Additional information

Contents

Index to the Additional unaudited financial information

I Additional financial information

I(i) Group capital position

Overview

Prudential plc applies the local capital summation method (LCSM) that has been agreed with the Hong Kong Insurance Authority (IA) to determine group regulatory capital requirements (both minimum and prescribed levels). Ultimately, Prudential will become subject to the Group-wide Supervision (GWS) Framework. The primary legislation was enacted in July 2020 and will come into operation on 29 March 2021. The relevant subsidiary legislation, including the Insurance (Group Capital) Rules, was tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. The GWS Framework is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements.

The GWS methodology is expected to be largely consistent with that applied under LCSM with the exception of the treatment of debt instruments which will be subject to transitional arrangements under the GWS Framework. As agreed with the Hong Kong IA, only specific bonds (being those subordinated debt instruments issued by Prudential plc at the date of demerger of M&G plc) are currently included as eligible Group LCSM capital resources for the purposes of satisfying group minimum and prescribed capital requirements. Senior debt instruments issued by Prudential plc have not been included as part of the Group capital resources and are treated as a liability in the LCSM results. Under the GWS Framework, Prudential's initial analysis indicates that all debt instruments (senior and subordinated) issued by Prudential plc will meet the transitional conditions set by the Hong Kong IA and will be included as eligible Group capital resources. If this were to be the case, the 31 December 2020 Group shareholder LCSM coverage ratio (over GMCR) presented below would increase by 35 percentage points to 363 per cent. This is subject to final approval by the Hong Kong IA.

Further detail on the LCSM is included in the basis of preparation section below.

For regulated insurance entities, the capital resources and required capital included in the LCSM measure for Hong Kong IA Group regulatory purposes are based on the local solvency regime applicable in each jurisdiction. At 31 December 2020, the Prudential Group's total surplus of capital resources over the regulatory Group Minimum Capital Requirement (GMCR), calculated using this LCSM was $26.4 billion, before allowing for the payment of the 2020 second interim ordinary dividend, equating to a coverage ratio of 329%.

The Group holds material participating business in Hong Kong, Singapore and Malaysia. If the capital resources and minimum capital requirement attributed to this policyholder business are excluded, then the Prudential Group shareholder LCSM surplus of capital resources over the regulatory GMCR at 31 December 2020 was $11.0 billion, before allowing for the payment of the 2020 second interim ordinary dividend, equating to a coverage ratio of 328%.

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

	31 Dec 2020			31 Dec 2019		
Amounts attributable to Prudential plc	**Total**	**Less policyholder**	**Shareholder**	**Total**	**Less policyholder**	**Shareholder**
Capital resources ($bn)	37.9	(22.1)	15.8	33.1	(19.1)	14.0
Group Minimum Capital Requirement ($bn)	11.5	(6.7)	4.8	9.5	(5.0)	4.5
LCSM surplus (over GMCR) ($bn)	26.4	(15.4)	11.0	23.6	(14.1)	9.5
LCSM ratio (over GMCR) (%)	329%		328%	348%		309%

The shareholder LCSM capital position by segment is presented below at 31 December 2020 and 31 December 2019 for comparison:

	31 Dec 2020 $bn					
			Shareholder			
Amounts attributable to Prudential plc	**Total Asia**	**Less policyholder**	**Asia**	**US**	**Unallocated to a segment**	**Group total**
Capital resources	33.7	(22.1)	11.6	4.6	(0.4)	15.8
Group Minimum Capital Requirement	10.1	(6.7)	3.4	1.4	–	4.8
LCSM surplus (over GMCR)	23.6	(15.4)	8.2	3.2	(0.4)	11.0

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

All the amounts above are presented excluding amounts attributable to non-controlling interests. For example, the US amounts relate solely to Prudential's 88.9 per cent economic interest in Jackson Financial Inc.

I Additional financial information continued

I(i) Group capital position continued

Sensitivity analysis

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

	31 Dec 2020		31 Dec 2019	
Impact of market sensitivities note (1)	**LCSM surplus** $bn	**LCSM ratio** %	**LCSM surplus** $bn	**LCSM ratio** %
Base position	11.0	328%	9.5	309%
Impact of:				
10% instantaneous increase in equity markets	0.3	15%	n/a	n/a
20% instantaneous fall in equity markets	0.6	(13)%	1.5	(9)%
40% fall in equity markets note (2)	(0.2)	(23)%	(0.2)	(39)%
50 basis points reduction in interest rates	(1.2)	(39)%	(0.2)	(17)%
100 basis points increase in interest rates	(1.0)	11%	(1.3)	(19)%
100 basis points increase in credit spreads note (3)	0.1	14%	(1.6)	(36)%

Notes

(1) The Group results consist of the combined impact from the movement in Asia and US LCSM surplus under these stresses. The equity fall and the interest rate reduction sensitivities consist of positive surplus impacts from the US, driven by expected derivative gains, and negative surplus impacts from Asia, which for the interest rate reduction sensitivity is driven by Hong Kong reflecting the accounting mismatch that exists under the current regulatory framework.

(2) Where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period.

(3) At 31 December 2019 the US RBC solvency position was included using a stress of 10 times expected credit defaults rather than the 100 basis points increase in credit spreads applied at 31 December 2020.

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

Analysis of movement in Group shareholder LCSM surplus

A summary of the estimated movement in the Group shareholder LCSM surplus (based on GMCR) from $9.5 billion at 31 December 2019 to $11.0 billion at 31 December 2020 is set out in the table below.

	2020 $bn	**2019** $bn
Balance at 1 Jan	9.5	9.7
Operating:		
Operating capital generation from the in-force business	2.2	2.5
Investment in new business	(0.2)	(0.6)
Operating capital generation	2.0	1.9
Non-operating and other capital movements:		
Non-operating experience (including market movements)	(2.0)	(0.6)
Regulatory changes	2.2	0.1
Reinsurance of US fixed and fixed indexed annuity in-force portfolio to Athene	0.8	–
Athene US equity investment	(0.2)	–
US hedge modelling revision	(0.4)	–
Other corporate activities	(0.1)	(0.8)
M&G Demerger costs	–	(0.4)
Subordinated debt redemption	–	(0.5)
M&G Demerger related impacts	–	1.0
Non-operating results	0.3	(1.2)
Remittances from discontinued operations (M&G plc)	–	0.7
External dividends	(0.8)	(1.6)
Net dividend impact	(0.8)	(0.9)
Net movement in LCSM surplus	1.5	(0.2)
Balance at 31 Dec	11.0	9.5

The estimated movement in the Group shareholder LCSM surplus over 2020 is driven by:

— *Operating capital generation of $2.0 billion:* generated by the expected return on in-force business partially offset by the strain on new business written during the year;
— *Non-operating experience of $(2.0) billion:* this includes the negative impact of higher equity markets on Jackson's derivatives net of policyholder reserves and required capital movements, and the negative impact of falling interest rates on the US and Asia surplus over the year, partially offset by management actions, including the benefit from the change to the Hong Kong valuation interest rate as granted by the regulator in July 2020;
— *Regulatory changes of $2.2 billion:* reflecting the benefit from the new Singapore risk-based capital framework (RBC2) effective at 31 March 2020;
— *Reinsurance of US fixed and fixed indexed annuity in-force portfolio to Athene of $0.8 billion:* the impact of the transaction, which was effective at 1 June 2020, was an increase to LCSM surplus comprising of the ceding commission received and required capital released less tax and adverse consequential effects on the US's capital resources;
— *Athene equity investment $(0.2) billion:* this is the net effect on LCSM surplus of Athene's $500 million equity investment in Prudential's US business in return for an 11.1 per cent economic interest in that same business, which completed in July 2020;
— *US hedge modelling revision of $(0.4) billion:* at 31 December 2019, Jackson early adopted the provisions of the National Association of Insurance Commissioners Valuation Manual Minimum Standards No. VM-21. During 2020, Jackson determined that a simplifying modelling assumption was not consistent with its intent in the adoption of VM-21 and the revised modelling adopted for calculating reserves and capital reduced surplus by $390 million;
— *Other Corporate activities (excluding demerger items) of $(0.1) billion:* this is the effect on LCSM surplus of other corporate transactions in the period, which in 2020 comprised mainly of a $0.8 billion benefit from the reinsurance transaction in Hong Kong described in note D1.1 of the IFRS financial statements, offset by $(0.9) billion principally from the strategic bancassurance partnership with TMB in Thailand; and
— *Net dividend impact of $(0.8) billion:* this is the payment of external dividends during 2020.

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

	31 Dec 2020 $bn				31 Dec 2019 $bn
	Asia	**US**	**Unallocated to a segment**	**Group total**	**Group total**
Estimated Group shareholder LCSM surplus (over GMCR)	8.2	3.2	(0.4)	11.0	9.5
Increase required capital for EEV free surplus note (1)	(0.8)	(2.0)	–	(2.8)	(2.8)
Adjust surplus assets and core structural borrowings to market value note (2)	0.5	0.3	(0.4)	0.4	0.3
Add back inadmissible assets note (3)	0.2	0.1	–	0.3	0.2
Deductions applied to EEV free surplus note (4)	(3.1)	–	–	(3.1)	(0.9)
Other	–	0.1	0.2	0.3	0.3
EEV free surplus excluding intangibles*	5.0	1.7	(0.6)	6.1	6.6

* As per the 'Free surplus excluding distribution rights and other intangibles' shown in the statement of Movement in Group free surplus of the Group's EEV basis results.

Notes

(1) Required capital under EEV is set at least equal to local statutory notification requirements for Asia and so can differ from the minimum capital requirement. Jackson required capital is set at 250 per cent of the risk-based capital (RBC) required by the NAIC at the Company Action Level (CAL). This is higher than the solo legal entity statutory minimum capital requirement of 100 per cent CAL that is included in the LCSM surplus (over GMCR).

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

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

(4) Deductions applied to EEV free surplus primarily include: the impact of reporting EEV free surplus for Singapore based on the Tier 1 requirements under the RBC2 framework, which removes certain negative reserves permitted to be recognised in the full RBC 2 regulatory position used for LCSM, and applying the embedded value reporting approach issued by the China Association of Actuaries (CAA) within EEV free surplus as compared to the C-ROSS surplus reported for local regulatory purposes (predominantly arising from the requirement under the CAA embedded value methodology to establish a deferred profit liability within EEV net worth).

I Additional financial information continued

I(i) Group capital position continued

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

	31 Dec 2020 $bn	31 Dec 2019 $bn
Group IFRS shareholders' equity	20.9	19.5
Remove DAC, goodwill and intangibles recognised on the IFRS statement of financial position	(21.1)	(18.2)
Add subordinated debt at IFRS book value note (1)	4.6	4.6
Valuation differences note (2)	11.3	8.6
Other note (3)	0.1	(0.5)
Estimated Group shareholder LCSM capital resources	15.8	14.0

Notes

(1) Subordinated debt is treated as capital resources under LCSM but as a liability under IFRS.

(2) Valuation differences reflect differences in the basis of valuing assets and liabilities between IFRS and local statutory valuation rules, including deductions for inadmissible assets. Material differences arise in Jackson where IFRS variable annuity guarantee reserves are valued on a fair value basis compared to local statutory reserves which reflect long-term historic rates. Further, local US statutory reserves are reduced by an expense allowance linked to surrender charges, whereas IFRS makes no such allowance but instead defers acquisition costs on the balance sheet as a separate asset (which is not recognised on the statutory balance sheet). Other material differences include in Singapore where the local capital resources under RBC2 permits the recognition of certain negative reserves in the local statutory position that are not recognised under IFRS.

(3) Other differences include the consequential impact on non-controlling interests arising from the other reconciling items.

Basis of preparation

In advance of the GWS Framework coming into force, Prudential applies the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine group regulatory capital requirements (both minimum and prescribed levels). The summation of local statutory capital requirements across the Group is used to determine group regulatory capital requirements, with no allowance for diversification between business operations. The Group capital resources is determined by the summation of capital resources across local solvency regimes for regulated entities and IFRS net assets (with adjustments described below) for non-regulated entities.

