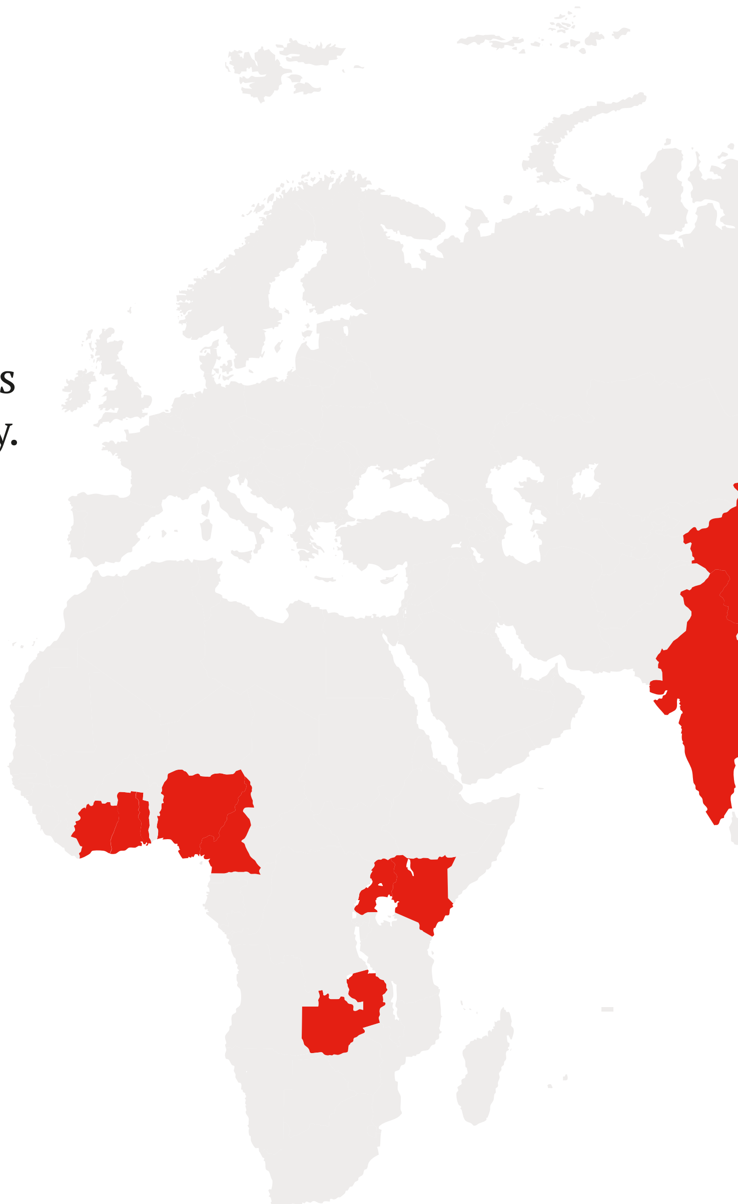
A

Strategic report

Contents

Prudential plc is an Asia-led group providing health, protection and savings solutions to more than 20 million customers

Our differentiated product portfolio in Asia and Africa is well positioned to meet the health, protection and savings needs of the region, where insurance penetration is low and demand for savings solutions is rapidly developing. Our trusted brands, digitally enabled multi-channel distribution and efficient and agile infrastructure enable us to meet the growing needs of our customers for long-term savings and financial security.



Africa opportunity

Rapidly growing multi-product, multi-distribution business in Africa with operations across the continent

51%

growth in APE sales

We are operating in

8

African markets with a combined population of over

400m

Top 3 position in
9 out of 13 life markets
in which we operate

Downloads of our health and wealth super-app, Pulse by Prudential

c.20m

as of February 2021[2]

$211m

APE sales[1] from Pulse by Prudential

Distribution

28%

of agency sales made virtually between April-December

Customers

16m

total number of life customers

Eastspring is the **largest pan-Asian retail asset manager** excluding Japan

$248bn

assets under management

US separation

In January 2021 the Board announced that it had decided to pursue the separation of Jackson from the Group through a demerger, whereby shares in Jackson would be distributed to Prudential shareholders.

The success of Jackson's variable annuity offerings reflects:

— The attractiveness of Jackson's product and the investment freedom and optional guaranteed benefits they offer; and
— The breadth of Jackson's distribution across multiple channels, and the productivity of Jackson's wholesaler field force.

10,000

Americans to reach retirement age every day for the next 40 years

3m

customers

13%

growth in variable annuity APE sales

B

Our purpose

Prudential helps people get the most out of life. We make healthcare affordable and accessible, we protect people's wealth and grow their assets, and we empower our customers to save for their goals.

Our values

Ambitious
Our business is competitive. We push ourselves and each other to greatness, but not at all costs. Being a team player and doing the right thing come first.

Curious
The world is changing rapidly. No one person has all the answers. We are humble and seek to listen, learn, and see things differently so we can innovate.

Empathetic
There is an age-old wisdom in walking a mile in another's shoes. We do that every day, whether it's with customers or colleagues.

Courageous
Prudential's success and culture belongs to all of us – it's our shared legacy. We build it together, bring our full selves to work, and speak truth to power.

Nimble
We approach our work iteratively, with carefully-designed experiments that help us fail fast and fail forward.

Our strategy

We create shareholder value by focusing on the opportunities available to the Group's high-growth businesses in Asia and Africa.

Read more about our Group strategy and operations on page 18 >

Notes
1 APE sales substantially from full-premium products sold through referrals to agents and a small amount of revenue from 37 new digital products.
2 As of 22 February 2021.

Our business model

Where we operate

We choose to operate in markets that offer the largest structural growth potential; and tailor products and solutions to meet the needs of these populations. We focus on areas with low insurance penetration in Asia and Africa, and where demand for savings is rapidly increasing.

Asia

In Asia, there is a growing demand for savings and protection across the region, as markets are challenged by low life insurance penetration and a large pension funding gap.

Read more on page 19 >

Africa

In Africa, we are building businesses in one of the world's most under-penetrated markets, with the population expected to double to more than two billion people by 2050.

Read more on page 19 >

US

In the US, we intend to effect a full separation of Jackson to enable the Group to focus exclusively on its high-growth Asia and Africa businesses.

Read more on page 26 >

Operating model

Propositions to meet customer needs

Markets

We select markets with low insurance penetration with a growing need for health, protection and savings products, and demonstrate opportunities for growth.

We invest in these markets to address the social requirements for insurance and asset management solutions, as the needs of the population develop alongside economic growth.

We work with governments and regulators to understand their objectives, priorities and concerns, and how they affect or shape our business.

Reinvestment to meet social needs and address opportunities

Value creation

We generate value through insurance profits from the protection given to policyholders, and managing customers' savings.

The Group uses the value it creates to reinvest in the Asia business, which will lead to further returns for shareholders.

Value for investors and other stakeholders

Integrated asset management

Our asset management business is fully embedded within our insurance operations. We leverage Eastspring's expertise in equity, bonds and multi-asset management to underpin our insurance products, as well as offering products direct to third-party institutions and retail clients.

Customer service and loyalty

Our excellent customer service is a key factor in building our strong reputation and leading pan-Asia franchise.

- High customer loyalty, with a retention ratio consistently in excess of 90 per cent.
- The satisfaction and trust our customers have in our business translates into a high proportion of repeat sales.

Operating with discipline
Risk management and disciplined allocation of capital underpin our activities, while our governance, processes and controls enable us to deal effectively with uncertainty.

Read more in the Group Chief Risk and Compliance Officer's report on page 45 >

Building sustainable business
We build sustainable businesses and invest responsibly, seeking to integrate environmental, social and governance considerations into our investment processes and stewardship activities.

Read more in the ESG report on page 70 >

The value we create for our stakeholders

Products and brands

We provide health, protection and long-term savings products that meet the needs of our customers.

We focus on long-term recurring revenue that compounds over time.

We invest in and develop our brands, to build trust, drive awareness and attract and retain customers.

Innovation and broad capabilities

Distribution and customer engagement

Our extensive distribution channels enable us to better understand and service customers' financial needs.

Our health, savings and protection products are distributed through our extensive agent network, banks and digital partnerships.

Our asset management products are distributed to third-party institutions and retail clients.

Pulse by Prudential is our health and wealth super-app. Pulse is a free digital mobile application that offers holistic management, artificial intelligence (AI)-powered self-help tools, and real time information to serve users 24/7 and promotes health and wellbeing through a range of value-added services.

Delivering for customers

Customers

We aim to provide accessible healthcare solutions as well as empowering our customers to save for their goals.

During the year we paid out over

$27.5bn

to our customers in respect of the long-term insurance products they hold with us[2]

Investors

Our Asia-focused strategy will support long-term delivery of future shareholder returns through value appreciation and dividends.

EEV Group excluding Jackson[1]

$41.9bn

Our people

We provide an inclusive working environment where we develop talent, reward performance, protect our people and value our differences.

18,687

employees

Government and wider society

We regard governments and legislatures in the markets in which we operate as important stakeholders. In addition, we support communities where we operate, through investment in business and infrastructure, paying tax revenues and community support activity. In 2020, the Prudential Covid-19 Relief Fund provided financial support for communities and for the volunteering efforts of our people.

$33.2m

community support investment

Regulators

We work with regulators to understand their objectives, priorities and concerns, and how they affect the shape of our business.

$11.0bn

LCSM shareholder surplus

Suppliers

We treat our suppliers fairly so we both mutually benefit from our relationship.

Notes

1 Excludes Jackson EEV basis shareholders' equity of $12.1 billion. See note II of the Additional unaudited financial information for reconciliation to IFRS shareholder's equity.

2 Comprising $20.3 billion in claims paid in the US and $7.2 billion claims paid in Asia, both gross of reinsurance. Included within total charge for benefits and claims in the IFRS income statement, see note C3.1(iii)(c) to the IFRS financial statements for more details.

Engaging our stakeholders

We engage with our stakeholder groups closely and take account of their concerns in our decision making.

Read more in our Section 172 statement on page 78 ›

Living by our principles

We put customers first.
We act with integrity.
We embrace a growth mindset.
We invest in all our communities.
We take the long view.

These principles are underpinned by our values which are set out on page 13 ›

Measuring our financial performance

To create sustainable economic value for our shareholders we focus on delivering sustainable compounding growth while generating cash and capital to reinvest in the Asia and Africa businesses and meet our financing needs. We focus on the following metrics when looking at our financial performance[1].

