in subsidiary undertakings	5	10,444	13,787
Amounts owed by subsidiary undertakings		2,000	–
		12,444	13,787
Current assets			
Debtors:			
Amounts owed by subsidiary undertakings		6,352	7,520
Other debtors		4	6
Tax recoverable		66	53
Derivative assets	6	–	6
Pension asset	7	–	88
Cash at bank and in hand		54	28
		6,476	7,701
Liabilities: amounts falling due within one year			
Commercial paper	8	(520)	(601)
Derivative liabilities	6	–	(539)
Amounts owed to subsidiary undertakings		(141)	(1,192)
Tax payable		(14)	(13)
Deferred tax liability	9	–	(15)
Accruals and deferred income		(78)	(129)
		(753)	(2,489)
Net current assets		5,723	5,212
Total assets less current liabilities		18,167	18,999
Liabilities: amounts falling due after more than one year			
Subordinated liabilities	8	(4,304)	(8,503)
Debenture loans	8	(690)	(658)
Other borrowings	8	–	(350)
		(4,994)	(9,511)
Total net assets		13,173	9,488
Capital and reserves			
Share capital	10	172	166
Share premium	10	2,625	2,502
Profit and loss account	11	10,376	6,820
Shareholders' funds		13,173	9,488

	2019 $m	2018 $m
Profit for the year	12,255	1,390

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Company's presentational currency from pounds sterling to US dollars (as described in note 2).

The financial statements of the parent company on pages 310 to 318 were approved by the Board of Directors on 10 March 2020 and signed on its behalf.

Paul Manduca
Chairman

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

Statement of changes in equity of the parent company

$m	Share capital	Share premium	Profit and loss account	Total equity
Balance at 1 January 2018	175	2,635	7,511	10,321
Impact of initial application of IFRS 9	–	–	(12)	(12)
Total comprehensive income for the year				
Profit for the year	–	–	1,390	1,390
Actuarial gains recognised in respect of the defined benefit pension scheme	–	–	21	21
Foreign exchange translation differences due to change in presentation currency*	–	–	(428)	(428)
Total comprehensive income for the year	–	–	983	983
Transactions with owners, recorded directly in equity				
New share capital subscribed	1	22	–	23
Dividends	–	–	(1,662)	(1,662)
Foreign exchange translation differences due to change in presentation currency*	(10)	(155)	–	(165)
Total contributions by and distributions to owners	(9)	(133)	(1,662)	(1,804)
Balance at 31 December 2018	166	2,502	6,820	9,488
Balance at 1 January 2019	166	2,502	6,820	9,488
Profit for the year	–	–	12,255	12,255
Actuarial losses recognised in respect of the defined benefit pension scheme	–	–	(75)	(75)
Foreign exchange translation differences due to change in presentation currency*	–	–	393	393
Total comprehensive income for the year	–	–	12,573	12,573
Transactions with owners, recorded directly in equity				
New share capital subscribed	–	22	–	22
Share based payment transactions	–	–	(4)	(4)
Dividend in specie of M&G plc	–	–	(7,379)	(7,379)
Dividends	–	–	(1,634)	(1,634)
Foreign exchange translation differences due to change in presentation currency*	6	101	–	107
Total contributions by and distributions to owners	6	123	(9,017)	(8,888)
Balance at 31 December 2019	172	2,625	10,376	13,173

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Company's presentational currency from pounds sterling to US dollars (as described in note 2).

Notes on the parent company financial statements

1 Nature of operations

Prudential plc (the Company) is a parent holding company. The Company together with its subsidiaries (collectively, the Group) is an international financial services group with its operations in Asia, the US, Africa and, prior to the demerger of M&G plc in October 2019, the UK and Europe. The Group helps individuals to de-risk their lives and deal with their biggest financial concerns through life and health insurance, and retirement and asset management solutions. On 21 October 2019, the Company completed the demerger of M&G plc, its UK and Europe business, from Prudential plc resulting in two separately listed companies. The Directors of the Company distributed its investment in M&G plc to the Company's shareholders in the form of a dividend in specie.

2 Basis of preparation

The financial statements of the Company, which comprise the statement of financial position, statement of changes in equity and related notes, are prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and Part 15 of the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and endorsed by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The Company has also taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Disclosures in respect of transactions with wholly-owned subsidiaries within the Prudential Group;
- Disclosure in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in the accounting policy with respect to the presentation currency (as outlined further below).

As the consolidated financial statements of the Group include the equivalent disclosures, the Company has also applied the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 'Share Based Payments' in respect of Group-settled share-based payments;
- Disclosure required by IFRS 7 'Financial Instrument Disclosures' and IFRS 13 'Fair Value Measurement', except for the consequential amendments to IFRS 7 related to IFRS 9 which have not been adopted by the Group;
- IFRS 15, 'Revenue from Contracts with Customers' in respect of revenue recognition; and
- IAS 1, 'Presentation of Financial Statements' in respect of presenting comparative information on change in presentation currency.