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

- For regulated insurance entities, capital resources and required capital are based on the local solvency regime applicable in each jurisdiction, with minimum required capital set at the solo legal entity statutory minimum capital requirements. The treatment of participating funds is consistent with the local basis;
- For the US insurance entities, capital resources and required capital are based on the local US RBC framework set by the NAIC, with minimum required capital set at 100 per cent of the CAL RBC;
- For asset management operations and other regulated entities, the shareholder capital position is derived based on the sectoral basis applicable in each jurisdiction, with minimum required capital based on the solo legal entity statutory minimum capital requirement;
- For non-regulated entities, the capital resources is based on IFRS net assets after deducting intangible assets. No required capital is held in respect of unregulated entities;
- For entities where the Group's shareholding is less than 100%, the contribution of the entity to the Group LCSM capital resources and required capital represents the Group's share of these amounts and excludes any amounts attributable to non-controlling interests;
- Investments in subsidiaries, joint ventures and associates (including, if any, loans that are recognised as capital on the receiving entity's balance sheet) are eliminated from the relevant holding company to prevent the double counting of capital resources; and
- The Hong Kong IA has agreed that specific bonds (being those subordinated debt instruments issued by Prudential plc at the date of demerger of M&G plc) can be included as part of the Group's capital resources for the purposes of satisfying group minimum and prescribed capital requirements. Senior debt instruments issued by Prudential plc have not been included as part of the Group capital resources and are treated as a liability in the LCSM results presented above.

I(ii) Funds under management

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

	31 Dec 2020 $bn	31 Dec 2019 $bn
Asia operations:		
Internal funds	171.4	141.9
Eastspring Investments external funds, including M&G plc* (as analysed in note I(v))	109.6	124.7
	281.0	266.6
US operations – internal funds	273.7	273.4
Other operations	3.6	3.9
Total Group funds under management	558.3	543.9

* Funds managed on behalf of M&G plc are presented as external rather than internal funds under management to align to the presentation since the demerger in October 2019.

Note

Total Group funds under management comprise:

	31 Dec 2020 $bn	31 Dec 2019 $bn
Total investments and cash and cash equivalents on the consolidated statement of financial position	437.4	412.6
External funds of Eastspring Investments, including M&G plc	109.6	124.7
Internally managed funds held in joint ventures and associate, excluding assets attributable to external unit holders of the consolidated collective investment schemes and other adjustments	11.3	6.6
Total Group funds under management	558.3	543.9

I Additional financial information continued

I(iii) Holding company cash flow

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

	2020 $m	**2019** $m
Net cash remitted by business units note (a):		
From continuing operations		
Asia note (b)	716	950
Jackson note (b)	–	509
Other operations note (c)	55	6
Total continuing operations	771	1,465
From discontinued UK and Europe operations	–	684
Net cash remittances by business units	771	2,149
Net interest paid note (d)	(294)	(527)
Tax received	94	265
Corporate activities	(235)	(260)
Total central outflows	(435)	(522)
Holding company cash flow before dividends and other movements	336	1,627
Dividends paid	(814)	(1,634)
Operating holding company cash flow after dividends but before other movements	(478)	(7)
Other movements		
Issuance and redemption of debt for continuing operations	983	(504)
Other non-operating transactions relating to continuing operations note (e)	(1,230)	(338)
Transactions to effect the demerger, including debt substitution note (f)	–	(146)
Demerger costs associated with the discontinued UK and Europe operations	(17)	(424)
Early settlement of UK-inflation-linked derivative liability	–	(587)
Total other movements	(264)	(1,999)
Total holding company cash flow	(742)	(2,006)
Cash and short-term investments at 1 Jan	2,207	4,121
Foreign exchange movements	(2)	92
Cash and short-term investments at 31 Dec	1,463	2,207

Notes

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

(b) Significant cash remittances from business units were hedged into sterling using forward contracts during 2019 and these contracts determine the amount of sterling recorded in the holding company cash flow for the relevant remittances. The implicit rates may therefore differ from that applied to present the holding company cash flow in US dollars (see note (g)).

(c) $55 million remittances from other operations reflects intragroup interest income which is not expected to recur.

(d) The net interest paid in 2019 included $231 million on debt substituted to M&G plc prior to its demerger in October 2019.

(e) Other corporate activities relating to continuing operations primarily reflect payments made for bancassurance arrangements including those with UOB and TMB Bank.

(f) Transactions to effect the demerger represented the effects on holding company cash flow of steps taken in 2019 as part of the preparation for the demerger of the UK and Europe operations (M&G plc). These included the transfer of subsidiaries, settlement of intercompany loans, receipt of the pre-demerger dividend and the substitution of M&G plc as issuer of certain subordinated debt in place of Prudential plc.

(g) At 31 December 2019, the Group changed its basis of managing central cash-holdings from sterling to US dollars. Accordingly, the 2020 holding company cash flow statement presented above has been prepared directly in US dollars and 2019 amounts are re-presented from those previously published to reflect the change. 2019 comparatives were prepared in sterling, reflecting the management of holding company cash at that time. Cash movements in the year were converted from sterling into US dollars by using the month-end sterling to US dollar exchange rate for the month in which the transaction occurred. Cash balances at the start and end of the year were translated from sterling to US dollars using the spot rates at the beginning and end of the year respectively. As an exception to the above, external dividends paid during 2019 were translated at the exchange rate relevant to the day they were paid to ensure consistency with the financial statements.

I(iv) Analysis of adjusted operating profit by driver

This schedule classifies the Group's adjusted operating profit from continuing operations into the underlying drivers using the following categories:

- **Spread income** represents the difference between net investment income and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.
- **Fee income** represents profit driven by net investment performance, being fees that vary with the size of the underlying policyholder funds, net of investment management expenses.
- **With-profits** represents the pre-tax shareholders' transfer from the with-profits business for the period.
- **Insurance margin** primarily represents profit derived from the insurance risks of mortality and morbidity.
- **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses (see below).
- **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. These exclude items such as restructuring and IFRS 17 implementation costs, which are not included in the segment profit, as well as items that are more appropriately included in other categories (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).
- **DAC adjustments** comprise DAC amortisation for the period, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business written in the period.

(a) Margin analysis

The following analysis expresses certain of the Group's sources of adjusted operating profit as a margin of policyholder liabilities or other relevant drivers. The 2019 comparative information has been presented at both AER and CER to eliminate the impact of exchange translation. CER results are calculated by translating prior year results using the current year foreign exchange rates. All CER profit figures have been translated at current year average rates. For Asia, CER average liabilities have been translated using the corresponding current year opening and closing or quarter-end closing exchange rates.

	2020				
	Asia $m note (b)	**US** $m note (c)	**Group total** $m	**Average liability** $m	**Margin** bps
Spread income	296	521	817	86,596	94
Fee income	282	3,386	3,668	217,863	168
With-profits	117	–	117	73,375	16
Insurance margin	2,648	1,298	3,946		
Margin on revenues	2,936	–	2,936		
Expenses:					
Acquisition costs*	(1,904)	(991)	(2,895)	5,619	(52)%
Administration expenses	(1,539)	(1,744)	(3,283)	312,215	(105)
DAC adjustments	382	317	699		
Expected return on shareholder assets	212	–	212		
	3,430	2,787	6,217		
Share of related tax charges from joint ventures and associates	(46)	–	(46)		
Adjusted operating profit from long-term business	3,384	2,787	6,171		
Adjusted operating profit from asset management	283	9	292		
Total segment adjusted operating profit	3,667	2,796	6,463		

* The ratio of acquisition costs is calculated as a percentage of APE sales in the year.

I Additional financial information continued

I(iv) Analysis of adjusted operating profit by driver continued

	2019 AER				
	Asia $m note (b)	**US** $m note (c)	**Group total** $m	**Average liability** $m	**Margin** bps
Spread income	321	642	963	86,887	111
Fee income	286	3,292	3,578	208,353	172
With-profits	107	–	107	58,032	18
Insurance margin	2,244	1,317	3,561		
Margin on revenues	3,035	–	3,035		
Expenses:					
Acquisition costs*	(2,156)	(1,074)	(3,230)	7,384	(44)%
Administration expenses	(1,437)	(1,675)	(3,112)	303,339	(103)
DAC adjustments	430	510	940		
Expected return on shareholder assets	194	26	220		
	3,024	3,038	6,062		
Share of related tax charges from joint ventures and associates	(31)	–	(31)		
Adjusted operating profit from long-term business	2,993	3,038	6,031		
Adjusted operating profit from asset management	283	32	315		
Total segment adjusted operating profit	3,276	3,070	6,346		

* The ratio of acquisition costs is calculated as a percentage of APE sales in the year.

	2019 CER				
	Asia $m note (b)	**US** $m note (c)	**Group total** $m	**Average liability** $m	**Margin** bps
Spread income	319	642	961	87,413	110
Fee income	283	3,292	3,575	208,095	172
With-profits	107	–	107	58,492	18
Insurance margin	2,234	1,317	3,551		
Margin on revenues	3,032	–	3,032		
Expenses:					
Acquisition costs*	(2,156)	(1,074)	(3,230)	7,391	(44)%
Administration expenses	(1,430)	(1,675)	(3,105)	303,607	(102)
DAC adjustments	426	510	936		
Expected return on shareholder assets	193	26	219		
	3,008	3,038	6,046		
Share of related tax charges from joint ventures and associates	(30)	–	(30)		
Adjusted operating profit from long-term business	2,978	3,038	6,016		
Adjusted operating profit from asset management	278	32	310		
Total segment adjusted operating profit	3,256	3,070	6,326		

* The ratio of acquisition costs is calculated as a percentage of APE sales in the year.

(b) Margin analysis – Asia

	2020			2019 AER			2019 CER		
	Profit $m	**Average liability** $m note (1)	**Margin** bps note (2)	**Profit** $m	**Average liability** $m note (1)	**Margin** bps note (2)	**Profit** $m	**Average liability** $m note (1)	**Margin** bps note (2)
Spread income	296	39,895	74	321	29,706	108	319	30,232	106
Fee income	282	28,014	101	286	27,413	104	283	27,155	104
With-profits	117	73,375	16	107	58,032	18	107	58,492	18
Insurance margin	2,648			2,244			2,234		
Margin on revenues	2,936			3,035			3,032		
Expenses:									
Acquisition costs note (3)	(1,904)	3,696	(52)%	(2,156)	5,161	(42)%	(2,156)	5,168	(42)%
Administration expenses	(1,539)	67,909	(227)	(1,437)	57,119	(252)	(1,430)	57,387	(249)
DAC adjustments note (4)	382			430			426		
Expected return on shareholder assets	212			194			193		
		3,430			3,024			3,008	
Share of related tax charges from joint ventures and associates note (5)	(46)			(31)			(30)		
Adjusted operating profit from long-term business	3,384			2,993			2,978		
Adjusted operating profit from asset management (Eastspring Investments)	283			283			278		
Total Asia adjusted operating profit	3,667			3,276			3,256		

Notes

(1) The calculation of average liabilities for Asia is generally derived from opening and closing balances. In 2020, given the significant market volatility in certain months during the year, average liabilities used to derive the margin for fee income in Asia have been calculated using quarter-end balances throughout the year as opposed to opening and closing balances only to provide a more meaningful analysis. The 2019 margins have been amended for consistency albeit impacts are minimal.

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

(3) The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business. The ratio of shareholder acquisition cost to shareholder-related APE sales in 2020 (excluding with-profits) is 68 per cent (2019: 66 per cent).

(4) The DAC adjustments contain a credit of $73 million in respect of joint ventures and associates in 2020 (2019: credit of $72 million on an AER basis).

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

I Additional financial information continued

I(iv) Analysis of adjusted operating profit by driver continued

(c) Margin analysis – US

	2020			2019		
	Profit $m	**Average liability** $m note (1)	**Margin** bps note (2)	**Profit** $m	**Average liability** $m note (1)	**Margin** bps note (2)
Spread income	521	46,701	112	642	57,181	112
Fee income	3,386	189,849	178	3,292	180,940	182
Insurance margin	1,298			1,317		
Expenses						
Acquisition costs note (3)	(991)	1,923	(52)%	(1,074)	2,223	(48)%
Administration expenses	(1,744)	244,306	(71)	(1,675)	246,220	(68)
DAC adjustments	317			510		
Expected return on shareholder assets	–			26		
Adjusted operating profit from long-term business note (4)	2,787			3,038		
Adjusted operating profit from asset management	9			32		
Total US adjusted operating profit	2,796			3,070		

Notes

(1) The calculation of average liabilities for the US is generally derived from month-end balances throughout the period as opposed to opening and closing balances only. The average liabilities for fee income in the US have been calculated using daily balances instead of month-end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. Average liabilities for spread income are based on the general account liabilities to which spread income is attached and exclude the liabilities reinsured to Athene since the June 2020 month-end balance. Average liabilities used to calculate the administration expenses margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson and the liabilities reinsured to Athene since the June 2020 month-end balance.