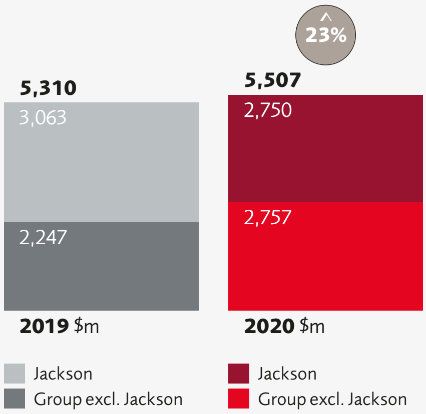
Adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit)[2] $m

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

Group adjusted operating profit in 2020 is 4 per cent higher on a constant and actual exchange rate basis compared with 2019.

Adjusted operating profit for the Group excluding Jackson Financial Inc. and its subsidiaries (Jackson) was $2,757 million up 24 per cent on a constant exchange rate basis (23 per cent on an actual exchange rate basis), reflecting higher adjusted operating profit from Asia life and asset management operations, up 13 per cent on a constant exchange rate basis to $3,667 million (12 per cent on an actual exchange rate basis) and lower central and restructuring costs (excluding Jackson), down 12 per cent to $(910) million (2019: $(1,029) million) on an actual exchange rate basis.

Jackson adjusted operating profit before restructuring costs was $2,796 million, down (9) per cent largely reflecting the impact of DAC adjustments in the current year and the expected reduction in spread-related earnings following the Athene reinsurance agreement. Jackson adjusted operating profit after restructuring costs was $2,750 million.



Note
Amounts stated after restructuring and IFRS 17 implementation costs attributable to each block.

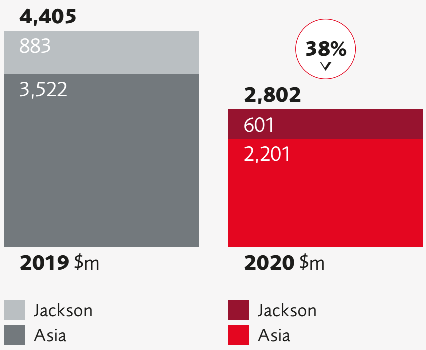
EEV new business profit[3] $m

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

EEV new business profit in 2020 decreased by (37) per cent on a constant exchange rate basis and (36) per cent actual exchange rate basis compared with 2019.

EEV new business profit for Asia declined by (38) per cent on a constant and actual exchange rate basis to $2,201 million, driven by declines in new business sales as a result of Covid-19 related disruption.

Jackson EEV new business profit declined by (32) per cent, largely reflecting a decline in sales and the reduction in interest rates during 2020, partly mitigated by the higher proportion of variable annuity sales in the year.



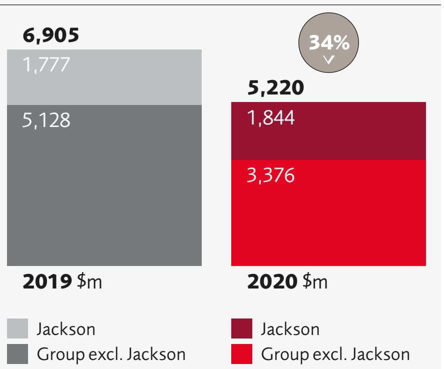
EEV operating profit[6] $m

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

Group EEV operating profit in 2020 decreased by (24) per cent on an actual exchange rate basis compared with 2019.

EEV operating profit for the Group excluding Jackson fell by (34) per cent on an actual exchange rate basis, largely reflecting the decline in new business profit, described above and the effect of lower interest rates on the in-force operating profits.

Jackson EEV operating profit increased 4 per cent to $1,844 million.



Note
Amounts stated after restructuring and IFRS 17 implementation costs attributable to each block.

Growth rate on Group excluding Jackson on an actual exchange rate basis. Group excluding Jackson comprises Asia, Africa and central operations.
Growth rate on Asia operations on an actual exchange rate basis.

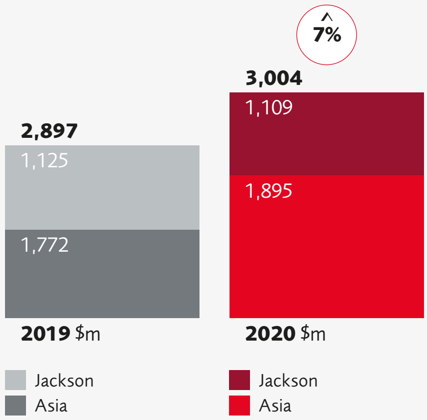
Free surplus generation from insurance and asset management businesses[4] $m

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

Group operating free surplus generation from continuing insurance and asset management operations before restructuring costs was $3,004 million in the year (2019: $2,897 million on an actual exchange rate basis). Group operating free surplus generation from continuing insurance and asset management operations after restructuring costs was $2,886 million in the year (2019: $2,861 million on an actual exchange rate basis).

Operating free surplus generation before restructuring costs for Asia operations increased 8 per cent on a constant exchange rate basis (7 per cent on an actual exchange rate basis) to $1,895 million, following the growth of the in-force portfolio and lower levels of new business, partially offset by the effect of lower interest rates compared with the prior year.

Jackson operating free surplus generated before restructuring costs fell (1) per cent compared with 2019, which included a $355 million benefit following the integration of the John Hancock business acquired in 2018.

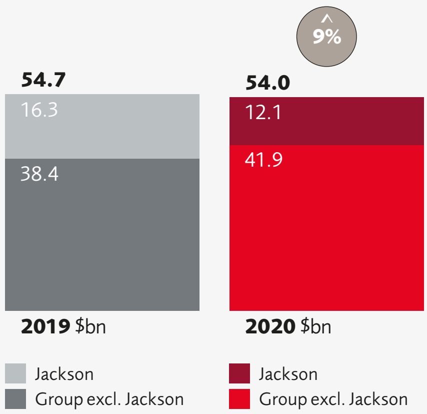


EEV basis shareholders' equity[6] $bn

EEV represents the present value of the shareholders' interest in the post-tax future profits (on a local statutory basis) expected to arise from the current book of long-term business, after sufficient allowance has been made for the aggregate risks in the business. Asset management and other non-insurance subsidiaries, joint ventures and associates are included in EEV at the Group's proportionate share of IFRS basis shareholders' equity, with central Group debt shown on a market value basis.

Group total EEV basis shareholders' equity decreased (1) per cent during 2020 to $54.0 billion.

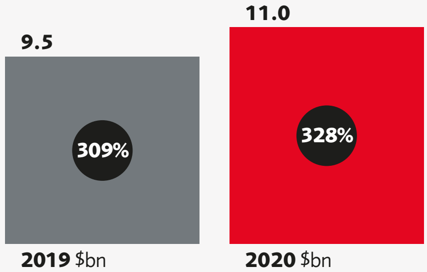
EEV shareholders' equity for the Group excluding Jackson increased 9 per cent to $41.9 billion, largely reflecting Asia new business sales and operating returns on its growing in-force book.



Group local capital summation method shareholder basis surplus[5] $bn

The Hong Kong Insurance Authority (IA) is the Group-wide supervisor for the Prudential Group. In agreement with the Hong Kong IA, the Group currently applies the local capital summation method (LCSM) to determine Group regulatory capital requirements (both minimum and prescribed levels) until the Group-wide Supervision (GWS) Framework is effective, which for Prudential is expected in the second quarter of 2021 upon designation by the Hong Kong IA. See the Group capital position section of the Group Chief Financial Officer and Chief Operating Officer's report for further information.

The Group's available capital, as recorded on a LCSM shareholder basis, covers the Group's minimum capital requirement over three times. In 2020, capital generation from the in-force business has been used to invest in new business, pay the external dividend and invest in new partnerships. After these investment and distributions, and the impact of market movements, LCSM shareholder surplus increased from $9.5 billion, with an LCSM shareholder ratio of 309 per cent, at 31 December 2019 to $11.0 billion, with an LCSM ratio of 328 per cent, at 31 December 2020.



Notes

1 The comparative results shown above have been prepared using an actual exchange rate (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown in financial tables in the Group Chief Financial Officer and Chief Operating Officer's report on our 2020 financial performance. Growth rates for 2019 to 2020 are on an AER basis.

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

3 New business profit, on a post-tax basis, on business sold in the year, calculated in accordance with EEV principles.

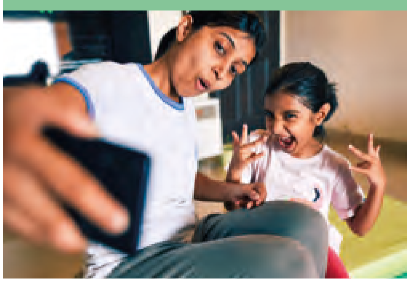
4 Operating free surplus generated from insurance and asset management operations. For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the year less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the year. Restructuring costs are presented separately from the business unit amount. Further information is set out in 'movement in Group free surplus' of the EEV basis results.

5 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum capital requirement of participating business in Hong Kong, Singapore and Malaysia. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.

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

Group strategy and operations

Prudential's differentiated product and geographic portfolio is well positioned to meet the protection and savings needs of the growing populations in Asia and Africa, where insurance penetration is currently low and demand for savings solutions is rapidly developing. In the United States, Jackson remains a leading provider of variable annuities to retail investors. Following the proposed demerger of Jackson, Prudential intends to take full advantage of the long-term structural opportunities in Asia and Africa. It seeks to operate with discipline in allocating capital for long-term returns, and to deliver profitable and increasingly diversified growth.



B

Group overview

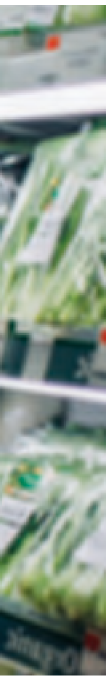
Our purpose is to help people get the most out of life. We make healthcare affordable and accessible and promote financial inclusion across our markets. We protect people's wealth and help them grow their assets, and we empower our customers to save for their goals. This purpose is served through implementing our business strategy, set out in this section and our environmental, social and governance (ESG) strategy set out in our ESG report on page 70.

With this purpose in mind, our intention is to take full advantage of the long-term structural opportunities in Asia and Africa and to pursue a path for a fully independent Jackson. In January 2021, the Board announced that it had decided to pursue the separation of Jackson from the Group in the first half of 2021 through a demerger, whereby shares in Jackson would be distributed to Prudential shareholders. The result of this separation will be two separately listed companies with distinct investment propositions, which the Group's Board believes will lead to improved strategic outcomes for both businesses.