Following the disposal of M&G plc, the Company and Group will manage its central cash resources and remittances primarily in US dollars. At 31 December 2019, terms of the majority of loans payable to and receivable from subsidiary undertakings previously denominated in pounds sterling were amended to reflect US dollars. From 31 December 2019, dividend income and dividend declared by the Company will be denominated in US dollars. Accordingly, as at 31 December 2019, the primary currency of the Company's financing and investment activities is US dollars and the functional currency of the Company changed from pounds sterling to US dollars prospectively from that date. The Company's assets, liabilities and equity were redenominated into US dollars using the spot exchange rate at 31 December 2019.

As a result of the change in functional currency, the Company has chosen to change its presentation currency to US dollars which is accounted for retrospectively. Prior periods have been restated into US dollars using closing rates at the relevant balance sheet date for assets, liabilities, share capital, share premium and other capital reserves. Items of total comprehensive income have been converted at the rate prevailing on the date of transaction, or at the average rate for the relevant year where this provides an equivalent measurement.

The accounting policies set out in note 3 below have, unless otherwise stated, been applied consistently to both years presented in these financial statements.

3 Significant accounting policies

Investments in subsidiary undertakings
Investments in subsidiary undertakings are shown at cost less impairment. Investments are assessed for impairment by comparing the net assets of the subsidiary undertakings with the carrying value of the investment.

Amounts owed by subsidiary undertakings
Amounts owed by subsidiary undertakings are shown at cost, less provisions. Provisions are determined using the expected credit loss approach under IFRS 9.

Derivatives
Derivative financial instruments are held to manage certain macro-economic exposures. Derivative financial instruments are carried at fair value with changes in fair value included in the profit and loss account. Refer to Section 6.1 of the Group Chief Risk and Compliance Officer's report for detail of the approach to market risk.

Financial Instruments
Under IFRS 9, except for derivative instruments that are mandatorily classified as fair value through profit or loss, all of the financial assets and liabilities of the Company are classified as amortised cost. The Company assesses impairment on its loans and receivables using the expected credit loss approach. The expected credit loss on the Company's loans and receivables, the majority of which represent loans to its subsidiaries, have been assessed by taking into account the probability of default on those loans. In all cases the subsidiaries are expected to have sufficient resources to repay the loan either now or over time (based on projected earnings). For loans recallable on demand the expected credit loss has therefore been limited to the impact of discounting the value of the loan between the balance sheet date and the anticipated recovery date. For loans with a fixed maturity date the expected credit loss has been determined with reference to the historic experience of loans with equivalent credit characteristics.

Borrowings
Borrowings are initially recognised at fair value, net of transaction costs, and subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds, net of transaction costs, is amortised through the profit and loss account to the date of maturity or, for subordinated debt, over the expected life of the instrument. Where modifications to borrowings do not result in a substantial difference to the terms of the instrument, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining expected life of the modified instrument. Where modifications to borrowings do result in a substantial difference to the terms of the instrument, the instrument is treated as if it had been extinguished and replaced by a new instrument which is initially recognised at fair value and subsequently accounted for on an amortised cost basis using the effective interest method. Any costs or fees arising from such a modification are recognised as an expense when incurred.

Dividends
Interim dividends are recorded in the period in which they are paid.

Share premium
The difference between the proceeds received on issue of shares and the nominal value of the shares issued is credited to the share premium account.

Foreign currency translation
Transactions not denominated in the Company's functional currency are initially recorded at the functional rate of currency prevailing on the date of the transaction. Monetary assets and liabilities not denominated in the Company's functional currency, including borrowings that have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries, are translated to the Company's functional currency at year end exchange rates. The impact of these currency translations is recorded within the profit and loss account for the year.

As discussed above, the Company's functional currency changed from pounds sterling to US dollars on 31 December 2019. The Company has also changed its presentation currency from pounds sterling to US dollars.

3 Significant accounting policies continued

Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year. To the extent that losses of an individual UK company are not offset, they can be carried back for one year or carried forward indefinitely to be offset, subject to restrictions based on future taxable profits, against profits arising from the same company or other companies in the same UK tax group.

Deferred tax assets and liabilities are recognised in accordance with the provisions of IAS 12 'Income Taxes'. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that future taxable profits will be available against which these losses can be utilised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading losses may be offset against taxable profits arising in the same or future accounting periods for the purposes of determining current and deferred taxes.

Pensions

The Company historically assumed a portion of the pension surplus or deficit of the Group's main pension scheme, the Prudential Staff Pension Scheme ('PSPS'). The Company's portion of the surplus was transferred to M&GPrudential Services Limited at 30 June 2019. Up until that date, the Company applied the requirements of IAS 19 'Employee Benefits' (as revised in 2011) for the accounting of its interest in the PSPS surplus or deficit. The key items are highlighted below.

A pension surplus or deficit is recorded as the difference between the present value of the scheme liabilities and the fair value of the scheme assets. The Company's share of pension surplus is recognised to the extent that the Company is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

The assets and liabilities of the defined benefit pension schemes of the Prudential Group are subject to a full triennial actuarial valuation using the projected unit method. Estimated future cash flows are then discounted at a high quality corporate bond yield, adjusted to allow for the difference in duration between the bond index and the pension liabilities, where appropriate, to determine their present value. These calculations are performed by independent actuaries.