(2) Margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities.

(3) The ratio of acquisition costs is calculated as a percentage of APE sales relating to shareholder-backed business.

(4) Analysis of adjusted operating profit from long-term business before and after acquisition costs and DAC adjustments is shown below:

	2020 $m			
	Before acquisition costs and DAC adjustments	**Acquisition costs and DAC adjustments** **Incurred**	**Deferred**	**After acquisition costs and DAC adjustments**
Total adjusted operating profit before acquisition costs and DAC adjustments	3,461	–	–	3,461
Acquisition costs	–	(991)	740	(251)
DAC adjustments – amortisation of previously deferred acquisition costs:				
Normal	–	–	(753)	(753)
Deceleration	–	–	330	330
Total US adjusted operating profit – long-term business	3,461	(991)	317	2,787

	2019 $m			
	Before acquisition costs and DAC adjustments	**Acquisition costs and DAC adjustments** **Incurred**	**Deferred**	**After acquisition costs and DAC adjustments**
Total adjusted operating profit before acquisition costs and DAC adjustments	3,602	–	–	3,602
Acquisition costs	–	(1,074)	807	(267)
DAC adjustments – amortisation of previously deferred acquisition costs:				
Normal	–	–	(577)	(577)
Deceleration	–	–	280	280
Total US adjusted operating profit – long-term business	3,602	(1,074)	510	3,038

I(v) Asia operations – analysis of adjusted operating profit by business unit

(a) Analysis of adjusted operating profit by business unit

Adjusted operating profit for Asia operations are analysed below. The table below presents the 2019 results on both AER and CER bases to eliminate the impact of exchange translation.

	2020 $m	2019 $m		2020 vs 2019 %	
		AER	CER	AER	CER
China JV	251	219	219	15%	15%
Hong Kong	891	734	742	21%	20%
Indonesia	519	540	525	(4)%	(1)%
Malaysia	309	276	272	12%	14%
Philippines	95	73	76	30%	25%
Singapore	574	493	487	16%	18%
Taiwan	85	74	77	15%	10%
Thailand	210	170	169	24%	24%
Vietnam	270	237	237	14%	14%
Other	73	70	68	4%	7%
Non-recurrent items*	153	138	136	11%	13%
Total insurance operations	3,430	3,024	3,008	13%	14%
Share of related tax charges from joint ventures and associate	(46)	(31)	(30)	(48)%	(53)%
Total long-term business	3,384	2,993	2,978	13%	14%
Asset management (Eastspring Investments)	283	283	278	–	2%
Total Asia adjusted operating profit	3,667	3,276	3,256	12%	13%

* Representing a number of small items that are not expected to reoccur.

(b) Analysis of Eastspring Investments adjusted operating profit

	2020 $m	2019 $m
Operating income before performance-related fees note (1)	646	636
Performance-related fees	7	12
Operating income (net of commission) note (2)	653	648
Operating expense note (2)	(336)	(329)
Group's share of tax on joint ventures' operating profit	(34)	(36)
Adjusted operating profit	283	283
Average funds managed by Eastspring Investments	$227.1bn	$214.0bn
Margin based on operating income*	28bps	30bps
Cost/income ratio†	52%	52%

Notes

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

	Retail $m	Margin* bps	Institutional‡ $m	Margin* bps	Total $m	Margin* bps
2020	390	52	256	17	646	28
2019	392	52	244	18	636	30

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

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

‡ Institutional includes internal funds.

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

I Additional financial information continued

I(v) Asia operations – analysis of adjusted operating profit by business unit continued

(c) Eastspring Investments total funds under management

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

	31 Dec 2020 $bn	31 Dec 2019 $bn
External funds under management, excluding funds managed on behalf of M&G plc note (1)		
Retail	66.9	73.7
Institutional	13.8	11.0
Money market funds (MMF)	13.2	13.3
	93.9	98.0
Funds managed on behalf of M&G plc note (2)	15.7	26.7
External funds under management including M&G plc	109.6	124.7
Internal funds under management	138.2	116.4
Total funds under management note (3)	247.8	241.1

Notes

(1) The movements of external funds under management, excluding those managed on behalf of M&G plc, are analysed below:

	2020 $m	2019 $m
At 1 Jan	98,005	77,762
Market gross inflows	116,743	282,699
Redemptions	(126,668)	(276,215)
Market and other movements	5,783	13,759
At 31 Dec	93,863	98,005

The analysis of movements above includes $13,198 million relating to Asia Money Market Funds at 31 December 2020 (31 December 2019: $13,337 million). Investment flows for 2020 include Eastspring Money Market Funds gross inflows of $76,317 million (2019: $236,603 million) and net inflows of $48 million (2019: net outflows of $(1,856) million).

(2) The movements of funds managed on behalf of M&G plc are analysed below:

	2020 $m
At 1 Jan	26,717
Net flows	(10,033)
Other	(947)
At 31 Dec	15,737

(3) Total funds under management by asset class are analysed below:

	31 Dec 2020		31 Dec 2019	
	$bn	% of total	$bn	% of total
Equity	103.9	42%	107.0	44%
Fixed income	125.7	51%	116.2	48%
Alternatives	2.7	1%	3.4	2%
Money Market Funds	15.5	6%	14.5	6%
Total funds under management	247.8	100%	241.1	100%

I(vi) Reconciliation of expected transfer of value of in-force business and required capital to free surplus for Asia long-term business operations

The table below shows how the value of in-force business (VIF) and the associated required capital for Asia long-term business operations are projected as emerging into free surplus over the next 40 years. Although circa 8 per cent of the embedded value for Asia operations emerges after this date, analysis of cash flows emerging in the years shown is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2020 results.

Post its separation from the Group, Jackson will no longer publish EEV results and so this section covers Asia only.

In addition to showing the amounts, on both a discounted and undiscounted basis, expected to be generated from all in-force business at 31 December 2020, the table also presents the future free surplus expected to be generated from the investment made in new business during 2020 over the same 40-year period.

	31 Dec 2020 $m			
	Asia long-term business operations			
	Expected generation from all in-force business*		**Expected generation from new business written in 2020***	
Expected period of emergence	**Undiscounted**	**Discounted**	**Undiscounted**	**Discounted**
2021	2,156	2,088	261	252
2022	2,084	1,924	184	166
2023	2,085	1,843	176	151
2024	1,978	1,679	158	130
2025	1,928	1,578	160	126
2026	1,895	1,495	149	114
2027	1,924	1,472	155	118
2028	1,938	1,440	154	112
2029	1,647	1,146	148	104
2030	1,953	1,379	151	103
2031	1,867	1,267	142	92
2032	1,794	1,169	140	87
2033	1,726	1,085	128	75
2034	1,679	1,022	122	68
2035	1,641	968	133	69
2036	1,592	916	111	58
2037	1,571	880	110	56
2038	1,558	846	109	53
2039	1,552	822	108	50
2040	1,507	770	117	50
2041-2045	7,008	3,315	510	208
2046-2050	6,287	2,589	485	162
2051-2055	5,218	1,878	433	124
2056-2060	4,488	1,411	398	96
Total free surplus expected to emerge in the next 40 years	59,076	34,982	4,742	2,624

* The analysis excludes amounts incorporated into VIF and required capital at 31 December 2020 where there is no definitive time frame for when the payments will be made or receipts received. It also excludes any free surplus projected to emerge after 2060.

I Additional financial information continued

I(vi) Reconciliation of expected transfer of value of in-force business and required capital to free surplus for Asia long-term business operations continued

The expected free surplus generation from new business written in 2020 can be reconciled to the new business profit as follows:

	2020 $m
Undiscounted expected free surplus generation for years 2021 to 2060	4,742
Less: discount effect	(2,118)
Discounted expected free surplus generation for years 2021 to 2060	2,624
Discounted expected free surplus generation for years after 2060	252
Discounted expected free surplus generation from new business written in 2020	2,876
Free surplus investment in new business	(559)
Other items*	(116)
New business profit	2,201

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

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

	31 Dec 2020 $m
Discounted expected generation from all in-force business for years 2021 to 2060	34,982
Discounted expected generation from all in-force business for years after 2060	3,612
Discounted expected generation from all in-force business at 31 December 2020	38,594
Free surplus of long-term business operations at 31 December 2020	5,295
Other items*	(1,081)
EEV for long-term business operations	42,808

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

The undiscounted expected free surplus generation from all in-force business at 31 December 2020 can be reconciled to the amount that was expected to be generated at 31 December 2019 as follows:

	2020 $m	2021 $m	2022 $m	2023 $m	2024 $m	2025 $m	Other $m	Total $m
2019 expected free surplus generation for years 2020 to 2059	1,963	2,088	1,941	1,965	1,895	1,874	51,297	63,023
Less: Amounts expected to be realised in the current year	(1,963)	–	–	–	–	–	–	(1,963)
Add: Expected free surplus to be generated in year 2060*	–	–	–	–	–	–	1,204	1,204
Foreign exchange differences	–	23	24	23	21	20	652	763
New business	–	261	184	176	158	160	3,803	4,742
Operating movements	–	11	53	42	43	18		
Non-operating and other movements	–	(227)	(118)	(121)	(139)	(144)	(8,111)	(8,693)
2020 expected free surplus generation for years 2021 to 2060	–	2,156	2,084	2,085	1,978	1,928	48,845	59,076

* Excluding 2020 new business.

At 31 December 2020, the total free surplus expected to be generated over the next five years (2021 to 2025 inclusive) for Asia long-term business operations, using the same assumptions and methodology as those underpinning our 2020 embedded value reporting, was $10.2 billion (31 December 2019: $9.9 billion).

At 31 December 2020, the total free surplus expected to be generated on an undiscounted basis over the next 40 years for Asia long-term business operations is $59.1 billion, $3.9 billion lower than the $63.0 billion expected at the end of 2019. In Asia, the effect of generally lower interest rates across the region decreasing projected returns is partially offset by the increase from new business of $4.7 billion, together with favourable foreign exchange gains and operating assumption updates following the annual review of experience.

Actual underlying free surplus generated in 2020 from Asia long-term business in force at the end of 2019, before restructuring and IFRS 17 implementation costs, was $2.2 billion, including $0.2 billion of changes in operating assumptions and experience variances. This compares with the expected 2020 realisation at the end of 2019 of $2.0 billion and can be analysed further as follows:

	2020 $m
Expected transfer from in-force business to free surplus in 2020	1,878
Expected return on existing free surplus	101
Changes in operating assumptions and experience variances	222
Underlying free surplus generated from long-term business in force before restructuring and IFRS 17 implementation costs	2,201
2020 free surplus expected to be generated at 31 December 2019	1,963

I(vii) Option schemes

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

All options were granted at nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the Prudential International Savings-Related Share Option Scheme for Non-Employees) or in excess of the individual limit for the relevant scheme. The maximum share entitlement of each participant under the relevant scheme for each option granted is limited to the total savings and any bonus or interest accumulated under that participant's savings contract, divided by the exercise price. At 31 December 2020, the maximum number of shares issued or issuable under the schemes, which were approved by shareholders, to all participants would not exceed 1 per cent of the issued share capital of the Company in the preceding 12-month period.

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

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

The weighted average share price of Prudential plc for the year ended 31 December 2020 was £11.64 (2019: £15.05).

Particulars of options granted to Directors are included in the Directors' remuneration report on page 191.

The closing prices of the shares immediately before the date on which the options were granted during the year were £11.00.

The following analyses show the movement in options for each of the option schemes for the year ended 31 December 2020.

I Additional financial information continued

I(vii) Option schemes continued

Prudential Savings-Related Share Option Scheme

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
23 Sep 14	11.55	01 Dec 19	31 May 20	135,963	–	(80,914)	–	–	(55,049)	–
22 Sep 15	11.11	01 Dec 20	31 May 21	103,140	–	(14,180)	–	–	(80,914)	8,046
21 Sep 16	11.04	01 Dec 19	31 May 20	225,802	–	(137,913)	–	(326)	(87,563)	–
21 Sep 16	11.04	01 Dec 21	31 May 22	77,244	–	(8,135)	–	–	(63,731)	5,378
21 Sep 17	14.55	01 Dec 20	31 May 21	502,136	–	(3,283)	(12,568)	(3,731)	(458,646)	23,908
21 Sep 17	14.55	01 Dec 22	31 May 23	92,940	–	–	–	–	(86,593)	6,347
29 Nov 19	11.18	01 Jan 23	30 Jun 23	92,823	–	(692)	(14,814)	(180)	(9,934)	67,203
29 Nov 19	11.18	01 Jan 25	30 Jun 25	21,464	–	–	(10,732)	–	(2,683)	8,049
22 Sep 20	9.64	01 Dec 23	31 May 24	–	74,308	–	–	–	–	74,308
22 Sep 20	9.64	01 Dec 25	31 May 26	–	6,286	–	–	–	–	6,286
				1,251,512	80,594	(245,117)	(38,114)	(4,237)	(845,113)	199,525

The total number of securities available for issue under the scheme is 199,525 which represents 0.008 per cent of the issued share capital at 31 December 2020.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £14.27.

