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Group Chief Financial Officer and Chief Operating Officer's report on the 2020 financial performance

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and Chief Operating Officer

The Group has delivered positive operating results while supporting our colleagues, distributors, customers and communities during the disruption caused by Covid-19. Alongside, we have accelerated preparations for the proposed separation of Jackson and continue to develop our capabilities and presence in our chosen Asia and Africa markets, which will position the Group well for success in the future.

While Covid-19 restrictions led to new APE sales in Asia being (28) per cent[1] lower than the prior year, we have seen positive momentum in the second half of the year, with H2 2020 sales up 20 per cent[1] compared with the first half. Excluding Hong Kong, where restrictions between Mainland China and Hong Kong have been in place for much of 2020, new APE sales were down (6) per cent[1], with new business profit falling by only (4) per cent[1] as new business profit margins saw a small improvement over the prior year. Our businesses in Asia delivered a 13 per cent[1] increase in adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit[2]), reflecting the benefits of our well positioned and broad-based portfolio, which has long focused on high quality, recurring premium business. Operating free surplus generation was 8 per cent[1] higher, following the on-going growth of the in-force business and lower levels of new business which were offset by the impact of lower interest rates.

Lower asset returns and the effect of lower interest rates on the economic assumptions underpinning DAC amortisation contributed to US long-term business adjusted operating profit[2] being (8) per cent lower than the prior year. The RBC ratio of Jackson National Life[24], Jackson's principal operating subsidiary, was 347 per cent, with operating capital generation in line with expectations following the Athene reinsurance transaction. As announced on 28 January, the RBC ratio is after an 80 percentage point reduction following revisions to Jackson's hedge modelling for US regulatory purposes.

2020 saw high levels of macro volatility. In the US, the S&P 500 index fell (4) per cent over the first half before recovering by 20 per cent in the second, resulting in a 16 per cent increase over the year. In Asia, equity indices were similarly volatile, with the MSCI Asia ex Japan Index (6) per cent down in the first half and up 30 per cent in the second. Government bond yields were lower over the year, notably with the US 10-year government bond yield ending the year at 0.9 per cent (31 December 2019: 1.9 per cent). 2020 also saw significant volatility in credit spreads, for example spreads on US dollar denominated A-rated corporate bonds rose by 39 basis points in the first half and fell by (41) basis points in the second half.

Covid-19

The Group Chief Executive's report has set out how the Group has risen to the operational challenges presented by Covid-19. In terms of financial performance, the containment measures taken by governments across the globe have impacted sales levels and consequentially new business profitability in 2020, albeit many business units saw sales improve in the second half of the year as restrictions were removed. These impacts are discussed in more detail later in this report. Future sales level will depend on how governments respond to changing Covid-19 case levels and the success of vaccination and containment programmes in the markets in which we operate. Travel between Hong Kong and Mainland China remains severely restricted, with consequential effects on Mainland China visitor numbers and the level of APE sales in Hong Kong from this segment. The impact that Covid-19 has had on the macro-economic environment, with lower interest rates and volatile equity markets, has negatively impacted profitability in the year as discussed below. The sensitivity of our IFRS, EEV and capital metrics to further market movements are set out in the financial statements later in this document.

In Asia, where we focus on health and protection business, we continue to see low levels of Covid-19 claims, which were less than 1 per cent of total Asia claims paid in the year of $7.2 billion. We also provided our customers in 2020 with premium grace periods in line with local regulations. Our annual review of non-economic assumptions underpinning insurance liabilities did not identify the need for any significant strengthening as a result of the effects of Covid-19 and overall Asia operating experience remains positive.

There have been no impairments to goodwill or intangible assets at 31 December 2020 and we will continue to review for triggers for impairment in line with our normal accounting procedures. Our investments are largely at fair value in the balance sheet and no significant changes to our valuation procedures have been applied. Losses on sales of impaired bonds by Jackson increased to $(148) million in the year (2019: loss of $(28) million) and bond write-downs increased to $(32) million (2019: $(15) million) reflecting volatility in credit spreads.

Finally, our liquidity position remains healthy with $1.5 billion of holding company cash and $0.5 billion of commercial paper in issue at 31 December 2020 alongside $2.6 billion of undrawn committed facilities. We have not breached any of the requirements of our core structural borrowings nor modified any of their terms.

Adjusted operating profit before tax from continuing operations

For full year 2020, Prudential's adjusted operating profit[2,7] from continuing operations was $5,507 million (4 per cent higher than 2019 on a constant and an actual exchange rate basis). Throughout this document the reference to continuing operations refers to results of the full Group in 2020 and the results of the Group in 2019 excluding the contribution from the discontinued UK life and asset management operations.

The increase in adjusted operating profit reflects the combination of a 13 per cent[1] increase in adjusted operating profit[2] from our Asia life and asset management operations, offset by a (9) per cent decrease in adjusted operating profit[2] from our US business (including asset management), and lower central expenses.

Central expenses[15] were 8 per cent[3] lower than the prior year reflecting a reduction in interest expense on core borrowings following the transfer of debt to M&G plc in 2019, partly offset by increased restructuring costs of $(208) million (2019: $(110) million[3]). Restructuring costs reflect the Group's substantial and ongoing IFRS 17 project and costs associated with actions to reduce central costs post the demerger of M&G plc. During 2020 our head office activities incurred costs of $(417) million (2019: $(460) million[3]). The Group continues to take action to right-size its head office costs alongside the evolving footprint of the business. The Group has delivered $180 million of cost savings effective from 1 January 2021[5] as previously targeted as a result of the M&G demerger[6]. In addition, as a result of the separation of Jackson from the Group, head office costs are targeted to reduce further by around $70 million from the start of 2023. We will continue to review the timing of the full realisation of these further savings following the completion of the US demerger.

Non-operating items from continuing operations[25]

Non-operating items in 2020 consist of short-term fluctuations in investment returns on shareholder-backed business of negative $(4,841) million (2019: $(3,203) million[3]), the net benefit from various corporate transactions of $1,521 million (2019: loss of $(142) million[3]), which are discussed further below, and the amortisation of acquisition accounting adjustments of negative $(39) million (2019: $(43) million[3]) arising mainly from the REALIC business acquired by Jackson in 2012.

Negative short-term fluctuations include negative $(607) million for Asia (2019: positive $657 million[3]) and negative $(4,262) million in the US (2019: $(3,757) million).

Falling interest rates in certain parts of Asia led to lower discount rates on certain policyholder liabilities under the local reserving basis applied, which were not fully offset by unrealised bond and equity gains in the year leading to negative fluctuations overall.

Within the US, falling interest rates, with yields on US treasuries falling by almost one percentage point over the year, and steeply rising equity markets following substantial falls in the first quarter of the year have led to $(4,262) million of negative short-term investment fluctuations in the US business. Further information is set out in the US section of this report.

After allowing for non-operating items, the total IFRS profit after tax from continuing operations was $2,185 million (2019: $1,944 million[1]).

IFRS effective tax rates

In 2020, the effective tax rate on adjusted operating profit based on longer-term investment returns from continuing operations was 15 per cent. This was unchanged from 2019.

The effective tax rate on total IFRS profit in 2020 was negative (2) per cent. This was unchanged from 2019 and reflects the tax credit on US derivative losses exceeding the tax charge on profits from Asia operations.

Total tax contribution from continuing operations

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with $2,114 million remitted to tax authorities in 2020. This was similar to the equivalent amount of $2,168 million[3] remitted in 2019.