The aggregate of the actuarially determined service costs of the currently employed personnel and the net income (interest) on the net scheme assets (liabilities) at the start of the period, is recognised in the profit or loss account. Actuarial gains and losses as a result of the changes in assumptions, experience variances or the return on scheme assets excluding amounts included in the net deferred benefit asset (liability) are recorded in other comprehensive income. The loss on transfer of the pension surplus transferred to M&GPrudential Services Limited has been recognised in the profit or loss account.

Share-based payments

The Group offers share award and option plans for certain key employees and a Save As You Earn ('SAYE') plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled.

Under IFRS 2 'Share-based payment', where the Company, as the parent company, has the obligation to settle the options or awards of its equity instruments to employees of its subsidiary undertakings, and such share-based payments are accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognised directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions. Cash receipts from business units in respect of newly issued share schemes are treated as returns of capital within investments in subsidiaries.

4 Reconciliation from the FRS 101 parent company results to the IFRS Group results

The parent company financial statements are prepared in accordance with FRS 101 and the Group financial statements are prepared in accordance with IFRS as issued by the IASB and endorsed by the EU.

The tables below provide a reconciliation between the FRS 101 parent company results and the IFRS Group results.

	2019 $m	2018 $m
Profit after tax		
Profit for the financial year of the Company (including dividends from subsidiaries) in accordance with FRS 101 and IFRS	12,255	1,390
Accounting policy difference*	15	7
Share in the IFRS result of the Group, net of distributions to the Company†	(11,487)	2,622
Profit after tax of the Group attributable to shareholders in accordance with IFRS	783	4,019

	31 Dec 2019 $m	31 Dec 2018 $m
Net equity		
Shareholders' equity of the Company in accordance with FRS 101	13,173	9,488
Accounting policy difference*	33	18
Share in the IFRS net equity of the Group†	6,271	12,462
Shareholders' equity of the Group in accordance with IFRS	19,477	21,968

* Adjustment represents difference in accounting policy for expected credit losses on loan assets, the Company has adopted IFRS 9 while the Group applies IAS 39.
† The 'share in the IFRS result and net equity of the Group' lines represent the parent company's equity in the earnings and net assets of its subsidiaries and associates.

The profit for the financial year of the Company in accordance with IFRS includes dividends received in the year from subsidiary undertakings of $9,599 million for the year ended 31 December 2019 (2018: $1,996 million). Dividends received in 2019 included dividends from M&G plc prior to demerger of $5,566m and dividends from US subsidiaries of $2,000m in the form of non-current debt instruments.

5 Investments in subsidiary undertakings

	2019 $m	2018 $m
At 1 January	13,787	14,608
Capital injections and acquisitions	72	117
Distribution of M&G plc – cost of investment	(3,730)	–
Other disposals	(13)	–
Amounts in respect of share based payments	(123)	(81)
Other*	451	(857)
At 31 December	10,444	13,787

* Includes amounts relating to foreign translation differences arising on the retranslation of reserves due to the change in the Company's presentation currency

Prior to the demerger of M&G plc from the Group in October 2019, the following transactions and restructuring occurred:

— On 20 September 2019, the Company disposed of its investment in Prudential Capital Holding Company Limited to M&G plc, for consideration of $85 million. A gain on disposal of $73 million is recognised in the income statement.
— On 8 October 2019, the Company acquired Prudential Africa Holdings Limited from Prudential Group Holdings Limited, a subsidiary of the Company, in exchange for consideration of $49 million. On 15 October 2019, the Company subsequently transferred Prudential Africa Holdings Limited to Prudential Corporation Asia Limited under a share-for-share exchange. Additionally, in connection with this transaction, the Company increased its investment in Prudential Group Holdings Limited by $23 million.
— Also on 15 October 2019, shares in Prudential (US Holdco 1) Limited were transferred to Prudential Corporation Asia Limited under a share-for-share exchange. There was no change to the Company's total investment in subsidiary undertakings as a result of this transfer.

5 Investments in subsidiary undertakings continued

On 21 October 2019 the Company distributed its equity shareholding in its subsidiary M&G plc as a dividend in-specie. In accordance with IFRIC 17 the value of dividend in-specie recognised as distribution within the statement of changes in equity was the fair value of M&G plc at the date of distribution. As also required by IFRIC 17, the difference between the fair value of M&G plc on distribution and the previous carrying value of the Company's investment in M&G plc of $3,649 million is recognised as gain within profit for the year.

Amounts in respect of share-based payments of $(123) million (2018: $(81) million) comprise of $5 million (2018: $7 million) in respect of share-based payments reflecting the value of payments settled by the Company for employees of its subsidiary undertakings, less $(128) million (2018: $(88) million) relating to cash received from subsidiaries in respect of share awards.

Investments in subsidiaries held at 31 December 2019 have been assessed for impairment and no impairment was identified.

Subsidiary undertakings of the Company at 31 December 2019 are listed in note D7 of the Group financial statements.

6 Derivative financial instruments

	31 Dec 2019 $m		31 Dec 2018 $m	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Cross-currency swap	–	–	6	–
Inflation-linked swap	–	–	–	539
Total	–	–	6	539

Derivative financial instruments are held to manage certain macro-economic exposures.

The change in fair value of the derivative financial instruments of the Company was a (loss) before tax of $(77) million (2018: gain of $27 million).

