07 Additional information

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Additional unaudited financial information

I Additional financial information

I(i) Group capital position

Following the demerger of M&G plc from Prudential plc, the Hong Kong Insurance Authority (IA) has assumed the role of the group-wide supervisor for the Prudential Group 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 for the industry 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). Further detail on the LCSM is included in the basis of preparation section below.

For regulated insurance entities, the available and required capital included in the LCSM measure for Hong Kong IA Group regulatory purposes are based on the local solvency regime applicable in each jurisdiction. At 31 December 2019 the Prudential Group's total surplus of available capital over the regulatory Group Minimum Capital Requirement (GMCR), calculated using this LCSM was $23.6 billion before allowing for the payment of the 2019 second interim ordinary dividend.

The Group holds material participating business in Hong Kong, Singapore and Malaysia. If the available capital and minimum capital requirement attributed to this policyholder business are excluded, then the Prudential Group shareholder LCSM surplus of available capital over the regulatory GMCR at 31 December 2019 was $9.5 billion before allowing for the payment of the 2019 second interim ordinary dividend.

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

	31 Dec 2019			31 Dec 2018*		
	Total	Less policyholder	Shareholder	Total	Less policyholder	Shareholder
Available capital ($bn)	33.1	(19.1)	14.0	27.0	(13.5)	13.5
Group Minimum Capital Requirement ($bn)	9.5	(5.0)	4.5	7.6	(3.8)	3.8
LCSM surplus (over GMCR) ($bn)	23.6	(14.1)	9.5	19.4	(9.7)	9.7
LCSM ratio (over GMCR) (%)	348%		309%	355%		356%

* Excludes M&G plc and includes $3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019.

The shareholder LCSM capital position by segment is presented below at 31 December 2019 and 31 December 2018 for comparison:

Estimated Group shareholder LCSM capital position (based on GMCR)

	31 Dec 2019 $bn					
			Shareholder			
	Total Asia	Less policyholder	Asia	US	Unallocated to a segment	Group total
Available capital	26.8	(19.1)	7.7	5.3	1.0	14.0
Group Minimum Capital Requirement	8.0	(5.0)	3.0	1.5	–	4.5
LCSM surplus (over GMCR)	18.8	(14.1)	4.7	3.8	1.0	9.5

	31 Dec 2018* $bn					
			Shareholder			
	Total Asia	Less policyholder	Asia	US	Unallocated to a segment	Group total
Available capital	19.6	(13.5)	6.1	5.7	1.7	13.5
Group Minimum Capital Requirement	6.3	(3.8)	2.5	1.3	–	3.8
LCSM surplus (over GMCR)	13.3	(9.7)	3.6	4.4	1.7	9.7

*Excludes M&G plc and includes $3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019.

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 are held at fair value.

I Additional financial information continued

I(i) Group capital position continued

Sensitivity analysis

The estimated sensitivity of the Group shareholder LCSM capital position (based on GMCR) to significant changes in market conditions is as follows:

Impact of market sensitivities	31 Dec 2019 LCSM surplus $bn	31 Dec 2019 LCSM ratio %
Base position	9.5	309%
Impact of:		
20% instantaneous fall in equity markets	1.5	(9)%
40% fall in equity markets note (1)	(0.2)	(39)%
50 basis points reduction in interest rates	(0.2)	(17)%
100 basis points increase in interest rates	(1.3)	(19)%
100 basis points increase in credit spreads note (2)	(1.6)	(36)%

Notes

(1) Where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period.
(2) US RBC solvency position included using a stress of 10 times expected credit defaults.

The sensitivity results above assume instantaneous market movements as at 31 December 2019, apart from the -40% equity sensitivity where for Jackson an instantaneous 20% market fall is assumed to be followed by a further market fall of 20% over a four-week period with dynamic hedges assumed to be rebalanced over the period. Aside from this assumed dynamic hedge rebalancing for Jackson in the -40% equity sensitivity, the sensitivity results only allow for limited management actions such as changes to future policyholder bonuses. If such economic conditions persisted, the financial impacts may differ to the instantaneous impacts shown above. In this case management could also take additional actions to help mitigate the impact of these stresses. These actions include, but are not limited to, rebalancing investment portfolios, further market risk hedging, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

Between 31 December 2019 and the end of February 2020, government bond yields and equity markets fell significantly in many countries. For example, US 10-year treasury yields fell by around 80 basis points and the US S&P 500 equity index fell by around 9% over the 2-month period. Based on economic conditions at the end of February 2020, the Group shareholder LCSM capital ratio (over GMCR) is estimated to be in the range of 270% - 280%, compared to 309% at 31 December 2019. This estimated capital ratio at the end of February is slightly higher than implied by the sensitivities above, mainly reflecting the benefit of management actions taken in the period which are not allowed for in the sensitivities.

Analysis of movement in Group capital position

A summary of the estimated movement in the Group shareholder LCSM surplus (based on GMCR) from $9.7 billion at 31 December 2018 to $9.5 billion at 31 December 2019 is set out in the table below.

	2019 $bn
Balance at beginning of year	9.7
Operating:	
Operating capital generation from the in-force business	2.5
Investment in new business	(0.6)
Operating capital generation	1.9
Non-operating and other capital movements:	
Non-operating experience (including market movements)	(0.6)
Adoption of NAIC regulatory reforms in the US	0.1
Corporate activities (excluding demerger items)	(0.8)
Demerger costs	(0.4)
Subordinated debt redemption	(0.5)
Demerger related impacts	1.0
M&G plc remittances	0.7
External dividends	(1.6)
Net dividend impact	(0.9)
Net movement in LCSM surplus	(0.2)
Balance at end of year	9.5

The estimated movement in the Group shareholder LCSM surplus over 2019 is driven by:

- Operating capital generation of $1.9 billion: generated by expected return on in-force business net of strain on new business written in 2019. It includes the impact from the release of incremental reserves associated with the John Hancock acquisition in the US ($0.4 billion) and interest paid prior to demerger on subordinated debt transferred to M&G plc ($(0.2) billion);
- Non-operating experience of $(0.6) billion: this includes the negative impact of higher equity markets on Jackson's derivatives net of reserve movements partially offset by the positive impacts of market and exchange rate movements on Asia surplus over the year;
- Corporate activities (excluding demerger items) of $(0.8) billion: this is the effect on LCSM surplus of corporate transactions in the period, principally arising from the extension of the UOB bancassurance distribution deal;
- Demerger costs of $(0.4) billion: this includes transaction related costs and other one-off costs arising from the demerger;
- Subordinated debt redemption of $(0.5) billion: a reduction in surplus from the impact of debt redeemed during 2019;
- Demerger related impacts of $1.0 billion: includes $3.8 billion of pre-demerger dividend paid by M&G plc, $1.0 billion of restructuring impacts prior to demerger and $0.4 billion from debt raised by Prudential plc on behalf of M&G plc, partially offset by $(4.2) billion from the transfer of subordinated debt to M&G plc prior to demerger; and
- Net dividend impact of $(0.9) billion: this includes external dividends of $(1.6) billion paid during 2019 largely based on the Group prior to demerger net of regular remittances paid by M&G plc during 2019 prior to the demerger of $0.7 billion.

I Additional financial information continued

I(i) Group capital position continued

Reconciliation of Group shareholder LCSM surplus to EEV free surplus (excluding intangibles)

31 Dec 2019 ($bn)	Asia	US	Unallocated to a segment	Group total
Estimated Group shareholder LCSM surplus (over GMCR)	4.7	3.8	1.0	9.5
Increase required capital for EEV free surplus note (i)	(0.6)	(2.2)	–	(2.8)
Adjust surplus assets and core structural borrowings to market value note (ii)	0.3	0.2	(0.2)	0.3
Add back inadmissible assets note (iii)	0.1	0.1	–	0.2
Deductions applied to EEV free surplus note (iv)	(0.9)	–	–	(0.9)
Other	–	(0.1)	0.4	0.3
EEV free surplus excluding intangibles*	3.6	1.8	1.2	6.6

*As per the "Free surplus excluding distribution rights and other intangibles" from note 11 of the Group's EEV basis results.

Notes:

(i) Required Capital under EEV is set at least equal to local statutory notification requirements for Asia (with China JV following the approach for embedded value reporting issued by the China Association of Actuaries (CAA) reflecting the C-ROSS regime) and at 250 per cent of the risk-based capital (RBC) required by the NAIC at the Company Action Level (CAL). This is higher than the solo legal entity statutory minimum capital requirements that are included in the LCSM surplus (over GMCR).

(ii) The EEV Principles require surplus assets to be included at fair value and central core senior debt held at market value. Within LCSM surplus, some local regulatory regimes value certain assets at cost and core structural borrowings are held at amortised cost.

(iii) LCSM restricts the valuation of certain sundry non-intangible assets. In most cases these assets are considered fully recognisable in free surplus. As an exception to this, both LCSM surplus and EEV free surplus restrict the deferred tax asset held by Jackson to the level allowed to be admitted by the local regulator in local statutory available capital.

(iv) Deductions applied to EEV free surplus primarily include the impact of applying the embedded value reporting approach issued by the CAA within EEV free surplus as compared to the C-ROSS surplus reported for local regulatory purposes. The $(0.9) billion predominantly arises from the requirement under the CAA embedded value methodology to establish a deferred profit liability within EEV net worth.

Reconciliation of Group IFRS shareholders' equity to shareholder LCSM available capital position

	31 Dec 2019 $bn
Group IFRS shareholders' equity	19.5
Remove DAC, goodwill and intangibles	(18.2)
Add subordinated debt at IFRS book value	4.6
Valuation differences	8.6
Other	(0.5)
Estimated Group shareholder LCSM available capital	14.0

The key items of the reconciliation as at 31 December 2019 are:

- $(18.2) billion due to the removal of DAC, goodwill and other intangibles from the IFRS statement of financial position;
- $4.6 billion due to the addition of subordinated debt, which is treated as available capital under LCSM but as a liability under IFRS; and
- $8.6 billion due to differences on the basis of valuing assets and liabilities between IFRS and local statutory valuation rules, including reductions for inadmissible assets. The most significant difference arises in Jackson where local statutory reserves are reduced by an expense allowance linked to surrender charges. IFRS makes no such allowance but instead defers acquisition costs on the balance sheet as a separate asset (which is not recognised on the statutory balance sheet).

Basis of preparation

In advance of the GWS framework coming into force, Prudential applies the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine group regulatory capital requirements (both minimum and prescribed levels). The summation of local statutory capital requirements across the Group is used to determine group regulatory capital requirements, with no allowance for diversification between business operations. The Group available capital is determined by the summation of available capital across local solvency regimes for regulated entities and IFRS net assets (with adjustments described below) for non-regulated entities. The Hong Kong IA has yet to make any final decisions regarding the GWS framework for the industry and it continues to consider and consult on the proposed legislation and related guidelines. The results above should not therefore be interpreted as representing the results or requirements under the industry-wide GWS framework and are not intended to provide a forecast of the eventual position.

In determining the LCSM available capital and required capital the following principles have been applied:

- For regulated insurance entities, available and required capital are based on the local solvency regime applicable in each jurisdiction, with minimum required capital is set at the solo legal entity statutory minimum capital requirements. The treatment of participating funds is consistent with the local basis;
- For the US insurance entities, available and required capital are based on the local US RBC framework set by the NAIC, with minimum required capital set at 100 per cent of the CAL RBC;
- For asset management operations and other regulated entities, the shareholder capital position is derived based on the sectoral basis applicable in each jurisdiction, with minimum required capital based on the solo legal entity statutory minimum capital requirement;
- For non-regulated entities, the available capital is based on IFRS net assets after deducting intangible assets. No required capital is held in respect of unregulated entities;
- Investments in subsidiaries, joint ventures and associates (including, if any, loans that are recognised as capital on the receiving entity's balance sheet) are eliminated from the relevant holding company to prevent the double counting of available capital; and
- The Hong Kong IA has agreed that specific bonds (being those subordinated debt instruments held by Prudential plc at the date of demerger) can be included as part of the Group's capital resources for the purposes of satisfying group minimum and prescribed capital requirements. Senior debt instruments held by Prudential plc have not been included as part of the Group capital resources and are treated as a liability in the LCSM results presented above (this is equivalent to a 15 per cent reduction in the Group shareholder LCSM coverage ratio (over GMCR)). Grandfathering provisions under the GWS framework remain subject to further consultation and the Hong Kong legislative process in due course.

I(ii) Funds under management

For Prudential's asset management businesses, funds managed on behalf of third parties are not recorded on the statement of financial position. They are, however, a driver of profitability. Prudential therefore analyses the movement in the funds under management each period, focusing on those which are external to the Group and those primarily held by the Group's insurance businesses. The table below analyses, by segment, the funds of the Group held in the statement of financial position and the external funds that are managed by Prudential's asset management businesses.

	31 Dec 2019 $bn	31 Dec 2018* $bn
Asia operations:		
Internal funds	141.9	112.5
Eastspring Investments external funds (as analysed note I(v))	124.7	77.8
Other†	–	22.2
	266.6	212.5
US operations – internal funds	273.4	237.0
Other operations	3.9	5.8
Total Group funds under management – continuing operations	543.9	455.3

* The 2018 comparatives have been adjusted from the previously published amounts to exclude the discontinued UK and Europe operations. Additionally, the comparatives have been adjusted to include cash and cash equivalents and to exclude assets held that are attributable to external unit holders of consolidated collective investment schemes to align to the current year's presentation.

† Other represents funds managed by Eastspring Investments on behalf of M&G plc, that were categorised as the internal funds of the UK and Europe operations prior to the demerger of M&G plc. Following the demerger, these funds have been reclassified to external funds under management of Eastspring Investments.