Tax strategy

The Group publishes its tax strategy annually which, in addition to complying with the mandatory UK (Finance Act 2016) requirements, also includes a number of additional disclosures, including a country-by-country disclosure of revenues, profits, average employee numbers and taxes for all jurisdictions where more than $5 million tax was paid. This disclosure is included as a way of demonstrating that our tax footprint (ie where we pay taxes) is consistent with our business footprint. An updated version of the tax strategy, including 2020 data, will be available on the Group's website before 31 May 2021.

Corporate transactions

Jackson reinsurance of fixed and fixed index annuity business in June 2020

Jackson reinsured substantially all of its in-force portfolio of US fixed and fixed index annuities with Athene (circa $27.6 billion of liabilities). The transaction excluded liabilities relating to Jackson's legacy life and institutional business, the REALIC portfolio and group pay-out annuity business reinsured from John Hancock as well as investments in the general account by the variable annuity policyholders. The transaction improved the year-end capital position of Jackson by increasing the Jackson RBC ratio by 67 percentage points and the Group's LCSM cover ratio by 24 percentage points. The reinsurance agreement was effective on 1 June 2020 and resulted in an IFRS pre-tax gain recorded through the profit and loss account of $804 million, after transaction costs and post-closing adjustments. After allowing for tax and the reduction in unrealised gains recorded directly in other comprehensive income, the impact of the reinsurance transaction on IFRS shareholders' equity is a reduction of $(1.2) billion. This transaction reduced the Group's EEV by $(457) million, which largely reflects the loss of future profits recorded in the value of in-force business as a result of the reinsurance and the loss of unrealised gains on assets passed to Athene, partly offset by the reinsurance commission received after deducting tax.

Equity investment into Jackson by Athene

In July 2020, Athene Life Re Ltd invested $500 million in Prudential's US business in return for an 11.1 per cent economic interest for which the voting interest is 9.9 per cent. This has no impact on the income statement but resulted in a decline in IFRS shareholders' equity of $(514) million at the date of the transaction.

Other transactions
Other transactions in 2020 contributed $717 million to profit and principally include the reinsurance commission from a quota share reinsurance transaction undertaken by Hong Kong as part of the Group's on-going asset/liability management. Future surpluses (or losses) arising from the business being reinsured will be shared with the reinsurer in accordance with the terms of the treaty. Under EEV we recorded a loss of $91 million representing the frictional costs of the arrangement. This treaty helps mitigate the effect of the accounting mismatch under the existing regulatory framework in Hong Kong and is part of our management of the transition to the new RBC regime.

In the first half of the year, the Thailand business entered into a strategic bancassurance partnership with TMB Bank Public Company Limited with an initial period of 15 years which both expanded and extended the existing partnership with Thanachart Bank. The new arrangement commenced on 1 January 2021 and the fee paid for expanding and extending the existing arrangement was $0.8 billion.

In January 2021, the Group announced its intention to complete the demerger of Jackson in the first half of 2021. The total costs associated with this activity are estimated to be around $110 million to $120 million, of which around half is expected to be borne by Prudential plc and the remainder by Jackson. These largely relate to advisory and other professional fees and a small amount relates to the separation of Jackson's systems and processes from those of the remaining Prudential Group.

Of these total costs, $38 million has been incurred in 2020 ($20 million by Prudential plc and $18 million by Jackson) and has been included in non-operating profit as part of corporate transactions. The remainder of the costs are expected to be incurred in the first half of 2021.

IFRS profit

	Actual exchange rate			Constant exchange rate	
	2020 $m	**2019** $m	**Change** %	**2019** $m	**Change** %
Adjusted operating profit based on longer-term investment returns before tax from continuing operations					
Asia					
Long-term business	**3,384**	2,993	13	2,978	14
Asset management	**283**	283	–	278	2
Total Asia	**3,667**	3,276	12	3,256	13
US					
Long-term business	**2,787**	3,038	(8)	3,038	(8)
Asset management	**9**	32	(72)	32	(72)
Total US	**2,796**	3,070	(9)	3,070	(9)
Total segment profit from continuing operations	**6,463**	6,346	2	6,326	2
Other income and expenditure	**(748)**	(926)	19	(931)	20
Total adjusted operating profit before tax and restructuring costs	**5,715**	5,420	5	5,395	6
Restructuring and IFRS 17 implementation costs	**(208)**	(110)	(89)	(110)	(89)
Total adjusted operating profit before tax	**5,507**	5,310	4	5,285	4
Non-operating items:					
Short-term fluctuations in investment returns on shareholder-backed business	**(4,841)**	(3,203)	(51)	(3,191)	(52)
Amortisation of acquisition accounting adjustments	**(39)**	(43)	9	(43)	9
Gain on disposal of businesses and corporate transactions	**1,521**	(142)	n/a	(143)	n/a
Profit from continuing operations before tax attributable to shareholders	**2,148**	1,922	12	1,908	13
Tax credit attributable to shareholders' returns	**37**	31	n/a	36	n/a
Profit from continuing operations for the year	**2,185**	1,953	12	1,944	12
Loss from discontinued operations for the year, net of related tax	**–**	(1,161)	100	(1,165)	100
Profit for the year	**2,185**	792	176	779	180

IFRS earnings per share

	Actual exchange rate			Constant exchange rate	
	2020 cents	**2019** cents	**Change** %	**2019** cents	**Change** %
Basic earnings per share based on adjusted operating profit after tax from continuing operations	**175.5**	175.0	–	174.6	1
Basic earnings per share based on:					
Total profit after tax from continuing operations	**81.6**	75.1	9	75.1	9
Total loss after tax from discontinued operations	**–**	(44.8)	n/a	(45.1)	n/a

IFRS shareholders' equity

	2020 $m	2019 $m
Adjusted operating profit after tax attributable to shareholders	4,559	4,528
Profit after tax for the year attributable to shareholders	2,118	783
Exchange movements, net of related tax	239	2,943
Unrealised gains and losses on US fixed income securities classified as available-for-sale (before the impact of Jackson's reinsurance with Athene)	2,095	2,679
Impact of Jackson's reinsurance of fixed and fixed index annuities to Athene	(1,795)	–
Sale of 11.1 per cent stake in Jackson to Athene	(514)	–
Demerger dividend in specie of M&G plc	–	(7,379)
Other external dividends	(814)	(1,634)
Other	72	117
Net increase (decrease) in shareholders' equity	1,401	(2,491)
Shareholders' equity at beginning of the year	19,477	21,968
Shareholders' equity at end of the year	20,878	19,477
Shareholders' value per share[8]	800¢	749¢

Group IFRS shareholders' equity in the 12 months to 31 December 2020 increased by 7 per cent[3] to $20.9 billion (31 December 2019: $19.5 billion[3]), largely reflecting profit after tax for the year and foreign exchange movements, partly offset by dividends paid in the year of $(0.8) billion and the impact of the sale of 11.1 per cent of the Group's economic interest in Jackson to Athene.

Group capital position

Prudential plc is applying the local capital summation method (LCSM) that has been agreed with the Hong Kong Insurance Authority (IA) to determine Group regulatory capital requirements until the Group-wide Supervision (GWS) Framework is effective for Prudential upon designation. 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. This legislation will be further supported by guidance material from the Hong Kong IA. 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 largely consistent with that applied under LCSM with the exception of the treatment of debt instruments. 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. If this were the case the 31 December 2020 shareholder LCSM ratio[10] (over GMCR) would increase by 35 percentage points to 363 per cent. This is subject to final approval by the Hong Kong IA.

The estimated shareholder LCSM cover ratio[10] at 31 December 2020 was 328 per cent (31 December 2019: 309 per cent). Excluding US operations, the cover ratio falls marginally to 323 per cent, before including the proposed retained 19.9 per cent non-controlling interest in Jackson.