7 Pension scheme financial position

The majority of Prudential staff in the UK are members of the Group's pension schemes. The largest scheme up to the demerger of M&G plc was the Prudential Staff Pension Scheme (the Scheme) which is primarily a closed defined benefit scheme. Historically, all pension surplus and deficit were attributable to subsidiaries of M&G plc in line with the Group's allocation policy with the exception of 30 per cent of the surplus attaching PSPS, which was allocated to Prudential plc. In preparation for the demerger of M&G plc in 2019, at 30 June 2019, the 30 per cent of surplus attaching to PSPS of $20 million was formally reallocated to M&GPrudential Services Limited. After the demerger of M&G plc, the Company no longer has any interest in the defined benefit pension scheme recognised on its balance sheet.

8 Borrowings

	Core structural borrowings		Other borrowings		Total	
	31 Dec 2019 $m	31 Dec 2018 $m	31 Dec 2019 $m	31 Dec 2018 $m	31 Dec 2019 $m	31 Dec 2018 $m
Core structural borrowings note (i)						
Subordinated liabilities note (ii)	4,304	8,503	–	–	4,304	8,503
Debenture loans	690	658	–	–	690	658
Bank loan	–	350	–	–	–	350
	4,994	9,511	–	–	4,994	9,511
Other borrowings: note (iii)						–
Commercial paper	–	–	520	601	520	601
Total borrowings	4,994	9,511	520	601	5,514	10,112
Borrowings are repayable as follows:						
Within 1 year	–	–	520	601	520	601
Between 1 and 5 years	414	748	–	–	414	748
After 5 years	4,580	8,763	–	–	4,580	8,763
	4,994	9,511	520	601	5,514	10,112

Notes

(i) Further details on the core structural borrowings of the Company are provided in note C6.1 of the Group IFRS financial statements.
(ii) The interests of the holders of the subordinated liabilities are subordinate to the entitlements of other creditors of the Company.
(iii) These borrowings support a short-term fixed income securities programme.

During 2019, the Company redeemed its £400 million 11.375 per cent Tier 2 subordinated notes, and issued further subordinated debt for proceeds of $371 million, net of issue costs.

In addition, during 2019, the Company agreed with the holders of two subordinated debt instruments to alter the terms and conditions of these instruments in exchange for an upfront fee and an increase in the coupon of the instruments. The upfront fee paid of $180 million has been recognised as an expense during the period within finance costs. The upfront fee and increase in coupon rates represent a significant change in the cash flows of each instrument and therefore, in accordance with IAS 39, has resulted in an extinguishment of the old debt and recognition of a new debt at fair value, resulting in a loss on revaluation of $208 million.

On 18 October 2019, the Company transferred six subordinated debt instruments to M&G plc to implement a rebalancing of debt prior to demerger. The debt transferred included the two instruments revalued on alteration of terms discussed above. The Company recognised a gain of $208 million on the transfer, reversing the loss on revaluation of debt instruments discussed above.

In October 2019 the Company repaid its £275 million bank loan due to Standard Chartered Bank.

9 Deferred tax liability

Deferred tax liability	2019 $m	2018 $m
Short-term temporary differences related to pension scheme	–	(15)
Total	–	(15)

10 Share capital and share premium

A summary of the ordinary shares in issue and the options outstanding to subscribe for the Company's shares at 31 December 2019 is set out in note C10 of the Group financial statements.

11 Retained profit of the Company

Retained profit at 31 December 2019 amounted to $10,376 million (31 December 2018: $6,820 million). The retained profit includes distributable reserves of $4,735 million and non-distributable reserves of $5,641 million. The amount of $5,641 million is not able to be regarded as part of the distributable reserves of the Company because the gains relate to intra-group transactions in which qualifying consideration was not received.

Under UK company law, Prudential may pay dividends only if sufficient distributable reserves of the Company are available for the purpose and if the amount of its net assets is greater than the aggregate of its called up share capital and non-distributable reserves (such as the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate.

The retained profit of the Company is substantially generated from dividend income received from subsidiaries. The Group segmental analysis illustrates the generation of profit across the Group (see note B1 of the Group IFRS financial statements). The Group and its subsidiaries are subject to local regulatory minimum capital requirements, as set out in note C12 of the Group IFRS financial statements. A number of the principal risks set out in the 'Report on the risks facing our business and how these are managed' could impact the generation of profit in the Group's subsidiaries in the future and hence impact their ability to pay dividends in the future.

In determining the dividend payment in any year the directors follow the Group dividend policy described in the Group Chief Financial Officer and Chief Operating Officer's report section of this Annual Report. The directors consider the Company's ability to pay current and future dividends twice a year by reference to the Company's business plan and certain stressed scenarios.