Note

Total Group funds under management from continuing operations comprise:

	31 Dec 2019 $bn	31 Dec 2018 $bn
Total investments and cash and cash equivalents held by the continuing operations on the consolidated statement of financial position	412.6	349.6
External and M&G plc funds of Eastspring Investments	124.7	100.0
Internally managed funds held in joint ventures and associate, excluding assets attributable to external unit holders of the consolidated collective investment schemes and other adjustments	6.6	5.7
Total Group funds under management from continuing operations	543.9	455.3

I Additional financial information continued

I(iii) Holding company cash flow

The holding company cash flow describes the movement in the cash and short-term investments of the centrally managed group holding companies and differs from the IFRS cash flow statement, which includes all cash flows in the year including those relating to both policyholder and shareholder funds. The holding company cash flow is therefore a more meaningful indication of the Group's central liquidity.

During both 2019 and 2018 the cash and short-term investments of the central holding companies were managed in sterling, in line with the management of the Group's external dividends. Following the change to the Group's presentational currency, the holding company cash flow statement below is shown in US dollars and prior period amounts have been restated accordingly. Cash movements in the year have been converted from sterling into US dollars by using the month-end sterling to US dollar exchange rate for the month in which the transaction occurred. Cash balances at the start and end of the year have been translated from sterling to US dollars using the spot rates at 1 January and 31 December respectively. As an exception to the above, external dividends paid for both 2019 and 2018 have been translated at the exchange rate relevant to the day they were paid to ensure consistency with the financial statements.

At 31 December 2019, the Group changed its basis of managing central cash-holdings from sterling to US dollars to better reflect the inflows from the Group's operations post the demerger of M&G plc and its decision to declare dividends in US dollars from 2020. Therefore, in future reporting the holding company cash flow will be prepared directly in US dollars.

	2019 $m	AER 2018 $m
Net cash remitted by business units note (a)**:**		
From continuing operations		
Asia note (b)	950	916
US note (b)	509	452
Other operations	6	49
Total continuing operations	1,465	1,417
From discontinued UK and Europe operations	684	842
Net cash remittances by business units	2,149	2,259
Net interest paid note (c)	(527)	(488)
Tax received	265	190
Corporate activities	(260)	(274)
Total central outflows	(522)	(572)
Holding company cash flow before dividends and other movements	1,627	1,687
Dividends paid	(1,634)	(1,662)
Operating holding company cash flow after dividends but before other movements	(7)	25
Other movements		
Transactions to effect the demerger, including debt substitution note(d)	(146)	2,071
Demerger costs	(424)	(29)
Redemption of subordinated debt for continuing operations	(504)	(553)
Early settlement of UK-inflation-linked derivative liability	(587)	–
Other corporate activities relating to continuing operations note(e)	(338)	(336)
Total other movements	(1,999)	1,153
Total holding company cash flow	(2,006)	1,178
Cash and short-term investments at beginning of year	4,121	3,063
Foreign exchange movements	92	(120)
Cash and short-term investments at end of year	2,207	4,121

Notes

(a) Net cash remittances comprise dividends and other transfers from business units that are reflective of emerging earnings and capital generation.

(b) Significant cash remittances from business units were hedged into sterling using forward contracts during 2018 and 2019 and these contracts determine the amount of sterling recorded in the holding company cash flow for the relevant remittances. The implicit rates may therefore differ from that applied to present the holding company cash flow in US dollars. If local currency remittances in Asia had been translated directly into US dollars using the relevant month-end spot rate then the growth rate in Asia remittances year on year would have been 8 per cent (compared to 4 per cent shown in the table above). The dividend paid by Jackson in the US in US dollars in 2019 was $525 million (2018: $450 million).

(c) The net interest paid in 2019 includes amounts on debt substituted to M&G plc shortly prior to its demerger of $231 million.

(d) Transactions to effect the demerger includes the transfer of subsidiaries and settlement of intercompany loans totalling $(193) million issuance of substitutable debt for cash of $367 million, receipt of the pre-demerger dividend of $3,841 million, and the substitution of M&G plc as issuer of sub-ordinated debt in place of Prudential plc (as discussed further in note C6 of the IFRS financial statements), which reduced Cash and short-term investments by $(4,161) million.

(e) Other corporate activities relating to continuing operations primarily relates to the first instalment payable following the renewal of bancassurance arrangement with UOB of $253 million, ongoing centrally funded payments of bancassurance distribution rights and other items.

I(iv) Analysis of adjusted IFRS operating profit based on longer-term investment returns by driver from long-term insurance businesses

This schedule classifies the Group's adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit) from continuing long-term insurance businesses into the underlying drivers using the following categories:

- **Spread income** represents the difference between net investment income and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.
- **Fee income** represents profit driven by net investment performance, being fees that vary with the size of the underlying policyholder funds, net of investment management expenses.
- **With-profits** represents the pre-tax shareholders' transfer from the with-profits business for the period.
- **Insurance margin** primarily represents profit derived from the insurance risks of mortality and morbidity.
- **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses (see below).
- **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. These exclude items such as restructuring costs, which are not included in the segment profit, as well as items that are more appropriately included in other categories (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).
- **DAC adjustments** comprise DAC amortisation for the period, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business written in the period.

(a) Margin analysis of long-term insurance business – continuing operations

The following analysis expresses certain of the Group's sources of adjusted IFRS operating profit based on longer-term investment returns as a margin of policyholder liabilities or other relevant drivers. Details on the calculation of the Group's average policyholder liability balances are given in note (1).

	2019				
	Asia note (b) $m	US note (c) $m	Group total $m	Average liability note (1) $m	Margin note (2) bps
Spread income	321	642	963	86,887	111
Fee income	286	3,292	3,578	208,217	172
With-profits	107	–	107	58,032	18
Insurance margin	2,244	1,317	3,561		
Margin on revenues	3,035	–	3,035		
Expenses:					
Acquisition costs note (3)	(2,156)	(1,074)	(3,230)	7,384	(44)%
Administration expenses	(1,437)	(1,675)	(3,112)	303,204	(103)
DAC adjustments note (4)	430	510	940		
Expected return on shareholder assets	194	26	220		
	3,024	3,038	6,062		
Share of related tax charges from joint ventures and associate note (5)	(31)	–	(31)		
Adjusted IFRS operating profit based on longer-term investment returns long-term business	2,993	3,038	6,031		
Adjusted IFRS operating profit based on longer-term investment returns – asset management	283	32	315		
Total segment profit from continuing operations	3,276	3,070	6,346		

I Additional financial information continued

I(iv) Analysis of adjusted IFRS operating profit based on longer-term investment returns by driver from long-term insurance businesses continued

	2018 AER notes (6),(7)				
	Asia note (b) $m	US note (c) $m	Group total $m	Average liability note (1) $m	Margin note (2) bps
Spread income	310	778	1,088	74,803	145
Fee income	280	3,265	3,545	204,456	173
With-profits	95	–	95	47,548	20
Insurance margin	1,978	1,267	3,245		
Margin on revenues	2,810	–	2,810		
Expenses:					
Acquisition costs note (3)	(2,007)	(1,013)	(3,020)	7,058	(43)%
Administration expenses	(1,374)	(1,607)	(2,981)	284,985	(105)
DAC adjustments note (4)	435	(152)	283		
Expected return on shareholder assets	172	14	186		
	2,699	2,552	5,251		
Share of related tax charges from joint ventures and associate note (5)	(53)	–	(53)		
Adjusted IFRS operating profit based on longer-term investment returns long-term business	2,646	2,552	5,198		
Adjusted IFRS operating profit based on longer-term investment returns – asset management	242	11	253		
Total segment profit from continuing operations	2,888	2,563	5,451		

	2018 CER notes (6),(7)				
	Asia note (b) $m	US note (c) $m	Group total $m	Average liability note (1) $m	Margin note (2) bps
Spread income	305	778	1,083	74,690	145
Fee income	277	3,265	3,542	204,111	174
With-profits	94	–	94	47,580	20
Insurance margin	1,966	1,267	3,233		
Margin on revenues	2,790	–	2,790		
Expenses:					
Acquisition costs note (3)	(1,991)	(1,013)	(3,004)	7,018	(43)%
Administration expenses	(1,359)	(1,607)	(2,966)	284,527	(104)
DAC adjustments note (4)	430	(152)	278		
Expected return on shareholder assets	172	14	186		
	2,684	2,552	5,236		
Share of related tax charges from joint ventures and associate note (5)	(51)	–	(51)		
Adjusted IFRS operating profit based on longer-term investment returns long-term business	2,633	2,552	5,185		
Adjusted IFRS operating profit based on longer-term investment returns – asset management	239	11	250		
Total segment profit from continuing operations	2,872	2,563	5,435		

Notes to the tables throughout I(iv)

(1) For Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as a proxy for average balances throughout the year. The calculation of average liabilities for the US is generally derived from month-end balances throughout the year as opposed to opening and closing balances only. The average liabilities for fee income in the US have been calculated using daily balances instead of month-end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. Average liabilities for spread income are based on the general account liabilities to which spread income is attached. Average liabilities used to calculate the administration expenses margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson.

(2) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.

(3) The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.

(4) The DAC adjustments contain a credit of $72 million in respect of joint ventures and associate in 2019 (2018: AER credit of $73 million).

(5) Under IFRS, the Group's share of results from its investments in joint ventures and associate accounted for using the equity method is included in the Group's profit before tax on a net of related tax basis. These tax charges are shown separately in the analysis of Asia operating profit drivers in order for the contribution from the joint ventures and associate to be included in the margin analysis on a consistent basis as the rest of the Asia's operations.

(6) The 2018 comparative information has been presented at both AER and CER to eliminate the impact of exchange translation. CER results are calculated by translating prior year results using the current year foreign exchange rates. All CER profit figures have been translated at current year average rates for US dollars to reflect the change in the Group's presentation currency in 2019. For Asia, CER average liabilities have been translated using current year opening and closing exchange rates.

(7) The 2018 comparative results exclude the contribution from the discontinued UK and Europe operations.

(b) Margin analysis of long-term insurance business – Asia

	2019			2018 AER			2018 CER notes (6),(7)		
	Profit $m	Average liability note (1) $m	Margin note (2) bps	Profit $m	Average liability note (1) $m	Margin note (2) bps	Profit $m	Average liability note (1) $m	Margin note (2) bps
Spread income	321	29,706	108	310	24,752	125	305	24,639	124
Fee income	286	27,277	105	280	26,398	106	277	26,053	106
With-profits	107	58,032	18	95	47,548	20	94	47,580	20
Insurance margin	2,244			1,978			1,966		
Margin on revenues	3,035			2,810			2,790		
Expenses:									
Acquisition costs note (3)	(2,156)	5,161	(42)%	(2,007)	4,999	(40)%	(1,991)	4,959	(40)%
Administration expenses	(1,437)	56,984	(252)	(1,374)	51,150	(269)	(1,359)	50,692	(268)
DAC adjustments note (4)	430			435			430		
Expected return on shareholder assets	194			172			172		
	3,024			2,699			2,684		
Share of related tax charges from joint ventures and associate note (5)	(31)			(53)			(51)		
Adjusted IFRS operating profit based on longer-term investment returns – long-term business	2,993			2,646			2,633		
Adjusted IFRS operating profit based on longer-term investment returns – asset management (Eastspring Investments)	283			242			239		
Total Asia	3,276			2,888			2,872		

(c) Margin analysis of long-term insurance business – US

	2019			2018		
	Profit $m	Average liability note (1) $m	Margin note (2) bps	Profit $m	Average liability note (1) $m	Margin note (2) bps
Spread income	642	57,181	112	778	50,051	155
Fee income	3,292	180,940	182	3,265	178,058	183
Insurance margin	1,317			1,267		
Expenses:						
Acquisition costs note (3)	(1,074)	2,223	(48)%	(1,013)	2,059	(49)%
Administration expenses	(1,675)	246,220	(68)	(1,607)	233,835	(69)
DAC adjustments	510			(152)		
Expected return on shareholder assets	26			14		
Adjusted IFRS operating profit based on longer-term investment returns – long-term business	3,038			2,552		
Adjusted IFRS operating profit based on longer-term investment returns – asset management	32			11		
Total US	3,070			2,563		

I Additional financial information continued

I(iv) Analysis of adjusted IFRS operating profit based on longer-term investment returns by driver from long-term insurance businesses continued

Analysis of adjusted IFRS operating profit based on longer-term investment returns for US insurance operations before and after acquisition costs and DAC adjustments

	2019 $m				2018 $m			
	Before acquisition costs and DAC adjustments	Acquisition costs		After acquisition costs and DAC adjustments	Before acquisition costs and DAC adjustments	Acquisition costs		After acquisition costs and DAC adjustments
		Incurred	Deferred			Incurred	Deferred	
Total adjusted IFRS operating profit based on longer-term investment returns before acquisition costs and DAC adjustments	3,602			3,602	3,717			3,717
Less new business strain		(1,074)	807	(267)		(1,013)	760	(253)
Other DAC adjustments – amortisation of previously deferred acquisition costs:								
Normal			(577)	(577)			(653)	(653)
Deceleration (acceleration)			280	280			(259)	(259)
Total adjusted IFRS operating profit based on longer-term investment returns	3,602	(1,074)	510	3,038	3,717	(1,013)	(152)	2,552

I(v) Asia operations – analysis of adjusted IFRS operating profit based on longer-term investment returns by business unit

(a) Analysis of adjusted IFRS operating profit based on longer-term investment returns by business unit

Adjusted operating profit based on longer-term investment returns for Asia operations are analysed below. The table below presents the 2018 results on both AER and CER bases to eliminate the impact of exchange translation.