Overall, LCSM shareholder surplus over group minimum capital requirements increased by $1.5 billion since 31 December 2019 to $11.0 billion at the end of December 2020. LCSM in-force operating capital generation in the year was $2.2 billion, which supported $(0.2) billion of investment in new business.

Overall non-operating items (excluding corporate transactions) reduced surplus by $(0.2) billion, with the negative effect of market movements in the year being offset by a $2.2 billion benefit from the introduction of the new Singapore risk-based capital framework (RBC2) effective 31 March 2020. Also included within non-operating items is a $(0.4) billion fall in surplus from changes made to Jackson VM-21 hedging model, further details of which are set out in the US section in the discussion of RBC changes.

The corporate transactions previously discussed were positive overall and contributed $0.5 billion to surplus and the payment of the 2019 second interim and 2020 first interim dividends reduced the surplus by $(0.8) billion.

The Group's LCSM position is resilient to external macro movements as demonstrated by the sensitivity disclosure contained in note I(i) of the Additional unaudited financial information, alongside further information on the basis of calculation of the LCSM measure.

Estimated Group LCSM capital position[10]

	31 Dec 2020		31 Dec 2019	
	Total	Shareholder*	Total	Shareholder*
Available capital ($ billion)	37.9	15.8	33.1	14.0
Group minimum capital requirement (GMCR) ($ billion)	11.5	4.8	9.5	4.5
LCSM surplus (over GMCR) ($ billion)	26.4	11.0	23.6	9.5
LCSM ratio (over GMCR) (%)	329%	328%	348%	309%

* The shareholder LCSM amounts exclude the available capital and minimum capital requirements of the participating business in Hong Kong, Singapore and Malaysia.

Financing and liquidity

Net core structural borrowings of shareholder financed businesses

	31 Dec 2020 $m			31 Dec 2019 $m		
	IFRS basis	Mark-to-market value	EEV basis	IFRS basis	Mark-to-market value	EEV basis
Total borrowings of shareholder-financed businesses	6,633	885	7,518	5,594	633	6,227
Less: holding company cash and short-term investments	(1,463)	–	(1,463)	(2,207)	–	(2,207)
Net core structural borrowings of shareholder-financed businesses	5,170	885	6,055	3,387	633	4,020
Net gearing ratio*	20%			15%		

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

The total borrowings of the shareholder-financed businesses increased by $1.0 billion, from $5.6 billion to $6.6 billion in 2020. This reflected the issuance of $1,000 million 3.125 per cent notes in April 2020 raised for general corporate purposes including to support the growth of the business. The Group had central cash resources of $1.5 billion at 31 December 2020 (31 December 2019: $2.2 billion), resulting in net core structural borrowings of the shareholder-financed businesses of $5.2 billion at end of December 2020 (31 December 2019: $3.4 billion). Prudential plc seeks to maintain its financial strength rating which derives, in part, from the high level of financial flexibility to issue debt and equity instruments which is intended to be maintained and enhanced in the future.

At 31 December 2020, the Group's net gearing ratio as defined in the table above was 20 per cent. We estimate that this will rise to circa 28 per cent post the separation of Jackson (based on the balance sheet at 31 December 2020, assuming no pre-separation dividend and before allowing for the 19.9 per cent retained stake in Jackson). On a Moody's basis, which is the basis management intend to use going forward to manage leverage and which differs to the above by taking into account gross debt, including commercial paper, and also allows for a proportion of the surplus within the Group's with-profits funds, the equivalent ratio is 33 per cent, before allowing for the 19.9 per cent retained stake in Jackson. Following the demerger, as a pure-play Asia and Africa business, Prudential will target a Moody's debt-leverage ratio of around 20 to 25 per cent[4] over the medium term. Prudential may operate outside this range temporarily to take advantage of growth opportunities with attractive risk-adjusted returns as they arise, while still preserving its strong credit ratings.

As discussed in the Chief Executive's report, Prudential is considering raising new equity of around $2.5-3 billion. Such a transaction, if executed, would maintain and enhance the Group's financial flexibility in light of the breadth of the opportunities to invest in growth and aim to increase the Group's investor base in Asia.

Other sources of liquidity

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

Prudential plc has maintained a consistent presence as an issuer in the commercial paper market for the past decade and had $501 million in issue at the end of 2020 (31 December 2019: $520 million).

As at 31 December 2020, the Group had a total of $2.6 billion of undrawn committed facilities, expiring in 2025. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2020.

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

Group free surplus generation from continuing operations[9]

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations and is based (with adjustments) on the capital regimes that apply locally in the various jurisdictions in which the Group operates. For life insurance operations, it represents amounts emerging from the in-force business during the year, net of amounts reinvested in writing new business. For asset management and other non-insurance operations (including the Group's central operations and Africa operations) it is taken to be IFRS basis shareholders' equity, net of goodwill attributable to shareholders, with central Group debt shown on a market value basis and subordinated debt recorded as free surplus to the extent that it is classified as available capital under the Group's capital regime.

Analysis of movement in Group free surplus[9]

	Actual exchange rate			Constant exchange rate	
	2020 $m	2019 $m	Change %	2019 $m	Change %
Asia – operating free surplus generated before restructuring costs	1,895	1,772	7	1,762	8
Central costs and eliminations (net of tax):					
Net interest paid on core structural borrowings	(328)	(451)	27	(453)	28
Corporate expenditure	(419)	(403)	(4)	(406)	(3)
Other items and eliminations	(111)	(69)	(61)	(69)	(61)
Net operating free surplus generated before restructuring costs and US	1,037	849	22	834	24
Restructuring and IFRS 17 implementation costs (net of tax)	(147)	(87)	(69)	(87)	(69)
US – operating free surplus generated net of restructuring costs	1,073	1,120	(4)	1,120	(4)
Net Group operating free surplus generated for continuing operations*	1,963	1,882	4	1,867	5
Redemption of subordinated debt for continuing operations	–	(529)			
External dividends	(814)	(1,634)			
Non-operating and other movements	(1,200)	654			
Net impact of Athene equity investment in Jackson	63	–			
Foreign exchange movements	136	190			
Increase in Group free surplus from continuing operations*	148	563			
Change in amounts attributable to non-controlling interests	209	(9)			
Free surplus at 1 Jan from continuing operations	9,736	9,182			
Free surplus at 31 Dec from continuing operations	10,093	9,736			
Comprising:					
Free surplus of life insurance and asset management operations	7,679	5,997			
Central operations (including Africa)	2,414	3,739			

* Before amounts attributable to non-controlling interests.

The total net Group operating free surplus generation, after including operating free surplus generated by the US business and deducting restructuring costs was $1,963 million (2019: $1,882 million[3]). This comprises $2,886 million (2019: $2,861 million[3]) operating free surplus generation from the life and asset management business (net of attributable restructuring costs) offset by centrally incurred costs and eliminations of $(923) million (2019: $(979) million[3]).

Asia operating free surplus generation[9,12] from insurance and asset management business increased by 8 per cent[1] to $1,895 million reflecting recent business growth, higher asset management earnings and lower levels of new business investment as Covid-19 containment measures introduced by the authorities across the region lowered sales in the year.

US operating free surplus generation (after deducting restructuring costs) fell (4) per cent compared with 2019, which included a $355 million benefit following the integration of the John Hancock business acquired in 2018.