The weighted average fair value of options granted under the plan in the period was £1.91.

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

		Exercise period		Number of options						
Date of grant	Exercise price £	Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
23 Sep 14	10	01 Dec 19	31 May 20	363,751	–	(317,613)	(15,579)	–	(30,559)	–
22 Sep 15	9.62	01 Dec 18	31 May 19	935	–	(935)	–	–	–	–
22 Sep 15	9.62	01 Dec 20	31 May 21	408,255	–	(124,437)	(3,739)	–	–	280,079
21 Sep 16	9.56	01 Dec 19	31 May 20	159,344	–	(157,813)	–	–	(1,531)	–
21 Sep 16	9.56	01 Dec 21	31 May 22	218,293	–	–	(3,448)	–	–	214,845
21 Sep 17	12.59	01 Dec 20	31 May 21	290,365	–	(37,338)	(47,047)	–	–	205,980
21 Sep 17	12.59	01 Dec 22	31 May 23	194,316	–	–	(4,042)	–	–	190,274
18 Sep 18	12.07	01 Dec 21	31 May 22	199,159	–	–	(5,754)	–	–	193,405
18 Sep 18	12.07	01 Dec 23	31 May 24	130,182	–	–	(655)	–	–	129,527
02 Oct 19	9.62	01 Dec 22	31 May 23	355,276	–	–	(24,345)	–	–	330,931
02 Oct 19	9.62	01 Dec 24	31 May 25	234,059	–	–	(10,894)	–	–	223,165
22 Sep 20	9.64	01 Dec 23	31 May 24	–	205,552	–	(6,753)	–	–	198,799
22 Sep 20	9.64	01 Dec 25	31 May 26	–	155,346	–	(1,556)	–	–	153,790
				2,553,935	360,898	(638,136)	(123,812)	–	(32,090)	2,120,795

The total number of securities available for issue under the scheme is 2,120,795 which represents 0.081 per cent of the issued share capital at 31 December 2020.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £12.13.

The weighted average fair value of options granted under the plan in the period was £1.96.

I(viii) Selected historical financial information of Prudential

The following table sets forth Prudential's selected consolidated financial data for the periods indicated, which is derived from Prudential's audited consolidated financial statements.

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

Income statement

IFRS basis results	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Continuing operations:					
Gross premiums earned	42,521	45,064	45,614	39,800	38,865
Outward reinsurance premiums	(32,209)	(1,583)	(1,183)	(1,304)	(1,375)
Earned premiums, net of reinsurance	10,312	43,481	44,431	38,496	37,490
Investment return	44,991	49,555	(9,117)	35,574	13,839
Other income	670	700	531	1,319	1,387
Total revenue, net of reinsurance	55,973	93,736	35,845	75,389	52,716
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(48,205)	(83,905)	(23,426)	(63,808)	(42,881)
Acquisition costs and other expenditure	(5,481)	(7,283)	(8,527)	(8,649)	(7,846)
Finance costs: interest on core structural borrowings of shareholder-financed businesses	(337)	(516)	(547)	(548)	(488)
(Loss) gain attaching to corporate transactions	(48)	(142)	(107)	292	(322)
Total charges, net of reinsurance	(54,071)	(91,846)	(32,607)	(72,713)	(51,537)
Share of profits from joint ventures and associates net of related tax	517	397	319	233	200
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i)	2,419	2,287	3,557	2,909	1,379
Tax charges attributable to policyholders' returns	(271)	(365)	(107)	(321)	(210)
Profit before tax attributable to shareholders' returns	2,148	1,922	3,450	2,588	1,169
Tax credit (charges) attributable to shareholders' returns	37	31	(569)	(840)	(119)
Profit from continuing operations	2,185	1,953	2,881	1,748	1,050
(Loss) profit from discontinued operations	–	(1,161)	1,142	1,333	1,552
Profit for the year	2,185	792	4,023	3,081	2,602
Based on profit from continuing operations for the year attributable to the equity holders of the Company:					
Basic earnings per share (in cents)	81.6¢	75.1¢	111.7¢	68.0¢	41.0¢
Diluted earnings per share (in cents)	81.6¢	75.1¢	111.7¢	67.9¢	40.9¢

	2020	2019	2018	2017	2016
Dividend per share declared and paid in reporting period	31.34¢	63.18¢	64.34¢	59.32¢	69.72¢
Interim ordinary dividend/final ordinary dividend	31.34¢	63.18¢	64.34¢	59.32¢	55.20¢
Special dividend					14.52¢

I Additional financial information continued

I(viii) Selected historical financial information of Prudential continued

Supplementary IFRS income statement – continuing operations

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Adjusted operating profit based on longer-term investment returns note (ii)	5,507	5,310	4,409	4,378	4,131
Non-operating items	(3,359)	(3,388)	(959)	(1,790)	(2,962)
Profit before tax attributable to shareholders	2,148	1,922	3,450	2,588	1,169
Operating earnings per share after tax and non-controlling interest (in cents)	175.5¢	175.0¢	145.2¢	134.6¢	126.5¢

Supplementary EEV financial information

EEV income statement – continuing operations

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Operating profit based on longer-term investment returns note (ii)	5,220	6,905	7,866	6,753	6,137
Non-operating items	(5,187)	(2,744)	(2,286)	1,808	(2,278)
Profit attributable to shareholders from continuing operations	33	4,161	5,580	8,561	3,859
Operating earnings per share (in cents)	195.9¢	266.6¢	305.3¢	263.0¢	239.7¢

	2020 $bn	2019 $bn	2018 $bn	2017 $bn	2016 $bn
EEV shareholders' equity, excluding non-controlling interests	54.0	54.7	63.4	60.5	48.2

New business contribution – continuing operations

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Annual premium equivalent (APE) sales	5,619	7,384	7,058	7,046	6,989
EEV new business profit (NBP) (post-tax)	2,802	4,405	4,707	4,220	3,820
NBP margin (% of APE)	50%	60%	67%	60%	55%

Statement of financial position at 31 December

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Total assets	516,097	454,214	647,810	668,203	581,394
Total policyholder liabilities and unallocated surplus of with-profits funds	446,463	390,428	541,466	579,261	498,374
Core structural borrowings of shareholder-financed businesses	6,633	5,594	9,761	8,496	8,400
Total liabilities	493,978	434,545	625,819	646,432	563,270
Total equity	22,119	19,669	21,991	21,771	18,124

Other financial information at 31 December

	2020 $bn	2019 $bn	2018 $bn	2017 $bn	2016 $bn
Funds under management note (iii)	558.3	543.9	455.3	452	374.8
Group shareholder LCSM surplus note (iv)	11.0	9.5	9.7		

Notes

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

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

(iii) Funds under management comprise funds of the Group held in the statement of financial position and external funds that are managed by the Group's asset management operations.

(iv) The 2020 and 2019 surplus are estimated under the LCSM regime adopted by the Group in October 2019, with 2018 comparative information re-presented on this basis. Prior to that, the Group was subject to the Solvency II capital requirements.

II Calculation of alternative performance measures

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

II(i) Reconciliation of adjusted operating profit to profit before tax

Adjusted operating profit presents the operating performance of the business. This measurement basis adjusts for the following items within total IFRS profit before tax:

— Short-term fluctuations in investment returns on shareholder-backed business;

— Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and

— Gain or loss on corporate transactions, as described in note D1.1 in the IFRS financial statements.

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

II(ii) Calculation of IFRS net gearing ratio

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

	31 Dec 2020 $m	31 Dec 2019 $m
Core structural borrowings of shareholder-financed businesses	6,633	5,594
Less holding company cash and short-term investments	(1,463)	(2,207)
Net core structural borrowings of shareholder-financed businesses	5,170	3,387
Closing shareholders' equity	20,878	19,477
Closing shareholders' equity plus net core structural borrowings	26,048	22,864
IFRS net gearing ratio	20%	15%

II Calculation of alternative performance measures continued

II(iii) Return on IFRS shareholders' equity

As stated in the 2019 Annual Report, the Group has introduced a new return on equity performance measure for the Group's 2020 Prudential Long-Term Incentive Plan (PLTIP) awards alongside other metrics. This measure has been calculated as adjusted operating profit after tax, and net of non-controlling interests, divided by average shareholders' equity. Accordingly, the calculation of the return on IFRS shareholders' equity has been aligned to be based on average shareholders' equity. The 2019 returns disclosed in the table below are consistent with those previously published and use profit from continuing operations and closing shareholders' equity. As supplementary information, 2019 Asia and US returns on shareholders' equity have also been presented on an average shareholders' equity basis.

A detailed reconciliation of adjusted operating profit to IFRS profit before tax for the Group is shown in note B1.1 to the Group IFRS basis results.

	2020 $m			
	Asia	**US**	**Other**	**Group**
Adjusted operating profit	3,667	2,796	(956)	5,507
Tax on adjusted operating profit	(495)	(313)	8	(800)
Operating profit attributable to non-controlling interests	(11)	(138)	1	(148)
Adjusted operating profit, net of tax and non-controlling interests	3,161	2,345	(947)	4,559
Average shareholders' equity	12,377	8,720	(919)	20,178
Operating return on average shareholders' equity (%)	26%	27%	n/a	23%

	2019 $m					
Continuing operations	**Asia**	**US**	**Other**	**Group**	**Add back demerger-related items***	**Adjusted Group (excluding demerger-related items)**
Adjusted operating profit	3,276	3,070	(1,036)	5,310	179	5,489
Tax on adjusted operating profit	(436)	(437)	100	(773)	(34)	(807)
Operating profit attributable to non-controlling interests	(6)	–	(3)	(9)	–	(9)
Adjusted operating profit, net of tax and non-controlling interests	2,834	2,633	(939)	4,528	145	4,673
Closing shareholders' equity	10,866	8,929	(318)	19,477	–	19,477
Operating return on closing shareholders' equity (%)	26%	29%	n/a	23%	–	24%
Supplementary information:						
Average shareholders' equity	9,521	8,046				
Operating return on average shareholders' equity (%)	30%	33%				

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

Average shareholders' equity has been based on opening and closing balances as follows:

	2020 $m				2019 $m	
	Asia	**US**	**Other**	**Group**	**Asia**	**US**
Balance at 1 Jan	10,866	8,929	(318)	19,477	8,175	7,163
Balance at 31 Dec	13,887	8,511	(1,520)	20,878	10,866	8,929
Average shareholders' equity	12,377	8,720	(919)	20,178	9,521	8,046

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

IFRS shareholders' equity per share is calculated as closing IFRS shareholders' equity divided by the number of issued shares at 31 December 2020 of 2,609 million shares (31 December 2019: 2,601 million shares).

	2020			
	Asia	US	Other	Group total
Closing IFRS shareholders' equity ($ million)	13,887	8,511	(1,520)	20,878
Shareholders' equity per share (cents)	532¢	326¢	(58)¢	800¢

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

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

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

	Eastspring Investments	
	2020 $m	2019 $m
Operating income before performance-related fees note	646	636
Share of joint venture revenue	(235)	(244)
Commission	194	165
Performance-related fees	7	12
IFRS revenue	612	569
Operating expense	336	329
Share of joint venture expense	(84)	(102)
Commission	194	165
IFRS charges	446	392
Cost/income ratio: operating expense/operating income before performance-related fees	52%	52%

Note

IFRS revenue and charges for Eastspring Investments are included within the IFRS Income statement in 'other income' and 'acquisition costs and other expenditure' respectively. Operating income and expense include the Group's share of contribution from joint ventures and associates. In the consolidated income statement of the Group IFRS basis results, the net income after tax from the joint ventures and associates is shown as a single line item.