	2019 $m	2018 $m		2019 vs 2018 %	
		AER	CER	AER	CER
Hong Kong	734	591	591	24%	24%
Indonesia	540	555	559	(3)%	(3)%
Malaysia	276	259	252	7%	10%
Philippines	73	57	58	28%	26%
Singapore	493	439	433	12%	14%
Thailand	170	151	157	13%	8%
Vietnam	237	199	197	19%	20%
South-east Asia operations including Hong Kong	2,523	2,251	2,247	12%	12%
China JV	219	191	182	15%	20%
Taiwan	74	68	67	9%	10%
Other	70	68	69	3%	1%
Non-recurrent items*	142	126	124	13%	15%
Total insurance operations	3,028	2,704	2,689	12%	13%
Share of related tax charges from joint ventures and associate	(31)	(53)	(51)	42%	39%
Development expenses	(4)	(5)	(5)	20%	20%
Total long-term business	2,993	2,646	2,633	13%	14%
Asset management (Eastspring Investments)	283	242	239	17%	18%
Total Asia	3,276	2,888	2,872	13%	14%

* 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: $126 million on an AER basis) representing a small number of items that are not expected to reoccur, including the impact of a refinement to the run-off of the allowance for prudence within technical provisions.

(b) Analysis of Eastspring Investments adjusted IFRS operating profit based on longer-term investment returns

	2019 $m	2018 $m
Operating income before performance-related fees note (1)	636	566
Performance-related fees	12	23
Operating income (net of commission) note (2)	648	589
Operating expense note (2)	(329)	(311)
Group's share of tax on joint ventures' operating profit	(36)	(36)
Operating profit based on longer-term investment returns	283	242
Average funds managed by Eastspring Investments	$214.0bn	$186.3bn
Margin based on operating income*	30bps	30bps
Cost/income ratio†	52%	55%

Notes

(1) Operating income before performance-related fees for Eastspring Investments can be further analysed as follows:

	Retail $m	Margin* bps	Institutional‡ $m	Margin* bps	Total $m	Margin* bps
2019	392	52	244	18	636	30
2018	336	50	230	18	566	30

* Margin represents operating income before performance-related fees as a proportion of the related funds under management. Monthly closing internal and external funds managed by Eastspring have been used to derive the average. Any funds held by the Group's insurance operations that are managed by third parties outside the Prudential Group are excluded from these amounts.

† Cost/income ratio represents cost as a percentage of operating income before performance-related fees.

‡ Institutional includes internal funds.

(2) Operating income and expense include the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the consolidated income statement of the Group IFRS basis results, the net post-tax income of the joint ventures and associates is shown as a single line item.

(c) Eastspring Investments total funds under management

Eastspring Investments, the Group's asset management business in Asia, manages funds from external parties and also funds for the Group's insurance operations. The table below analyses the total funds managed and Eastspring Investments.

	31 Dec 2019 $bn	31 Dec 2018 $bn
External funds under management note (1):		
Retail	73.7	55.3
Institutional*	37.7	7.7
Money market funds (MMF)	13.3	14.8
	124.7	77.8
Internal funds under management*	116.4	114.9
Total funds under management note (2)	241.1	192.7

* The 2018 comparative internal funds under management of $114.9 billion included $22.2 billion of funds managed on behalf of M&G plc. Following the demerger, these funds have been reclassified to external funds under management in 2019.

Notes

(1) External funds under management – analysis of movements

	31 Dec 2019 $m	31 Dec 2018 $m
At 1 January	77,762	75,601
Market gross inflows	283,268	283,156
Redemptions	(276,215)	(283,271)
Market and other movements	39,907	2,276
At 31 December	124,722	77,762

Note

The analysis of movements above includes $13,337 million as at 31 December 2019 relating to Asia Money Market Funds (31 December 2018: $14,776 million).

(2) Total funds under management – analysis by asset class

	31 Dec 2019		31 Dec 2018	
	$bn	% of total	$bn	% of total
Equity	107.0	44%	86.6	45%
Fixed income	116.2	48%	86.4	45%
Alternatives	3.4	2%	2.9	1%
MMF	14.5	6%	16.8	9%
Total funds under management	241.1	100%	192.7	100%

I Additional financial information continued

I(vi) Reconciliation of expected transfer of value of in-force business and required capital to free surplus

The tables below show how the value of in-force business (VIF) generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although circa 7 per cent of the Group's embedded value emerges after this date, analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2019 results.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2019, the tables also present the expected future free surplus to be generated from the investment made in new business during 2019 over the same 40-year period for long-term business operations.

	31 Dec 2019 $m					
	Undiscounted expected generation from all in-force business*			Undiscounted expected generation from new business written*		
Expected period of emergence	Asia	US	Group total	Asia	US	Group total
2020	1,963	1,523	3,486	291	325	616
2021	2,088	1,445	3,533	244	45	289
2022	1,941	1,412	3,353	225	101	326
2023	1,965	1,500	3,465	207	120	327
2024	1,895	1,574	3,469	223	119	342
2025	1,874	1,528	3,402	202	26	228
2026	1,917	1,514	3,431	223	9	232
2027	1,891	1,497	3,388	217	143	360
2028	1,858	1,415	3,273	209	173	382
2029	1,761	1,333	3,094	223	148	371
2030	1,687	1,265	2,952	188	122	310
2031	1,666	1,152	2,818	184	109	293
2032	1,614	1,001	2,615	171	94	265
2033	1,596	759	2,355	169	80	249
2034	1,590	690	2,280	190	87	277
2035	1,556	610	2,166	170	71	241
2036	1,557	514	2,071	170	57	227
2037	1,563	396	1,959	170	46	216
2038	1,550	312	1,862	169	35	204
2039	1,535	243	1,778	177	70	247
2040-2044	7,360	977	8,337	869	140	1,009
2045-2049	7,055	–	7,055	887	–	887
2050-2054	7,073	–	7,073	987	–	987
2055-2059	6,468	–	6,468	958	–	958
Total free surplus expected to emerge in the next 40 years	63,023	22,660	85,683	7,723	2,120	9,843

* The analysis excludes amounts incorporated into VIF at 31 December 2019 where there is no definitive time frame for when the payments will be made or receipts received. It also excludes any free surplus emerging after 2059.

The discounted expected generation from new business written in 2019 can be reconciled to the new business profit for long-term business operations as follows:

	2019 $m		
	Asia	US	Group total
Undiscounted expected free surplus generation for years 2020 to 2059	7,723	2,120	9,843
Less: discount effect	(4,211)	(721)	(4,932)
Discounted expected free surplus generation for years 2020 to 2059	3,512	1,399	4,911
Discounted expected free surplus generation for years after 2059	771	–	771
Discounted expected free surplus generation from new business written in 2019	4,283	1,399	5,682
Free surplus investment in new business	(619)	(539)	(1,158)
Other items†	(142)	23	(119)
EEV new business profit for long-term business operations	3,522	883	4,405

† Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation is translated at closing rates.

The undiscounted expected free surplus generation from all in-force business at 31 December 2019 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2018 as follows:

Group	2019 $m	2020 $m	2021 $m	2022 $m	2023 $m	2024 $m	Other $m	Total $m
2018 expected free surplus generation for years 2019 to 2058	**4,759**	4,823	4,807	4,695	4,608	4,505	72,778	**100,975**
Demerger of UK and Europe operations	**(755)**	(776)	(753)	(728)	(707)	(684)	(10,316)	**(14,719)**
Less: Amounts expected to be realised in the current year	**(4,004)**	–	–	–	–	–	–	**(4,004)**
Add: Expected free surplus to be generated in year 2059*	–	–	–	–	–	–	1,205	**1,205**
Foreign exchange differences	–	26	25	24	25	23	467	**590**
New business	–	616	289	326	327	342	7,943	**9,843**
Operating movements	–	(113)	28	(104)	(59)	(90)	(3,700)	**(8,207)**
Non-operating and other movements†	–	(1,090)	(863)	(860)	(729)	(627)		
2019 expected free surplus generation for years 2020 to 2059	–	3,486	3,533	3,353	3,465	3,469	68,377	**85,683**

Asia	2019 $m	2020 $m	2021 $m	2022 $m	2023 $m	2024 $m	Other $m	Total $m
2018 expected free surplus generation for years 2019 to 2058	**1,987**	1,915	1,842	1,835	1,831	1,746	49,411	**60,567**
Less: Amounts expected to be realised in the current year	**(1,987)**	–	–	–	–	–	–	**(1,987)**
Add: Expected free surplus to be generated in year 2059*	–	–	–	–	–	–	1,205	**1,205**
Foreign exchange differences	–	26	25	24	25	23	467	**590**
New business	–	291	244	225	207	223	6,533	**7,723**
Operating movements	–	(133)	63	(69)	(12)	(47)	(4,445)	**(5,075)**
Non-operating and other movements	–	(136)	(86)	(74)	(86)	(50)		
2019 expected free surplus generation for years 2020 to 2059	–	1,963	2,088	1,941	1,965	1,895	53,171	**63,023**

US	2019 $m	2020 $m	2021 $m	2022 $m	2023 $m	2024 $m	Other $m	Total $m
2018 expected free surplus generation for years 2019 to 2058	**2,017**	2,132	2,212	2,132	2,070	2,075	13,051	**25,689**
Less: Amounts expected to be realised in the current year	**(2,017)**	–	–	–	–	–	–	**(2,017)**
New business	–	325	45	101	120	119	1,410	**2,120**
Operating movements	–	20	(35)	(35)	(47)	(43)	745	**(3,132)**
Non-operating and other movements†	–	(954)	(777)	(786)	(643)	(577)		
2019 expected free surplus generation for years 2020 to 2059	–	1,523	1,445	1,412	1,500	1,574	15,206	**22,660**

* Excluding 2019 new business.
† Including impact of US EEV hedge modelling enhancements as described in note 7 of the EEV financial statements.

At 31 December 2019, the total free surplus expected to be generated from continuing operations over the next five years (2020 to 2024 inclusive), using the same assumptions and methodology as those underpinning our 2019 embedded value reporting, was $17.3 billion (31 December 2018: $19.8 billion).

I Additional financial information continued

I(vi) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus continued

At 31 December 2019, the total free surplus expected to be generated on an undiscounted basis in the next 40 years is $85.7 billion, $(0.6) billion lower than the $86.3 billion expected at the end of 2018 from continuing operations, with the $2.4 billion increase in Asia being more than offset by the $(3.0) billion decrease in the US. In Asia the increase from new business of $7.7 billion, together with favourable foreign exchange gains and operating assumption updates following the annual review of experience, more than offset the effect of generally lower interest rates across the region decreasing projected returns. At 31 December 2019 expected free surplus generation in Asia for the next 40 years is $63.0 billion (31 December 2018: $60.6 billion). In the US new business contributed $2.1 billion to expected free surplus generation. Operating, non-operating and other movements were $(3.1) billion, principally driven by the impact of lower interest rates and the effect of the NAIC reform, hedge modelling and other related changes described in note 7 of the EEV financial statements. At 31 December 2019 expected free surplus generation in the US for the next 40 years is $22.7 billion (31 December 2018: $25.7 billion).

Actual underlying free surplus generated in 2019 from life business in force at the end of 2018, before the impact of US EEV hedge modelling enhancements and restructuring costs, was $4.7 billion including $0.6 billion of changes in operating assumptions and experience variances. This compares with the expected 2019 realisation at the end of 2018 of $4.0 billion.

This can be analysed further as follows:

	2019 $m		
	Asia	US	Group total
Transfer to free surplus in 2019 before impact of US EEV hedge modelling enhancements	1,914	2,070	3,984
Expected return on free assets	80	61	141
Changes in operating assumptions and experience variances	147	411	558
Underlying free surplus generated from in-force life business before impact of US EEV hedge modelling enhancements and restructuring costs*	2,141	2,542	4,683
2019 free surplus expected to be generated at 31 December 2018	1,987	2,017	4,004

* Underlying free surplus generated from in-force life business before restructuring costs in 2019 in the US was $1,639 million (Group total $3,780 million), after reflecting the $(903) million impact of US EEV hedge modelling enhancements described in note 7 of the EEV financial statements.

The equivalent discounted amounts of the undiscounted expected transfers from in-force business and required capital into free surplus shown previously are as follows:

	31 Dec 2019 $m					
	Discounted expected generation from all in-force business			Discounted expected generation from new business written		
Expected period of emergence	**Asia**	**US**	**Group total**	**Asia**	**US**	**Group total**
2020	1,890	1,468	3,358	279	320	599
2021	1,910	1,313	3,223	218	42	260
2022	1,674	1,212	2,886	189	92	281
2023	1,608	1,212	2,820	165	102	267
2024	1,479	1,203	2,682	169	100	269
2025	1,397	1,105	2,502	147	22	169
2026	1,363	1,034	2,397	158	7	165
2027	1,281	966	2,247	147	98	245
2028	1,206	865	2,071	134	114	248
2029	1,088	765	1,853	137	90	227
2030	991	690	1,681	109	70	179
2031	938	595	1,533	99	59	158
2032	863	496	1,359	88	48	136
2033	819	345	1,164	82	39	121
2034	783	298	1,081	86	39	125
2035	737	256	993	76	30	106
2036	709	210	919	73	23	96
2037	682	151	833	70	18	88
2038	651	118	769	66	13	79
2039	619	90	709	67	24	91
2040-2044	2,631	302	2,933	292	49	341
2045-2049	2,060	–	2,060	244	–	244
2050-2054	1,730	–	1,730	232	–	232
2055-2059	1,294	–	1,294	185	–	185
Total discounted free surplus expected to emerge in the next 40 years	30,403	14,694	45,097	3,512	1,399	4,911

The discounted expected generation from all in-force business can be reconciled to the total embedded value for long-term business operations as follows:

	31 Dec 2019 $m
Discounted expected generation from all in-force business for years 2020 to 2059	45,097
Discounted expected generation from all in-force business for years after 2059	3,892
Discounted expected generation from all in-force business at 31 December 2019	48,989
Free surplus of life operations held at 31 December 2019	5,395
Other items*	(205)
Total EEV for long-term business operations	54,179

* Other items represent the impact of the time value of options and guarantees and other non-modelled items.