The Prudential Group will focus exclusively on its high-growth Asia and Africa businesses. We will also accelerate our development of digitally enabled products and services to help prevent, postpone and protect our customers from threats to their health and wellbeing, as well as supporting them to achieve their savings goals.

Jackson will continue to help Americans grow and protect their retirement savings and income to enable them to pursue financial freedom for life through its differentiated products, well-known brand and industry-leading distribution network.

Further information on the Prudential Group's and Jackson's respective businesses are set out below. The result of the proposed separation of Jackson will be two separately listed companies with distinct investment propositions, which the Group's Board believes will lead to improved strategic outcomes for both businesses.



Asia and Africa

We have a pan-Asian footprint, with our largest life and protection operations in Hong Kong, Singapore, Indonesia and Malaysia as well as our joint venture in China. We also operate in Thailand, Vietnam, Taiwan, the Philippines, Cambodia, Laos and Myanmar and have a successful partnership in India. Within this footprint, Prudential has top three positions[1] in 9 out of 13 life markets and extensive distribution networks, across digital, agency and bancassurance channels. We focus on delivering profitable regular premium health and protection insurance products and fee-based earnings.

In asset management, Eastspring manages $247.8 billion across 11 markets in Asia and provides focused investment solutions to third-party retail and institutional clients as well as to our internally sourced life funds. Eastspring is a top 10 asset manager in 7 of the 11 markets in which it operates, and is the largest pan-Asian retail asset manager excluding Japan[2].

Since 2014 we have also built a rapidly growing multi-product, multi-distribution business in Africa, with operations now in eight countries across the continent, and have over one million customers. Starting in 2021 the regional office for Africa will be based in Nairobi, making East Africa our hub for the continued success of operating on the continent.

Our offering in Asia and Africa is evolving to respond to growing customer awareness and demand for products that address health and wellness, as well as providing life insurance cover. Pulse by Prudential, our health and wellness platform provides a compelling offering to address these needs, building on our existing distribution channels and trusted brand. Further information on Pulse by Prudential, and our markets, customers, products and distribution within the region is set out below.

Asia has grown significantly over the last 10 years, for example over the decade from 2010 to 2020, embedded value in Asia grew on average by 14 per cent[3] per annum and at 31 December 2020 was $44.2 billion. Since 2013, Prudential has committed almost $10 billion of capital to support growth in Asia, including around $5 billion of inorganic investments to grow our distribution reach and to build digital capability. Around one-third of the total investment has been made since January 2019. Investments in 2020 included establishing a 15-year strategic bancassurance partnership with TMB, which significantly strengthens our distribution capability in Thailand's fast-growing life insurance sector and strongly complements our top-five position[2] in the country's mutual fund market. In other markets we have also established a new bancassurance partnership with SeABank, a fast-growing bank in Vietnam with approximately 1.2 million customers and almost 170 branches, as well as signing new agreements with Banque Franco-Lao (BFL) BRED Group in Laos, and in early 2021 with Phnom Penh Commercial Bank Plc (PPCBank) in Cambodia.

We have significant investment appetite in Asia in the future that is based on the absolute size and demographic characteristics of each economy and our ability to build competitive advantage leveraging our scale and expertise. While we will continue to build on our leading positions in Hong Kong and members of the Association of Southeast Asia Nations (ASEAN), we see the greatest opportunities in the largest economies of China, India, Indonesia and Thailand. This investment is expected to deliver profitable and sustainable compounding growth and will support long-term delivery of future shareholder returns through value appreciation, with a focus on achieving sustained double-digit growth in embedded value per share.

Cambodia

Life insurance	
Market ranking[1]	1st
Population[4]	17m
Penetration[5]	0.5%

China

Life insurance	
Market ranking[1,8]	4th
Population[4]	1.4bn
Penetration[5]	2.3%
Average health protection gap per household[6]	$1,724
Eastspring	
Funds under management[7]	$9.6bn

Hong Kong

Life insurance	
Market ranking[1]	2nd
Population[4]	7m
Penetration[5]	18.3%
Average health protection gap per household[6]	$9,156
Eastspring	
Funds under management[7]	$5.6bn

India

Life insurance	
Market ranking[1,9]	3rd
Population[4]	1.4bn
Penetration[5]	2.8%
Average health protection gap per household[6]	$1,382
Eastspring	
Funds under management[7]	$26.9bn

Indonesia

Life insurance	
Market ranking[1,10]	1st
Population[4]	274m
Penetration[5]	1.4%
Average health protection gap per household[6]	$1,230
Eastspring	
Funds under management[7]	$5.3bn

Japan

Eastspring	
Funds under management[7]	$4.1bn

Korea

Eastspring	
Funds under management[7]	$14.7bn

Laos

Life insurance	
Market ranking[1]	Top 3
Population[4]	7m
Penetration[5]	0.0%

Malaysia

Life insurance	
Market ranking[1,11]	2nd
Population[4]	32m
Penetration[5]	3.3%
Average health protection gap per household[6]	$6,864
Eastspring	
Funds under management[7]	$14.0bn

Philippines

Life insurance	
Market ranking[1]	1st
Population[4]	110m
Penetration[5]	1.2%
Average health protection gap per household[6]	$1,406

Singapore

Life insurance	
Market ranking[1,12]	2nd
Population[4]	6m
Penetration[5]	6.0%
Average health protection gap per household[6]	$13,776
Eastspring	
Funds under management[7]	$137.6bn

Taiwan

Life insurance	
Market ranking[1]	10th
Population[4]	24m
Penetration[5]	16.5%
Average health protection gap per household[6]	$4,823
Eastspring	
Funds under management[7]	$9.1bn

Thailand

Life insurance	
Market ranking[1]	8th
Population[4]	70m
Penetration[5]	3.3%
Average health protection gap per household[6]	$287
Eastspring	
Funds under management[7]	$14.3bn

Vietnam

Life insurance	
Market ranking[1]	3rd
Population[4]	97m
Penetration[5]	1.4%
Average health protection gap per household[6]	$1,251
Eastspring	
Funds under management[7]	$5.7bn

Myanmar

Life insurance	
Population[4]	54m
Penetration[5]	0.0%

Markets

The life insurance industry in Asia and Africa remains in the early stages of development, as characterised by the low penetration rates across the region for insurance. In particular, most of our Asia markets are approaching the level of per capita annual income when demand increases sharply. Around 50 per cent of the global population lacks access to essential health services[13], and across the Asia region specifically, there are significant health funding and wellness gaps; 80 per cent of Asians do not have insurance cover[14] and spend some $400 billion on healthcare as an out-of-pocket expense[15]. Similarly, in Africa, while mobile phone access has increased tremendously over the last 20 years, less than 50 per cent of Africans have access to modern health facilities[16], and 80 per cent have to rely on public health facilities, which are often understocked, understaffed, and difficult to reach due to the physical and financial burdens of transportation[17].

Our largest market in respect of APE sales is Hong Kong, which accounted for 21 per cent of our overall Asia APE sales in 2020, followed by Singapore, contributing 17 per cent and China which accounted for 16 per cent. The rest of our new business is diversified across 10 markets. Our adjusted operating profit is well balanced, with the largest contributions from Hong Kong, Singapore and Indonesia.

Adjusted operating profit by market
% vs 2019 CER

$3,667m

+13% (+12% AER)

	Adjusted operating profit	Share of total Asia	Growth (CER)
Hong Kong	$891m	24%	20%
Singapore	$574m	16%	18%
Indonesia	$519m	14%	(1)%
Malaysia	$309m	8%	14%
Eastspring Investments	$283m	8%	2%
Vietnam	$270m	7%	14%
China JV	$251m	7%	15%
Thailand	$210m	6%	24%
Philippines	$95m	3%	25%
Taiwan	$85m	2%	10%
Other	$180m	5%	3%

With regards to strategy, we see the most significant opportunities for growth potential in life insurance and asset management in the four largest economies in our footprint, namely China, India, Indonesia and Thailand. Our joint venture operations in China and India together with our businesses in Indonesia and Thailand, provide us with scaled access, where we can build leadership positions with competitive advantage and economies of scale. We also intend to continue building on our leading positions within Hong Kong and ASEAN.

In China, our China life business is a 50/50 joint venture with CITIC, a leading Chinese state-owned conglomerate. Our China JV business performed well in 2020 after the Covid-19 disruption in the first quarter, increasing new business profit by 3 per cent. Building on our existing nationwide coverage of 20 branches and 99 cities (an increase of five since 2019), we expect our China JV business will continue to grow at pace by expanding and deepening our presence from our current geographical footprint, and by leveraging our multi-distribution platform. We operate our asset management business in China through CITIC-Prudential Fund Management Company Limited, a JV with CITIC with assets under management of $9.6 billion[19], as well as our wholly-owned private fund manager operationalised in 2019 within Eastspring, which now has sourced and sub-advised assets under management of $743 million. Our Chinese life insurance joint venture has also established its own asset management company in 2020, Prudential-CITIC Asset Management Co, which further strengthens our capabilities in savings and retirement products.

In India, our business consists of our 22.1 per cent holding of the Indian Stock Exchange listed life insurance business, ICICI Prudential Life Insurance (with our investment valued at $2.2 billion as at 31 December 2020) and 49 per cent of the asset manager, ICICI Prudential Asset Management, which has total funds under management[7] of $26.9 billion[19]. Our India life business continues to pivot to health and protection, with a 17 per cent increase in health and protection APE sales, which now represent 24 per cent of total APE sales (up 9 percentage points on 2019). We will continue to capture the significant potential in the Indian life market, with an aspiration to double 2019 new business profit in three to four years, by continuing to grow the business, improving retention and enhancing productivity.

In Indonesia, we continue to strengthen our market leadership, including in the sharia market where we increased APE sales by 6 per cent and new business profit by 27 per cent in 2020, and propel growth by broadening our product offerings, as well as digitalising our business model. We added 60 products during 2020, doubled MDRT qualifiers to over 2,100, and launched digital products through both Pulse and our OVO partnership. We have seen positive momentum in the last quarter of 2020, being the highest sales quarter of 2020, and believe our business transformation will continue to drive growth in the future.

In Thailand our new distribution partnership with TMB will help us achieve top-three leadership in the bancassurance channel, and we will further accelerate growth by developing a holistic omni-channel business model. Coupled with the completion of the acquisition of TMBAM and TFund which gives us a top-five ranking in the mutual fund market, this will give us a high-quality platform to deliver best-in-class health and wealth solutions to serve the growing retirement and investment needs of both the rising middle class and the growing high net worth segments.