Cash remittances

Holding company cash flow[13]

	Actual exchange rate		
	2020* $m	2019* $m	Change %
From continuing operations			
Asia	716	950	(25)
Jackson	–	509	(100)
Other operations	55	6	817
Total net cash remitted from continuing operations	771	1,465	(47)
From discontinued operations			
M&G plc	–	684	(100)
Net cash remitted by business units	771	2,149	(64)
Central outflows	(435)	(522)	
Dividends paid	(814)	(1,634)	
Other movements	(264)	(1,999)	
Total holding company cash flow	(742)	(2,006)	
Cash and short-term investments at the beginning of the year	2,207	4,121	
Foreign exchange and other movements	(2)	92	
Cash and short-term investments at the end of the year	1,463	2,207	

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

Remittances from our Asia business were $716 million (2019: $950 million[3]). In order to support the planned separation process, there were no remittances from Jackson during the period. $55 million remittances from other operations reflects intragroup interest income which is not expected to recur.

Cash remittances were used to meet central costs of $(435) million and to pay dividends of $(814) million. Central costs include net interest paid of $(294) million and a net tax benefit, which is not expected to recur going forward, of $94 million.

Other movements of $(264) million include the proceeds of the issuance of $1 billion of senior debt in April 2020 offset by central contributions to the funding of Asia strategic growth initiatives, principally payments for bancassurance distribution agreements, including TMB and UOB. Further information is contained in note I(iii) of the Additional unaudited financial information.

Cash and short-term investments totalled $1.5 billion at the end of December 2020 (31 December 2019: $2.2 billion[3]).

The Group will seek to manage its financial condition such that it has sufficient resources available to provide a buffer to support the retained businesses in stress scenarios and to provide liquidity to service central outflows.

Dividend policy

Reflecting the Group's capital allocation priorities, dividends will be determined primarily based on Asia's operating capital generation after allowing for the capital strain of writing new business and recurring central costs, with a portion of capital generation retained for reinvestment in the business. Dividends are expected to grow broadly in line with the growth in Asia operating free surplus generation net of right-sized central costs, and will be set taking into account financial prospects, investment opportunities and market conditions.

The Board has approved a 2020 second interim ordinary dividend of 10.73 cents per share. Combined with the first interim ordinary dividend of 5.37 cents per share the Group's total 2020 dividend is 16.10 cents per share.

Starting from the 2021 first interim dividend, the Board intends to apply a formulaic approach to first interim dividends, which will be calculated as one-third of the previous year's full-year ordinary dividend.

Asia

Operational and financial highlights

Prudential's Asia businesses delivered a resilient financial performance in 2020. While Covid-19 related containment measures impacted our new sales and associated new business profit levels, we also delivered a step-change in our digital capabilities. While the nature and severity of Covid-19 restrictions varied significantly across our markets, our enhanced digital and physical capabilities combined with our diversified and high quality platform supported a strong sequential quarterly recovery in sales in the third and fourth quarters of the year from a low in the second quarter, illustrating the strength of our franchise.

The resilience and quality of our business is also evident in customer retention levels of 90 per cent (2019: 90 per cent), which combined with our recurring premium, health and protection focused business model, with renewal premiums[8] increasing 6 per cent[1] to $20.1 billion, supported an overall 13 per cent[1] increase in adjusted life insurance operating profit[2] and an 8 per cent[1] increase in operating free surplus generation[9,12].

These qualities enabled us to continue to grow scale and value, even in more challenging operating conditions, with our overall Asia embedded value increasing to $44.2 billion at 31 December 2020 (31 December 2019: $39.2 billion[3]).

	Actual exchange rate			Constant exchange rate	
	2020 $m	**2019** $m	**Change** %	**2019** $m	**Change** %
New business profit	**2,201**	3,522	(38)	3,533	(38)
Adjusted operating profit*	**3,667**	3,276	12	3,256	13
EEV operating profit*	**4,387**	6,138	(29)	6,150	(29)
Operating free surplus generation*	**1,895**	1,772	7	1,762	8

* Before restructuring costs.

New business performance

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

	Actual exchange rate						Constant exchange rate			
	2020 $m		**2019** $m		**Change** %		**2019** $m		**Change** %	
	APE sales	**New business profit**	**APE sales**	**New business profit**	**APE sales**	**New business profit**	**APE sales**	**New business profit**	**APE sales**	**New business profit**
Hong Kong	**758**	**787**	2,016	2,042	(62)	(61)	2,037	2,063	(63)	(62)
China JV	**582**	**269**	590	262	(1)	3	590	262	(1)	3
Indonesia	**267**	**155**	390	227	(32)	(32)	379	220	(30)	(30)
Malaysia	**346**	**209**	355	210	(3)	–	349	207	(1)	1
Singapore	**610**	**341**	660	387	(8)	(12)	653	383	(7)	(11)
Other life insurance markets	**1,133**	**440**	1,150	394	(1)	12	1,160	398	(2)	11
Total Asia	**3,696**	**2,201**	5,161	3,522	(28)	(38)	5,168	3,533	(28)	(38)
Total Asia excluding Hong Kong	**2,938**	**1,414**	3,145	1,480	(7)	(4)	3,131	1,470	(6)	(4)
Total new business margin		**60%**		68%				68%		

Life insurance new business APE sales decreased by (28) per cent[1] to $3,696 million and related new business profit decreased by (38) per cent[1]. Outside Hong Kong, overall new business APE sales were (6) per cent[1] lower and new business profit decreased by (4) per cent[1].

The impact of Covid-19 related disruption varied materially in terms of severity and duration across the region. Restrictions eased in many markets as the year progressed. In Mainland China internal travel and business activity resumed from the end of March and restrictions in Hong Kong eased from the end of August, though the border between Mainland China and Hong Kong remains closed. In Indonesia, after an initial relaxation of lockdown measures in June, a further four-week period of lockdown was imposed between mid-September and mid-October and the country re-entered lockdown again in early 2021. Significant containment restrictions remain in place in Malaysia, Vietnam, the Philippines and Thailand, with reduced restrictions in place in Hong Kong domestic, Taiwan, Singapore and India.

Over 2020, we continued to benefit from the resilience our diverse platform provides. Our diverse geographic portfolio saw four markets increase APE sales compared with the prior year, including Thailand up 16 per cent[1], Taiwan up 11 per cent[1] and Vietnam up 9 per cent[1]. This is also evident from a new business profit perspective, with seven markets reporting growth, led by China JV up 3 per cent[1] among our larger markets and Thailand and Vietnam, up 38 per cent[1] and 18 per cent[1] respectively, in other markets.

Outside of Hong Kong, sales from our bancassurance channel were stable with last year, underpinned by growth in China JV (APE bancassurance sales up 34 per cent[1]), Thailand (up 21 per cent[1]), Indonesia (up 15 per cent[1]) and Vietnam (up 35 per cent[1]). We also saw increased agency momentum in the second half of the year.

There has been a significant acceleration of our digital capabilities over 2020, with virtual sales accounting for 27 per cent of bank sales from July to December and 28 per cent of all agency sales from April to December. This compares with very low amounts in prior years. Our agency channel was supported by over 2.2 million of 'online to offline' leads generated by our Pulse health and wealth super-app, which, together with direct sales in Pulse, generated $211 million of APE sales[23] in the year.

The quality and diversity of our platform contributed to a strong sequential recovery in APE sales as Covid-19 related restrictions were lifted, with discrete third quarter production of $925 million[1] sequentially 33 per cent[1] higher than the second quarter and fourth quarter sales 18 per cent[1] above the third quarter and 10 per cent[1] higher than the first quarter of 2020, prior to Covid-19 restrictions being applied in many of the markets in which we operate.

The fourth quarter of 2020 was the highest APE sales quarter of the year for overall Asia and for nine markets. As we pivoted to standalone protection products of lower case size to meet rising consumer demand, total new policies increased by 1 per cent and new protection policies grew by 10 per cent in the fourth quarter compared with the same period in the prior year.