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

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

	2020 $m	2019 $m	
		AER	CER
Asia renewal insurance premium	20,123	19,007	19,011
Add: General insurance premium	130	135	136
Add: IFRS gross earned premium from new regular and single premium business	5,045	6,386	6,404
Less: Renewal premiums from joint ventures	(1,957)	(1,771)	(1,733)
Asia segment IFRS gross premiums earned	23,341	23,757	23,818
Asia renewal insurance premium (as above)	20,123	19,007	19,011
Asia APE	3,696	5,161	5,168
Asia life weighted premium income	23,819	24,168	24,179

II Calculation of alternative performance measures continued

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

The Group reports annual premiums equivalent (APE) as a measure of new business sales, which is a key metric for the Group's management of the development and growth of the business. APE is calculated as the aggregate of regular premiums and one-tenth of single premiums on new business written during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. The use of the one-tenth of single premiums is to normalise policy premiums into the equivalent of regular annual payments. This measure is commonly used in the insurance industry to allow comparisons of the amount of new business written in a period by life insurance companies, particularly when the sales contain both single premium and regular premium business.

This differs from the IFRS measure of gross premiums earned as shown below:

	2020 $m			**2019** $m		
	Asia	**US**	**Total segment** note (a)	**Asia**	**US**	**Total segment** note (a)
Gross premiums earned	23,341	19,026	42,367	23,757	21,209	44,966
Less: premiums from in-force renewal business note (b)	(18,166)	(845)	(19,011)	(17,236)	(956)	(18,192)
Adjustment to include 10% of single premiums note (c)	(2,131)	(17,306)	(19,437)	(2,606)	(20,008)	(22,614)
Add: deposit accounting for investment contracts note (d)	–	1,284	1,284	255	2,522	2,777
Inclusion of APE Sales from joint ventures and associates on equity accounting method note (e)	820	–	820	899	–	899
Other adjustments note (f)	(168)	(236)	(404)	92	(544)	(452)
Annual premium equivalents (APE)	3,696	1,923	5,619	5,161	2,223	7,384

Notes

(a) Gross premiums earned of $154 million (2019: $98 million) in the Group's Africa operations are unallocated to a segment, giving total Group gross premiums earned of $42,521 million (2019: $45,064 million) in the income statement. The Africa business sold new business APE of $112 million (2019: $82 million). Given the relative immaturity of the Africa business, it is excluded from the APE metric.

(b) Gross premiums earned include premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written.

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

(d) APE includes new policies written in the year which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts. These are excluded from gross premiums earned and recorded as deposits;

(e) For the purpose of reporting APE new business sales, the Group's share of amounts sold by the Group's insurance joint ventures and associates are included. Under IFRS, joint ventures and associates are equity accounted and so no amounts are included within gross premiums earned.

(f) APE new business sales are annualised while gross premiums earned are recorded only when revenues are due. Other adjustments also reflect the exclusion of general insurance and reinsurance premiums earned on an IFRS basis.

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

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

	31 Dec 2020 $m	**31 Dec 2019** $m
EEV shareholders' equity	54,007	54,711
Less: Value of in-force business of long-term business note (a)	(41,007)	(41,893)
Deferred acquisition costs assigned zero value for EEV purposes	16,216	14,239
Other note (b)	(8,338)	(7,580)
IFRS shareholders' equity	20,878	19,477

Notes

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

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

II(ix) Calculation of return on embedded value

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

	2020			
	Asia	US	Other	Group
EEV basis operating profit (loss) for the year	4,387	1,880	(858)	5,409
Operating profit (loss) attributable to non-controlling interests	(11)	(123)	1	(133)
EEV basis operating profit (loss) for the year, net of non-controlling interest ($ million)	4,376	1,757	(857)	5,276
Restructuring and IFRS 17 implementation costs	(88)	(36)	(65)	(189)
EEV basis operating profit (loss) for the year, after restructuring and IFRS 17 implementation costs, net of non-controlling interests ($ million)	4,288	1,721	(922)	5,087
Average EEV basis shareholders' equity ($ million)	41,738	14,212	(1,591)	54,359
Operating return on average shareholders' equity, before restructuring and IFRS 17 implementation costs (%)	10%	12%	n/a	10%
Operating return on average shareholders' equity, after restructuring and IFRS 17 implementation costs (%)	10%	12%	n/a	9%

	2019	
	Asia	US
EEV basis operating profit for the year	6,138	1,782
Operating profit attributable to non-controlling interests	(6)	–
EEV basis operating profit for the year, net of non-controlling interest ($ million)	6,132	1,782
Restructuring and IFRS 17 implementation costs	(31)	(5)
EEV basis operating profit for the year, after restructuring and IFRS 17 implementation costs, net of non-controlling interests ($ million)	6,101	1,777
Average EEV basis shareholders' equity ($ million)	35,622	17,526
Operating return on average shareholders' equity, before restructuring and IFRS 17 implementation costs (%)	17%	10%
Operating return on average shareholders' equity, after restructuring and IFRS 17 implementation costs (%)	17%	10%

New business profit over embedded value is calculated as the post-tax EEV new business profit for the year as a percentage of average EEV basis shareholders' equity.

	2020		2019	
	Asia	US	Asia	US
New business profit ($ million)*	2,201	601	3,522	883
Average EEV basis shareholders' equity ($ million)	41,738	14,212	35,622	17,526
New business profit over embedded value (%)	5%	4%	10%	5%

* New business profit is attributed to the shareholders of the Group before deducting the amount attributable to non-controlling interests.

Average EEV basis shareholders' equity has been based on opening and closing balances as follows:

	2020 $m				2019 $m	
	Asia	US	Other	Group	Asia	US
Balance at beginning of year	39,235	16,342	(866)	54,711	32,008	18,709
Balance at end of year	44,241	12,081	(2,315)	54,007	39,235	16,342
Average EEV basis shareholders' equity	41,738	14,212	(1,591)	54,359	35,622	17,526

II Calculation of alternative performance measures continued

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

EEV shareholders' equity per share is calculated as closing EEV shareholders' equity divided by the number of issued shares at 31 December 2020 of 2,609 million (31 December 2019: 2,601 million). EEV shareholders' equity per share excluding goodwill attributable to equity holders is calculated in the same manner, except goodwill attributable to equity holders is deducted from closing EEV shareholders' equity.

	31 Dec 2020			
	Asia	**US**	**Other**	**Group total**
Closing EEV shareholders' equity ($ million)	44,241	12,081	(2,315)	54,007
Less: Goodwill attributable to equity holders ($ million)	(798)	–	(23)	(821)
Closing EEV shareholders' equity excluding goodwill attributable to equity holders ($ million)	43,443	12,081	(2,338)	53,186
Shareholders' equity per share (in cents)	1,696¢	463¢	(89)¢	2,070¢
Shareholders' equity per share excluding goodwill attributable to equity holders (in cents)	1,666¢	463¢	(90)¢	2,039¢

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

Risk factors

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

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

1. Risks relating to Prudential's financial situation

1.1 The Covid-19 pandemic has had a significant impact on financial market volatility and global economic activity, increased operational disruption risks to the Group and has adversely impacted Prudential's sales in affected markets and its financial condition, results of operations and prospects. The full extent of the longer-term impacts from the pandemic remains uncertain

The Covid-19 pandemic has significantly increased the volatility of equity markets, interest rates and credit spreads, reduced market liquidity and reduced global economic activity. The potential adverse impacts to the Group of these effects are detailed in the *Financial Market and Economic Conditions* risk factor detailed below. However, the full extent of the impact of the pandemic on financial markets and economic growth remains highly uncertain and unpredictable and will be influenced by the actions of governments, policymakers and the public. This includes the duration and effectiveness of mitigating measures against the current and future strains of the coronavirus, including a continued reliance on restrictions of movement and the deployment of vaccination programmes (which may occur over a prolonged period of time), the effectiveness and timing of which remains uncertain across markets. Where these impacts are prolonged, this may affect the solvency position of Prudential's subsidiaries and prevent or limit their ability to make remittances, adversely impacting the financial condition and prospects of the Group.

The immediate regulatory and supervisory responses to the Covid-19 pandemic have been broad and have included increased scrutiny of the operational resilience, liquidity and capital strength (including the impact of making dividend payments) of financial services companies. Various governments have effected, or may effect, the postponement of elections and other constitutional or legislative processes in response to the pandemic, and this may result in an increase in constitutional and political uncertainty in the markets in which the Group operates. Governments are either starting or planning the roll-out of Covid-19 vaccination programmes, and accessibility to vaccine supplies has the potential to contribute to an increase in geopolitical tensions. The longer term political, regulatory and supervisory developments resulting from the Covid-19 pandemic remain highly uncertain. These may include changes to government fiscal policies, laws or regulations aimed at increasing financial stability and/or measures on businesses or specific industries to contribute to, lessen or otherwise support, the financial cost to governments in addressing the pandemic. This may include requirements on private insurance companies and healthcare providers to cover the costs associated with the treatment of Covid-19 beyond contractual or policy terms.

The Covid-19 pandemic, and measures to contain it, have slowed economic and social activity in the Group's geographical markets. While these conditions persist, the level of sales activity in affected markets has been, and will continue to be, adversely impacted through a reduction in travel and agency and bancassurance activity, which may be prolonged in markets which continue to rely on containment measures based on restrictions of movement rather than vaccine deployment. The impact to economic activity and employment levels may result in an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums or reduce deposits into retirement plans. The pandemic may also indirectly result in elevated claims and policy lapses or surrenders, and with some delay in time before being felt by the Group, due to factors such as policyholders deferring medical treatment during the pandemic, or policyholders lapsing or surrendering their policies on the expiry of grace periods for premium payments provided by the Group's businesses. Extended restrictions on movement in particular may adversely impact product persistency in the Group's Asia business. While these impacts to the Group have not been material to date, the full extent of the impact of the Covid-19 pandemic is currently highly uncertain and the Group's claims experience to date and its current insurance assumptions cannot be taken as an indicator of future potential experience from the Covid-19 pandemic which may deteriorate significantly and have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

Disruption to Prudential's operations may result where its employees, or those of its service partners and counterparties, contract the coronavirus or are affected by restrictions on movement; where office closures and other measures impacting working practices are effected, such as the imposition of remote working arrangements; and where quarantine requirements and isolation measures under local laws apply, and as a result of social distancing and/or other psychosocial impacts. While such measures are in place, there may be an increase in attempts to compromise IT systems through phishing and social engineering tactics.

In some markets Prudential has implemented changes to its sales and distribution processes. These include virtual face-to-face sales of its products and the online recruitment, training and, where possible, licensing of agents. Such changes may increase or introduce new operational and regulatory risks, in particular those focused on customer outcomes and conduct. A failure to implement appropriate governance and management of these new or incremental risks may adversely impact Prudential's reputation and brand and the results of its operations. In markets where the level of sales under these new processes is material or where such processes become permanent distribution channels, the commercial value of the Group's existing sale and distribution arrangements, such as bancassurance arrangements, may be adversely impacted.

1.2 Prudential's businesses are inherently subject to market fluctuations and general economic conditions, each of which may adversely affect the Group's business, financial condition, results of operations and prospects

Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on Prudential's business and profitability. Prudential operates in a macroeconomic and global financial market environment that presents significant uncertainties and potential challenges. For example, during 2020 interest rates in the United States ('US') and some Asian countries in which Prudential operates have decreased to historic lows driven by the responses of central banks to mitigate the impact of the Covid-19 pandemic. The transition to a lower carbon economy may also impact long-term asset valuations.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include slowdowns or reversals in world economic growth (particularly where this is abrupt, as has been the case with the impact of the Covid-19 pandemic), fluctuations in global energy prices, changes in monetary policy in China, the US and other jurisdictions together with their impact on the valuation of all asset classes and effect on interest rates and inflation expectations, and concerns over sovereign debt. Other factors include the increased level of (geo)political risk and policy-related uncertainty (including the broader market impacts resulting from the trade negotiations between the US and China) and socio-political, climate-driven and pandemic events. The extent of financial market and economic impact of these factors may be highly uncertain and unpredictable and influenced by the actions, including the duration and effectiveness of mitigating measures of governments, policymakers and the public.