In our other large businesses, we also see ample opportunities to continue to grow at pace. In Hong Kong, we believe based on our own and third party surveys there is latent demand from Mainland Chinese customers for our Hong Kong product suite and that the eventual normalisation of visitor arrivals as the border reopening occurs will allow for the return of this important source of new business. For example, 61 per cent of Mainland Chinese visitor preference[20] is to receive critical illness medical treatment in Hong Kong. In the meantime, we continue to build our already strong and substantial Hong Kong domestic business through multi-channel expansion and increased digitalisation of our service offering. We also continue to broaden our product offerings, such as our mid-tier medical reimbursement product, the PRUHealth VHIS VIP Plan, to fulfil the protection needs of our customers. We will also broaden access to Mainland China consumers through Greater Bay Area initiatives and remain a destination of choice through our market-leading products and service propositions.

In Singapore, we see significant opportunities in expanding the servicing of the high net worth and small and medium enterprise (SME) markets, alongside supporting a fast ageing population to address under-covered retirement and health needs. In Malaysia, we have leading market positions in both the conventional and Takaful markets. In particular, in the underprovided Takaful segment where we see substantial opportunity for growth, we increased our APE sales by 26 per cent and our new business profit by 29 per cent in 2020.

In our other high-potential growth markets of Vietnam, the Philippines, Cambodia, Laos and Myanmar, we see the opportunity for rapid growth through the roll-out of our efficient and scalable business model, multi-channel distribution networks and the provision of market-leading digital products and services through Pulse. These markets currently have very low levels of life insurance penetration, for example with life insurance penetration[5] of just 1.4 per cent in Vietnam and 1.2 per cent in the Philippines. However, with rising GDP per capita at or reaching a threshold of $10,000 to $20,000, and supported by our proven and market-leading positions, we are confident of delivering new life insurance sales growth well in excess of GDP growth in these markets.

We see substantial opportunities to accelerate our asset management business, Eastspring, building on its leading market position as Asia's largest retail asset manager (excluding Japan)[2] and structural advantages of reliable and predictable inflows from our life businesses. The completion of the TMBAM and TFund acquisitions in Thailand and successful development of its China business, mentioned above, have strengthened its strategic portfolio.

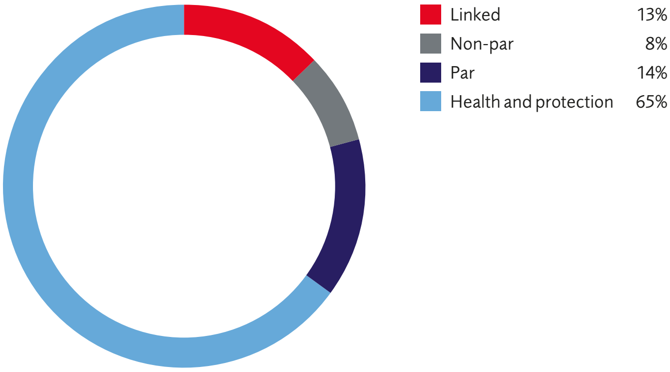
Since 2014 we have also built a rapidly growing multi-product business in Africa, with operations now in eight countries across the continent. Despite the Covid-19 pandemic, APE sales at Prudential Africa have grown by 51 per cent[21] to $112 million during 2020, with the number of active agents significantly ahead of the same period last year. In Ghana, we have renewed our exclusive agreement with Fidelity Bank for an additional 10 years, building on a successful partnership over the past five years. We also announced a new partnership with Vodafone Ghana to provide an innovative microinsurance product to their nine million plus subscribers. Meanwhile, our team in Nigeria has launched a new partnership with the largest mobile operator in the country, MTN, in an effort to reach its subscriber base of over 70 million people and provide protection to the millions of uninsured Nigerians.

Products and brands

We offer a wide range of insurance products that are tailored to local market requirements and fast-changing individual needs. We focus on health and protection and savings products with 65 per cent of new business profit contributed by health and protection solutions and the rest by savings products that include participating, linked and other traditional products.

The diversity and resilience of our business is supported by the continued innovations and enhancements we make to our product range, which include broadening coverage for new risks and adding innovative features. In 2020, we introduced or revamped 175 new products[22] contributing 20 per cent of APE sales, including simplified lower case-sized protection offerings.

New business profit by product, 2020 $m



The Covid-19 pandemic has reinforced customer interest in health and protection products, with 58 per cent of consumers across our Asian markets desiring access to healthcare value-added services, such as access to a virtual GP[23]. This has been converted into an increase in the proportions of APE represented by health and protection products in seven of our Asian markets, led by India (up 9 percentage points to 24 per cent of APE sales), Singapore (up 5 percentage points to 25 per cent of APE sales), Thailand (up 9 percentage points to 25 per cent of APE sales) and Vietnam (up 3 percentage points to 17 per cent of APE sales), in turn resulting in increased margins for our Asia markets excluding Hong Kong. Of the 175 new or revamped products noted above, more than 115 were traditional and health and protection products.

Our Hong Kong business offers domestic Hong Kong residents and mainland visitors sophisticated critical illness, medical benefits and life insurance protection business. 91 per cent of all Hong Kong consumers[23] indicated they would retain life insurance even if their financial position is disadvantaged by Covid-19 re-enforcing the resilience of this market. The investment proposition provides access to international equities and bonds. In particular, our main with-profits product offering uses a with-profits structure, which pools the investments of policyholders and allocates returns based on long-term investment performance (similar to that historically used in the UK), and leads to attractive margins. The business has a high level of renewals that is substantially higher than the premiums from new business. Singapore offers a similar type of product mix and also uses a UK-style with-profits structure.

In China, Anxin, our digital health and protection solution generated 165,000 policies in 2020, with around 50 per cent to new customers. In Hong Kong, we launched in the second half of 2020 PRUHealth VHIS VIP Plan, a tax-efficient medical insurance targeting the mid-tier segment, which has contributed 10 per cent of new business profit for the domestic segment in the fourth quarter of 2020.

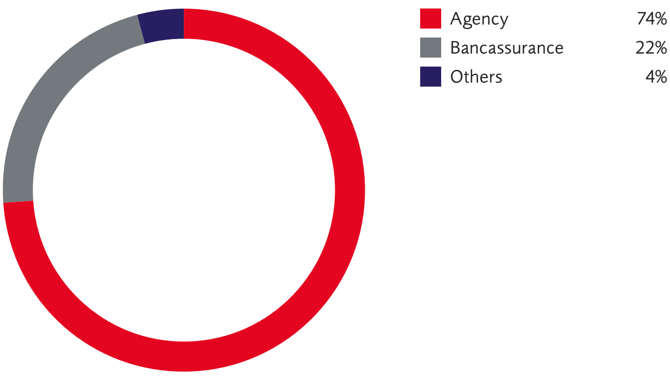
In Indonesia, we retain leadership in the sharia-compliant market, with 35 per cent share, accounting for 37 per cent of agency sales in Indonesia. Our PRUCinta product, the first traditional sharia product with specific cash value, accounts for 14 per cent of Indonesia agency sales. More widely, we have launched 60 products in Indonesia in 2020, including lower ticket standalone protection products which collectively accounted for 37 per cent of the APE mix (2019: 8 per cent) and 52 per cent of new case count mix (2019: 11 per cent).

Alongside offering products that meet customer needs, we invest in our brands to build trust, drive awareness and attract and retain customers.

Distribution and customer engagement

We believe in a multi-channel and integrated distribution strategy for our business which can adapt and respond flexibly depending on local market conditions. Our distribution network is one of the strongest and most diversified in the Asia region, across agency, bancassurance and non-traditional partnerships, including digital. In recent years, we have also established non-traditional partnerships to broaden our customer reach, particularly the digitally-savvy millennial segment. In total, we have more than 300 life insurance and asset management distribution partnerships in Asia. Alongside these distribution channels we also have Pulse by Prudential (discussed further below).

New business profit by channel, 2020 $m



Agency

We have around 600,000 licensed tied agents[24] across our life insurance markets, and the productivity of active agents increased 8 per cent[25,26] in the year, based on number of cases, which are becoming smaller in size as we, and our customers, focus increasingly on standalone protection products. Our agency channel is a core component of our success, comprising 74 per cent of our new business profit given the high proportion of high margin protection products sold.

Our continued support for the agency channel positions us well for sustainable growth. Our agent management has moved online across all markets, enhancing effectiveness of agent communication and operation, and expanding sales capacity with agent recruits[26] of 143,000 in the year. We deployed virtual sales tools across all markets for almost all products, and 28 per cent of agency new cases since April 2020, together with 27 per cent of bancassurance new cases since July 2020 have been made virtually.

Despite the gradual relaxation of Covid-19 containment measures in several markets, virtual selling tools have now become mainstream with distributors, and virtual sales in the fourth quarter represented 23 per cent of both agency and bancassurance sales.

We place great emphasis on agent professionalism and promote career progression by providing tailored training programmes that share experience and best practice across different markets. In addition, to further assist our agents during the sales process and enhance productivity we continually upgrade the tools at their disposal. During 2020, the number of agents qualifying for the Million Dollar Round Table (MDRT) doubled in the year to more than 13,200.

In Africa the number of active agents in 2020 significantly increased from the prior year. The increase in active agents is a direct result of implementing our Rookie Development Programme in each market, which helps with agent professionalism and customer focus, as well as transitioning new agents from the classroom to the field, and making those agents active within the first month of their recruitment. In most markets, as a response to Covid-19-related restrictions, we rapidly innovated to create an end-to-end virtual sales submission process, with a virtual recruitment and onboarding process for distributors as well as delivering training digitally. Moreover, 2020 marked the first time each market has had at least one agent qualify for the MDRT increasing the number of qualifiers to 38 from 15 in the prior year.

Bancassurance

We also have a leading bancassurance franchise that provides access to around 20,000 bank outlets through our strategic partnerships with multi-national banks and prominent domestic banks.

Our bancassurance partnerships made an important contribution to our business last year. Our new partnership with TMB in Thailand, which commenced on 1 January 2021, will give us access to an expanded network of 685 branches. In preparation we have trained more than 5,500 bank sellers and nearly doubled the number of sales support staff to 240. We have launched a refreshed set of propositions encompassing the high net worth, retail, commercial and SME segments and rolled out a new e-POS system.