I Additional financial information continued

I(vii) Option schemes

The Group presently grants share options through three schemes and exercises of the options are satisfied by the issue of new shares. Executive directors and eligible employees based in the UK may participate in the Prudential Savings-Related Share Option Scheme. Executives and eligible employees based in Asia as well as, prior to the demerger of M&G plc from the Prudential Group, eligible employees of M&G plc based in Europe can participate in the Prudential International Savings-Related Share Option Scheme, while agents based in certain regions of Asia can participate in the Prudential International Savings-Related Share Option Scheme for Non-Employees. Further details of the schemes and accounting policies are detailed in note B2.2 of the IFRS basis consolidated financial statements.

All options were granted at nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the Prudential International Savings-Related Share Option Scheme for Non-Employees) or in excess of the individual limit for the relevant scheme. The maximum share entitlement of each participant under the relevant scheme for each option granted is limited to the total savings and any bonus or interest accumulated under that participant's savings contract, divided by the exercise price. At 31 December 2019, the maximum number of shares issued or issuable under the schemes, which were approved by shareholders, to all participants would not exceed 1 per cent of the issued share capital of the Company in the preceding 12-month period.

The option schemes will terminate as follows, unless the directors resolve to terminate the plans at an earlier date:

- Prudential Savings-Related Share Option Scheme: 16 May 2023;
- Prudential International Savings-Related Share Option Scheme: 19 May 2021; and
- Prudential International Savings-Related Share Option Scheme for Non-Employees 2012: 12 May 2022.

The weighted average share price of Prudential plc for the year ended 31 December 2019 was £15.05 (2018: £17.36).

Particulars of options granted to directors are included in the Directors' remuneration report on page 160.

The closing prices of the shares immediately before the date on which the options were granted during the year were £14.00 for the Prudential Savings-Related Share Option Scheme and £14.57 for the Prudential International Savings-Related Share Option Scheme for Non-Employees.

The following analyses show the movement in options for each of the option schemes for the year ended 31 December 2019.

Prudential Savings-Related Share Option Scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
20 Sep 13	9.01	01 Dec 18	31 May 19	27,732	–	(26,068)	–	(1,664)	–	–
23 Sep 14	11.55	01 Dec 19	31 May 20	303,716	–	(153,721)	(3,145)	(2,097)	(8,790)	135,963
22 Sep 15	11.11	01 Dec 18	31 May 19	256,744	–	(253,273)	–	(1,458)	(2,013)	–
22 Sep 15	11.11	01 Dec 20	31 May 21	180,526	–	(52,592)	(6,291)	(540)	(17,963)	103,140
21 Sep 16	11.04	01 Dec 19	31 May 20	538,927	–	(269,207)	(12,855)	(10,376)	(20,687)	225,802
21 Sep 16	11.04	01 Dec 21	31 May 22	121,105	–	(19,769)	(5,676)	(1,086)	(17,330)	77,244
21 Sep 17	14.55	01 Dec 20	31 May 21	668,276	–	(20,814)	(62,176)	(20,565)	(62,585)	502,136
21 Sep 17	14.55	01 Dec 22	31 May 23	115,347	–	(2,791)	(6,573)	(1,030)	(12,013)	92,940
29 Nov 19	11.18	01 Jan 23	30 Jun 23	–	93,145	–	(322)	–	–	92,823
29 Nov 19	11.18	01 Jan 25	30 Jun 25	–	21,464	–	–	–	–	21,464
				2,212,373	114,609	(798,235)	(97,038)	(38,816)	(141,381)	1,251,512

The total number of securities available for issue under the scheme is 1,251,512 which represents 0.048 per cent of the issued share capital at 31 December 2019.

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

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £14.69.

The weighted average fair value of options granted under the plan in the period was £3.35.

Prudential International Savings-Related Share Option Scheme

Date of grant	Exercise price £	Exercise period: Beginning	Exercise period: End	Number of options: Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
20 Sep 13	9.01	01 Dec 18	31 May 19	18,378	–	(18,377)	(1)	–	–	–
23 Sep 14	11.55	01 Dec 19	31 May 20	4,413	–	–	(4,413)	–	–	–
22 Sep 15	11.11	01 Dec 18	31 May 19	4,860	–	(4,860)	–	–	–	–
22 Sep 15	11.11	01 Dec 20	31 May 21	2,700	–	–	(2,700)	–	–	–
21 Sep 16	11.04	01 Dec 19	31 May 20	10,776	–	–	(9,472)	(1,304)	–	–
21 Sep 17	14.55	01 Dec 20	31 May 21	9,820	–	–	(9,573)	(247)	–	–
21 Sep 17	14.55	01 Dec 22	31 May 23	3,298	–	–	(3,298)	–	–	–
18 Sep 18	13.94	01 Dec 21	31 May 22	22,005	–	–	(20,714)	(1,291)	–	–
18 Sep 18	13.94	01 Dec 23	31 May 24	1,076	–	–	(1,076)	–	–	–
				77,326	–	(23,237)	(51,247)	(2,842)	–	–

There are no securities available for issue under the scheme at 31 December 2019.

At the time of the demerger, the only participants with outstanding options in this plan were M&G plc employees.

The outstanding options over Prudential plc shares did not vest at demerger. Instead, they have been exchanged for an equivalent grant in M&G plc shares. The M&G plc participants have been treated as 'good leavers'.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £15.83.

There were no options granted under the plan during the current period.

Prudential International Savings-Related Share Option Scheme for Non-Employees

Date of grant	Exercise price* £	Exercise period: Beginning	Exercise period: End	Number of options: Beginning of year	Granted	Modification*	Exercised	Cancelled	Forfeited	Lapsed	End of year
20 Sep 13	9.01	01 Dec 18	31 May 19	235,987	–	–	(235,987)	–	–	–	–
23 Sep 14	10.00	01 Dec 19	31 May 20	459,165	–	64,539	(153,463)	(5,192)	(1,298)	–	363,751
22 Sep 15	9.62	01 Dec 18	31 May 19	261,478	–	935	(260,499)	(979)	–	–	935
22 Sep 15	9.62	01 Dec 20	31 May 21	376,672	–	38,333	–	(6,750)	–	–	408,255
21 Sep 16	9.56	01 Dec 19	31 May 20	326,596	–	40,201	(207,203)	–	(250)	–	159,344
21 Sep 16	9.56	01 Dec 21	31 May 22	197,057	–	21,236	–	–	–	–	218,293
21 Sep 17	12.59	01 Dec 20	31 May 21	263,827	–	26,538	–	–	–	–	290,365
21 Sep 17	12.59	01 Dec 22	31 May 23	172,291	–	22,025	–	–	–	–	194,316
18 Sep 18	12.07	01 Dec 21	31 May 22	184,780	–	14,379	–	–	–	–	199,159
18 Sep 18	12.07	01 Dec 23	31 May 24	118,243	–	11,939	–	–	–	–	130,182
02 Oct 19	9.62	01 Dec 22	31 May 23	–	307,835	47,441	–	–	–	–	355,276
02 Oct 19	9.62	01 Dec 24	31 May 25	–	202,788	31,271	–	–	–	–	234,059
				2,596,096	510,623	318,837	(857,152)	(12,921)	(1,548)	–	2,553,935

* As a result of the demerger of M&G plc, the exercise price of the outstanding share options at 18 October 2019 and the total number of shares have been adjusted with effect from 21 October 2019. These adjustments do not change the overall fair value of the options and 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.

The total number of securities available for issue under the scheme is 2,553,935 which represents 0.098 per cent of the issued share capital at 31 December 2019.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £15.06.

The weighted average fair value of options granted under the plan in the period was £2.90.

I Additional financial information continued

I(viii) Selected historical financial information of Prudential

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU) and European Embedded Value (EEV).

This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document.

Income statement

IFRS basis results	2019 $m	2018 $m note (v)	2017 $m note (v)	2016 $m note (v)	2015 $m note (v)
Continuing operations:					
Gross premiums earned	**45,064**	45,614	39,800	38,865	42,335
Outward reinsurance premiums	**(1,583)**	(1,183)	(1,304)	(1,375)	(1,045)
Earned premiums, net of reinsurance	**43,481**	44,431	38,496	37,490	41,290
Investment return	**49,555**	(9,117)	35,574	13,839	(1,648)
Other income	**700**	531	1,319	1,387	1,366
Total revenue, net of reinsurance	**93,736**	35,845	75,389	52,716	41,008
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(83,905)**	(23,426)	(63,808)	(42,881)	(29,912)
Acquisition costs and other expenditure	**(7,283)**	(8,527)	(8,649)	(7,846)	(8,166)
Finance costs: interest on core structural borrowings of shareholder-financed businesses	**(516)**	(547)	(548)	(488)	(477)
(Loss) gain on disposal of businesses and corporate transactions	**(142)**	(107)	292	(322)	(70)
Total charges, net of reinsurance	**(91,846)**	(32,607)	(72,713)	(51,537)	(38,625)
Share of profits from joint ventures and associates, net of related tax	**397**	319	233	200	261
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)	**2,287**	3,557	2,909	1,379	2,644
Tax (charges) attributable to policyholders' returns	**(365)**	(107)	(321)	(210)	(105)
Profit before tax attributable to shareholders' returns	**1,922**	3,450	2,588	1,169	2,539
Tax credit (charges) attributable to shareholders' returns	**31**	(569)	(840)	(119)	(439)
Profit from continuing operations	**1,953**	2,881	1,748	1,050	2,100
(Loss) profit from discontinued operations	**(1,161)**	1,142	1,333	1,552	1,841
Profit for the year	**792**	4,023	3,081	2,602	3,941
Based on profit from continuing operations for the year attributable to the equity holders of the Company :					
Basic earnings per share (in cents)	**75.1¢**	111.7¢	68.0¢	41.0¢	82.3¢
Diluted earnings per share (in cents)	**75.1¢**	111.7¢	67.9¢	40.9¢	82.2¢

	2019	2018	2017	2016	2015
Dividend per share declared and paid in reporting period	**63.18¢**	64.34¢	59.32¢	69.72¢	59.01¢
Interim ordinary dividend/final ordinary dividend	**63.18¢**	64.34¢	59.32¢	55.20¢	59.01¢
Special dividend				14.52¢	

Supplementary IFRS income statement – continuing operations

	2019 $m	2018 $m note (v)	2017 $m note (v)	2016 $m note (v)	2015 $m note (v)
Adjusted operating profit based on longer-term investment returns note (ii)	5,310	4,409	4,378	4,131	3,610
Non-operating items	(3,388)	(959)	(1,790)	(2,962)	(1,070)
Profit before tax attributable to shareholders	1,922	3,450	2,588	1,169	2,540
Operating earnings per share after tax and non-controlling interest (in cents)	175.0¢	145.2¢	134.6¢	126.5¢	114.3¢

Supplementary EEV financial information

EEV income statement – continuing operations

	2019 $m	2018 $m note (v)	2017 $m note (v)	2016 $m note (v)	2015 $m note (v)
Operating profit based on longer-term investment returns note (ii)	6,905	7,866	6,753	6,137	5,636
Non-operating items	(2,744)	(2,286)	1,808	(2,278)	(1,270)
Profit attributable to shareholders from continuing operations	4,161	5,580	8,561	3,859	4,366
Operating earnings per share (in cents)	266.6¢	305.3¢	263.0¢	239.7¢	220.8¢

	2019 $bn	2018 $bn	2017 $bn	2016 $bn	2015 $bn
EEV shareholders' equity, excluding non-controlling interests	54.7	63.4	60.5	48.2	47.8

New business contribution – continuing operations

	2019 $m	2018 $m note (v)	2017 $m note (v)	2016 $m note (v)	2015 $m note (v)
Annual premium equivalent (APE) sales	7,384	7,058	7,046	6,989	6,787
EEV new business profit (NBP) (post-tax)	4,405	4,707	4,220	3,820	3,501
NBP margin (% of APE)	60%	67%	60%	55%	52%

Statement of financial position at 31 December

	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
Total assets	454,214	647,810	668,203	581,394	570,377
Total policyholder liabilities and unallocated surplus of with-profits funds	390,428	541,466	579,261	498,374	494,661
Core structural borrowings of shareholder-financed businesses	5,594	9,761	8,496	8,400	7,386
Total liabilities	434,545	625,819	646,432	563,270	551,281
Total equity	19,669	21,991	21,771	18,124	19,096

Other financial information at 31 December

	2019 $bn	2018 $bn	2017 $bn	2016 $bn	2015 $bn
Funds under management note (iii)	543.9	455.3	452.0	374.8	348.7
Group shareholder LCSM surplus note (iv)	9.5	9.7			

Notes

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

(ii) Adjusted operating profit is determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns on shareholder-backed business gain or loss on corporate transactions and costs connected to the demerger of M&G plc from Prudential plc. Separately, for IFRS basis results, operating profit also excludes amortisation of acquisition accounting adjustments arising on the purchase of business. For EEV basis results, operating profit excludes the effect of changes in economic assumptions and the mark-to-market value movements on core structural borrowings for shareholder-financed operations.

(iii) Funds under management comprise funds of the Group held in the statement of financial position and external funds that are managed by the Group's asset management operations. The comparative results from 2015 to 2018 have been re-presented from those previously published to exclude the discontinued UK and Europe operations and for other adjustments as described in note I(ii).

(iv) The 2019 surplus is estimated under the LCSM regime, adopted by the Group following the demerger of its UK and Europe operations in October 2019, as discussed in note I(i), with 2018 comparative information re-presented on this basis. Prior to the demerger, the Group was subject to the Solvency II capital requirements.

(v) The comparative results from 2015 to 2018 have been re-presented from those previously published for the demerger of the Group's UK and Europe operations, M&G plc, in October 2019 which is reclassified as discontinued operations.