The development of new business profit mainly reflects the impact of change in geographic mix, particularly sharply lower APE sales in Hong Kong where the reduction in new business profit was broadly in line with APE sales. Outside Hong Kong, new business profit was only (4) per cent[1] lower compared with a (6) per cent[1] reduction in APE sales, with improved new business margins partly driven by new health and protection product launches which saw seven markets increasing their health and protection mix. Health and protection products continue to be a significant proportion of sales, contributing 27 per cent of APE sales in 2020 (2019: 27 per cent).

Overall, Hong Kong APE sales were (63) per cent[1] below the prior year. This was principally a result of a very sharp reduction in APE sales to Mainland China customers, reflecting the impact of the border closure early in the year and consequent reduction in Mainland Chinese visitors and associated APE sales to these customers. While domestic Hong Kong APE sales were also impacted by Covid-19 related restrictions, new business production improved markedly over the course of the year, with APE sales in Q3 rising 20 per cent over Q2 and Q4 rising 60 per cent over Q3. The strong sequential sales growth was supported by product innovation and ongoing development of our broader digital capabilities. In particular, our increased focus on standalone protection products, with lower case sizes, to meet rising consumer demand saw domestic new sales policy count reach 98 per cent of prior year levels in the fourth quarter. Overall Hong Kong new business profit was (62) per cent[1] lower, broadly in line with the reduction in APE sales.

Our China JV delivered an encouraging performance despite Covid-19 related disruption, increasing new business profit by 3 per cent[1]. This was supported by the agency force focus on protection products, which accounted for 53 per cent of sales from this channel and as a result agency channel margins climbed to 85 per cent (2019: 74 per cent). We benefited materially from our diversified distribution model, particularly the strength in bancassurance which saw strong and accelerating growth of 34 per cent in APE sales throughout the year. Overall APE sales were only (1) per cent[1] lower compared with the prior year and second half APE sales 4 per cent[1] higher than the prior year.

The sales environment in Indonesia remained challenging following a deterioration of Covid-19 infections through the summer, culminating in the re-introduction of the highest-level movement restrictions in September, which remain in place today in parts of Indonesia. Despite the challenging environment, we achieved strong performance in the sharia segment with APE sales growing 6 per cent and new business profit 27 per cent. Meanwhile, the fourth quarter saw the highest overall sales of 2020 (19 per cent higher than APE sales in the first quarter) and was driven by 60 new products launched in 2020, including lower ticket standalone protection products. While this product strategy saw new sales case count rise by 12 per cent at FY20, overall APE sales volumes were (30) per cent[1] below the prior year driving a similar reduction in new business profit.

In Malaysia, APE sales were (1) per cent[1] below the prior year, with a decline in the first half sales largely offset by a recovery in the second half of 14 per cent (compared with the second half of the prior year), despite the reintroduction of partial Covid-19 related restrictions in October, driven by strong agency production across our traditional and takaful markets. The Takaful business grew APE sales by 26 per cent compared with 2019, with new business profit increasing by 29 per cent. Overall new business profit increased by 1 per cent[1], reflecting our increased focus on standalone smaller case size protection products.

In Singapore, APE sales fell by (7) per cent[1] reflecting Covid-19 restrictions with declines in the first half of the year partly offset by an increase in the second half of 5 per cent[1] when compared with the second half of the prior year. Strong agency momentum following the relaxation of Covid-19 restrictions saw APE sales in the second half of the year being 63 per cent higher than the level in the first half. New business profit reduced by (11) per cent[1], as lower interest rates resulted in a lower margin. Singapore continues to develop products and digital capabilities with the launch in December of three bite-sized digital products on Pulse (PRUSafe Dengue, PRUSafe BreastCancer, PRUSafe ProstateCancer) and the onboarding of the PRUCancer360 product on UOB's Mighty banking app.

We have made good initial progress with our recent investment in distribution in Thailand, where our APE sales were up 16 per cent[1], reflecting strong growth of 21 per cent in bancassurance channel. New business profit grew by a stronger 38 per cent, supported by the product mix shift to health and protection which accounted for 25 per cent of APE sales (2019: 16 per cent). Our distribution capability will be further strengthened by our partnership with TMB which commenced on 1 January 2021 and our digital partnership with The1, Thailand's largest loyalty platform.

EEV basis results

	Actual exchange rate			Constant exchange rate	
	2020 $m	2019 $m	Change %	2019 $m	Change %
New business profit	2,201	3,522	(38)	3,533	(38)
Profit from in-force business	1,933	2,366	(18)	2,371	(18)
Operating profit from long-term business	4,134	5,888	(30)	5,904	(30)
Asset management	253	250	1	246	3
Operating profit from long-term business and asset management before restructuring costs	4,387	6,138	(29)	6,150	(29)
Restructuring and IFRS 17 implementation costs	(88)	(31)	(184)	(31)	(184)
Non-operating profit	822	1,962	(58)	1,968	(58)
Profit for the year	5,121	8,069	(37)	8,087	(37)

	2020 $m	2019 $m
Other movements	(115)	(842)
Net increase in embedded value	5,006	7,227
Embedded value at 1 Jan	39,235	32,008
Embedded value at 31 Dec	44,241	39,235
% New business profit/average embedded value	5%	10%
% Operating profit/average embedded value	10%	17%

Asia EEV operating profit decreased compared with the prior year to $4,387 million (2019: $6,150 million[1]), driven by lower new business profit and a lower profit from in-force business.

The profit from in-force business reflects the expected return and effects of operating assumption changes and operating experience variances, which in combination, were (18) per cent[1] below the prior year. The expected return was (9) per cent[1] below the prior year reflecting the impact of lower interest rates in reducing the risk discount rate under our active basis European Embedded Value methodology. Reflecting the high quality of our in-force business and prudent assumption setting, operating assumption changes and operating experience variances are again positive, driven by product repricing effects as well as positive claims variances across our businesses, among other factors.

Asset management segment operating profit after tax was up 3 per cent[1] on the prior year at $253 million (2019: $246 million[1]), which is discussed in more detail below.

The non-operating profit of $822 million (2019: $1,968 million[1]) largely comprises increases in asset values following the fall in interest rates and higher equity markets, partially offset by the impact of lower interest rates on expectations of future asset returns.

Overall, Asia segment embedded value increased by 13 per cent[3] to $44.2 billion in the 12 months to 31 December 2020 (31 December 2019: $39.2 billion[3]). Of this, $42.8 billion (31 December 2019: $37.8 billion[3]) relates to the value of the long-term business and includes our share of our India associate valued using embedded value principles which is lower than its market capitalisation. The remainder represents Asia asset management and goodwill attributable to shareholders which are carried at IFRS net asset value within the Group's EEV. At 31 December 2020, 47 per cent (31 December 2019: 48 per cent[3]) of total Asia long-term embedded value excluding goodwill is attributable to Hong Kong.