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

- Lower interest rates and reduced investment returns arising on the Group's portfolios including impairment of debt securities and loans, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees included in Jackson's variable annuities and non-unit-linked products with a savings component in Asia, increase reinvestment risk for some of the Group's investments from accelerated prepayments and increased redemptions and/or have a negative impact on its assets under management and profit.
- A reduction in the financial strength and flexibility of corporate entities which may result in a deterioration of the credit rating profile and valuation of the Group's invested credit portfolio (which may result in an increase in regulatory capital requirements for the Group or its businesses), as well as higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses. Similarly, mortgages and mortgage-backed securities in the Group's investment portfolio are subject to default risk and may be adversely impacted by delays or failures of borrowers to make payments of principal and interest when due.
- Failure of counterparties who have transactions with Prudential (such as banks, reinsurers and counterparties to derivative transactions) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place. Concentrations of counterparty credit risk could exacerbate the impact of these events where they materialise.
- Estimates of the value of financial instruments becoming more difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time). Where the Group is required to sell its investments within a defined timeframe, such market conditions may result in the sale of these investments at below expected or recorded prices.
- The Group holds certain investments that may lack liquidity, such as privately placed fixed maturity securities, mortgage loans, complex structured securities and alternative investments. If these investments were required to be liquidated on short notice, the Group may experience difficulty in doing so and may be forced to sell them at a lower price than it otherwise would have been able to realise.
- A reduction in revenue from the Group's products where fee income is linked to account values or the market value of the funds under management. In particular, equity price falls impact the amount of revenue derived from fees from the unit-linked products in the Group's Asia business and from annuity contracts at Jackson, where fees are charged on account and asset values.
- Increased illiquidity, which includes the risk that expected cash inflows from investments and operations will not be adequate to meet the Group's anticipated short-term and long-term policyholder benefits and expense payment obligations. Increased illiquidity also adds to uncertainty over the accessibility of financial resources which in extreme conditions can impact the functioning of markets and may reduce capital resources as valuations decline. This could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential. The potential impact of increased illiquidity is more uncertain than for other risks such as interest rate or credit risk.

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

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

Jackson writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. Changes in markets, or deviations in policyholder behaviour experience from assumptions, may result in the need to hold additional reserves for these products, which may impact Jackson's liquidity, require it to raise additional capital and/or adversely impact its net income. Jackson uses a derivative hedging programme to reduce its exposure to market risks arising on these guarantees. There may be circumstances where the derivatives that Jackson enters into to hedge its market risks may not sufficiently or effectively offset its exposures under the guarantees, or where its exposures may be over-hedged. This includes circumstances where:

- The derivative markets for the instruments which most appropriately reflect the equity funds in which policyholders have invested may not be of sufficient size or liquidity to effectively hedge these risks;
- Operational errors occur in the execution of Jackson's hedging strategy; or
- Actual experience materially deviates from the assumptions used in the models which inform Jackson's hedging strategy. These assumptions include, amongst others, mortality, lapse, surrender and withdrawal rates and amounts of withdrawals, election rates, fund performance, equity market returns and volatility, interest rate levels and correlation among various market movements.

If the results from Jackson's hedging programmes do not correlate with the economic effect of changes in benefit exposures to customers, it could experience economic losses and increased volatility in its earnings which could adversely impact the Group's business, financial condition and results of operations. The cost of any guarantees that remain unhedged will also affect Jackson's results.

Periods of significant and sustained downturns in securities markets, increased equity volatility, reduced interest rates, or deviations in expected policyholder behaviour could also increase the cost of hedging beyond that anticipated in the pricing of the products being hedged and could produce losses not addressed by the risk management techniques employed.

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

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

Any of the foregoing factors and events, individually or together, could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

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

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

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

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

A material change in the financial condition of any of Prudential's subsidiaries may have a material effect on its business, financial condition, results of operations and prospects.

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

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

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

Responses by the US, UK and other governments to the enactment and application of the national security law in Hong Kong and other constitutional or legislative changes in the territory, which continue to develop, may adversely impact Hong Kong's economy with potential adverse sales, operational and product distribution impacts to the Group due to the territory being a key market which also hosts regional and head office functions. For internationally active groups such as Prudential, operating across multiple jurisdictions, government measures and responses may also add to the complexity of legal and regulatory compliance and increase the risk of conflicts between the requirements of one jurisdiction and another. See risk factor 3.1 below.

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

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

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

In addition, if a sovereign default or other such events described above were to occur as has happened on occasion in the past, other financial institutions may also suffer losses or experience solvency or other concerns, which may result in Prudential facing additional risks relating to investments in such financial institutions that are held in the Group's investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected, as might counterparty relationships between financial institutions.

If a sovereign were to default on its obligations, or adopt policies that devalued or otherwise altered the currencies in which its obligations were denominated, this could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

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

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

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

Any such downgrades could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects. Prudential cannot predict what actions rating agencies may take, or what actions Prudential may therefore take in response to the actions of rating agencies, which could adversely affect its business.

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

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

2. Risks relating to Prudential's business activities and industry

2.1 The proposed demerger of Jackson carries with it execution risk and will require significant management attention

The proposed demerger of Jackson is subject to a number of factors and dependencies, such as prevailing market and political conditions and external approvals (including those from regulators and shareholders). In addition, preparing for and implementing the proposed demerger of Jackson is expected to require significant time from management, and management time will continue to be required in respect of any future sale of Prudential's remaining stake in Jackson. Management's attention may be diverted from other aspects of Prudential's business as a result.

Therefore, there can be no certainty that the demerger of Jackson will be implemented on the anticipated timetable, or that it will be completed as proposed (or at all). Further, if the proposed demerger of Jackson is completed, there can be no assurance that either Prudential or Jackson will realise the anticipated benefits of the transaction, or that the proposed demerger of Jackson and/or the future sale of Prudential's remaining stake in Jackson will not adversely affect the trading value or liquidity of the shares of either or both of the two businesses.

If the demerger of Jackson does complete, Prudential will continue to hold shares in Jackson. The market price of Jackson shares may be volatile and can go down as well as up. It is therefore possible that the value of Prudential's shareholding may be lower than anticipated, and the gross proceeds due to Prudential from any future sale may be lower than Prudential might otherwise achieve.

Failure to complete the demerger of Jackson would result in the potential benefits of the separation not being realised and may have an adverse effect on the reputation of Prudential and on the external perception of its ability to implement large-scale projects successfully. This may be the case even where the failure to implement the demerger of Jackson is due to factors outside the control of Prudential. A failure to complete the demerger of Jackson may also result in increased regulatory scrutiny on Prudential, in particular where the reasons for the demerger of Jackson not proceeding are internal to Prudential.

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

In order to implement its business strategies for growth, improve customer experiences, strengthen operational resilience, meet regulatory and industry requirements and maintain market competitiveness, Prudential undertakes Group restructuring, large-scale transformation and acquisitions and disposals across its business. Many of these change initiatives are complex, interconnected and/or of large scale, including a current focus on preparations for the proposed demerger of Jackson, advancing the Group's digital capability, expanding strategic partnerships and industry and regulatory-driven change. There may be a material adverse effect to Prudential's business, customers, financial condition, results of operations and prospects if these initiatives incur unplanned costs, are subject to implementation delays, or fail to fully meet their objectives. Additionally, there may be adverse non-financial (including operational, regulatory, conduct and reputational) implications for the Group. These initiatives inherently give rise to design and execution risks, and may increase existing business risks, such as placing additional strain on the operational capacity, or weakening the control environment, of the Group.

Implementing further initiatives related to significant regulatory changes, such as IFRS 17 and the transition to a legislative framework in Hong Kong for the Group-wide supervision of insurance groups, may amplify these risks. Risks relating to these regulatory changes are explained in the 'Legal and Regulatory Risk' risk factor below.

The speed of technological change in the business could outpace the Group's ability to anticipate all the unintended consequences that may arise from such change. Innovative technologies, such as artificial intelligence, expose Prudential to potential information security, operational, ethical and conduct risks which, if improperly managed, could result in customer detriment and reputational damage.

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

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

In Asia, the Group's principal competitors include global life insurers together with regional insurers and multinational asset managers. In most Asia markets, there are also local companies that have a material market presence.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies.

Prudential believes that competition will intensify across all regions in response to consumer demand, digital and other technological advances (including the emergence of new distribution channels), the need for economies of scale and the consequential impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures. This includes managing the potential adverse impacts to the commercial value of the Group's existing sale and distribution arrangements, such as bancassurance arrangements, in markets where new distribution channels develop.

Failure to do so may negatively impact Prudential's ability to attract and retain customers and, importantly, may limit Prudential's ability to take advantage of new business arising in the markets in which it operates, which may have an adverse interest on the Group's business, financial condition, results of operations and prospects.

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

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

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

Prudential's business is dependent on processing a large number of transactions for numerous and diverse products. It also employs a large number of complex and interconnected IT and finance systems and models, and user developed applications in its processes to perform a range of operational functions including the calculation of regulatory or internal capital requirements, the valuation of assets and liabilities, determining hedging requirements, and in acquiring new business using artificial intelligence and digital applications. Some of these tools form an integral part of the information and decision-making framework of Prudential and the risk of adverse consequences arising from erroneous or misinterpreted tools used in core business activities, decision making and reporting exists. Errors or limitations in these tools, or inappropriate usage, may lead to regulatory breaches, inappropriate decision-making, financial loss, or reputational damage. The long-term nature of much of the Group's business also means that accurate records have to be maintained securely for significant time periods. Further, Prudential operates in an extensive and evolving legal and regulatory environment (including in relation to tax) which adds to the complexity of the governance and operation of its business processes and controls.

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

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

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

2.5 Attempts to access or disrupt Prudential's IT systems, and loss or misuse of personal data, could result in loss of trust from Prudential's customers and employees, reputational damage and have material adverse effects on the Group's business, financial condition, results of operations and prospects

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

There is an increasing requirement and expectation on Prudential and its business partners to not only hold customer, shareholder and employee data securely, but also to ensure its ongoing accuracy and that it is being used in a transparent, appropriate and ethical way, including in decision-making where automated processes are employed. A failure to do so may result in regulatory scrutiny and sanctions and may adversely impact the reputation and brand of the Group, its ability to attract and retain customers, its ability to deliver on its long-term strategy and therefore the results of its operations. New and currently unforeseeable regulatory issues may also arise from the increased use of emerging technology.

The risk to the Group of not meeting these requirements and expectations may be increased by the development and usage of digital distribution and service channels, which can collect a broader range of personal and health-related data from individuals at increased scale, and the use of complex tools, machine learning and artificial intelligence technologies to process, analyse and interpret this data. Regulatory developments in data protection worldwide (such as the implementation of EU General Data Protection Regulation that came into force in 2018 and the California Consumer Protection Act that came into force on 1 January 2020) may also increase the financial and reputational implications for Prudential following a significant breach of its (or its third-party suppliers') IT systems or data. The international transfer of data may, as a global organisation, increase regulatory risks for the Group. Although Prudential has experienced or has been affected by cyber and data breaches, to date, it has not identified a failure or breach, or an incident of data misuse in relation to its legacy and other IT systems and processes which has had a material impact. However, Prudential has been, and likely will continue to be, subject to potential damage from computer viruses, unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

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

2.6 Prudential's digital health application, Pulse, has seen increasing adoption in Asia and as the markets in which it operates, its user base, features, partnerships and product offerings develop, existing business risks to the Group may be increased and new risks may be introduced

Prudential's digital health application, Pulse, is subject to the risks discussed within this 'Risk Factors' section. In particular, these include risks related to legal and regulatory compliance and the conduct of business; the execution of complex change initiatives; information security, cyber and data privacy; the use of models (including those using artificial intelligence) and personal data; the resilience and integrity of IT infrastructure and operations; and those related to the management of third parties. These existing risks for the Group may be increased due to a number of factors:

— The number of current and planned markets in which the application operates, each with their own laws and regulations, regulatory and supervisory authorities, may increase regulatory compliance risks.

— The implementation of planned application features and offerings may require the delivery of complex, inter-connected change initiatives across current and planned markets. This may give rise to design and execution risks, which could be amplified where these change initiatives are delivered concurrently.

— The increased volume, breadth and sensitivity of data on which the business model of the application is dependent and to which the Group has access, holds, analyses and processes through its models, which increases data security, privacy and usage risks. The use of complex models, including where they use artificial intelligence for critical decision-making, in the application's features and offerings may give rise to operational, conduct, litigation and reputational risks where they do not function as intended.

- The application and its services relies on a number of third party partners and providers, which may vary according to market. This may increase operational disruption risks to the uninterrupted provision of services to customers, regulatory compliance and conduct risks, and the potential for reputational risks.

New product offerings may be developed and provided through the application, some of which Prudential may have limited or no experience in providing, which may introduce new regulatory, operational, conduct and strategic risks for Group.