II Calculation of alternative performance measures

The annual report uses alternative performance measures (APMs) to provide more relevant explanations of the Group's financial position and performance. This section sets out explanations for each APM and reconciliations to relevant IFRS balances.

II(i) Reconciliation of adjusted IFRS operating profit based on longer-term investment returns to profit before tax from continuing operations

Adjusted IFRS operating profit attributable to shareholders based on longer-term investment returns from continuing operations (operating profit) presents the operating performance of the business. This measurement basis adjusts for the following items within total IFRS profit before tax:

— Short-term fluctuations in investment returns on shareholder-backed business;
— Amortisation of acquisition accounting adjustments arising on the purchase of business; 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.

More details on how adjusted IFRS operating profit based on longer-term investment returns is determined are included in note B1.3 of the Group IFRS basis results. A full reconciliation to profit after tax is given in note B1.1.

II(ii) Calculation of IFRS gearing ratio

IFRS gearing ratio is calculated as net core structural borrowings of shareholder-financed businesses divided by closing IFRS shareholders' equity plus net core structural borrowings.

	31 Dec 2019 $m	**31 Dec 2018** $m
Core structural borrowings of shareholder-financed businesses	5,594	9,761
Less holding company cash and short-term investments	(2,207)	(4,121)
Net core structural borrowings of shareholder-financed businesses	3,387	5,640
Closing shareholders' equity	19,477	21,968
Closing shareholders' equity plus net core structural borrowings	22,864	27,608
IFRS gearing ratio	15%	20%

II(iii) Return on IFRS shareholders' funds

Operating return on IFRS shareholders' funds is calculated as adjusted operating profit net of tax and non-controlling interests divided by closing shareholders' equity. Total comprehensive return on shareholders' funds is calculated as IFRS total comprehensive income for the period net of tax and non-controlling interests divided by closing shareholders' equity. Following the demerger of the UK and Europe operations in October 2019 and their treatment as discontinued, it is more meaningful to derive the 2019 return using profit from continuing operations and closing shareholders' equity. The Group will be introducing a new return on equity performance measure for the Group's 2020 Prudential Long-Term Incentive Plan (PLTIP) awards alongside other metrics. This measure is to be calculated as adjusted operating profit after tax and net of non-controlling interests, divided by average shareholders' equity. Accordingly, the calculation of the return on IFRS shareholders' funds going forward will be aligned to be based on average shareholders' equity.

Detailed reconciliation of adjusted operating profit based on longer-term investment returns to IFRS profit before tax for the Group's continuing operations is shown in note B1.1 to the Group IFRS basis results.

Continuing operations	2019 $m Asia	US	Unallocated to a segment (central operations)	Group	Add back demerger-related items*	Adjusted Group (excluding demerger-related items*)
Adjusted operating profit based on longer-term investment returns	3,276	3,070	(1,036)	5,310	179	5,489
Tax on operating profit	(436)	(437)	100	(773)	(34)	(807)
Profit attributable to non-controlling interests	(6)	–	(3)	(9)	–	(9)
Adjusted operating profit based on longer-term investment returns, net of tax and non-controlling interests	2,834	2,633	(939)	4,528	145	4,673
Non-operating profit (loss), net of tax	885	(3,013)	(456)	(2,584)	383	(2,201)
IFRS profit for the year net of tax and non-controlling interests	3,719	(380)	(1,395)	1,944	528	2,472
Other comprehensive income, net of tax and non-controlling interests	192	2,679	(146)	2,725	–	2,725
IFRS total comprehensive income	3,911	2,299	(1,541)	4,669	528	5,197
Closing shareholders' funds	10,866	8,929	(318)	19,477	–	19,477
Operating return on shareholders' funds (%)	26%	29%	n/a	23%	–	24%
Total comprehensive return on shareholders' funds (%)	36%	26%	n/a	24%	–	27%

* Demerger-related items comprise interest on the subordinated debt that was substituted to M&G plc prior to the demerger ($179 million pre-tax) and one-off costs of the demerger ($407 million pre-tax).

	2018 $m Asia	US
Adjusted operating profit based on longer-term investment returns	2,888	2,563
Tax on operating profit	(411)	(402)
Profit attributable to non-controlling interests	(1)	–
Adjusted operating profit based on longer-term investment returns, net of tax and non-controlling interests	2,476	2,161
Non-operating profit (loss), net of tax	(662)	(179)
IFRS profit for the year, net of tax and non-controlling interests	1,814	1,982
Other comprehensive income, net of tax and non-controlling interests	(206)	(1,446)
IFRS total comprehensive income	1,608	536
Closing shareholders' funds	8,175	7,163
Operating return on shareholders' funds (%)	30%	30%
Total comprehensive return on shareholders' funds (%)	20%	7%

* Given the significant changes of Group shareholders' funds as a result of the demerger of the UK and Europe operations in October 2019, it is not meaningful to compare the 2019 and 2018 returns on shareholders' funds at a Group level. The 2018 comparatives have therefore excluded the presentation of a Group return on shareholders' funds. Additionally, the 2018 comparatives for Asia and US operations have been re-presented from those previously published to reflect the use of closing rather than opening shareholders' funds to be on a comparable basis with the 2019 calculation.

II Calculation of alternative performance measures continued

II(iv) Calculation of IFRS shareholders' funds per share

IFRS shareholders' funds per share is calculated as closing IFRS shareholders' equity divided by the number of issued shares at 31 December 2019 of 2,601 million (31 December 2018: 2,593 million). The demerger alters the size of the Group's shareholders' equity and the nature of its operations, rendering a comparison with the prior year return on shareholders' funds value unrepresentative.

	2019			
	Asia	US	Other	Group total
Closing IFRS shareholders' equity ($ million)	10,866	8,929	(318)	19,477
Shareholders' funds per share (cents)	418¢	343¢	(12)¢	749¢

II(v) Calculation of asset management cost/income ratio

The asset management cost/income ratio is calculated as asset management operating expenses, adjusted for commission and joint venture contribution, divided by asset management total IFRS revenue adjusted for commission, joint venture contribution, performance-related fees and non-operating items.

	Eastspring Investments	
	2019 $m	2018 $m
Operating income before performance-related fees note	636	566
Share of joint venture revenue	(244)	(250)
Commission	165	156
Performance-related fees	12	23
IFRS revenue	569	495
Operating expense	329	311
Share of joint venture expense	(102)	(133)
Commission	165	156
IFRS charges	392	334
Cost/income ratio: operating expense/operating income before performance-related fees	52%	55%

Note
Operating income and expense include the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the consolidated income statement of the Group IFRS basis results, the net post-tax income of the joint ventures and associates is shown as a single line item.

II(vi) Reconciliation of Asia renewal insurance premium to gross premiums earned

Reconciliation of Asia renewal insurance premium to gross earned premiums and calculation of Asia Life weighted premium income.

	2019 $m	2018 $m	
		AER	CER
Asia renewal insurance premium	19,007	17,165	17,046
Add: General insurance premium	135	120	122
Add: IFRS gross earned premium from new regular and single premium business	6,386	6,421	6,402
Less: Renewal premiums from joint ventures	(1,771)	(1,717)	(1,657)
Asia segment IFRS gross premiums earned	23,757	21,989	21,913
Asia renewal insurance premium (as above)	19,007	17,165	17,046
Asia APE (see Note II(vi))	5,161	4,999	4,959
Asia life weighted premium income	24,168	22,164	22,005

II(vii) Reconciliation of APE new business sales to gross premiums earned

The Group reports APE new business sales as a measure of the new policies sold in the period. This differs from the IFRS measure of gross premiums earned as shown below:

	2019 $m	**2018** $m
Annual premium equivalents (APE) from continuing operations	7,384	7,058
Adjustment to include 100% of single premiums on new business sold in the year note (a)	23,409	21,318
Premiums from in-force business and other adjustments note (b)	14,271	17,238
Gross premiums earned from continuing operations	45,064	45,614

Notes

(a) APE new business sales only include one tenth of single premiums, recorded on policies sold in the year. Gross premiums earned include 100 per cent of such premiums.

(b) Other adjustments principally include amounts in respect of the following:

- Gross premiums earned include premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written. Asia in-force premiums form the vast majority of the other adjustment amount;
- In October 2018, Jackson entered into a 100 per cent reinsurance agreement with John Hancock Life Insurance Company to acquire a closed block of group payout annuity business. The transaction resulted in an addition to gross premiums earned of $5.0 billion in 2018. No amounts were included in APE new business sales.
- APE includes new policies written in the year which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in M&G plc for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
- APE new business sales are annualised while gross premiums earned are recorded only when revenues are due; and
- For the purpose of reporting APE new business sales, the Group's share of amounts sold by the Group's insurance joint ventures and associates are included. Under IFRS, joint ventures and associates are equity accounted and so no amounts are included within gross premiums earned.

II(viii) Reconciliation between IFRS and EEV shareholders' equity

The table below shows the reconciliation of EEV shareholders' equity and IFRS shareholders' equity at the end of the year:

	31 Dec 2019 $m	**31 Dec 2018** $m
EEV shareholders' equity	54,711	63,402
Less: Value of in-force business of long-term business note (a)	(41,893)	(42,045)
Deferred acquisition costs assigned zero value for EEV purposes	14,239	12,834
Other note (b)	(7,580)	(12,223)
IFRS shareholders' equity	19,477	21,968

Notes

(a) The EEV shareholders' equity comprises the present value of the shareholders' interest in the value of in-force business, total net worth of long-term business operations and IFRS shareholders' equity of asset management and other operations. The value of in-force business reflects the present value of expected future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Total net worth represents the net assets for EEV reporting that reflect the regulatory basis position, with adjustments to achieve consistency with the IFRS treatment of certain items as appropriate.

(b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value total net worth for long-term insurance operations. These also include the mark-to-market value movements of the Group's core structural borrowings which are fair valued under EEV but are held at amortised cost under IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson, IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with a deferred acquisition costs recognised as an asset), whereas the local regulatory basis used for EEV reporting is based on expected future cash flows due to the policyholder on a prudent basis, with the consideration of an expense allowance, as applicable, but with no separate deferred acquisition cost asset.

II Calculation of alternative performance measures continued

II(ix) Calculation of return on embedded value

Return on embedded value is calculated as the total post-tax EEV profit for the year as a percentage of closing EEV basis shareholders' equity.

	2019					
	Asia	**US**	**Central operations**	**Group total**	**Demerger related items***	**Adjusted Group total (excluding demerger related items*)**
EEV basis profit (loss) for the year from continuing operations, net of tax and non-controlling interests ($ million)	8,063	(2,025)	(1,886)	4,152	(528)	4,680
Closing EEV basis shareholders' equity ($ million)	39,235	16,342	(866)	54,711	(528)	55,239
Total return on shareholders' funds (%)	21%	(12)%	n/a	8%	n/a	8%

	2018†	
	Asia	**US**
EEV basis profit for the year, net of tax and non-controlling interests ($ million)	4,808	1,052
Closing EEV basis shareholders' equity ($ million)	32,008	18,709
Total return on shareholders' funds (%)	15%	6%

* Demerger-related items comprise interest on the subordinated debt that was substituted to M&G plc prior to the demerger and one-off costs of the demerger.
† Given the significant changes of Group shareholders' funds as a result of the demerger of the UK and Europe operations in October 2019, it is not meaningful to compare the 2019 and 2018 returns on shareholders' funds at a Group level. The 2018 comparatives have therefore excluded the presentation of a Group return on shareholders' funds. Additionally, the 2018 comparatives for Asia and US operations have been re-presented from those previously published to reflect the use of closing rather than opening shareholders' funds to be on a comparable basis with the 2019 calculation.

Operating return on embedded value is calculated as the post-tax EEV operating profit for the year as a percentage of closing EEV basis shareholders' equity.

	2019		2018	
	Asia	**US**	**Asia**	**US**
EEV basis operating profit for the year from continuing operations, net of tax ($ million)	6,138	1,782	6,070	2,828
Closing EEV basis shareholders' equity ($ million)	39,235	16,342	32,008	18,709
Operating return on shareholders' funds (%)	16%	11%	19%	15%

II(x) Calculation of EEV shareholders' funds per share

EEV shareholders' funds per share is calculated as closing EEV shareholders' equity divided by the number of issued shares at 31 December 2019 of 2,601 million (31 December 2018: 2,593 million). EEV shareholders' funds per share excluding goodwill attributable to shareholders is calculated in the same manner, except goodwill attributable to shareholders is deducted from closing EEV shareholders' equity. 2018 comparatives have been restated to show amounts attributable to continuing operations on a comparable basis.

	31 Dec 2019			
	Asia	**US**	**Other**	**Group total**
Closing EEV shareholders' equity ($ million)	39,235	16,342	(866)	54,711
Less: Goodwill attributable to shareholders ($ million)	(796)	–	(26)	(822)
Closing EEV shareholders' equity excluding goodwill attributable to shareholders ($ million)	38,439	16,342	(892)	53,889
Shareholders' funds per share (in cents)	1,508¢	628¢	(33)¢	2,103¢
Shareholders' funds per share excluding goodwill attributable to shareholders (in cents)	1,478¢	628¢	(34)¢	2,072¢

	31 Dec 2018			
	Asia	**US**	**Other**	**Group total**
Closing EEV shareholders' equity ($ million)	32,008	18,709	(4,616)	46,101
Less: Goodwill attributable to shareholders ($ million)	(634)	–	–	(634)
Closing EEV shareholders' equity excluding goodwill attributable to shareholders ($ million)	31,374	18,709	(4,616)	45,467
Shareholders' funds per share (in cents)	1,234¢	722¢	(178)¢	1,778¢
Shareholders' funds per share excluding goodwill attributable to shareholders (in cents)	1,209¢	722¢	(178)¢	1,753¢

II (xi) Calculation of new business contribution/embedded value

New business contribution/embedded value is calculated as the post-tax EEV new business contribution for the year as a percentage of closing EEV basis shareholders' equity.