Outside of Hong Kong, our bancassurance channel APE sales remained stable despite Covid-19 related disruption. We were particularly pleased to see the positive momentum in our bancassurance channel in Indonesia, which saw APE sales up 15 per cent[21]. We continue to look for opportunities to expand our presence in this market. There were also particularly strong performances in our China JV (APE sales up 34 per cent[21]), Thailand (APE sales up 21 per cent[21]) and Vietnam (APE sales up 35 per cent[21]), demonstrating our channel strength in these markets.

We have also developed strategies to reach the digitally-savvy millennial segment through UOB Mighty, UOB's digital bank, and new partners such as Central in Thailand. Prudential Laos has also recently partnered with Star Fintech to launch payment services via its U-money platform. We anticipate that these partnerships will significantly enhance our reach to millennial consumers in the country through the joint development of digital propositions that encompass health, wellness and wealth products. The experience will also help us in designing and managing distribution strategies in our existing markets as well as in targeting new points of entry.

Personal health insights with Pulse

Pulse by Prudential

In 2020, we have been able to accelerate our digital development and associated customer-centric digital ecosystem.

The Covid-19 pandemic has accelerated growing awareness and demand for health and wellness solutions. For example, 46 per cent of Asian consumers searched for new insurance policies[23]. Our digital capabilities allow us to make healthcare more accessible and affordable in the countries where we operate.

Prudential meets this growing demand for health and wellness through its super-app Pulse by Prudential. Pulse is a free digital mobile application that offers holistic management, artificial intelligence (AI)-powered self-help tools, and information to serve users 24/7 and promotes health and wellbeing through a range of value-added services. These include telemedicine, health and wellness content and communities, health challenges and rewards, chronic disease management, as well as a self-diagnosis and self-help tools. Pulse has been launched[27] in 11 different languages across 11 markets in Asia (Malaysia, Indonesia, Singapore, Hong Kong, the Philippines, Thailand, Vietnam, Cambodia, Laos, Taiwan, and Myanmar) and most recently four markets in Africa (Kenya, Nigeria, Cameroon and Zambia), with varying levels of development.

Pulse has been downloaded around 20 million times[27] since its initial launch in 2019 in Malaysia. Through this single super-app, Pulse is being developed to offer an integrated health, wealth, and SME ecosystem. It has integrated 32 local and regional partners[27], including most recently, a signed partnership with Central Group, a leading retailer in Thailand, that will enable Pulse to access Central Group's existing digital engagement with customers to offer insurance and health solutions to them. We have also signed a partnership with HR Easily, an HR services digital platform which we make available to our SME customers through 'Business at Pulse'. We are seeing continued increase in the usage of AI assessment and triage, lifestyle management and wellness, and telemedicine consultation services, with over 1.5 million users[27] accessing at least one of the services in Asia, since launch.

Pulse also enables us to reach a younger customer demographic, with the majority of Pulse users in the 18 to 35 age group compared with the average age of an existing Prudential customer profile of around 40, and is broadening our potential customer base, with 70 per cent of Pulse consumers new to Prudential.

37 digital bite-sized products were made available in Pulse in 2020. Some examples of bite-sized products launched by Prudential within Pulse include products related to common critical illnesses in Asia (cancer, stroke, heart attack), tropical disease protection (dengue, malaria, measles), and daily care (food poisoning, minor burns, broken bones, and accident income support).

With greater customer touchpoints, we are also able to generate Pulse-led data-driven leads for agents. We saw over 2.2 million leads generated for agents in 2020 which together with a small amount of revenue from policies sold directly through Pulse, generated APE sales of $211 million[28] in 2020.

Recently, we introduced a subscription plan to help Pulse users eat healthier and promote a more active lifestyle, and even save for the future. These paid subscription plans, priced at a low cost of between $1-$3 per month, are currently available to users in Hong Kong, Indonesia, Malaysia, Thailand, Vietnam and the Philippines, with plans to expand on the offerings and launch in additional markets in 2021. The paid subscription plans have received 164,000 active subscribers during 2020.

We have undertaken steps to meet our objective for Pulse to provide a platform for end-to-end service, with the same app used by customers and distributors. Agents have the ability to sell Prudential products virtually within the Pulse platform in the Philippines, Malaysia and Indonesia. Meanwhile, e-claims are available in Indonesia, Malaysia, Cambodia, Myanmar and the Philippines. We believe the integration with the life value chain across sales, claims and payments will allow Pulse to enhance value to new and existing users and drive efficiencies in the business.

Customer service and loyalty

We believe that excellent customer service has been key to our strong reputation and leading pan-Asia franchise. Customer loyalty has remained high during the Covid-19 pandemic, with a retention ratio consistently in excess of 90 per cent. The satisfaction and trust our customers have in our business also translates into a high proportion of repeat sales, which comprised 47 per cent of APE sales in 2020. The result of these dynamics is a portfolio of over 25 million in-force policies, with each policyholder holding 1.6 policies on average.

We are focused on unlocking new customer segments through a broader proposition set. During 2020, we added a further 1.3 million new life customers from traditional channels. Our overall life customer numbers increased to 16 million, of which about 30 per cent are our health insurance customers.

We continue to identify and target new customer groups and segments outside our traditional focus in the Mass and Affluent space in order to accelerate our future growth. Within the Emerging segment, Pulse leads the customer acquisition as described above. Within the high net worth segment, we first expanded into this segment in 2018 with Opus in Singapore, providing a differentiated experience for our customers, including a dedicated service team, wealth planners and external experts covering trust and legal matters. Within the Group segment, we also developed tailored offerings for small and medium-sized enterprise (SME), a segment that remains under-served and offers significant growth potential. This strategy is advanced through our all-inclusive platform, Business at Pulse platform, which provides digitally-enabled insurance and HR solutions for business owners and their employees, supporting a 17 per cent increase in APE sales from group business in 2020. We have extended our Business at Pulse platform from Singapore and Indonesia to Hong Kong, the Philippines and Thailand, and will launch next in Malaysia.

Integrated asset management

Eastspring is a leading Asia-based asset manager, with operations across 11 markets in Asia, plus offices in Europe and North America. With $247.8 billion of assets under management and over 300 investment professionals, it is the largest pan-Asian retail asset manager excluding Japan[2] and is a top-10 asset manager in 7 of the 11 markets in which it operates.

Eastspring has a broad product set, as well as significant distribution capabilities and industry-leading operational efficiency. Eastspring provides focused investment solutions, across equity, bonds and multi-asset products, to our internally sourced life insurance funds and third-party retail and institutional clients. Distribution channels include wholesale, intermediary and direct online formats, which are tailored as required, depending on the geography involved. This means that Eastspring can continue to grow and develop through both market cycles and changes to individual investment styles. Operational efficiency has led to industry-leading margins, with investment in technology, for example the implementation of BlackRock's Aladdin system, to deliver common platforms, and world-class risk management and governance capabilities.

In terms of strategy, we see substantial growth opportunities to accelerate Eastspring, building on its leading market position as Asia's largest retail asset manager[2] (excluding Japan) and structural advantages of reliable and predictable inflows from our life business. In particular, we see China, India and Thailand as our most material market opportunities. Eastspring is well positioned to broaden its investment capabilities to serve the global needs of Asia-based clients, while offering global investors access to its expertise in investing in Asian markets. For example, in October 2020, Eastspring announced a strategic partnership with Atlantic Zagros Financial Partners to expand its offshore distribution capabilities to the Americas. To support this ambition Eastspring's strategic objectives include developing its distribution, product range and investment advisory capability, while continuing to enhance support for the asset management needs of Prudential's life insurance business.

To support these objectives, Eastspring has organised its operations into three pillars that will drive the expansion of its capabilities and growth in the future:

- Alpha engine – representing centralised investment capability with an emphasis on driving asset class return on investment after adjusting for market-related volatility. This pillar will focus on diversifying Eastspring's investment capabilities and styles.
- Advisory solutions – standalone advisory service for institutional clients; focusing on solutions and products for that market, including the growing need to support clients' Environmental, Social and Governance (ESG) requirements. This pillar will also focus on reinforcing the quality of service provided to the Group's life operations and supporting the Group's ESG strategy.
- Complementary partner solutions – this pillar will focus on complementary investment capabilities sourced from partners, in order to enhance strategies available to investors.

In developing its capabilities, Eastspring will further integrate its offerings with those of Prudential's life business, to enable the Group to seamlessly offer services across the full spectrum of Life, Health and Wealth products. Eastspring will leverage Prudential's established distribution channels.

We believe these developments will further enhance Eastspring's position as a leading asset manager in Asia.

Summary

There is a growing awareness and demand for wellness and insurance products across Asia, re-enforced by the global pandemic. We continue to invest in our chosen markets, building on our leading position in Hong Kong and ASEAN, and meeting the growing needs of customers in the largest economies of China, India, Indonesia and Thailand. This customer need is addressed by our wide range of insurance products, tailored to local markets, and extensive and diversified distribution network. We continue to amplify these existing capabilities through extending our China footprint, broadening our product offerings and enhancing our digital presence. Our innovative and customer-centric digital ecosystem increasingly complements our existing distribution channels and provides access to address the needs of new and fast-growing customer segments. Our overall customer offering is supported by our integrated asset manager Eastspring, which has a clear strategy to expand its capabilities to deliver growth.

We believe these enhanced capabilities, alongside the resilience of our high quality and well diversified platform, mean our Asia business is well positioned to capture the structural opportunities open to us and therefore deliver profitable and sustainable compounding growth and high risk-adjusted returns for shareholders.

US operations

Jackson helps Americans grow and protect their retirement savings and income to enable them to pursue financial freedom for life. Following the planned demerger, Jackson intends to pursue a focused strategy which prioritises optimisation and stability of capital resources while protecting franchise value.

Maintaining a resilient balance sheet is critical to Jackson meeting its objectives of fulfilling its obligations to policyholders, providing stable capital returns to shareholders, supporting the development of the business and enabling profitable growth over the long term.

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.

Jackson has identified three main areas for business development.

First, Jackson intends to maintain and enhance its comprehensive suite of retirement products that it believes are sought after by retail investors and Jackson's distribution partners.

Second, it plans to optimise the sales mix across its broad product portfolio by leveraging the strength of its industry-leading distribution network and entering into new distribution agreements.

Third, Jackson seeks to develop the overall market demand for retail annuities by partnering with wealth management solution providers that historically have not considered annuities as a solution to provide retirement savings and income protection.

These strategies are discussed further below.

Markets

Jackson believes that the US retirement savings and income solutions market presents a compelling growth opportunity and will support its development in the future. The primary drivers of the industry's trends are believed to be the following:

— **The target demographic is expected to continue to grow.** Over the next decade, the proportion of the US population aged 55 or older is expected to grow at a rate double that of the total US population, resulting in approximately 112 million individuals who will be aged 55 or older by the year 2030[29].