12 Other information

a Information on key management remuneration is given in note B2.3 of the Group financial statements. Additional information on directors' remuneration is given in the directors' remuneration report section of this Annual Report.
b Information on transactions of the directors with the Group is given in note D5 of the Group financial statements.
c The Company employs no staff.
d Fees payable to the Company's auditor for the audit of the Company's annual accounts were $0.1 million (2018: $0.1 million) and for other services were $0.1 million (2018: $0.1 million).
e In certain instances, the Company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

13 Post balance sheet events

The second interim ordinary dividend for the year ended 31 December 2019, which was approved by the Board of Directors after 31 December 2019, is described in note B6 of the Group financial statements.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgements and estimates that are reasonable and prudent;

— for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;

— for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and

— prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors of Prudential plc, whose names and positions are set out on pages 92 to 97 confirm that to the best of their knowledge:

— the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

— the strategic report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

— the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Independent auditor's report to the members of Prudential plc

1 Our opinion is unmodified

We have audited the financial statements of Prudential plc ("the company") for the year ended 31 December 2019 which comprise;

- the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position and consolidated statement of cash flows, and the related notes, including accounting policies in note A4; and
- the parent company statements of financial position and of changes in equity, and the related notes, including the significant accounting policies in note 3.

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with UK Accounting Standards including FRS 101 Reduced Disclosure Framework; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders in October 1999. The period of total uninterrupted engagement is for the 21 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the Financial Reporting Council ('FRC') Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of insurance contract liabilities and investment contract liabilities with discretionary participation features (2019: $380,776 million, 2018: $496,805 million).

The risk compared to the prior year is unchanged.

Refer to page 118 (Audit Committee report), page 208 (accounting policy) and pages 262 to 275 (financial disclosures)

The risk

The Group has significant insurance contract liabilities and investment contract liabilities with discretionary participation features (policyholder liabilities) representing 88 per cent of the Group's total liabilities.

Subjective valuation

This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of these long term policyholder liabilities. Economic assumptions, including investment return and associated discount rates, and operating assumptions including mortality, morbidity, expenses, utilisation of guarantees and persistency (including consideration of policyholder behaviour) are the key inputs used to estimate these long term liabilities, in addition to the appropriate design and calibration of complex reserving models.

The specific application of these judgements to individual segments is explained below.

For the US insurance segment, the valuation of the guarantees in the variable annuity ('VA') business is complex as it involves exercising significant judgement related to inputs such as expected market rates of return, fund performance, and discount rates, as well as assumptions such as mortality, benefit utilisation, and persistency.

For the Asia insurance segment, the valuation of the policyholder liabilities requires significant judgement over the setting of mortality, morbidity, persistency and expense assumptions.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of policyholder liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements notes C7.2 and C7.3 disclose the sensitivities estimated by the Group.

Our response

We used our own actuarial specialists to assist us in performing our procedures in this area.

Our procedures included:

Methodology choice

We assessed the methodology for selecting assumptions and calculating the policyholder liabilities. This included:

— Assessing the methodology adopted for selecting assumptions by applying our industry knowledge and experience and comparing the methodology used against industry standard actuarial practice;

— Assessing the methodology adopted for calculating the policyholder liabilities by reference to the requirements of the accounting standard and assessing the impact of current year changes in methodology on the calculation of policyholder liabilities;

— Comparing changes in methodology to our expectations derived from market experience; and

— Evaluating the analysis of the movements in policyholder liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted.

Control operation

We used our own IT specialists to assist us in performing our procedures in this area which included testing of the design, implementation and operating effectiveness of key controls over the valuation process. Controls testing in respect of the valuation process included assessment and approval of the methods and assumptions adopted over the calculation of policyholder liabilities as well as appropriate access and change management controls over the actuarial models.

Our procedures for the US insurance segment also included:

Historical comparison

— Assessing the assumptions relating to policyholder behaviour (benefit utilisation and persistency) by comparing to relevant company and industry historical experience data in order to assess whether this supported the year-end assumptions adopted.

Benchmarking assumptions and sector experience

— Assessing the assumptions for investment mix and projected investment returns by comparing to company specific and industry data and for future growth rates by comparing to market trends and market volatility.

— Utilising the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of assumptions in relation to policyholder behaviour.

Model evaluation

— Assessing the cash flow projections in the reserving models by reference to the inclusion of relevant product features. We have also assessed the impact of modelling and assumption changes by inspecting pre and post change model runs and comparing the outcomes of the changes to our expectations.

— Independently recalculating the liabilities for a selection of individual policies to assess whether the selected model calibration had been appropriately implemented.

Valuation of insurance contract liabilities and investment contract liabilities with discretionary participation features (2019: $380,776 million, 2018: $496,805 million).

The risk compared to the prior year is unchanged.

Refer to page 118 (Audit Committee report), page 208 (accounting policy) and pages 262 to 275 (financial disclosures)

The risk	*Our response*
	Our procedures for the Asia insurance segment also included: **Historical comparison** — Evaluating the experience analysis in respect of the mortality and morbidity assumptions by reference to actual experience in order to assess whether this supported the year-end assumptions adopted. **Benchmarking assumptions and sector experience** — Using our sector experience and market knowledge to inform our challenge of the assumptions in the areas noted above. **Model evaluation** — Assessing the reserving models by considering the accuracy of the cash flow projections including by reference to the inclusion of relevant product features. We have also assessed the impact of modelling and assumption changes by inspecting pre and post change model runs and comparing the outcomes of the changes to our expectations. **Assessing transparency** We assessed whether the disclosures in relation to the assumptions used in the valuation of policyholder liabilities are compliant with the relevant accounting requirements. **Our result** We found the valuation of policyholder liabilities to be acceptable (2018: acceptable).