	2019		2018	
	Asia	**US**	**Asia**	**US**
New business contribution ($ million)	3,522	883	3,477	1,230
Closing EEV basis shareholders' equity ($ million)	39,235	16,342	32,008	18,709
	9%	5%	11%	7%

Risk factors

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified under 'Forward-looking statements'.

Prudential's approaches to managing risks are explained in the section of this document headed 'Group Chief Risk and Compliance Officer's Report on the risks facing our business and how these are managed'.

Risks relating to Prudential's financial situation

Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on Prudential's business and profitability. Prudential operates in a macroeconomic and global financial market environment that presents significant uncertainties and potential challenges. For example, interest rates in the US and some Asian countries in which Prudential operates remain low relative to historical levels, and the transition to a lower carbon economy may impact on long-term asset valuations.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include monetary policy in China, the US and other jurisdictions together with their impact on the valuation of all asset classes and effect on interest rates and inflation expectations, concerns over sovereign debt, a general slowing in world growth. Other factors include the increased level of geopolitical risk and policy-related uncertainty (including the broader market impacts resulting from the trade negotiations between the US and China), and socio-political, climate-driven and pandemic events and other outbreaks such as the recent coronavirus. The extent of financial market and economic impact of these factors may be influenced by the actions, including the effectiveness of mitigating measures, of governments, policymakers and the public.

The adverse effects of such factors could be felt principally through the following items:

- Lower interest rates and reduced investment returns arising on the Group's portfolios including impairment of debt securities and loans, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees included in Jackson's variable annuities and non unit-linked investment products in Asia, and/or have a negative impact on its assets under management and profit.
- A reduction in the financial strength and flexibility of corporate entities which may result in a deterioration of the credit rating profile and valuation of the Group's invested credit portfolio, as well as higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses.
- Failure of counterparties who have transactions with Prudential (e.g. banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place.
- Estimates of the value of financial instruments becoming more difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time).
- Increased illiquidity, which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline. This could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential. The potential impact of increased illiquidity is more uncertain than for other risks such as interest rate or credit risk.

In general, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asia operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit and the solvency of its business units. In addition, part of the profit from the Group's Asia operations is related to bonuses for policyholders declared on with-profits products, which are impacted by the difference between actual investment returns of the with-profits fund (which are broadly based on historical and current rates of return on equity, real estate and fixed income securities) and minimum guarantee rates offered to policyholders. This profit could be lower in particular in a sustained low interest rate environment.

Jackson writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. Jackson uses a derivative hedging programme to reduce its exposure to market risks arising on these guarantees. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

In addition, Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

Also, Jackson has a significant spread based business with a significant proportion of its assets invested in fixed-income securities and its results are therefore affected by fluctuations in prevailing interest rates. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries, which are subject to the risks discussed elsewhere in this 'Risk Factors' section.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are subject to applicable insurance, foreign exchange and tax laws, rules and regulations (including in relation to distributable profits) that can limit their ability to make remittances. In some circumstances, including changes to general market conditions, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

(Geo)political risks and political uncertainty may adversely impact economic conditions, increase market volatility, cause operational disruption to the Group and impact its strategic plans, which could have adverse effects on Prudential's business and its profitability

The Group is exposed to (geo)political risks and political uncertainty in the markets in which it operates. Recent shifts in the focus of some national governments toward more protectionist or restrictive economic and trade policies, and international trade disputes, could impact on the macroeconomic outlook and the environment for global financial markets. This could take effect, for example, through increased friction in cross-border trade, such as implementation of trade tariffs or the withdrawal from existing trading blocs or agreements, and the exercise of executive powers to restrict overseas trade and/or financial transactions. The degree and nature of regulatory changes and Prudential's competitive position in some geographic markets may also be impacted, for example, through measures favouring local enterprises, such as changes to the maximum level of non-domestic ownership by foreign companies.

(Geo)political risks and political uncertainty may also adversely impact the Group's operations and its operational resilience. Increased (geo)political tensions may increase cross-border cyber activity and therefore increase cyber security risks. (Geo)political tensions may also lead to civil unrest and/or acts of civil disobedience. This includes the unrest in Hong Kong, where mass anti-government demonstrations have given rise to increased disruption throughout the region. Such events could impact operational resilience by disrupting Prudential's systems, operations, new business sales and renewals, distribution channels and services to customers, which may result in a reduction in contributions from business units to the central cash balances and profit of the Group, decreased profitability, financial loss, adverse customer impacts and reputational damage.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of state or monarchs) in the countries in which the issuers of such debt are located and to the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur as has happened on occasion in the past, other financial institutions may also suffer losses or experience solvency or other concerns, which may result in Prudential facing additional risks relating to investments in such financial institutions that are held in the Group's investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalued or otherwise altered the currencies in which its obligations were denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns could have an adverse effect on its ability to market products, retain current policyholders, and on the Group's financial flexibility. In addition, the interest rates at which Prudential is able to borrow funds are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

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

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

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

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

All ratings above are on a stable outlook and are stated as at the date of this document.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to fluctuations in Prudential's consolidated financial statements upon the translation of results into the Group's presentation currency. This exposure is not currently separately managed. The Group now presents its consolidated financial statements in US dollars, which is the currency in which a large proportion of the Group's earnings and assets and liabilities are denominated or linked to (such as the Hong Kong dollar, that is pegged to the US dollar). There remains some entities that are not denominated in or linked to the US dollar and transactions which are conducted in non-US dollar currencies. Prudential is subject to the risk of exchange rate fluctuations from the translation of the results of these entities and transactions and the risks from the maintenance of the Hong Kong dollar peg to the US dollar.

Risks relating to Prudential's business activities and industry

The implementation of large scale transformation, including complex strategic initiatives, gives rise to significant execution risks, may affect Prudential's operational capacity, and may adversely impact the Group if these initiatives fail to meet their objectives

As part of the implementation of its business strategies and to maintain market competitiveness, Prudential undertakes large scale transformation across the Group. Many of these change initiatives, which currently focus on digitalisation, outsourcing initiatives and industry and regulatory-driven change, are complex, interconnected and/or of large scale. There may be adverse financial and non-financial (including operational, regulatory, conduct and reputational) implications for the Group if these initiatives are subject to implementation delays, or fail, in whole or in part, to meet their objectives. Additionally, these initiatives inherently give rise to design and execution risks, and may increase existing business risks, such as placing additional strain on the operational capacity, or weakening the control environment, of the Group.

Implementing further initiatives related to significant regulatory changes, such as IFRS 17, and the transition to a legislative framework in Hong Kong for the group-wide supervision of insurance groups (GWS Framework), may amplify these risks. Risks related to the GWS Framework are explained in the '*Regulatory risks*' risk factor.

Adverse experience in the operational risks inherent in Prudential's business, and those of its material outsourcing partners, could disrupt its business functions and have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems or human error, fraud, the effects of natural or man-made catastrophic events (such as natural disasters, pandemics, cyber-attacks, acts of terrorism, civil unrest and other catastrophes) or from other external events. These risks may also adversely impact Prudential through its partners which provide bancassurance, outsourcing, external technology, data hosting and other services.

Exposure to such events could impact Prudential's operational resilience and ability to perform necessary business functions by disrupting its systems, operations, new business sales and renewals, distribution channels and services to customers, or result in the loss of confidential or proprietary data. Such events, as well as any weaknesses in administration systems (such as those relating to policyholder records) or actuarial reserving processes, may also result in increased expenses, as well as legal and regulatory sanctions, decreased profitability, financial loss, customer conduct risk impacts and damage Prudential's reputation and relationship with its customers and business partners.

The recent social unrest and coronavirus outbreak, and measures to contain it, have slowed economic and social activity in Hong Kong and mainland China, and in the case of the coronavirus is having a broader global economic impact. While these conditions persist, the level of sales activity in affected markets are expected to be adversely impacted through a reduction in travel and agency and bancassurance activity. Extended travel restrictions in particular may also adversely impact product persistency in the Group's Hong Kong business. Disruption to Prudential's operations may also result where Prudential's employees, or those of its service partners, are affected by travel restrictions; office closures and other measures impacting on working practices, such as the imposition of remote working arrangements; quarantine requirements under local laws and/or other psychosocial impacts.

Prudential's business is dependent on processing a large number of transactions for numerous and diverse products. It also employs a large number of complex and interconnected information technology (IT) and finance systems and models, and user developed applications in its processes. The long-term nature of much of the Group's business also means that accurate records have to be maintained securely for significant time periods. Further, Prudential operates in an extensive and evolving legal and regulatory environment (including in relation to tax) which adds to the complexity of the governance and operation of its business processes and controls.

The performance of the Group's core business activities and the uninterrupted availability of services to customers rely significantly on, and require significant investment in, IT infrastructure and security, system development, data governance and management, compliance and other operational systems, personnel, controls and processes. During times of significant change, the resilience and operational effectiveness of these systems and processes at Prudential and/or its third party providers may be adversely impacted. In particular Prudential and its business partners are making increasing use of emerging technological tools and digital services, or forming strategic partnerships with third parties to provide these capabilities. Automated distribution channels to customers increase the criticality of providing uninterrupted services. A failure to implement appropriate governance and management of the incremental operational risks from emerging technologies may adversely impact on Prudential's reputation and brand, the results of its operations, its ability to attract and retain customers, its ability to deliver on its long-term strategy and therefore its competitiveness and long-term financial success.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate governance and controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance as to the resilience of these systems and processes to disruption or that governance and controls will always be effective. Due to human error, among other reasons, operational and model risk incidents do occur from time to time and no system or process can entirely prevent them, although Prudential has not, to date, identified any such incidents that have had a material impact. Prudential's legacy and other IT systems, data and processes, as with operational systems and processes generally, may also be susceptible to failure or security/data breaches.

In addition, Prudential relies on the performance and operations of a number of bancassurance, outsourcing (including external technology and data hosting), and service partners. These include back office support functions, such as those relating to IT infrastructure, development and support, and customer facing operations and services, such as product distribution and services (including through digital channels) and investment operations. This creates reliance upon the resilient operational performance of these partners, and failure to adequately oversee the partner, or the failure of a partner (or of its IT and operational systems and processes) could result in significant disruption to business operations and customers and may have adverse financial, reputational or conduct risk implications.

Attempts to access or disrupt Prudential's IT systems, and loss or misuse of personal data, could result in loss of trust from Prudential's customers and employees, reputational damage and financial loss

Prudential and its business partners are increasingly exposed to the risk that individuals or groups may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to key operations, make it difficult to recover critical services, damage assets and compromise the integrity and security of data (both corporate and customer). This could result in loss of trust from Prudential's customers and employees, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance. Prudential's increasing profile in its current markets and those in which it is entering, growing customer interest in interacting with their insurance providers and asset managers through the internet and social media, improved brand awareness and the 2016 designation of Prudential as a Global Systemically Important Insurer (G-SII) could also increase the likelihood of Prudential being considered a target by cyber criminals. Further, there have been changes to the threat landscape and the risk from untargeted but sophisticated and automated attacks has increased.

There is an increasing requirement and expectation on Prudential and its business partners, to not only hold customer, shareholder and employee data securely, but use it in a transparent and appropriate way. The risk of not securely handling or misusing data may be increased by the use of emerging technological tools which could increase the volume of data that Prudential collects and processes. Developments in data protection worldwide (such as the implementation of EU General Data Protection Regulation that came into force in 2018 and the California Consumer Protection Act that came into force on 1 January 2020) may also increase the financial and reputational implications for Prudential following a significant breach of its (or its third-party suppliers') IT systems. New and currently unforeseeable regulatory issues may also arise from the increased use of emerging technology, data and digital services. Although Prudential has experienced or has been affected by cyber and data breaches, to date, it has not identified a failure or breach, or an incident of data misuse in relation to its legacy and other IT systems and processes which has had a material impact. However, Prudential has been, and likely will continue to be, subject to potential damage from computer viruses, unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business and financial position.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, those terms providing for the allocation of control among, and continued cooperation between, the participants. In addition, the level of control exercisable by the Group could be subject to changes in the maximum level of non-domestic ownership imposed on foreign companies in certain jurisdictions. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails or is unable to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential such as bancassurance and agency arrangements and is therefore dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the third-party system failure or the prevention of financial crime) could adversely affect Prudential's results of operations.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses. The Group's businesses are subject to inflation risk. In particular, the Group's medical insurance businesses in Asia are also exposed to medical inflation risk.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. Assumptions about future expected levels of mortality are of relevance to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business in the Group, especially for Jackson's portfolio of variable annuities and, in Asia markets, the health and protection products in Hong Kong, Singapore, Indonesia and Malaysia. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

In addition, Prudential's business may be adversely affected by epidemics, pandemics and other effects that give rise to a large number of deaths or additional sickness claims, as well as increases to the cost of medical claims. Pandemics, significant influenza and other epidemics and outbreaks such as the recent coronavirus have occurred a number of times historically but the likelihood, timing, or the severity of future events cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance and fund management trends, historical bonus levels, the ability to respond to developing demographic trends, customer appetite for certain savings products and technological advances. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned. Technological advances may result in increased competition to the Group (including from outside the insurance industry) and a failure to be able to attract sufficient numbers of skilled staff.

In Asia, the Group's principal competitors include global life insurers together with regional insurers and multinational asset managers. In most markets, there are also local companies that have a material market presence. Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies.

Prudential believes that competition will intensify across all regions in response to consumer demand, digital and other technological advances, the need for economies of scale and the consequential impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Prudential is exposed to ongoing risks as a result of the demerger of M&G plc
On 21 October 2019, Prudential completed the demerger of M&G plc and, in connection with the demerger, Prudential entered into a demerger agreement with M&G plc. Among other provisions, the demerger agreement contains a customary indemnity under which Prudential has agreed to indemnify M&G plc against liabilities incurred by the M&G group that relate to the business of the Group. Although it is not anticipated that Prudential will be required to pay any substantial amount pursuant to such indemnity obligations, if any amount payable thereunder is substantial this could have a material adverse effect on Prudential's financial condition and/or results of operations.