Total embedded value for Asia long-term business operations, excluding goodwill

	31 Dec 2020 $m	31 Dec 2019 $m
Free surplus	5,295	3,624
Required capital	3,445	3,182
Net worth	8,740	6,806
Value of in-force business before deduction of cost of capital and time value of options and guarantees	36,729	32,396
Cost of capital	(749)	(866)
Time value of options and guarantees*	(1,912)	(493)
Net value of in-force business	34,068	31,037
Embedded value	42,808	37,843

***Asia analysis of movement in free surplus*[9]**

	Actual exchange rate			Constant exchange rate	
	2020 $m	**2019** $m	**Change** %	**2019** $m	**Change** %
Existing business – transfer to net worth	1,878	1,914	(2)	1,901	(1)
Expected return on existing business	101	80	26	79	28
Changes in operating assumptions and experience variances	222	147	51	151	47
Operating free surplus generated from in-force life business before restructuring costs	2,201	2,141	3	2,131	3
Asset management	253	250	1	246	3
Operating free surplus generated from in-force life business and asset management before restructuring costs	2,454	2,391	3	2,377	3
Investment in new business	(559)	(619)	10	(615)	9
Operating free surplus generated before restructuring costs	1,895	1,772	7	1,762	8
Restructuring and IFRS 17 implementation costs	(82)	(31)	(165)	(31)	(165)
Operating free surplus generated	1,813	1,741	4	1,731	5
Non-operating profit	444	1,195			
Net cash flows paid to parent company	(716)	(950)			
Foreign exchange movements on foreign operations, timing differences and other items	169	(357)			
Total movement in free surplus	1,710	1,629			
Free surplus at 1 Jan	4,220	2,591			
Free surplus at 31 Dec	5,930	4,220			
Representing:					
Long-term business	5,295	3,624			
Asset management	635	596			
Free surplus at 31 Dec	5,930	4,220			

In-force operating free surplus generation[9,12] was $2,201 million, up 3 per cent[1] compared with the prior year. Excluding the effect of operating assumption changes and experience variances, in-force free surplus generation was in line with the prior year[1] with the growth of the in-force portfolio being dampened by the effect of lower interest rates compared with the prior year. Operating assumption changes and experience variances were positive, again illustrating the high quality nature of the in-force business.

Investment in new business was $(559) million, 9 per cent[1] below that in 2019. This reflects lower APE sales volumes, offset by business mix effects and lower interest rates.

Overall higher in-force generation and lower investment in new business led to operating free surplus generated[9] before restructuring costs increasing by 8 per cent[1] to $1,895 million.

The non-operating profit of $444 million includes the benefit of the reinsurance transaction undertaken by Hong Kong as part of the Group's on-going asset/liability management as discussed earlier under corporate transactions. 2019 non-operating profits included $278 million[3] of gains from the reduction in the Group's stake in ICICI Prudential Life Insurance Company and the disposal of Prudential Vietnam Finance Company.

Local statutory capital
We maintained a strong balance sheet with a shareholder LCSM surplus over the regulatory minimum capital requirement of $8.2 billion and coverage ratio of 338 per cent at 31 December 2020 (31 December 2019: $4.7 billion and 253 per cent). If our with-profits funds in Hong Kong, Singapore and Malaysia are added the surplus increases to $23.6 billion (31 December 2019: $18.8 billion). We seek to safeguard our business from market volatility through our strong focus on protection products and our prudent asset and liability management strategy.

IFRS profit
Overall Asia adjusted operating profit[2] increased by 13 per cent[1] to $3,667 million, driven by a 14 per cent[1] increase in life insurance adjusted operating profit[2], alongside a 2 per cent[1] increase at Eastspring.

This growth reflects the benefits of our focus on high quality recurring premium business, which accounts for 90 per cent of our new business, and diversified portfolio of scale businesses, with over 88 per cent of our total life income[14] (excluding other income described below) driven by insurance margin and fee income (2019: 86 per cent[1]), again supporting profit progression across market cycles.

Our Asia life insurance adjusted operating profit[2] growth is broad-based and at scale. Overall, nine insurance markets reported double-digit growth[1], with three insurance markets delivering growth of 20 per cent[1] or more. At a market level, highlights include Hong Kong up 20 per cent[1] to $891 million, Singapore up 18 per cent[1] to $574 million, Malaysia up 14 per cent[1] to $309 million, China up 15 per cent[1] to $251 million and Thailand up 24 per cent[1] to $210 million. Adjusted operating profit[2] in Indonesia was $519 million, marginally lower than the prior year.

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

	Actual exchange rate				Constant exchange rate	
	2020		2019		2019	
	$m	Margin bps	$m	Margin bps	$m	Margin bps
Spread income	296	74	321	108	319	106
Fee income[11]	282	101	286	104	283	104
With-profits	117	16	107	18	107	18
Insurance margin	2,648		2,244		2,234	
Other income	3,148		3,229		3,225	
Total life income	6,491		6,187		6,168	
Expenses:						
Acquisition costs	(1,904)	(52)%	(2,156)	(42)%	(2,156)	(42)%
Administration expenses	(1,539)	(227)	(1,437)	(252)	(1,430)	(249)
DAC adjustments	382		430		426	
Share of related tax charges from joint ventures and associates	(46)		(31)		(30)	
Long-term insurance business pre-tax adjusted operating profit	3,384		2,993		2,978	
Eastspring	283		283		278	
Adjusted operating profit from long-term business and asset management before restructuring costs	3,667		3,276		3,256	
Tax charge	(495)		(436)		(432)	
Adjusted operating profit after tax for the year before restructuring costs	3,172		2,840		2,824	
Non-operating profit after tax	210		885		899	
Profit for the year after tax before restructuring costs	3,382		3,725		3,723	

Our adjusted operating profit[2] continues to be based on high-quality drivers. The overall 14 per cent[1] growth in Asia life insurance adjusted operating profit[2] to $3,384 million (2019: $2,978 million[1]) was driven principally by 19 per cent[1] growth in insurance margin-related revenues and reflects our ongoing focus on recurring premium health and protection products and the associated continued growth of our in-force business.

Fee income was in line with the prior year, while spread income decreased by (7) per cent[1] driven by lower interest rates in the year.

With-profits earnings relate principally to the shareholders' share in bonuses declared to policyholders. As these bonuses are typically weighted to the end of a contract, under IFRS, with-profits earnings consequently emerge only gradually over time. The 9 per cent[1] growth in with-profits earnings reflects the ongoing growth in these portfolios.

Other income primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses. As such, the (2) per cent[1] decrease from 2019 largely reflects lower new business volumes, whereas new business acquisition expense fell 12 per cent[1] to $(1,904) million. The ratio of shareholder acquisition costs to shareholder-related APE sales (excluding with-profits-related sales) increased to 68 per cent (2019: 66 per cent on an actual exchange rate basis), reflecting changes to product and geographical mix. Administration expenses, including renewal commissions, increased by 8 per cent[1] reflecting in-force business growth.

Asset management

	Actual exchange rate		
	2020 $m	2019 $m	Change %
Total external net flows*	(9,972)	8,340	n/a
External funds under management* ($bn)	93.9	98.0	(4)
Funds managed on behalf of M&G plc ($bn)	15.7	26.7	(41)
Internal funds under management ($bn)	138.2	116.4	19
Total funds under management ($bn)	247.8	241.1	3
Analysis of adjusted operating profit			
Retail operating income	390	392	(1)
Institutional operating income	256	244	5
Operating income before performance-related fees	646	636	2
Performance-related fees	7	12	(42)
Operating income (net of commission)	653	648	1
Operating expense	(336)	(329)	(2)
Group's share of tax on joint ventures' adjusted operating profit	(34)	(36)	6
Adjusted operating profit	283	283	–
Adjusted operating profit after tax	253	250	1
Average funds managed by Eastspring	$227.1bn	$214.0bn	6
Fee margin based on operating income	28bps	30bps	-2bps
Cost/income ratio[8]	52%	52%	–

* Excluding $15.7 billion of funds managed on behalf of M&G plc.

Eastspring's total funds under management were $247.8 billion at 31 December (31 December 2019: $241.1 billion[3]), reflecting favourable internal net inflows and higher equity markets, partly offset by external net outflows. Compared with 2019, Eastspring's average funds under management increased by 6 per cent[3] (7 per cent[16] on a constant exchange rate basis). Funds under management were 13 per cent[3] higher than at the end of June ($219.7 billion[3]) as equity markets recovered and asset flows began to recover from the volatility in the first half.