Valuation of certain level 2 and level 3 investments held at fair value (2019: $77,203 million, 2018: $181,757 million).

The risk compared to the prior year is unchanged.

Refer to page 118 (Audit Committee report), page 213 (accounting policy) and pages 244 to 261 (financial disclosures)

The risk

The Group's investments portfolio represents 89 per cent (2018: 88 per cent) of the Group's total assets.

Subjective valuation

The area that involved significant audit effort and judgement in 2019 was the valuation of certain level 2 and level 3 positions within the portfolio of financial investments held at fair value. These included unlisted debt securities and unlisted funds that are valued by reference to their Net Asset Value ('NAV funds'). For these positions a reliable third party price was not readily available and therefore involved the application of expert judgement in the valuations adopted.

The valuation of the portfolio involves judgement depending on the observability and significance of the inputs into the valuation and the consequent impact on the classification of those investments, and further judgement in determining the appropriate valuation methodology where external pricing sources are either not readily available or are unreliable.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of certain level 2 and 3 investments held at fair value has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.

The financial statements notes C7.2 and C7.3 disclose the sensitivities estimated by the Group.

Our response

We used our own valuation specialists in order to assist us in performing our procedures in this area.

Our procedures included:

Methodology choice

We assessed the appropriateness of the pricing methodologies with reference to relevant accounting standards as well as industry practice.

Control operation

We tested the design, implementation and operating effectiveness of key controls over the valuation process, including the Group's review and approval of the estimates and assumptions used for the valuation including key authorisation and data input controls.

Tests of details

For a sample of securities, we used our valuation specialists to assess the Group's classification of assets within Level 2 or Level 3 by evaluating the observability of the inputs used in valuing these securities.

For a sample of unlisted debt securities we compared the price adopted to our independently derived price, using our valuation specialists.

We agreed the valuations for the NAV funds to the most recent NAV statements. To assess reliability of these statements we compared to audited financial statements of the funds, where available, or performed a retrospective test over the NAV valuations for each fund to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time.

Assessing transparency

We assessed whether the disclosures in relation to the valuation of level 2 and 3 investments held at fair value are compliant with the relevant accounting requirements.

Our result

We found the valuation of level 2 and 3 investments held at fair value to be acceptable (2018: acceptable).

Amortisation of US deferred acquisition costs ('DAC') (2019: $12,240 million, 2018: $11,113 million).
The risk compared to the prior year is unchanged.

Refer to page 118 (Audit Committee report), page 211 (accounting policy) and pages 277 to 279 (financial disclosures)

The risk

DAC represents 3 per cent (2018: 2 per cent) of the Group's total assets. The DAC associated with the US component, which represents 86 per cent of the total DAC, involves the greatest judgement in terms of measurement.

Subjective valuation
US DAC related to annuities is amortised in proportion to estimated gross profits. Key assumptions impacting estimated gross profits include assumptions such as mortality and persistency, as well as the assumptions around long-term investment return and future hedge costs. We identified the amortisation of US DAC as a key audit matter given the judgements involved in selecting these assumptions.

The effect of these matters is that, as part of our risk assessment, we determined that the amortisation of US DAC has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements note C7.3 discloses the sensitivities estimated by the Group.

Our response

We used our own actuarial specialists to assist us in performing our audit procedures in this area.

Our procedures included:

Historical comparison
Assumptions relating to persistency and mortality are also relevant to the calculation of the insurance contract liabilities. See further detail in our response to that risk.

We have also assessed the appropriateness of the assumptions used in determining the estimated future profit profile and the extent of the associated adjustment necessary to the amortisation of the US DAC asset. Our work included critically assessing the judgements that determine the future profit profiles in the context of actual historical experience as well as by reference to market trends.

Our sector experience
We challenged the reasonableness of the selected assumptions relating to projected investment return and future hedge costs based on our understanding of developments in the business. Our work included comparing the projected investment returns against the investment portfolio mix and market return data. Additionally, we evaluated management's approach for deriving the assumption for future hedge costs through comparison to actuarial market practice, and corroborating the rationale for any key differences.

Tests of details
We assessed the accuracy of the calculations performed including the extent of the amortisation adjustment determined based on an assessment of the future profit profiles.

Assessing transparency
We assessed whether the disclosures in relation to the amortisation of US DAC are compliant with the relevant accounting requirements.

Our result
We found the amortisation of US DAC to be acceptable (2018: acceptable).

Recoverability of parent company's investment in subsidiaries – (2019: $10,444 million, 2018: $13,787 million)
The risk is new in the current year. The risk relates to the parent company financial statements.
Refer to page 118 (Audit Committee report), Refer to page 313 (accounting policy) and pages 315 to 316 (financial disclosures)

The risk	***Our response***
Low risk, high value The carrying amount of the parent company's investments in subsidiaries represents 55 percent (2018: 64 percent) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: **Tests of details** Comparing the carrying amount of 100% of the investments in subsidiaries with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. **Assessing subsidiary audits** Assessing the work performed by the subsidiary audit teams on all of those subsidiaries and considering the results of that work on those subsidiaries' profits and net assets. **Our result** We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable (2018: acceptable).