Legal and regulatory risk

Prudential conducts its businesses subject to regulation and associated regulatory risks, including a change to the basis in the regulatory supervision of the Group, the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates
Changes in government policy and legislation (including in relation to tax), capital control measures on companies and individuals, regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates (including those related to the conduct of business by Prudential or its third party distributors), or decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential. The impact from any regulatory changes may affect Prudential, for example changes may be required to its product range, distribution channels, handling and usage of data, competitiveness, profitability, capital requirements, risk management approaches, corporate or governance structure and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may also change the level of capital required to be held by individual businesses, the regulation of selling practices, solvency requirements and could introduce changes that impact products sold or that may be sold. Furthermore, as a result of interventions by governments in light of financial and global economic conditions, there may continue to be changes in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhancement of supervisory powers.

With effect from 21 October 2019, the group-wide supervisor of Prudential plc changed to the Hong Kong Insurance Authority (HKIA). Prior to the introduction of the proposed GWS Framework, the Group is being supervised on an interim basis in line with principles agreed with the HKIA. Until the GWS Framework is finalised the Group cannot be certain of the nature and extent of differences between the interim principles agreed with the HKIA and the specific regulatory requirements of the GWS Framework. With the agreement of the HKIA, Prudential is applying the Local Capital Summation Method (LCSM) to determine Group regulatory capital requirements. Any differences between these interim supervisory requirements and those that will be adopted under the GWS Framework may lead to changes to the way in which capital requirements are calculated and to the eligibility of the capital instruments issued by Prudential to satisfy such capital requirements. The Group's existing processes and resources may also need to change to comply with the final GWS Framework legislation or any other requirements of the HKIA. The need to adapt to any such changes or to respond to any such requirements may lead to increased costs or otherwise impact the business, financial condition, results, profitability and/or prospects of the Group.

While the HKIA has agreed that the subordinated debt instruments Prudential has in issue can be included as part of the Group's capital resources for the purposes of satisfying the capital requirements imposed under the LCSM under the interim principles agreed with the HKIA, the grandfathering provisions under the GWS Framework remain subject to the Hong Kong legislative process. If Prudential is ultimately not able to include the subordinated debt instruments it holds as part of the Group's capital resources for the purposes of satisfying the capital requirements imposed under the GWS Framework it may need to raise additional capital, which may in turn lead to increased costs for the Group.

Currently there are also a number of other global regulatory developments which could impact Prudential's businesses in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and its subsequent amendments in the US which provided for a comprehensive overhaul of the financial services industry within the US including reforms to financial services entities, products and markets, the work of the Financial Stability Board (FSB) in the area of systemic risk including the reassessment of the designation of Global Systemically Important Insurers (G-SIIs), and the Insurance Capital Standard (ICS) being developed by the International Association of Insurance Supervisors (IAIS). In addition, regulators in a number of jurisdictions in which the Group operates are further developing their local capital regimes. Across Asia this includes China, Hong Kong, Singapore, Thailand and India. There remains a high degree of uncertainty over the potential impact of such changes on the Group.

In November 2019 the FSB has endorsed a new Holistic Framework (HF), intended for the assessment and mitigation of systemic risk in the insurance sector, for implementation by the IAIS in 2020 and has suspended G-SII designations until completion of a review to be undertaken in 2022. Many of the previous G-SII measures have already been adopted into the Insurance Core Principles (ICPs) and

ComFrame – the common framework for the supervision of Internationally Active Insurance Groups (IAIGs). Prudential is expected to satisfy the criteria to be an IAIG and would therefore be subject to these measures. The HF also includes a monitoring element for the identification of a build-up of systemic risk and to enable supervisors to take action where appropriate. The IAIS has already consulted on an application paper on the liquidity risk elements introduced into the ICPs and ComFrame with a further consultation focused on macroeconomic elements expected to follow in 2021. The IAIS continues to develop the ICS as part of ComFrame. The implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. ComFrame will more generally establish a set of common principles and standards designed to assist supervisors in addressing risks that arise from insurance groups with operations in multiple jurisdictions. The ComFrame proposals, including ICS, could result in enhanced capital and regulatory measures for IAIGs.

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

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise in which Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current IFRS applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I which, under its standard IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, 'Insurance Contracts'), which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. In June 2019, the IASB published an exposure draft proposing a number of targeted amendments to this new standard including the deferral of the effective date by one year from 2021 to 2022. As a result of comments on this exposure draft, the IASB plans to redeliberate on a number of areas of IFRS 17, with an amended standard expected to be issued in mid-2020. The EU will apply its usual process for assessing whether the standard meets the necessary criteria for endorsement. The Group is reviewing the complex requirements of this standard and considering its potential impact. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently uncertain, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. Given the implementation of this standard is likely to require significant enhancements to IT, actuarial and finance systems of the Group, it will also have an impact on the Group's expenses.

Any changes or modification of IFRS accounting policies may require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers
Prudential is, and in the future may continue to be, subject to legal and regulatory actions in the ordinary course of its business on matters relevant to the delivery of customer outcomes. Such actions relate, and could in the future relate, to the application of current regulations or the failure to implement new regulations (including those relating to the conduct of business), regulatory reviews of broader industry practices and products sold (including in relation to lines of business already closed) in the past under acceptable industry or market practices at the time and changes to the tax regime affecting products. Regulators may also focus on the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary subjecting the person or entity to certain regulatory requirements. There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition
Prudential is, and may in the future be, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material respects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be imposed and the inherent unpredictability of litigation

and disputes, it is possible that an adverse outcome could have an adverse effect on Prudential's reputation, results of operations or cash flows.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service providers. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Environmental, social and governance risks

The failure to understand and respond effectively to the risks associated with environmental, social or governance (ESG) factors could adversely affect Prudential's achievement of its long-term strategy

The business environment in which Prudential operates is continually changing. A failure to manage those material risks associated with the ESG themes detailed below may adversely impact on the reputation and brand of the Group, the results of its operations, its ability to attract and retain customers and staff, its ability to deliver on its long-term strategy and therefore its long-term financial success. Ensuring high levels of transparency and responsiveness to stakeholders is a key aspect of this. ESG-related issues may also directly or indirectly impact key stakeholders, ranging from customers to institutional investors, employees, suppliers and regulators, all of whom have expectations in this area, which may differ.

The environmental risks associated with climate change is one ESG area that poses significant risks to Prudential and its customers. These risks include transition risks and physical risks. The global transition to a lower carbon economy could have an adverse impact on investment valuations as the financial assets of carbon-intensive companies re-price and could result in some asset sectors facing significantly higher costs and a disorderly adjustment to their asset values. The speed of this transition will be influenced by factors such as public policy, technology and changes in market or investor sentiment. This may adversely impact the valuation of investments held by the Group. The potential broader economic impact from this may adversely affect customer demand for the Group's products. The physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term changes to the natural environment, will increasingly influence the longevity, mortality and morbidity risk assessments of the Group's underwriting product offerings. Climate-driven changes in countries in which Prudential, or its key third parties, operate could impact on its operational resilience and could change its claims profile. There is an increasing expectation from stakeholders for Prudential to understand, manage and provide increased transparency of its exposure to climate-related risks. Given that Prudential's investment horizons are long term, it is potentially more exposed to the long-term impact of climate change risks. Additionally, Prudential's stakeholders increasingly expect an approach to responsible investment that demonstrates how ESG considerations are effectively integrated into investment and engagement decisions, and fiduciary and stewardship duties.

Social risks that could impact Prudential may arise from a failure to consider the rights, diversity, well-being, and interests of people and communities in which the Group, or its third parties, operates. These risks are increased as Prudential operates in multiple jurisdictions with distinct local cultures and considerations. Emerging population risks associated with public health trends (such as an increase in obesity) and demographic changes (such as population urbanisation and ageing) may affect customer lifestyles and therefore may impact claims against the Group's insurance product offerings. As a provider of insurance and investment services, Prudential has access to extensive amounts of customer personal data, including data related to personal health, and is therefore exposed to the regulatory and reputational risks associated with customer data misuse or security breaches. These risks are explained in the '*Information security and loss or misuse of data*' risk factor. The potential for reputational risks extends to the Group's supply chains, which may be adversely impacted by factors such as poor labour standards and abuses of human rights by third parties. As an employer, the Group is also exposed to the risk of being unable to attract, retain and develop highly-skilled staff, which can be increased where Prudential does not have responsible working practices.

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

Glossary

A

Acquisition expenses
Acquisition expenses include the initial expenses and commissions incurred in writing new business less deferred costs.

Actual exchange rates (AER)
Actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates at the balance sheet date for the balance sheet.

Administration expenses
Administration expenses are expenses and renewal commissions incurred in managing existing business.

Alternative performance measures (APMs)
Alternative performance measures (APMs) are non-GAAP measures used by the Prudential Group within its annual reports to supplement disclosures prepared in accordance with widely accepted guideline and principles established by accounting standard setters, such as International Financial Reporting Standards (IFRS). These measures provide useful information to enhance the understanding of the Group's financial performance. A reconciliation of these APMs to IFRS metrics is provided in additional financial information section of the annual report.

Annual premium equivalent (APE)
A measure of new business sales activity that is calculated as the aggregate of annualised regular premiums from new business plus one-tenth of single premiums on new business written during the period.

Asset-backed security (ABS)
A security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.

Assets under management (AUM)
Assets under management represent all assets managed or administered by or on behalf of the Group, including those assets managed by third parties. Assets under management include managed assets that are included within the Group's statement of financial position and those assets belonging to external clients outside the Prudential Group, which are therefore not included in the Group's statement of financial position. These are also referred to as 'funds under management (FUM)'.

Available for sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity. AFS securities are measured at fair value on the statement of financial position with unrealised gains and losses being booked in Other Comprehensive Income instead of the income statement.

B

Bancassurance
An agreement with a bank to offer insurance and investment products to the bank's customers.

Bonuses
Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. These include regular bonus and final bonus and the rates may vary from period to period.

C

Cash remittances
Amounts paid by our business units to the Group comprising dividends and other transfers net of capital injections, which are reflective of emerging earnings and capital generation.

Cash surrender value
The amount of cash available to a policy holder on the surrender of or withdrawal from a life insurance policy or annuity contract.

Closed-book life insurance business
A 'closed book' is essentially a group of insurance policies that are no longer sold, but are still featured on the books of a life insurer as a premium-paying policy. The insurance company has "closed the books" on new sales of these products which will remain in run-off until the policies expire and all claims are settled.

Collective investment schemes (CIS)
CIS is an open-ended investment fund of pooled assets in which an investor can buy and sell units that are issued in the form of shares.

Constant exchange rates (CER)
Prudential plc reports its results at both actual exchange rates (AER) to reflect actual results and also constant exchange rates (CER) to eliminate the impact from exchange translation. CER results are calculated by translating prior year results using current period foreign currency exchange rates ie current period average rates for the income statements and current period closing rate for the balance sheet.

Core structural borrowings
Borrowings which Prudential considers to form part of its core capital structure and exclude operational borrowings.

Credit risk
The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.

Currency risk
The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.

D

Deferred acquisition costs (DAC)
Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. Typically, under IFRS, an element of acquisition costs are deferred ie not expensed in the year incurred, and instead amortised in the income statement in line with the emergence of surpluses on the related contracts.

Deferred annuities
Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.

Discretionary participation features (DPF)
A contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on asset, fund, company or other entity performance.

Dividend cover
Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend.

E

Endowment product
An ordinary individual life insurance product that provides the insured party with various guaranteed benefits if it survives specific maturity dates or periods stated in the policy. Upon the death of the insured party within the coverage period, a designated beneficiary receives the face value of the policy.

European Embedded Value (EEV)
Financial results that are prepared on a supplementary basis to the Group's consolidated IFRS results and which are prepared in accordance with a set of Principles issued by the CFO Forum of European Insurance Companies in 2016. Embedded value is a way of measuring the current value to shareholders of the future profits from life business written based on a set of assumptions.

F

Fixed annuities (FA)
Fixed annuity contracts written in the US which allow for tax-deferred accumulation of funds, are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible pay-out options. The contract holder pays the insurer a premium, which is credited to the contract holders' account. Periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate.

Fixed indexed annuities (FIA)
These are similar to fixed annuities in that the contract holder pays the insurer a premium, which is credited to the contract holders' account and, periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate. An annual minimum interest rate may be guaranteed, although actual interest credited may be higher and is linked to an equity index over its indexed option period.

Funds under management (FUM)
See 'assets under management (AUM)' above.

G

Group free surplus
Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results and IFRS net assets for the asset management and other businesses, excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

Group pay-out annuities
These are a closed block of defined benefit annuity plans assumed from John Hancock USA and John Hancock New York in October 2018, in which a single premium payment from an employer (contract holder) funds the pension benefits for its employees (participants).

Group-wide Supervision (GWS) Framework
Regulatory framework which is currently under development by the Hong Kong Insurance Authority for the industry and is expected to be finalised in the second half of 2020.

Guaranteed annuities
Policies that pay out a fixed amount of benefit for a defined period.

Guaranteed investment contracts (GICs) (US)
Investment contracts between an insurance company and an institutional investor, which provide a stated rate of return on deposits over a specified period of time. They typically provide for partial or total withdrawals at book value if needed for certain liquidity needs of the plan.

Guaranteed minimum accumulation benefit (GMAB) (US)
A guarantee that ensures that the contract value of a variable annuity contract will be at least equal to a certain minimum amount after a specified number of years.

Guaranteed minimum death benefit (GMDB) (US)
The basic death benefit offered under variable annuity contracts, which specifies that if the owner dies before annuity income payments begin, the beneficiary will receive a payment equal to the greater of the contract value or purchase payments less withdrawals.