— **The need for new sources of retirement income is expected to grow.** Over the last few decades, there has been a pronounced shift from retirement income funded primarily by pension plans to retirement income funded primarily by individual savings. Of all private sector workers in the United States, only 15 per cent had access to a defined benefit pension plan in 2020 (down from 20 per cent in 2010), and 52 per cent only had access to a defined contribution retirement plan in 2020[30]. This trend has increased the burden on individuals to save for their retirement and to use those savings to generate income during retirement.

— **Annuities are underutilised in the world's largest retirement savings market.** The United States is the world's largest retirement savings market estimated to consist of approximately $51 trillion in professionally managed retail and institutional assets as of 31 December 2019[31]. However, only approximately $2.4 trillion of professionally managed assets were invested in annuities as of 31 December 2019. A key driver of this underutilisation is the historical lack of integration of annuities into wealth management platforms and financial planning tools available to retail investors. Jackson has been working actively with its distribution partners and financial technology firms to integrate annuities into the wealth management planning tools advisers use to select investments and build portfolios for their clients.

Products

Jackson offers a diverse suite of annuities to retail investors in the United States. The success of its variable annuity offerings reflects the differentiated features Jackson offers as compared with its competitors, in particular the wider range of investment options and greater freedom to invest across multiple investment options. Through the third quarter of 2020, Jackson accounted for 16.5 per cent of new sales in the US retail variable annuity market[32] and ranked number 1 in variable annuity sales. Jackson also offers fixed index annuities and fixed annuities and expects to offer a registered index-linked annuity in 2021. This diverse offering allows Jackson to meet the different needs of retail investors based on their risk tolerance and desired growth objectives, and to deliver customised, differentiated solutions to its distribution partners. Jackson's annuities offer investors the opportunity to grow their savings consistent with their objectives, ranging from full market participation with Jackson's variable annuities, to a guaranteed fixed return with Jackson's fixed annuities. Some of Jackson's annuities offer optional guarantee benefits for a fee, such as full or partial protection of principal, minimum payments for life and minimum payments to beneficiaries upon death. All annuities also provide investors with tax deferral benefits consistent with their purpose of providing financial security at, and through, retirement.

Distribution network

Jackson sells its products through an industry-leading distribution network that includes independent broker-dealers, wirehouses, regional broker-dealers, banks, and independent registered investment advisers, third-party platforms and insurance agents. Jackson's strong presence in multiple distribution channels has been essential to positioning it as a leading provider of retirement savings and income solutions. Each of these channels is supported by Jackson's sizeable wholesaler field force, which is among the most productive in the annuity industry. According to the Market Metrics Q3 2020 Sales, Staffing, and Productivity Report, Jackson's variable annuity sales per wholesaler are more than 10 per cent higher than its nearest competitor.

Operating platform

Jackson's operating platform is scalable and efficient. Jackson administers approximately 75 per cent of its in-force policies on its in-house policy administration platform. Jackson's in-house policy administration platform gives it flexibility to administer multiple product types through a single platform. To date, Jackson has converted over 3.5 million life and annuity policies to its in-house policy administration platform, eliminating the burdens, costs and inefficiencies that would be involved in maintaining multiple legacy administration systems. The remainder of Jackson's business is administered through scalable third-party arrangements. Jackson believes that its operating platform provides it with a competitive advantage by allowing it to grow efficiently and provide superior customer service. In 2020, Jackson received the 2019 Contact Center of the Year award from Service Quality Management and the number 1 overall operational ranking for 2019 from its broker-dealer partners, according to the Operations Managers' Roundtable.

Risk management

Product design and pricing are key aspects of Jackson's risk management approach. Jackson operates a sophisticated hedging programme which seeks to balance three objectives: managing the economic impact of adverse market conditions, protecting statutory capital and providing stable distributable earnings throughout market cycles.

Jackson also uses third-party reinsurance to mitigate a portion of the risks that it faces, principally in certain of its in-force annuity and life insurance products with regard to longevity and mortality risks and its annuities with regard to the vast majority of its guaranteed minimum income optional benefit (GMIB) features.

Notes

1 Based on full year 2020 (calendar year 2020 for India), or the latest information available. Sources include formal (eg competitors' results release, local regulators and insurance association) and informal (industry exchange) market share data. Ranking based on new business (APE sales, weighted full year premium or full year premium depending on availability of data) or total weighted revenue premiums. Full year data is not yet available for Cambodia, or Laos, full year 2019 data has been used instead. For Hong Kong and the Philippines, ranking based on new business for the first nine months of 2020.
2 Source: Asia asset management – Fund manager surveys. Based on assets sourced in Asia, excluding Japan, Australia and New Zealand. Ranked according to participating firms only.
3 Increase stated on an actual exchange rate basis.
4 United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects 2019 Revision (2020 estimates).
5 Source: Swiss Re Institute; Sigma Explorer: World insurance, 2019 – life insurance penetration (premiums as a percentage of GDP).
6 Source: Swiss Re Institute: The health protection gap in Asia, October 2018. Average gap per household is calculated as 'total health protection gap divided by estimated number of households hospitalised under the mentioned gap range'. In this report, the definition/scope of 'Asia' is the 12 markets surveyed: China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.
7 Full year 2020 total funds under management, including external funds under management, money market funds, funds managed on behalf of M&G plc and internal funds under management, reported based on the country where the funds are managed.
8 Total joint venture/foreign players only.
9 Private players only.
10 Excludes Jiwasraya.
11 Includes Takaful, excludes Group business.
12 Includes onshore only.
13 Source: World Bank and WHO: Half the world lacks access to essential health services, 100 million still pushed into extreme poverty because of health expenses, December 2017.
14 Prudential estimate based on number of in-force policies over total population.
15 Source: World Health Organisation: Global Health Observatory data repository (2013). Out of pocket as % of total health expenditure. Asia calculated as average out-of-pocket.
16 Source: The World Bank 2017.
17 Source: The Borgen Project: Digital health apps in Africa aim to revolutionize medical care, September 2020.
18 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.
19 Representing Prudential's 49 per cent interest.
20 Based on 4Q20 MCH Sentiment Tracker conducted through online survey by Nielsen online panel on behalf of Prudential Hong Kong. Survey results are based on sample size of 451.
21 Increase stated on a constant exchange rate basis.
22 Including 37 bite-sized products.
23 Source: Swiss Re COVID-19 Consumer Survey, April 2020.
24 Including India.
25 Cases per active agent.
26 Excluding India.
27 As of 22 February 2021.
28 Substantially from full-premium products sold through referrals to agents and a small amount of revenue from 37 new digital products.
29 Source: Census Bureau's Current Population Survey, March 2017.
30 Source: Bureau of Labor Statistics.
31 Source: Estimated by Cerulli & Associates.
32 Source: LIMRA.

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

Mark FitzPatrick
Group Chief Financial Officer
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)
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.

Group Chief Risk and Compliance Officer's report on the risks facing our business and how these are managed

James Turner FCA FCSI FRM
Group Chief Risk
and Compliance Officer

Our Group Risk Framework and risk appetite have allowed us to control our risk exposure throughout 2020. Our governance, processes and controls enable us to deal with uncertainty effectively, which is critical to the achievement of our strategy of capturing long-term structural opportunities and helping our customers achieve their long-term financial goals.

This section explains the main risks inherent in our business and how we manage those risks, with the aim of ensuring an appropriate risk profile is maintained. Although Jackson is preparing to be a fully independent business, until the proposed demerger is effected Jackson's risks (as with those of the Group's other businesses) will continue to be managed within the Group Risk Framework and this report reflects this position.

1. Introduction

The Group

2020 was a truly eventful year. The Covid-19 pandemic swept across the world and has resulted in significant humanitarian suffering and material and prolonged disruption to social and economic activity. The business had to consider and navigate the risks arising from the Covid-19 on multiple fronts. These included capital and liquidity risks arising from abrupt market dislocation as well as risks associated with the disruption to the Group's operations across Asia, Africa, the US and UK. Concurrently, the business has maintained uninterrupted delivery of services for its policyholders, and has been committed to doing the right thing for both its customers and employees throughout the crisis. The Risk, Compliance and Security function has successfully transitioned into, and maintained, new ways of working across multiple time zones to provide strong stewardship and enhanced monitoring of these risks during the most acute phases of the pandemic's impact.

Through these extraordinary circumstances, the function has also provided risk opinions, guidance and assurance on critical activity, including Athene's reinsurance of $27.6 billion of Jackson's fixed and fixed index annuity portfolio and $500 million equity investment into Prudential's US business, the proposed demerger of Jackson from the Group and the revision to its hedge modelling for US statutory standards for calculating reserves and capital. At the same time, the function retained its focus on managing the risks of the ongoing business, performing its defined role in providing risk management support and oversight, as well as objective challenge to ensure the Group remained within its risk appetite.

The Group continues to engage constructively with the Hong Kong Insurance Authority (IA) as its Group-wide supervisor and is transitioning to a new supervisory framework. The Group's mature and well-embedded risk framework will enable decisions to be taken with confidence as the business seeks to capture the opportunities in the growth markets in which it is now focused while continuing to operate prudently with discipline.

The world economy

At the start of 2020 the prospects for global growth appeared to be improving. This positive momentum was abruptly reversed by the Covid-19 pandemic, leading to the shutdown of much of the world's economy and a sharp recession. In response to this unprecedented shock, governments and central banks deployed massive fiscal and monetary stimulus measures to mitigate the impact on the labour force and restore confidence in financial markets. Driven largely by the strong macro policy response, global economies have started to recover although this remains far from complete. In Asia, China has been leading the economic rehabilitation, benefiting other Asian economies to an extent, although the regional recovery to date has been highly uneven. The economic environment in Asia is expected to remain challenging given the limited headroom for additional conventional monetary easing, increasing inflation risks from weaker foreign exchange rates, supply chain disruptions, and increasing fiscal pressures. Viewed more broadly, the pandemic has increased the debt burden of many economies and may result in sovereign debt sustainability issues, increasing the dependence on low interest rates by governments.

Financial markets

2020 began with risk assets performing well until concerns over the economic impact of the Covid-19 outbreak dented investor confidence, eventually leading to a global sell-off that unfolded at extraordinary speed. The S&P 500 index plunged by 35 per cent from an all-time high on 19 February 2020 to its low point on 23 March 2020. Interest rates in major markets declined significantly, falling to historical lows as investors fretted over the risks to the economic outlook. Credit spreads widened significantly, in line with the plunge in equity markets.