Following the demerger of M&G plc from the Group on 21 October 2019, we no longer consider the following to be key audit matters for 2019:

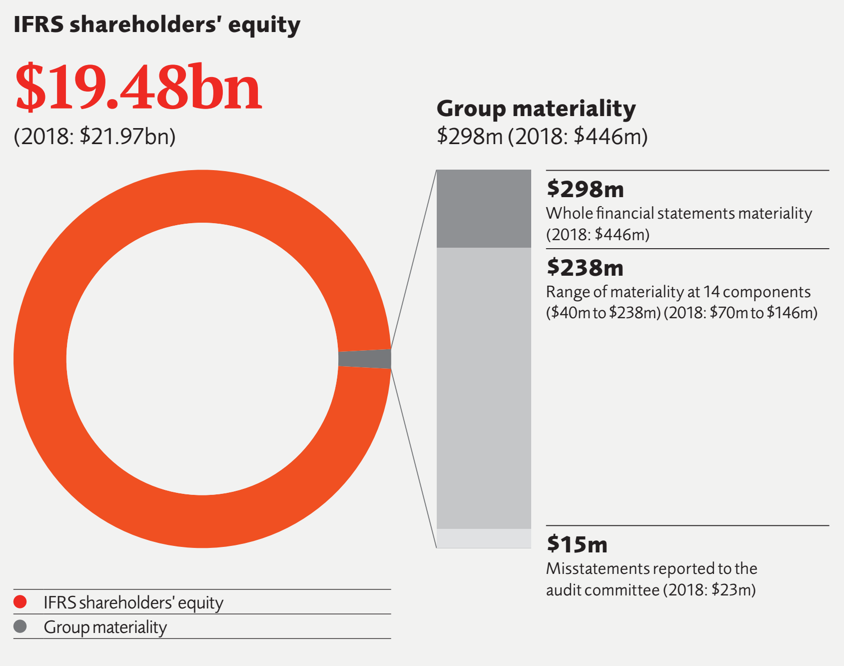
— Determination of pension asset (restricted surplus) in respect of the defined benefit pension scheme. As a result of the demerger and associated transfer of certain financial balances by Prudential plc to the demerged entity, the balance is no longer material.

— The impact of uncertainties due to the UK exiting the European Union on our audit. As a result of the demerger, the Group no longer has any trading operations in the UK or Europe. As such, the factors giving rise to a key audit matter related to these uncertainties are no longer relevant.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at $298 million (2018: $446 million) determined with reference to a benchmark of IFRS shareholders' equity (of which it represents 1.5 per cent (2018: 2.0 per cent)). We consider IFRS shareholders' equity to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after policyholder assets and corresponding liabilities have been accounted for; we consider that this is the most appropriate measure for the size of the business and that it provides a stable measure year on year. We compared our materiality against other relevant benchmarks (total assets, total revenue and profit before tax) to ensure the materiality selected was appropriate for our audit.

We set out below the materiality thresholds that are key to the audit.



Materiality for the parent company financial statements as a whole was set at $40 million (2018: $146 million), determined with reference to a benchmark of parent company's net assets, of which it represents 0.3 per cent (2018: 1.5 per cent). The component materiality, as determined by the Group audit team, applied to the audit of the parent company financial statements as a whole is lower than the materiality we would otherwise have determined by reference to its net assets.

We agreed to report to the Group audit committee any corrected or uncorrected identified misstatements exceeding $15 million (2018: $23 million) in addition to other identified misstatements that warrant reporting on qualitative grounds.

We subjected the Group's operations to audits for group reporting purposes as follows:

Of the 14 (2018: 16) reporting components scoped in for the Group audit, we subjected 10 (2018: 10) to full scope audits for group reporting purposes, and 4 (2018: 5) to an audit of account balances. The components for which we performed work other than full scope audits for group reporting purposes were not individually significant but were included in the scope of our group reporting work as they did present specific individual audit risks that needed to be addressed or in order to provide further coverage over the Group's results.

The components subjected to full scope audits included the parent company; the Prudential Assurance Company Limited in the UK and the insurance operations in the US, Hong Kong, Indonesia, Singapore, Malaysia, Vietnam, and China; and the fund management operations of M&G.

The components subjected to an audit of account balances included Prudential Pensions Limited, the insurance operations in Thailand and Taiwan, and the fund management operations of Eastspring Singapore. The account balances audited for Thailand were policyholder liabilities, investments, deferred acquisition costs, premiums and claims; the account balances audited for Taiwan were policyholder liabilities, investments, and deferred acquisition costs; the account balances audited for Eastspring Singapore were other income and expenses; the account balances audited for Prudential Pensions Limited were total investment return and benefits and claims.

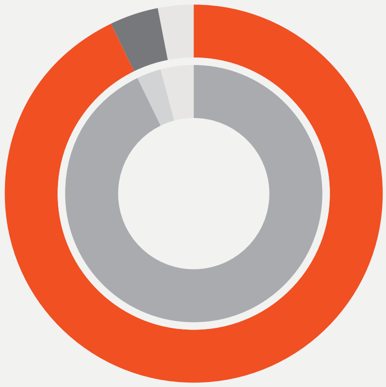
For the remaining operations, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these operations.