Guaranteed minimum income benefit (GMIB) (US)
A guarantee that ensures, under certain conditions, that the owner may annuitise the variable annuity contract based on the greater of (a) the actual account value or (b) a pay-out base equal to premiums credited with some interest rate, or the maximum anniversary value of the account prior to annuitisation.

Guaranteed minimum withdrawal benefit (GMWB) (US)
A guarantee in a variable annuity that promises that the owner may make annual withdrawals of a defined amount for the life of the owner or until the total guaranteed amount is recovered, regardless of market performance or the actual account balance.

H

Health and protection
These comprise health and personal accident insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident coverage. Health and protection products are sold both as standalone policies and as riders that can be attached to life insurance products. Health and protection riders are presented together with ordinary individual life insurance products for purposes of disclosure of financial information.

Hong Kong Insurance Authority (Hong Kong IA or HKIA)
The HKIA is an insurance regulatory body responsible for the regulation and supervision of the Hong Kong insurance industry.

I

In-force
An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.

Internal vesting
Internal vesting relates to proceeds from a Prudential policy which the policyholder has decided to reinvest in a Prudential annuity product.

International Financial Reporting Standards (IFRS)
Accounting standards that all publicly listed groups in the European Union are required to apply in preparing consolidated financial statements.

Investment grade
Investments rated BBB- or above for S&P and Baa3 or above for Moody's. Generally, they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.

Investment-linked products or contracts
Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges. These are also referred to as unit-linked products or unit-linked contracts.

K

Key performance indicators (KPIs)
These are measures by which the development, performance or position of the business can be measured effectively. The Group Board reviews the KPIs annually and updates them where appropriate.

L

Liquidity coverage ratio (LCR)
Prudential calculates this as assets and resources available to us that are readily convertible to cash to cover corporate obligations in a prescribed stress scenario. We calculate this ratio over a range of time horizons extending to twelve months.

Liquidity premium
This comprises the premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps and the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

Local Capital Summation Method (LCSM)
LCSM is the methodology used for the calculation of the Group's regulatory capital requirements (both minimum and prescribed levels) together with related governance requirements.

M

Money Market Fund (MMF)
An MMF is an open-ended mutual fund that invests in short-term debt securities such as US treasury bills and commercial paper. The purpose of an MMF is to provide investors with a safe place to invest easily accessible cash-equivalent assets characterised as a low-risk, low-return investment.

Mortality rate
Rate of death, varying by such parameters as age, gender and health, used in pricing and computing liabilities for future policyholders of life and annuity products, which contain mortality risks.

Morbidity rate
Rate of sickness, varying by such parameters as age, gender and health, used in pricing and computing liabilities for future policyholders of health products, which contain morbidity risks.

N

National Association of Insurance Commissioners (NAIC)
The NAIC is the US standard setting and regulatory support organisation created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five US territories.

Net premiums
Life insurance premiums, net of reinsurance ceded to third-party reinsurers.

Net worth
Net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

New business margin
The value of new business on an EEV basis expressed as a percentage of the present value of new business premiums expected to be received from the new business.

New business profit
The profits, calculated in accordance with European Embedded Value Principles, from business sold in the financial reporting period under consideration.

Non-participating business
A life insurance policy where the policyholder is not entitled to a share of the company's profits and surplus, but receives certain guaranteed benefits. Examples include pure risk policies (eg fixed annuities, term insurance, critical illness) and unit-linked insurance contracts.

O

Operational borrowings
Borrowings which arise in the normal course of the business. From 1 January 2019, these also include all lease liabilities under IFRS 16.

P

Participating funds
Distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The insurer may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits. For Prudential the most significant participating funds are for business written in Hong Kong, Malaysia and Singapore.

Participating policies or participating business
Contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on factors such as investment performance, as a supplement to any guaranteed benefits. This is also referred to as with-profits business.

Persistency
The percentage of policies remaining in force from period to period.

Present value of new business premiums (PVNBP)
The present value of new business premiums is calculated as the aggregate of single premiums and the present value of expected future premiums from regular premium new business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

R

Regular premium product
A life insurance product with regular periodic premium payments.

Rider
A supplemental plan that can be attached to a basic insurance policy, with payment of additional premium.

Risk margin reserve (RMR)
An RMR is included within operating profit based on longer-term investment returns and represents a charge for long-term expected defaults of debt securities, determined by reference to the credit quality of the portfolio.

S

Separate account
A separate account is a pool of investments held by an insurance company not in or 'separate' from its general account. The returns from the separate account generally accrue to the policyholder. A separate account allows an investor to choose an investment category according to his individual risk tolerance, and desire for performance.

Single premiums
Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.

Stochastic techniques
Stochastic techniques incorporate results from repeated simulations using key financial parameters which are subject to random variations and are projected into the future.

Subordinated debt
A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest. Under EU insurance regulation, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency, with limitations.

Surrender
The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.

Surrender charge or surrender fee
The fee charged to a policyholder when a life insurance policy or annuity contract is surrendered for its cash surrender value prior to the end of the surrender charge period.

T

Takaful
Insurance that is compliant with Islamic principles.

Term life contracts
These contracts provide protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured.

Time value of options and guarantees (TVOG)
The value of financial options and guarantees comprises two parts, the intrinsic value and the time value. The intrinsic value is given by a deterministic valuation on best estimate assumptions. The time value is the additional value arising from the variability of economic outcomes in the future.

Total shareholder return (TSR)
TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.

U

Unallocated surplus
Unallocated surplus is recorded wholly as a liability and represents the excess of assets over policyholder liabilities for Prudential's with-profits funds. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders.

Unit-linked products or unit-linked contracts
See 'investment-linked products or contracts' above.

Universal life
An insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of matching assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge.

V

Variable annuity (VA) (US)
An annuity whose value is determined by the performance of underlying investment options that frequently includes securities. A variable annuity's value is not guaranteed and will fluctuate, depending on the value of its underlying investments. The holder of a variable annuity assumes the investment risk and the funds backing a variable annuity are held in the insurance companies separate account.

Value of in-force business (VIF)
The present value of future shareholder cash flows projected to emerge from the assets backing liabilities of the in-force covered business.

W

Whole life contracts
A type of life insurance policy that provides lifetime protection; premiums must usually be paid for life. The sum assured is paid out whenever death occurs. Commonly used for estate planning purposes.

With-profits funds
See 'participating funds' above.

With-profits contracts
For Prudential, the most significant with-profits contracts are written in Hong Kong, Malaysia and Singapore. See 'participating policies or participating business' above.

Y

Yield
A measure of the rate of return received from an investment in percentage terms by comparing annual income (and any change in capital) to the price paid for the investment.

Shareholder information

Communication with shareholders

The Group maintains a corporate website containing a wide range of information relevant for private and institutional investors, including the Group's financial calendar: www.prudentialplc.com

Shareholder Meetings

The 2020 Annual General Meeting (AGM) will be held in the Churchill Auditorium at the QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 14 May 2020 at 11.00am.

Prudential will continue its practice of calling a poll on all resolutions and the voting results, including all proxies lodged prior to the meeting, will be displayed at the meeting and subsequently published on the Company's website.

Details of the 2019 AGM and of the General Meeting held in October 2019, including the major items discussed at those meetings and the results of the voting, can be found on the Company's website.

In accordance with relevant legislation, shareholders holding 5 per cent or more of the fully paid up issued share capital are able to require the Directors to hold a general meeting. Written shareholder requests should be addressed to the Group Company Secretary at the registered office.

Documents on display

The terms and conditions of all Directors' appointments are available for inspection at the Company's registered office during normal business hours and at the AGM.

Company constitution

Prudential is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles of Association (Articles). Any change to the Articles must be approved by special resolution of the shareholders. There were no changes to the constitutional documents during 2019. The current Memorandum and Articles are available on the Company's website.

Share capital

Issued share capital

The issued share capital as at 31 December 2019 consisted of 2,601,159,949 (2018: 2,593,044,409) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Stock Exchange. As at 31 December 2019, there were 46,847 (2018: 47,260) accounts on the register. Further information can be found in note C10 on page 290.

Prudential also maintains secondary listings on the New York Stock Exchange (in the form of American Depositary Receipts which are referenced to ordinary shares on the main UK register) and the Singapore Stock Exchange.

Prudential has maintained a sufficiency of public float throughout the reporting period as required by the Hong Kong Listing Rules.

Analysis of shareholder accounts as at 31 December 2019

Size of shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000,001 upwards	305	0.65	2,284,969,122	87.84
500,001–1,000,000	149	0.32	106,232,809	4.08
100,001–500,000	532	1.14	124,456,844	4.79
10,001–100,000	1,453	3.10	43,978,798	1.70
5,001–10,000	1,554	3.32	10,778,080	0.41
1,001–5,000	10,162	21.69	22,114,945	0.85
1–1,000	32,692	69.78	8,629,351	0.33
Total	46,847	100	2,601,159,949	100

Major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital, as at 31 December 2019, as notified and disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules.

As at 31 December 2019	% of total voting rights
BlackRock, Inc	5.08
Capital Group Companies, Inc.	4.9336
Norges Bank	3.99

On 11 February 2020, Norges Bank notified that its holding had decreased to 2.998 per cent of the Company's issued share capital.

Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Articles. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

Where, under an employee share scheme, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by the trustee on behalf of the registered owner in accordance with the relevant plan rules. The Trustees would not usually vote any unallocated shares held in trust but they may do so at their discretion provided it would be considered to be in the best interests of the beneficiaries of the trust and permitted under the relevant trust deed.

As at 10 March 2020, Trustees held 0.30 per cent of the issued share capital under the various plans in operation.

Rights to dividends under the various schemes are set out in the Directors' remuneration report on pages 136 to 195.

Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and any transfer is not restricted except that the Directors may, in certain circumstances, refuse to register transfers of shares but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the Directors make use of that power, they must send the transferee notice of the refusal within two months.

Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the Financial Conduct Authority and the Hong Kong Stock Exchange, as well as under the rules of some of the Group's employee share plans.

All Directors are required to hold a minimum number of shares under guidelines approved by the Board, which they would also be expected to retain as described in the Directors' remuneration report.

Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. Prudential seeks authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. The existing authorities to issue shares, and to do so without observing pre-emption rights, are due to expire at the end of this year's AGM. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM on 14 May 2020.

Details of shares issued during 2019 and 2018 are given in note C10 on page 290.

In accordance with the terms of a waiver granted by the Hong Kong Stock Exchange, Prudential confirms that it complies with the applicable law and regulation in the UK in relation to the holding of shares in treasury and with the conditions of the waiver in connection with the purchase of own shares and any treasury shares it may hold.

Authority to purchase own shares

The Directors also require authority from shareholders in relation to the purchase of the Company's own shares. Prudential seeks authority by special resolution on an annual basis for the buy-back of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. This authority has not been used since it was last granted at the AGM in 2019. This existing authority is due to expire at the end of this year's AGM and a special resolution to renew the authority will be put to shareholders at the AGM on 14 May 2020.

Dividend information

2019 second interim dividend	Shareholders registered on the UK register and Hong Kong branch register	Holders of US American Depositary Receipts	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
Ex-dividend date	26 March 2020	–	26 March 2020
Record date	27 March 2020	27 March 2020	27 March 2020
Payment date	15 May 2020	15 May 2020	On or about 22 May 2020

A number of dividend waivers are in place in respect of shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans. The dividends waived represent less than one per cent of the value of dividends paid during the year.

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

Register	By post	By telephone
UK register	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, UK.	Tel 0371 384 2035 Textel 0371 384 2255 (for hard of hearing). Lines are open from 8.30am to 5.30pm (UK), Monday to Friday. International shareholders Tel +44 121 415 7026
Hong Kong register	Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.	Tel +852 2862 8555
Singapore register	Shareholders who have shares standing to the credit of their securities accounts with The Central Depository (PTE) Limited (CDP) in Singapore may refer queries to the CDP at 11 North Buona Vista Drive, #01-19/20 The Metropolis Tower 2, Singapore 138589. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.	Tel +65 6535 7511
ADRs	JPMorgan Chase Bank N.A, PO Box 64504, St. Paul, MN 55164-0504, USA.	Tel +1 800 990 1135, or from outside the USA +1 651 453 2128 or log on to www.adr.com

Dividend mandates

Shareholders may have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti and request a Cash Dividend Mandate form. Alternatively, shareholders may download the form from www.prudentialplc.com/investors/shareholder-information/forms

Shareholders on the UK or Hong Kong registers have the option to elect to receive their dividend in US dollars instead of pounds sterling or Hong Kong dollars respectively. More information may be found on our website www.prudentialplc.com/investors/shareholder-information/dividend/dividend-currency-election

Cash dividend alternative

The Company operates a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available at www.shareview.co.uk/4/Info/Portfolio/default/en/home/shareholders/Pages/ReinvestDividends.aspx

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through CDP. Please contact Equiniti if you require any assistance or further information.

Share dealing services

The Company's registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address or telephone 0371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential shares. For telephone sales, call 0345 603 7037 between 8.00am and 5.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be downloaded from our website www.prudentialplc.com/investors/shareholder-information/forms or from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org

How to contact us

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Chairman

Non-executive Directors

Philip Remnant
Senior Independent Director

Jeremy Anderson

Howard Davies

David Law

Kai Nargolwala

Anthony Nightingale

Alice Schroeder

Tom Watjen

Fields Wicker-Miurin

Amy Yip

Group Executive Committee

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

James Turner
Group Chief Risk and Compliance Officer

Jolene Chen
Group Human Resources Director

Michael Falcon
Chief Executive Officer, Jackson Holdings LLC

Nic Nicandrou
Chief Executive, Prudential Corporation Asia

Al-Noor Ramji
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