A failure to implement appropriate governance and management of the incremental and new risks detailed above may adversely impact Prudential's reputation and brand, its ability to attract and retain customers, its competitiveness and its ability to deliver on its long-term strategy.

2.7 Prudential operates in certain markets with joint venture partners, minority shareholders and other third parties, resulting in certain risks that Prudential does not face with respect to its wholly-owned subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other joint ownership or third-party arrangements. For such Group operations the level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, those terms providing for the allocation of control among, and continued cooperation between, the participants. In addition, the level of control exercisable by the Group could be subject to changes in the maximum level of non-domestic ownership imposed on foreign companies in certain jurisdictions.

Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails or is unable to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential such as bancassurance and agency arrangements in Asia and broker-dealer networks in the US and is therefore dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party, material failure in controls (such as those pertaining to the third-party system failure or the prevention of financial crime) or failure to meet any regulatory requirements could adversely affect Prudential's reputation and its business, financial condition, results of operations and prospects.

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

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

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations.

Assumptions about future expected levels of mortality are of relevance to the Guaranteed Minimum Withdrawal Benefit ('GMWB') of Jackson's variable annuity business.

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

In addition, Prudential's business may be adversely affected by epidemics, pandemics and other effects that give rise to a large number of deaths or additional sickness claims, as well as increases to the cost of medical claims. Pandemics, significant influenza and other epidemics have occurred a number of times historically but the likelihood, timing, or the severity of future events cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's claims experience. The risks to the Group resulting from the Covid-19 pandemic are included in the 'Covid-19' risk factor detailed in above.

Prudential uses reinsurance to selectively transfer mortality, morbidity and other risks. This exposes the Group to the counterparty risk of a reinsurer being unable to pay reinsurance claims or otherwise meet their commitments; the risk that a reinsurer changes reinsurance terms and conditions of coverage, or increases the price of reinsurance which Prudential is unable to pass on to its customers; and the risk of ambiguity in the reinsurance terms and conditions leading to uncertainty whether an event is covered under a reinsurance contract.

Any of the foregoing, individually or together, could have a material adverse effect on Prudential's business, financial condition, results of operations and prospects.

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

3. Legal and regulatory risk

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

In the markets in which it operates, Prudential is subject to regulatory requirements and obligations with respect to financial crime including anti-money laundering and sanctions compliance, which may either impose obligations on the Group to act in a certain manner or restrict the way that it can act in respect of specified individuals, organisations, businesses and/or governments. A failure to do so may adversely impact the reputation of Prudential and/or result in the imposition of legal or regulatory sanctions for the Group. For internationally active groups such as Prudential, operating across multiple jurisdictions increases the complexity of legal and regulatory compliance. Compliance with Prudential's legal or regulatory obligations in one jurisdiction may conflict with the law or policy objectives of another jurisdiction, or may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional legal, regulatory compliance and reputational risks for the Group. These risks may be increased where uncertainty exists on the scope of regulatory requirements and obligations, and where the complexity of specific cases applicable to the Group is high.

Following the demerger of Jackson, these risks may become more pronounced for the Group as markets with higher geopolitical risk exposure will form a larger proportion of Prudential's operations.

Further information on specific areas of regulatory and supervisory requirements and changes are included in the sub-sections below.

(a) Group-wide Supervision
With effect from 21 October 2019, the Group-wide supervisor of Prudential plc changed to the Hong Kong Insurance Authority ('IA'). To align Hong Kong's regulatory regime with international standards and practices, the Hong Kong IA has developed a new Group-wide Supervision ('GWS') Framework for multinational insurance groups under its supervision. The GWS Framework is based on a principle-based and outcome-focused approach, and allows the Hong Kong IA to exercise direct regulatory powers over the designated holding companies of multinational insurance groups. On 24 July 2020 the Insurance (Amendment) (No. 2) Ordinance, being the enabling primary legislation providing for the GWS Framework, was enacted. This primary legislation is supported by subsidiary legislation and guidance material from the Hong Kong IA. The relevant subsidiary legislation, including the Insurance (Group Capital) Rules, was tabled before the Legislative Council on 6 January 2021 and will come into operation on 29 March 2021. The GWS Framework is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements. Prior to the GWS Framework becoming effective for the Group, Prudential remains subject to the Regulatory Letter signed with the Hong Kong IA. This letter outlines the interim supervision arrangements from 21 October 2019 when the Hong Kong IA became the Group-wide supervisor of the Group.

Although the GWS Framework is broadly consistent with the interim supervision arrangements that currently apply to the Group under the Regulatory Letter, until all elements of the GWS Framework are finalised the Group cannot be certain of the nature and extent of differences between the interim principles agreed with the Hong Kong IA and the specific regulatory requirements of the GWS Framework. The Group's existing processes and resources may also need to change to comply with the final GWS Framework or any other requirements of the Hong Kong IA. The need to adapt to any such changes or to respond to any such requirements may lead to increased costs or otherwise impact the business, financial condition, results, profitability and/or prospects of the Group.

With the agreement of the Hong Kong IA, Prudential currently applies the Local Capital Summation Method (the 'LCSM') to determine Group regulatory capital requirements under the Regulatory Letter. Prudential currently expects the GWS methodology to be largely consistent with these interim supervisory requirements, with the exception of the treatment of debt instruments outlined below which will be subject to transitional arrangements under the GWS Framework, however any differences in the final requirements adopted under the GWS Framework may lead to changes to the way in which capital requirements are calculated and to the eligibility of the capital instruments issued by Prudential to satisfy such capital requirements.

The Hong Kong IA has agreed that the subordinated debt instruments issued by Prudential at the date of the demerger of M&G plc can be included as part of the Group's capital resources for the purposes of satisfying the capital requirements imposed under the interim LCSM principles agreed with the Hong Kong IA. Senior debt instruments issued by Prudential are not included as part of the Group capital resources under the LCSM. Under the GWS Framework, Prudential's initial analysis indicates that all debt instruments (senior and subordinated) issued by Prudential will meet the transitional conditions set by the Hong Kong IA and will be included as eligible Group capital resources, although this will be subject to approval by the Hong Kong IA. If the Hong Kong IA does not approve the subordinated debt instruments Prudential has in issue as part of the Group's eligible capital resources for the purposes of satisfying the capital requirements imposed under the GWS Framework, Prudential may have less eligible capital resources compared to under the LCSM and may need to raise additional debt instruments, which may in turn lead to increased costs for the Group.

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

In November 2019 the IAIS adopted the Common Framework ('ComFrame') which establishes supervisory standards and guidance focusing on the effective group-wide supervision of Internationally Active Insurance Groups ('IAIGs'). The ComFrame proposals, which include the ICS, could result in enhanced capital and regulatory measures for IAIGs. Prudential was included in the first register of IAIGs released by the IAIS on 1 July 2020 and was designated an IAIG by the Hong Kong IA following an assessment against the established criteria in ComFrame.

In November 2019 the FSB endorsed a new Holistic Framework ('HF'), intended for the assessment and mitigation of systemic risk in the insurance sector, for implementation by the IAIS in 2020 and has suspended G-SII designations until completion of a review to be undertaken in 2022. Many of the previous G-SII measures have already been adopted into the Insurance Core Principles ('ICPs') and ComFrame. As an IAIG, Prudential is expected to be subject to these measures. The HF also includes a monitoring element for the identification of a build-up of systemic risk and to enable supervisors to take action where appropriate. As a result of the Covid-19 pandemic, this monitoring requirement has been replaced with a Covid-19-focused exercise for 2020, with annual monitoring expected to recommence in 2021. In November 2020 the IAIS launched a public consultation on phase 1 of a proposed liquidity metric to be used as an ancillary indicator in the monitoring of the build-up of systemic risk. This followed a more general consultation on liquidity metrics earlier in 2020. Consultations on a phase 2 liquidity metric, as well as on macroeconomic elements of the HF, are expected to follow. The FSB published its 2020 Resolution Report in November 2020, highlighting intra-group connectedness and funding in resolution as key areas of attention for its work on resolution planning. Resolution will continue to be a near term focus in the FSB's financial stability work and may inform decisions around the reformed G-SII designation in 2022.

The IAIS continues to develop the ICS as part of ComFrame. The implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase.

(c) IFRS 17
The Group's accounts are prepared in accordance with current IFRS applicable to the insurance industry. The International Accounting Standards Board (the 'IASB') introduced a framework that it described as Phase I which, under its standard IFRS 4, permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, 'Insurance Contracts'). Some targeted amendments to this standard, including to the effective date, were issued in June 2020. IFRS 17, 'Insurance Contracts', as amended, will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2023. The standard is subject to endorsement in the UK via the UK Endorsement Board which is currently being established. Prudential has a Group-wide implementation programme underway to implement this new standard. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently uncertain particularly as amendments were issued by the IASB in June 2020, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. The implementation of this standard will involve significant enhancements to IT, actuarial and finance systems of the Group.

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

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

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

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

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

Any regulatory action arising out of the Group's position as a product provider could have an adverse impact on the Group's business, financial condition, results of operations and prospects, or otherwise harm its reputation.

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

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

4. Environmental, social and governance risks

4.1 The failure to understand and respond effectively to the risks associated with environmental, social or governance ('ESG') factors could adversely affect Prudential's achievement of its long-term strategy
The purpose of a business and the way in which it operates in achieving its objectives, including in relation to ESG-related matters, are an increasingly material consideration for key stakeholders in achieving their own objectives and aims. ESG-related risks may directly or indirectly impact Prudential's business and the achievement of its strategy and consequently those of its key stakeholders, which range from customers, institutional investors, employees and suppliers, to policymakers, regulators, industry organisations and local communities. A failure to transparently and consistently implement the Group's ESG strategy, in its key markets and across operational, underwriting and investment activities, may adversely impact the financial condition and reputation of the Group and may negatively impact the Group's stakeholders, who all have expectations, concerns and aims related to ESG matters, which may differ. In its investment activities, Prudential's stakeholders increasingly place reliance on an approach to responsible investment that demonstrates how ESG considerations are effectively integrated into investment decisions and the performance of fiduciary and stewardship duties, including voting and active engagement decisions with respect to investee companies, as both an asset owner and an asset manager.

A failure to manage the material risks associated with key ESG themes detailed below may adversely impact the reputation and brand of the Group, its ability to attract and retain customers and staff, its ability to deliver on its long-term strategy and therefore the results of its operations and long-term financial success.

(a) Environmental risks
Environmental concerns, notably those associated with climate change, pose significant risks to Prudential and its customers. Prudential's investment horizons are long term and it is therefore exposed to the potential long-term impact of climate change risks, which include the financial and non-financial impact of transition, physical and litigation risks. A failure to understand, manage and provide greater transparency of its exposure to these climate-related risks may have increasing adverse implications for Prudential and its stakeholders.

The global transition to a lower carbon economy may have an adverse impact on investment valuations as the financial assets of carbon-intensive companies re-price, and this could result in some asset sectors facing significantly higher costs and a reduction in demand for their products and services. The speed of this transition, and the extent to which it is orderly and managed, will be influenced by factors such as public policy, technology and changes in market or investor sentiment. This climate-related transition risk may adversely impact the valuation of investments held by the Group, and the potential broader economic impact may adversely affect customer demand for the Group's products. Prudential's stakeholders increasingly expect and/or rely on the Group to support an orderly transition based on an understanding of relevant country and company-level transition plans and which takes into consideration the impact on the economies, businesses and customers in the markets in which it operates and invests. The Group's ability to sufficiently understand and appropriately react to transition risk may be limited by insufficient or unreliable data on carbon exposure and transition plans for the assets in which it invests. The direct physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term changes to climate and the natural environment, will increasingly influence the longevity, mortality and morbidity risk assessments for the Group's life insurance product underwriting and offerings and their associated claims profiles. Climate-driven events in countries in which Prudential or its key third parties operate could impact the Group's operational resilience and its customers.