Eastspring continues to benefit from strong, positive net flows from internal insurance funds, recording $8.5 billion (2019: $9.7 billion). Overall third-party flows related to external funds under management were negative $(10.0) billion, reflecting the adverse impact of higher market volatility, as a result of Covid-19, on retail funds, most notably in a number of retail bond funds in Thailand in the first half of 2020. Highlights included strong flows into our China A Fund, and Global Innovation Fund in respect of our equity products, and Income Plus and Active Bond Fund Plus on the fixed income side. As market volatility subsided over the second half of the year, third-party net flows[22] improved materially, with the fourth quarter seeing net inflows of $0.5 billion. In addition, as anticipated, there were net outflows from funds managed on behalf of M&G plc of $(10.0) billion in 2020, with further outflows of around $(6) billion expected in the first half of 2021.

Eastspring's adjusted operating profit[2] of $283 million was up 2 per cent compared with the prior year on a constant exchange rate basis (level on an actual exchange rate basis). Operating income (net of commission) increased by 1 per cent[3] with the benefit of higher average funds under management being partly offset by adverse client and asset mix effects that reduced the fee margin based on operating income to 28 basis points (2019: 30 basis points[3]). Cost discipline remains robust, with operating costs in line with the prior year, with the resulting cost/income ratio[8] the same at 52 per cent.

Return on segment equity

The benefit of our focus on profitable health and protection, with-profit and asset management businesses is evident in the attractive 26 per cent (2019: 30 per cent) operating return delivered on average segment equity[8] over 2020.

United States

Operational and financial highlights

All of the results below reflect Jackson Financial Inc. (which we refer to as Jackson), the entity that is proposed to be demerged, except for the discussion on local statutory capital which covers Jackson Financial Inc.'s subsidiary, Jackson National Life, only. Post its separation from the Group, Jackson will no longer publish EEV results and the discussion below therefore focuses on IFRS and capital measures. All amounts have been prepared on the basis of the Prudential Group's accounting policies and methodologies and are consistent with the Group's reporting in 2019. This will differ from the financial information that Jackson will report as part of the demerger process, which will be prepared under US GAAP and will include certain non-GAAP financial measures which Jackson management believes will be more relevant to manage the business as a standalone entity.

At 31 December 2020, Jackson National Life's RBC ratio was 347 per cent (31 December 2019: 366 per cent). At the point of proposed separation, Jackson expects to have an RBC ratio[24] in excess of 450 per cent and total financial leverage[21] in the range of 25 to 30 per cent, subject to market conditions. Jackson expects to achieve this level of RBC at the point of separation by contributing proceeds of its debt and hybrid capital raising to its regulated insurance subsidiaries.

	2020 $m	2019 $m	Change %
APE new business sales (APE sales)	1,923	2,223	(13)
Adjusted operating profit*	2,796	3,070	(9)
RBC ratio (%)	347	366	(19) ppts

* Before restructuring costs.

New business

APE sales

	2020 $m	2019 $m	Change %
Variable annuities	1,662	1,470	13
Fixed annuities	33	119	(72)
Fixed index annuities	100	382	(74)
Total retail annuity APE sales	1,795	1,971	(9)
Total institutional product APE sales	128	252	(49)
Total APE sales	1,923	2,223	(13)

Despite challenging market conditions, Jackson delivered a 13 per cent increase in variable annuity sales, reflecting the strength and depth of its leading distribution franchise and value-added customer proposition. Jackson believes that the investment freedom and optional guaranteed benefits Jackson offers its customers support its strong brand recognition with distributors and advisers[18].

Jackson has maintained its leading position in the US retail variable annuity market[19]. This market position reflects the attractiveness of its product, breadth of distribution across multiple channels, and the productivity of Jackson's wholesaler field force, which is among the most productive in the industry, with sales per agent over 10 per cent higher than the nearest competitor[20].

In line with Jackson's disciplined approach to pricing and risk management, pricing actions taken in the first half of 2020 in response to changing market conditions and to preserve statutory capital, resulted in an expected and material reduction in new fixed annuity and fixed index annuities sales, evident particularly from the beginning of the second quarter. This, combined with lower institutional sales, resulted in an overall (13) per cent reduction in APE sales.

IFRS profit

Adjusted operating profit

US segment adjusted operating profit[2,7] was $2,796 million in 2020, down (9) per cent from the prior year. This reduction largely reflects the impact of DAC adjustment effects in the current and prior year, alongside the expected reduction in spread related earnings following the reinsurance contract with Athene in June 2020. Offsetting these falls, fee income was $3,386 million, 3 per cent higher than the prior year as result of higher average account balances.

A further breakdown of the drivers of IFRS profitability is set out below.

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

	2020		2019	
	$m	Margin bps	$m	Margin bps
Spread income	521	112	642	112
Fee income	3,386	178	3,292	182
Insurance margin	1,298		1,317	
Other income	–		26	
Total life income	5,205		5,277	
Expenses:				
Acquisition costs	(991)	(52)%	(1,074)	(48)%
Administration expenses	(1,744)	(71)	(1,675)	(68)
DAC adjustments	317		510	
Long-term insurance business pre-tax adjusted operating profit	2,787		3,038	
Asset management	9		32	
Adjusted operating profit from long-term business and asset management before restructuring costs	2,796		3,070	
Tax charge	(313)		(437)	
Adjusted operating profit after tax for the year before restructuring costs	2,483		2,633	
Non-operating loss after tax	(2,730)		(3,013)	
Loss for the year after tax before restructuring costs	(247)		(380)	

Spread income declined (19) per cent in 2020, primarily as a result of the Athene reinsurance transaction, as well as lower asset yields, partially offset by lower interest credited reflecting lower average crediting rates compared with 2019. The margin of 112 basis points benefited from prior year swap transactions. Excluding that benefit, the spread margin would have been 88 basis points (2019: 101 basis points).

Insurance margin represents profits from insurance risks, including variable annuity guarantees and profits from the legacy life businesses and was marginally lower than that earned in 2019.

Acquisition costs have fallen by 8 per cent following lower sales in the year. Administration expenses increased by 4 per cent to $(1,744) million in 2020 as a result of higher asset-based commissions, as average separate account balances increased, and the non-recurrence of commission income (treated as a negative expense) earned under the John Hancock reinsurance arrangement in 2019. Excluding the asset-based commission, the administration expense ratio would be 34 basis points (2019: 33 basis points).

DAC adjustments, being the cost deferred on sales in the period net of amortisation of amounts deferred previously, have fallen by $(193) million to $317 million. This follows lower deferrals from lower sales and higher amortisation of prior period DAC. DAC amortisation increased as the impact of changes to the longer-term economic assumptions underpinning the amortisation calculation, following an expectation of lower interest rates in the future, more than offset the benefits of increases in DAC deceleration in the period as a result of higher equity markets at the end of 2020 as compared with the start of the year.

Non-operating items

The non-operating result was negative $(3,510) million pre-tax (2019: $(3,795) million) and contributed to a net loss after tax of $(247) million (2019: $(380) million). The non-operating result over 2020 includes a loss of $(4,296) million from short-term investment fluctuations and amortisation of previous acquisition accounting adjustments offset by a $786 million pre-tax gain as a result of the Athene reinsurance transaction.

In the US, Jackson provides certain guarantees on its annuity products, the value of which would typically rise when equity markets fall and long-term interest rates decline. Jackson charges fees for these guarantees which are in turn used to purchase downside protection, in particular options and futures to mitigate the effect of equity market falls.

Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and does not seek to hedge on an accounting basis. It therefore accepts a degree of variability in the accounting results.