The stress on financial markets was broadly eased by the central banks maintaining accommodative monetary policies and implementing various support programmes. Since their trough in March 2020, financial markets have rallied strongly, initially driven by broad reductions in infection rates in some countries, optimism with respect to the restart of the global economy, and, in the US, a small group of large-cap stocks that has buoyed the cap-weighted index. Risk assets in particular continued to rally strongly in the second half of 2020.

Risk asset valuations appear elevated and display some disconnect with economic fundamentals, and may therefore be subject to the risk of a correction given the renewed lockdowns implemented across the world towards the end of 2020 and into 2021, the logistical challenges to the roll out of Covid-19 vaccination programmes (which may be more prolonged than initially anticipated) and the development of new strains of the coronavirus. On interest rates, the consensus outlook is of an environment in which they will remain low-for-longer. The US Federal Reserve's forward guidance has constrained expectations of higher short-term yields in the foreseeable future, while economic fundamentals and globally accommodative conditions are likely to keep downward pressure on long-term yields. For credit assets, risks of a further round of widespread pressure on corporate liquidity – as experienced during 2020 – remain, given the stretched credit fundamentals of corporate borrowers, although the magnitude of the pre-funding and liquidity-raising that has been accomplished in 2020 is expected to mitigate this to an extent.

(Geo)political landscape

During the first half of 2020, the civil unrest increasingly seen in many places across the world was partially curtailed by the Covid-19 restrictions put in place by governments. The second half of the year, saw an increase in popular protests against long-standing social issues and inequalities and were in some cases triggered by national elections in the US, Africa and Asia. An observable trend in recent protest movements, aided by social media, is the speed and frequency at which they can gather momentum and their evolving forms of leadership. The stability of governments is likely to be tested in different ways and potentially on a more frequent basis as a result, as will the resilience of businesses. As a global organisation, the Group has well-established local and global plans to mitigate the business risks from disruption. These have operated well when deployed across the Group during the Covid-19 crisis and also locally during the outbreaks of unrest seen during 2020 and continued into 2021 in markets where the Group operates. Operational resilience will continue to be critically evaluated and enhanced as the longer-term lessons from the pandemic response in particular, become clearer. Governmental responses to the pandemic have involved a necessary balancing of the impacts to people's health and lives, their individual rights and liberties, and economic growth. These considerations, and the dynamics between and within them, have become increasingly politicised and another source of polarisation and popular discontent which, in some places, have also provided impetus to protest movements.

Many governments continue to face the challenge of reconciling the inter-connectedness of the global economy with pressure to prioritise national self-interests. The experience of the pandemic may provide a further impetus to the regionalisation or fragmentation of global trade, investment and standards, and risks undermining efforts in international cooperation and coordination. Into 2021, accessibility to Covid-19 vaccine supplies, which may become a prolonged challenge, has the potential to contribute to an increase in geopolitical tensions. A key source of geopolitical risk during 2020 was the US-China relationship and its wider impact on international relations, and this looks likely to continue during President Biden's term in office. Hong Kong's perceived level of autonomy will remain influential in geopolitical tensions, with potential global trade and economic consequences. 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 impact Hong Kong's economy.

Being a key market for the Group which also hosts regional and head office functions, this could potentially impact Prudential's sales, operations and product distribution. For internationally active groups which operate across impacted jurisdictions such as Prudential, these government responses and measures add to 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.

Regulations

Prudential operates in highly regulated markets, and the nature and focus of regulation and laws remain fluid. A number of national and international regulatory developments are in progress, with a continuing focus on solvency and capital standards, conduct of business, systemic risk regulation, corporate governance and senior management accountability, and macroprudential policy. Some of these changes will have a significant impact on the way that the Group operates, conducts business and manages its risks. With geopolitical tensions elevated, the complexity of sanctions compliance is increasing and continues to represent a challenge for international businesses. These regulatory developments will continue to be monitored at a national and global level and form part of Prudential's engagement with government policy teams and regulators. The immediate regulatory and supervisory responses to Covid-19 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 as well as changes that have helped the Group to continue to support its customers through non-face-to-face contact. The financial burden in addressing the pandemic is likely to influence changes in governmental fiscal policies, laws or regulations aimed at increasing financial stability, and this may include measures on businesses or specific industries to contribute to, lessen or otherwise support, the financial cost to governments of treating patients and meeting the logistical challenges of providing vaccines. It is possible that requirements are imposed on private insurance companies and healthcare providers to cover costs associated with the treatment and prevention of Covid-19 beyond contractual or policy terms.

Against this evolving regulatory backdrop, constructive engagement continues with Prudential's Group-wide supervisor, the Hong Kong IA, on the Group-wide Supervision (GWS) Framework. 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 primary legislation was enacted in July 2020 and will come into operation on 29 March 2021. The framework adopts a principle-based and outcome-focused approach, and allows the Hong Kong IA to exercise direct regulatory powers over the holding companies of multinational insurance groups, reinforcing Hong Kong's position as a preferred base for large insurance groups in Asia Pacific and a global insurance hub. During 2020, the Hong Kong IA engaged with the Group and other relevant stakeholders in the development of the GWS Framework, which will be anchored on the requirements for three pillars: capital, risk and governance, and disclosure.

Societal developments

The experience of the pandemic has underlined the ability of evolving demographic, geographical and environmental factors to change the nature, likelihood and impact of extreme events. These factors can also drive public health trends such as increasing obesity, with consequential potential impacts to Prudential's underwriting assumptions and product design. While insights can be gleaned from the current pandemic, the unique set of variables associated with extreme events means that their impact on the functioning of society, and the disruption to business operations, staff, customers and sales, cannot be predicted or fully mitigated. The Group has been actively managing the impact of the crisis as it has developed over 2020 and into 2021, including assisting affected policyholders and staff in meeting their resulting needs.

In support of increased ease of access and social inclusion, and to meet evolving customer needs, the Group is increasing its use of digital services, technologies and distribution methods for the products and services that it offers. The Covid-19 pandemic has accelerated these developments, with the Group's businesses having implemented virtual face-to-face sales of select ranges of products in many of its markets, and adoption of Prudential's Pulse application has continued to increase. The digital health platform is now available in 15 markets in 11 languages, with total downloads having reached 20 million as of February 2021. Changes to the Group's use of technology and distribution models have broad implications, touching on Prudential's conduct of business, increasing the risks of technology and data being compromised or misused and potentially leading to new and unforeseen regulatory issues.

A strong sense of purpose for an enterprise is a driver of long-term profitability, and this is making companies evaluate their place in, and contribution to, society. The 'why and how' a business acts has become arguably at least as important as what it produces or the services that it provides. Understanding and managing the environmental, social and governance (ESG) impact and requirements of its business is fundamental to Prudential's brand, reputation and ultimately its long-term success. Ensuring high levels of transparency and responsiveness to stakeholders is a key aspect of this. Recent events have highlighted the structural inequalities in our societies and are prompting organisations to question where they stand on these important issues. Prudential's ESG Strategic Framework is designed to deliver on its purpose of 'helping people get the most out of life'. It includes a focus on inclusivity: inclusivity of access to quality healthcare, protection and savings for our customers; inclusivity of the working environment for our people; and inclusivity in the Group's support of the transition to low-carbon in the economies, markets and communities in which it operates.

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

Q1 2020

In January 2020, the virus responsible for what initially appeared to be viral pneumonia is identified as a novel coronavirus. The resulting disease is subsequently named Covid-19, and over 2020 the coronavirus begins its spread across the globe. Across its markets the Group rolls out initiatives to support customers and staff.

In January, Prudential Vietnam announces an exclusive bancassurance partnership with Southeast Asia Commercial Joint Stock Bank (SeABank), a fast-growing bank in Vietnam with around 1.2 million customers and almost 170 branches, for a 20-year term.

On 20 March, the Hong Kong IA published the Insurance (Amendment) (No. 2) Bill as part of its submission to the Hong Kong LegCo, a key step towards GWS implementation.

In Singapore, a revised risk-based capital framework (RBC2) for insurers comes into force as at 31 March 2020.

The California Consumer Protection Act (CCPA) comes into force on 1 January 2020, creating data privacy rights to California consumers. Jackson ensures compliance with the Act in December 2019. The National Association of Insurance Commissioners (NAIC) implements changes to the US statutory reserve and capital framework for variable annuities, effective from 1 January 2020. Jackson chooses to early adopt the changes as at 31 December 2019 for US statutory reporting.

The Covid-19 pandemic shuts down much of the world's economy and triggers a sharp recession. Equity markets sell off at an extraordinary speed, volatility spikes, credit spreads widen sharply and interest rates in major markets decrease to new historical lows. Central banks maintain accommodative monetary policies and implement various asset purchase and support programmes to restore confidence in financial markets. Governments deploy massive fiscal stimulus to mitigate the economic fallout and the unprecedented shock on the labour force.

Q2 2020

On 18 June 2020 the Group announces the reinsurance of $27.6 billion of Jackson's fixed and fixed index annuity portfolio by Athene, and a $500 million equity investment into Prudential's US business in return for an 11.1 per cent economic interest.

Shriti Vadera joins the Board as a Non-executive Director and member of the Nomination & Governance Committee on 1 May 2020, and succeeds Paul Manduca as Chair of the Board and of the Nomination & Governance Committee on 1 January 2021.

IAIS releases the requirements for a Covid-19 tailored Data Collection exercise for 2020. The original Data Collection exercise, released in March for the purpose of monitoring the build-up of systemic risk for insurers, is paused for 2020. In April 2020, the IAIS also releases the requirements for the 2020 ICS and Aggregation Method Data Collection exercises.

The Network for Greening the Financial System publishes its Guide for Supervisors in May 2020 which outlines recommendations for integrating climate-related and environmental risks into prudential supervision.

Markets rally sharply during Q2 on the back of asset purchases, direct intervention by the US Federal Reserve in credit markets, stimulus programmes, the gradual rebound in economic activity enabled by the progressive easing of lockdown measures and a broad reduction in virus infection rates.

A broad easing of Covid-19 restrictions begins to take place across many countries in the latter half of Q2 and into Q3, including in some countries with high infection rates, with many countries taking steps to mitigate a second wave of infections. Other countries, such as the US and those in Central and South America and South Asia continue to see high daily case numbers.

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

Q3 2020

In August, and building on its earlier announcement in May, the Group announces its intention to fully separate Jackson from the Group. This is followed by a further announcement in January 2021 confirming that the separation will be facilitated by way of demerger, which is proposed to complete in Q2 2021.