These components accounted for the following percentages of the Group's results:

Group revenue

97%

(2018: 96%)

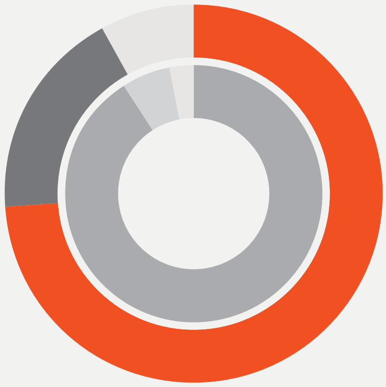


Full scope for Group audit purposes 2019	**93%**
Audit of account balances 2019	**4%**
Full scope for Group audit purposes 2018	**93%**
Audit of account balances and specified risk focused audit procedures 2018	**3%**
Residual components	

Group profit before tax

92%

(2018: 97%)

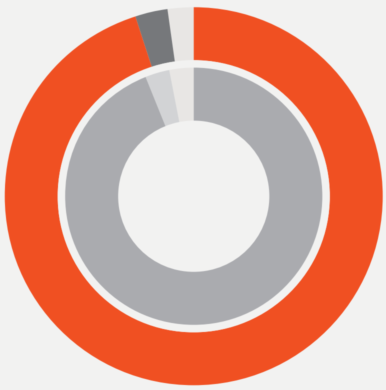


Full scope for Group audit purposes 2019	**74%**
Audit of account balances 2019	**18%**
Full scope for Group audit purposes 2018	**91%**
Audit of account balances and specified risk focused audit procedures 2018	**6%**
Residual components	

Group total assets

97%

(2018: 97%)

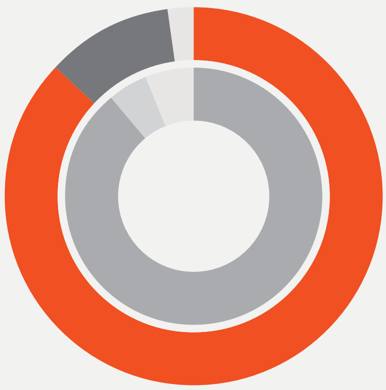


Full scope for Group audit purposes 2019	**94%**
Audit of account balances 2019	**3%**
Full scope for Group audit purposes 2018	**94%**
Audit of account balances and specified risk focused audit procedures 2018	**3%**
Residual components	

Group shareholders' equity

93%

(2018: 94%)



Full scope for Group audit purposes 2019	**83%**
Audit of account balances 2019	**10%**
Full scope for Group audit purposes 2018	**89%**
Audit of account balances and specified risk focused audit procedures 2018	**5%**
Residual components	

The Group audit team held a global planning conference with component auditors to identify audit risks and decide how each component team should address the identified audit risks. The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported. The Group audit team approved the component materialities, which ranged from $40 million to $238 million (2018: $70 million to $146 million) across the components, having regard to the size and risk profile of the Group across the components. The work on 13 components (2018: 15 components) was performed by component auditors and work on the remaining component, which was the parent company, was performed by the Group audit team.

The Group audit team visited all component auditor locations that performed a full-scope audit. Video and telephone conference meetings were also held with these component auditors and those that performed an audit of account balances. At these visits and telephone conference meetings, an assessment was made of audit risk and strategy, the findings reported to the Group audit team were discussed in more detail, key working papers were inspected and any further work required by the Group audit team was then performed by the component auditor.

The Group team also routinely reviews the audit documentation of all component audits. This year for one component in China, a joint venture of the Group, we visited the component team in December and performed a preliminary file review. As the Coronavirus prevented entry to the country post year-end, and remote access to audit documentation is prohibited, we instead extended our oversight of that component team through extended telephone discussions and expanded reporting.

The Senior Statutory Auditor, in conjunction with other senior staff in the Group and component audit teams, also regularly attended Business Unit audit committee meetings (these were held at a regional level for Asia) and participated in meetings with local components to obtain additional understanding, first hand, of the key risks and audit issues at a component level which may affect the Group financial statements.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

— Adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Group's investments, wider credit spreads and defaults and valuation of policyholder liabilities due to the impact of these market movements; and

— Severely adverse policyholder lapse or claims experience.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as failure of counterparties who have transactions with the Group (such as banks and reinsurers) to meet commitments that could give rise to a negative impact on the Group's financial position and increased illiquidity which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline whilst taking into consideration developments in the wider economic environment reflecting factors such as the impact of Brexit and other such macroeconomic events.

Based on this work, we are required to report to you if:

— We have anything material to add or draw attention to in relation to the directors' statement in note A1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least a year from the date of approval of the financial statements; or

— The related statement under the Listing Rules set out on page 133 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- The directors' confirmation within the viability statement on page 70, that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The principal risks disclosures on pages 51 to 71 describing these risks and explaining how they are being managed and mitigated; and
- The directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 319, the directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, or other irregularities, (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the area of regulatory capital as that most likely to have such an effect recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Philip Smart

Philip Smart
(Senior Statutory Auditor)
For and on behalf of KPMG LLP,
Statutory Auditor

Public Interest Entity Auditor recognised in accordance with the Hong Kong Financial Reporting Council Ordinance

Chartered Accountants
London

10 March 2020