The $(4,296) million discussed above principally arises from the steep rise in equity markets following the low at the end of the first quarter of 2020 that led to equity derivative losses taken out as part of Jackson's hedging programme being in excess of the corresponding reduction in guarantee liabilities and the effect of lower interest rates on the value of its guarantees. Hedge costs were also elevated due to the high levels of volatility observed in the period.

Local statutory capital – Jackson National Life (Jackson)

	2020				2019	
	Total Adjusted Capital (TAC) $m	Required capital at 'Company Action Level' (CAL) $m	Surplus $m	Ratio %	Surplus $m	Ratio %
1 Jan	5,221	1,426	3,795	366	4,315	458
Capital generation from new business written	191	153	38	(23)	(144)	(75)
Operating capital generation from business in force	798	(177)	975	100	1,531	141
Operating capital generation	989	(24)	1,013	77	1,387	66
Other non-operating movements	(1,832)	115	(1,947)	(108)	(1,524)	(104)
US reinsurance transaction	524	(251)	775	67	–	–
Investment by Athene	500	–	500	25	–	–
Adoption of NAIC reforms	–	–	–	–	142	(17)
Hedge modelling revision	(139)	251	(390)	(80)	–	–
Dividends paid	–	–	–	–	(525)	(37)
31 Dec	**5,263**	**1,517**	**3,746**	**347**	**3,795**	**366**

The movement in surplus over the course of 2020 was driven by:

— Operating capital generation from the in-force business was $975 million, in line with our expectations post the Athene transaction. This is lower than 2019 which benefited from a $355 million release of incremental reserves following the integration of the John Hancock business acquired in 2018. The impact of new business improved by $182 million, largely as a result of expected fall in fixed annuity and fixed index annuity sales following repricing actions in the first half of 2020.

— Non-operating items reduced surplus by $(1,947) million driven primarily by the impact of market movements where falling interest rates, rising equity markets and elevated volatility have combined to result in derivative losses, net of reserve changes, and an increase in required capital. This included a reduction of $(193) million in deferred tax assets being admitted into statutory surplus and an increase in surplus of $140 million from changes in respect of formal recognition by the regulator of guaranteed asset management revenue.

— Surplus benefited from a $500 million investment by Athene and a further $775 million as a result of the reinsurance of the in-force fixed annuity and fixed index annuity portfolio in June.

— At 31 December 2019, Jackson early adopted the provisions of the National Association of Insurance Commissioners Valuation Manual Minimum Standards No. VM-21 (VM-21). As announced on 28 January 2021, 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 through a reduction in TAC and an increase in CAL.

Group reporting segments after proposed separation of Jackson

In presenting its results for 2020, the Group continues to report its business using the following segments:

— Asia (including insurance and asset management business); and
— US (including Jackson and US asset management business).

Other operations are classified as unallocated to a segment, which includes the Group's head office functions in London and Hong Kong and Africa insurance operations.

In preparation for the planned separation of Jackson, from 2021 the Group has revised its internal management information to focus on the following revised segments, which will be used for external reporting from half year 2021.

— China JV
— Hong Kong
— Indonesia
— Malaysia
— Singapore
— Growth markets and other (including Africa)
— Eastspring

The Group's head office functions will continue to be unallocated to a segment. The US has been classified as discontinued following the Board's decision to proceed with a demerger in the second quarter of 2021.

A summary of the Group's key performance indicators by these segments going forward are as set out below.

	Actual exchange rate							
	APE sales		New business profit		Adjusted operating profit*		EEV for long-term business	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
China JV	582	590	269	262	251	219	2,798	2,180
Hong Kong	758	2,016	787	2,042	891	734	20,156	18,255
Indonesia	267	390	155	227	519	540	2,630	2,737
Malaysia	346	355	209	210	309	276	4,142	3,535
Singapore	610	660	341	387	574	493	8,160	7,337
Growth markets and other ‡	1,245†	1,232†	440	394	835†	737†	4,975†	3,858†
Eastspring	n/a	n/a	n/a	n/a	283	283	n/a	n/a
Total	3,808†	5,243†	2,201	3,522	3,662†	3,282†	42,861†	37,902†

* Further analysis of Adjusted operating profit for Asia is set out in note I(v) in the Additional unaudited financial information.
† Includes amounts relating to Africa.
‡ Adjusted operating profit includes other of $119 million (2019: $125 million) and primarily comprises of taxes for joint ventures and associates and other non-recurring items.

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

Notes

1 On a constant exchange rate basis.
2 Adjusted IFRS operating profit based on longer-term investment returns is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the year is set out in note B1.1 of the IFRS financial statements.
3 On an actual exchange rate basis.
4 Calculated on a Moody's total leverage basis.
5 Approximately half of the corporate expenditure is incurred in sterling and our assumptions forecast an exchange rate of £1=$1.2599.
6 As compared with head office expenditure of $(490) million in 2018 and before a planned $10 million increase in Africa costs as previously disclosed.
7 Attributed to the shareholders of the Group before deducting the amount attributable to the non-controlling interests. This presentation is applied consistently throughout the document.
8 See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
9 For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the year less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the year. Further information is set out in 'movement in Group free surplus' of the EEV basis results.
10 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum requirement of participating business in Hong Kong, Singapore and Malaysia. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.
11 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 margin have been amended for consistency albeit impacts are minimal.
12 Operating free surplus generated before restructuring costs.
13 Net cash amounts remitted by business units are included in the holding company cash flow, which is disclosed in detail in note I(iii) of the Additional unaudited financial information. This comprises dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
14 Total insurance margin ($2,648 million) and fee income ($282 million) of $2,930 million divided by total life income excluding other income of $3,343 million (Comprised of total life income of $6,491 million less other income of $3,148 million).
15 Central expenses comprises other income and expenditure of $(748) million (2019: $(926) million on an actual exchange rate basis) and restructuring and IFRS 17 implementation costs of $(208) million (2019: $(110) million on an actual exchange rate basis).
16 On a constant exchange rate basis Eastspring's average funds under management over the year to 31 December 2019 were $211.5 billion (actual exchange rate basis: $214.0 billion). Average funds under management over the year to 31 December 2020 were $227.1 billion.
17 For discussion on the basis of preparation of the sources of earnings in the table see note I(iv) of the Additional unaudited financial information.
18 Cogent Annuity Brandscape+37 Net Promoter Score ('NPS') for Jackson variable annuities, compared to an industry average NPS of 0.
19 LIMRA: through the third quarter of 2020, Jackson accounted for 16.5% of new sales in the U.S. retail variable annuity market and ranked number 1 in variable annuity sales.
20 Market Metrics Q3 2020 Sales, Staffing, and Productivity Report: Jackson's variable annuity sales per wholesaler are more than 10% higher than its nearest competitor.
21 Calculated on a US GAAP basis as the ratio of total debt (including senior debt, hybrid debt and preferred securities) to total debt and shareholders' equity (excluding Accumulated Other Comprehensive Income).
22 Excluding money market funds and funds managed on behalf of M&G plc.
23 APE sales substantially from full-premium products sold through referrals to agents and a small amount of revenue from 37 new digital products.
24 Representing the RBC ratio of Jackson National Life that reflects the capital and capital requirements of Jackson National Life and its subsidiaries, including Jackson National Life NY.
25 The term 'Non-operating items' is used in this report to refer to items excluded from adjusted IFRS operating profit based on longer-term investment returns from continuing operations, including short-term investment fluctuations in investment returns on shareholder-backed business, corporate transactions and amortisation of acquisition accounting adjustments. For the avoidance of doubt this analysis is not intended to align with 'results of operating activities' as discussed in IAS 1 Presentation of Financial Statements.