(b) Social risks

Social risks that could impact Prudential may arise from a failure to consider the rights, diversity, wellbeing, and interests of people and communities in which the Group or its third parties operate. These risks are increased as Prudential operates in multiple jurisdictions with distinct local cultures and considerations. As an employer, the Group is also exposed to the risk of being unable to attract, retain and develop highly-skilled staff, which may increase if Prudential does not have in place responsible working practices or fails to recognise the benefits of diversity or promote a culture of inclusion. The potential for reputational risk extends to the Group's supply chains, which may be exposed to factors such as poor labour standards and abuses of human rights by third parties. Emerging population risks associated with public health trends (such as an increase in obesity) and demographic changes (such as population urbanisation and ageing) may affect customer lifestyles and therefore may impact claims against the Group's insurance product offerings. As a provider of insurance and investment services, the Group is increasingly focused on digital innovation, technologies and distribution methods for a broadening range of products and services. As a result, Prudential has access to extensive amounts of customer personal data, including data related to personal health, and an increasing ability to analyse and interpret this data through the use of complex tools, machine learning and artificial intelligence technologies. The Group is therefore exposed to the regulatory, ethical and reputational risks associated with customer data misuse or security breaches. These risks are explained above. The increasing digitalisation of products, services and processes may also result in new and unforeseen regulatory requirements and stakeholder expectations, including those related to how the Group supports its customers through this transformation.

(c) Governance risks

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

Glossary

A

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

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

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

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

American Depositary Receipts (ADRs)
The stocks of most foreign companies that trade in the US markets are traded as American Depositary Receipts (ADRs). US depositary banks issue these stocks. Each ADR represents one or more shares of foreign stock or a fraction of a share. The price of an ADR corresponds to the price of the foreign stock in its home market, adjusted to the ratio of the ADRs to foreign company shares.

Annual premium equivalent (APE)
A measure of new business sales, which is a key metric for the Group's management of the development and growth of the business. APE is calculated as the aggregate of annualised regular premiums from new business and one-tenth of single premiums on new business written during the period for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4.

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

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

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

B

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

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

C

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

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

Ceding commission
In a reinsurance arrangement, an allowance (usually a percentage of the reinsurance premium) can be made by the reinsurer for part or all of a ceding company's acquisition and other costs.

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

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

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

Core structural borrowings
Borrowings which Prudential considers forming part of its core capital structure and excludes operational borrowings.

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

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

D

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

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

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

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

E

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

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

Environmental, Social and Governance (ESG)
ESG refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business, which is qualitative and non-financial and not readily quantifiable in monetary terms. The key features of Prudential ESG framework are its three strategic pillars: 1) making health and financial security accessible; 2) stewarding the human impacts of climate change; and 3) building social capital.

F

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

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

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

G

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

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

Group-wide Supervision (GWS) Framework
Regulatory framework developed by the Hong Kong Insurance Authority (see below) for multinational insurance groups under its supervision. The GWS Framework is based on a principle-based and outcome-focused approach, and allows the Hong Kong Insurance Authority to exercise direct regulatory powers over the designated holding companies of multinational insurance groups. The GWS Framework is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021. The primary legislation was enacted in July 2020 and will come into operation on 29 March 2021.

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

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

H

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

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

I

International Association of Insurance Supervisors (IAIS)
The IAIS is a voluntary membership organisation of insurance supervisors and regulators. It is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector.

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

International Financial Reporting Standards (IFRS Standards)
Accounting standards and practices that are developed and issued by the IFRS Foundation and the International Accounting Standards Board (IASB).

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

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

K

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

L

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

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

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

M

Million Dollar Round Table (MDRT)
MDRT is a global, independent association of life insurance and financial services professionals that recognises professional knowledge, strict ethical conduct and outstanding client service. MDRT membership is recognised internationally as the standard of excellence in the life insurance and financial services business.

Money Market Fund (MMF)
An MMF is a type of mutual fund that has relatively low risks compared to other mutual funds and most other investments and historically has had lower returns. MMF invests in high quality, short-term debt securities and pay dividends that generally reflect short-term interest rates. The purpose of an MMF is to provide investors with a safe place to store cash or as an alternative to investing in the stock market.

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

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

N

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

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

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

New business margin
New business margin is expressed as the value of new business profit as a percentage of annual premium equivalent (APE) and the present value of new business premiums (PVNBP) expected to be received on an EEV basis.

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

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

O

Operational borrowings
Borrowings which arise in the normal course of the business, including all lease liabilities under IFRS 16.

P

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

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

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

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

R

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

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

Risk-based capital (RBC) framework
RBC is a method of measuring the minimum amount of capital set by regulators as appropriate for a reporting entity to support its overall business operations in consideration of its size and the level of risk it is faced. RBC limits the amount of risk a company can take and act as a cushion to protect a company from insolvency. RBC is intended to be a minimum regulatory capital standard and not necessarily the full amount of capital that an insurer would want to hold to meet its safety and competitive objectives. In addition, RBC is not designed to be used as a stand-alone tool in determining financial solvency of an insurance company; rather it is one of the tools that give regulators legal authority to take control of an insurance company.

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

S

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

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

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

Subordinated debt
A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest.

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

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

T

Takaful
Insurance that is compliant with Islamic principles of mutual assistance and risk sharing.

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

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

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

U

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

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

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

V

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

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

W

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

With-profits funds
See 'participating funds' above.

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

Y

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

Yield curve
A line graph that shows the relative yields on debt over a range of maturities typically from three months to 30 years. Investors, analysts and economists use yield curves to evaluate bond markets and interest rate expectations.

Shareholder information

Communication with shareholders

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

Shareholder Meetings

The 2021 Annual General Meeting (AGM) will be held on Thursday 13 May 2021 at 11.00am. Arrangements for attendance remain under review given the ongoing restrictions arising from the Covid-19 pandemic. To ensure shareholders are able to participate fully in the AGM this year, we will provide an option to link digitally to the Meeting and would encourage shareholders to make use of this option. The AGM notice will provide more details on arrangements and how to participate. Shareholders are encouraged to watch the Company's website, regulatory news and other published notifications for any further updates in relation to the AGM arrangements.

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

Details of the 2020 AGM, including the major items discussed at the meeting and the results of the voting, can be found on the Company's website.

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

Company constitution

Prudential is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles of Association (Articles). Any change to the Articles must be approved by special resolution of the shareholders. There were no changes to the constitutional documents during 2020. The current Memorandum and Articles are available on the Company's website.

Share capital

Issued share capital

The issued share capital as at 31 December 2020 consisted of 2,609,489,702 (2019: 2,601,159,949) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Stock Exchange. As at 31 December 2020, there were 45,176 (2019: 46,847) accounts on the register. Further information can be found in note C8 on page 282.

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

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

Analysis of shareholder accounts as at 31 December 2020

Size of shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000,001 upwards	315	0.70	2,312,491,466	88.62
500,001–1,000,000	139	0.31	98,178,861	3.76
100,001–500,000	501	1.11	117,828,227	4.52
10,001–100,000	1,377	3.05	41,001,145	1.57
5,001–10,000	1,466	3.25	10,142,436	0.39
1,001–5,000	9,881	21.87	21,528,855	0.83
1–1,000	31,497	69.72	8,318,712	0.32
Total	45,176	100.00	2,609,489,702	100.00

Major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital, as at 31 December 2020, as notified and disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules.

As at 31 December 2020	% of total voting rights
BlackRock, Inc	5.08
Third Point LLC	5.04

On 2 October 2019 Capital Group Companies, Inc notified that its holding had decreased to less than 5 per cent of the Company's issued share capital.

No notifications have been received from year end to 2 March 2021.

Rights and obligations

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

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

As at 2 March 2021, Trustees held 0.40 per cent of the issued share capital under the various plans in operation.

Rights to dividends under the various schemes are set out on pages 170 to 205.

Restrictions on transfer

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

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

All Directors are required to hold a minimum number of shares under guidelines approved by the Board, which they would also be expected to retain as described on page 197 of the Directors' remuneration report.

Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. Prudential seeks authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. The existing authorities to issue shares, and to do so without observing pre-emption rights, are due to expire at the end of this year's AGM. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM on 13 May 2021.

Details of shares issued during 2020 and 2019 are given in note C8 on page 282.

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

Authority to purchase own shares

The Directors also require authority from shareholders in relation to the purchase of the Company's own shares. Prudential seeks authority by special resolution on an annual basis for the buy-back of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. This authority has not been used since it was last granted at the AGM in 2020. This existing authority is due to expire at the end of this year's AGM and a special resolution to renew the authority will be put to shareholders at the AGM on 13 May 2021.

Dividend information

2020 second interim dividend	Shareholders registered on the UK register and Hong Kong branch register	Holders of US American Depositary Receipts	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
Ex-dividend date	25 March 2021	–	25 March 2021
Record date	26 March 2021	26 March 2021	26 March 2021
Payment date	14 May 2021	14 May 2021	On or about 21 May 2021

A number of dividend waivers are in place in respect of shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans. The dividends waived represent less than 1 per cent of the value of dividends paid during the year.

Shareholder enquiries

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

Register	By post	By telephone
UK register	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, UK.	Tel 0371 384 2035* Textel 0371 384 2255 (for hard of hearing). Lines are open from 8.30am to 5pm (UK), Monday to Friday. *Please use the country code when calling from outside the UK
Hong Kong register	Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.	Tel +852 2862 8555
Singapore register	Shareholders who have shares standing to the credit of their securities accounts with The Central Depository (PTE) Limited (CDP) in Singapore may refer queries to the CDP at 11 North Buona Vista Drive, #01-19/20 The Metropolis Tower 2, Singapore 138589. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.	Tel +65 6535 7511
ADRs	JPMorgan Chase Bank N.A, PO Box 64504, St. Paul, MN 55164-0504, USA.	Tel +1 800 990 1135, or from outside the USA +1 651 453 2128 or log on to www.adr.com

Dividend mandates

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

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

Cash dividend alternative

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

Electronic communications

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

Share dealing services

The Company's registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address or telephone 0371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential shares. For telephone sales, call 0345 603 7037 between 8.00am and 5pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

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

How to contact us

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Chair

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Philip Remnant
Senior Independent Director

Jeremy Anderson
David Law
Kai Nargolwala
Anthony Nightingale
Alice Schroeder
Tom Watjen
Fields Wicker-Miurin
Amy Yip

Group Executive Committee

Executive Directors

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

James Turner
Group Chief Risk and Compliance Officer

Jolene Chen
Group Human Resources Director

Nic Nicandrou
Chief Executive,
Prudential Corporation Asia

Laura Prieskorn
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The Central Depository (Pte) Limited shareholder enquiries
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Forward-looking statements
This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its and Jackson's future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty.

A number of important factors could cause Prudential's and Jackson's actual future financial condition or performance or other indicated results of the entity referred to in any forward-looking statement to differ materially from those indicated in such forward-looking statement. Such factors include, but are not limited to, the ability to complete the proposed demerger of Jackson Financial Inc. on the anticipated time frame or at all; the ability of the management of Jackson Financial Inc. and its group to deliver on its business plan post-separation; the impact of the current Covid-19 pandemic, including adverse financial market and liquidity impacts, responses and actions taken by regulators and supervisors, the impact to sales, claims and assumptions and increased product lapses, disruption to Prudential's operations (and those of its suppliers and partners), risks associated with new sales processes and information security risks; future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the impact of economic uncertainty, asset valuation impacts from the transition to a lower carbon economy, derivative instruments not effectively hedging exposures arising from product guarantees, inflation and deflation and the performance of financial markets generally; global political uncertainties, including the potential for increased friction in cross-border trade and the exercise of executive powers to restrict trade, financial transactions, capital movements and/or investment; the policies and actions of regulatory authorities, including, in particular, the policies and actions of the Hong Kong Insurance Authority, as Prudential's Group-wide supervisor, as well as new government initiatives generally; given its designation as an Internationally Active Insurance Group ('IAIG'), the impact on Prudential of systemic risk and other group supervision policy standards adopted by the International Association of Insurance Supervisors; the impact of competition and fast-paced technological change; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the physical, social and financial impacts of climate change and global health crises on Prudential's business and operations; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal transformation projects and other strategic actions failing to meet their objectives; the effectiveness of reinsurance for Prudential's businesses; the risk that Prudential's operational resilience (or that of its suppliers and partners) may prove to be inadequate, including in relation to operational disruption due to external events; disruption to the availability, confidentiality or integrity of Prudential's information technology, digital systems and data (or those of its suppliers and partners); any ongoing impact on Prudential of the demerger of M&G plc and, if and when completed, the demerger of Jackson Financial Inc.; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; the impact of legal and regulatory actions, investigations and disputes; and the impact of not adequately responding to environmental, social and governance issues. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results of the entity referred to in any forward-looking statements to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading of this document.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

Cautionary statements
This document does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to purchase, acquire, subscribe for, sell or dispose of, any securities in any jurisdiction nor shall it (or any part of it) or the fact of its distribution, form the basis of, or be relied on in connection with, any contract therefor.