The Insurance (Amendment) (No. 2) Ordinance, being the enabling primary legislation providing for the GWS Framework was enacted on 24 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 US Federal Reserve adopts a new flexible average inflation targeting strategy and introduces new forward guidance on interest rates that delays future increases until the economy reaches maximum employment and inflation rises to 2 per cent and is on track to moderately exceed this level for some time.

US GDP increases by $1.6 trillion over Q3, partially offsetting the decrease of $2.0 trillion in Q2, as consumer spending rebounds strongly. Meanwhile, China's GDP growth improves from 3.2 per cent year-on-year in Q2 to 4.9 per cent in Q3. Growth in all major investment activities return to positive levels, with real growth rising from -1.1 per cent year-on-year in August to 2.4 per cent in September.

Volatility in the financial markets remain elevated. Equity markets briefly fall in September, accompanied by a sell-off in US treasuries, although this is short-lived and avoids a collapse of similar levels as seen in March. As credit market conditions stabilise, central banks, including the US Federal Reserve and European Central Bank (ECB), lower the pace of their asset purchases.

A new national security law for Hong Kong is implemented on 30 June 2020. The US response includes enactment of the Hong Kong Autonomy Act which introduces potential sanctions on financial institutions doing significant business with Chinese officials materially contributing to the alleged erosion of Hong Kong's autonomy. Over Q3 and Q4 the US introduces sanctions on a range of individuals and entities in connection to a number of issues.

On 31 July 2020, Carrie Lam postpones the September LegCo elections for one year, citing coronavirus concerns.

Q4 2020

Covid-19 cases surge in Q4 across the US and Europe. Towards the end of 2020, major European economies start to reintroduce restrictions on movement and business to various degrees. Amid this increase in infection rates, vaccine approvals and roll-outs begin to take place in the UK and other countries.

Against the backdrop of the US election and positive Covid-19 vaccine news, equity markets continue to rally in November and volatility reaches new post-March lows. Central banks of major economies keep interest rate levels on hold. In Europe, the Pandemic Emergency Purchase Programme resolves to continue bond purchases until June 2021. In the US, a second stimulus package worth $900 billion passed in December.

The US elections take place amid a surge in coronavirus case numbers across the country. After legal challenges from President Trump are denied by the courts and the storming of the US Capitol buildings by protestors, Joe Biden is inaugurated as the 46th US president on 20 January 2021, taking control of both houses of Congress.

On 15 November, at the annual Association of Southeast Asian Nations (ASEAN) Leaders Summit, 15 countries formally sign the Regional Comprehensive Economic Partnership (RCEP) trade deal, making it the world's largest trading bloc. Signatories aim to work through ratification of the deal in 2021. The RCEP comprises all ten ASEAN economies, plus China, Japan, South Korea, Australia and New Zealand.

Moves to ban an opposition party in 2019 trigger anti-establishment protests in Thailand in early 2020. Protest activity peaks in mid-October and spikes again mid-November, with protest leaders threatening to resume demonstrations with increased intensity in early 2021.

In the run-up to the Uganda presidential elections on 14 January 2021, violence breaks out in Kampala with dozens killed in the first few weeks of electoral campaigning.

In early October, Nigeria is rocked by the outbreak of nationwide demonstrations against police brutality that leaves a reported 56 people dead.

On 23 October, China's Central Bank, the People's Bank of China, publishes a draft banking law recognising, and providing a regulatory framework for, its planned central bank digital currency, the digital yuan.

On 11 November 2020, China's National People's Congress Standing Committee determines that Hong Kong LegCo members can be disqualified on various grounds including endangering national security, with four members being immediately disqualified. In protest, the remaining 15 member pro-democracy bloc resign en masse.

On 30 December 2020, the EU and China reach an agreement in principle on the Comprehensive Agreement on Investment, which covers market access. Both sides commit to finalising detailed negotiations on the investment protections covered by the Agreement, which will require ratification, within two years.

A B C O

3. Managing the risks in implementing our strategy

This section provides an overview of the Group's strategy, the significant risks arising from the delivery of this strategy and current risk management focus. The risks outlined below, which are not exhaustive, are discussed in more detail in section 5.

Our strategy	Significant risks arising from the delivery of the strategy	Risk management focus
Group-wide Our strategy is to capture the long-term structural opportunities for our markets and geographies, while operating with discipline and seeking to enhance our capabilities through innovation to deliver high-quality resilient outcomes for our customers.	Transformation risks around key change programmes, including those related to the Group's digital strategy	— Continuing development of the transformation risk framework, including risk appetite, and focus on, and ensuring consistency in, transformation risk management across the Group's business units. — Provision of independent risk assurance, challenge and advice on first line programme risk identification and assessments. — Focus on the financial and non-financial stability of Jackson as a standalone business.
	Group-wide regulatory risks	— Ongoing compliance with in-force regulations and management of new regulatory developments. — Engagement with national governments, regulators and industry groups on macroprudential and systemic risk-related regulatory initiatives, international capital standards, and other initiatives with Group-wide impacts. — Implementation of the Group-wide Supervision Framework, which is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements.
	Information security and data privacy risks	— Operationalisation of the Group-wide governance model and strategy for cyber security management focusing on automation, business enablement, efficiency, and continuous improvement. — Continued focus on compliance with applicable privacy laws across the Group and the appropriate and ethical use of customer data.
	Business disruption and third-party risks	— Continued application of the Group's global business continuity management framework, with an enhanced focus on operational resilience as it relates to business disruption tolerance levels and customer impacts. Embedding of insights from the Covid-19 pandemic. — Applying the distinct oversight and risk management required over the Group's third parties, including its strategic partnerships for product distribution, non-traditional services and processing activities.
	Conduct risk	— Implementing and embedding the Group-wide customer conduct risk management framework and policy, with particular focus on sales practices and the Group's digital ecosystem. — Enhancement of conduct risk oversight using data analytics.
	Model and data risks	— Focus on requirements for data and AI and complex tooling ethics principles and framework. — Ongoing risk assessment of tools used.
	People and culture	— Focus on Group Culture as a key mechanism to support sound risk management behaviours, practices and awareness. — Embedding responses and insights from Group-wide employee engagement surveys through enhancements to the Group Risk Framework.
	ESG – commitments and disclosure	— Assessing the potential financial impacts from climate-related transition risk in the asset book and integration of climate risk into the Group Risk Framework. — Supporting the Group ESG Committee in its responsibility to deliver the Group's ESG Strategic Framework and develop its disclosures.

Our strategy	Significant risks arising from the delivery of the strategy	Risk management focus
Asia Serving the protection and investment needs of the growing middle class in Asia.	Financial risks	— Maintaining, and enhancing where necessary, risk limits and implementing business initiatives to manage financial risks, including asset allocation, bonus revisions, product repricing and reinsurance where required.
	Persistency risk	— Implementation of business initiatives to manage persistency risk, including additional payment methods, enhancing customer experience, revisions to product design and incentive structures. Ongoing experience monitoring.
	Morbidity risk	— Implementation of business initiatives to manage morbidity risk, including product repricing where required. Ongoing experience monitoring.
Africa Providing savings, health and protection solutions to customers in Africa.	As its presence in Africa expands and grows in materiality, the Group will continue to increase its focus on Prudential Africa's most significant risks. A number of significant Group-wide risks detailed above are considered material in the region, and these include: — Financial crime and security risks, where the focus is on implementation of Group policies and standards; — Transformation risks, where the focus is on overseeing and managing parallel initiatives while developing local capabilities to meet the demands of a fast-paced transformation agenda; and — Regulatory risks, where the focus is on active monitoring of the local regulatory landscape and adoption of Group processes in order to meet international regulatory standards.	
United States Providing asset accumulation and retirement income products to US retirees.	Financial risks	— Maintaining, and enhancing where necessary, risk limits, hedging strategies (including mitigating measures against basis risk), modelling tools and risk oversight appropriate to Jackson's product mix with a view to demerger from the Prudential Group.
	Policyholder behaviour risk	— Continued monitoring of policyholder behaviour experience and review of assumptions.

B C I O

4. Risk governance

a System of governance

Prudential has in place a system of governance that promotes and embeds a clear ownership of risk, processes that link risk management to business objectives and a proactive Board and senior management providing oversight of risks. Mechanisms and methodologies to review, discuss and communicate risks are in place together with risk policies and standards to enable risks to the Group to be identified, measured and assessed, managed and controlled, monitored and reported.

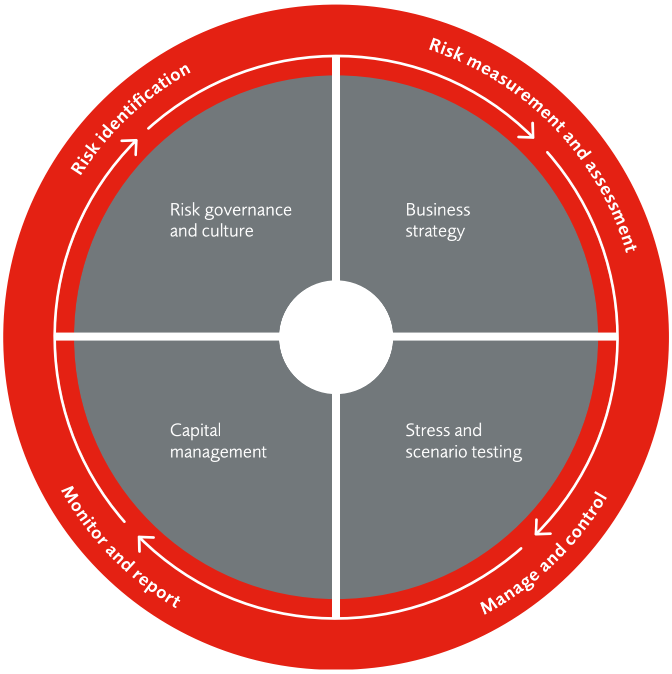
Material risks are retained selectively when it is considered that there is value in doing so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking. The Group Risk Framework, which is owned by the Board, details Prudential's risk governance, risk management processes and risk appetite. The Group's risk governance arrangements are based on the 'three lines of defence' model, comprising risk taking and management, risk control and oversight, and independent assurance.

The aggregate Group exposure to its key risk drivers is monitored and managed by the Risk, Compliance and Security function, which is responsible for reviewing, assessing, providing oversight and reporting on the Group's risk exposure and solvency position from the Group economic, regulatory and ratings perspectives.

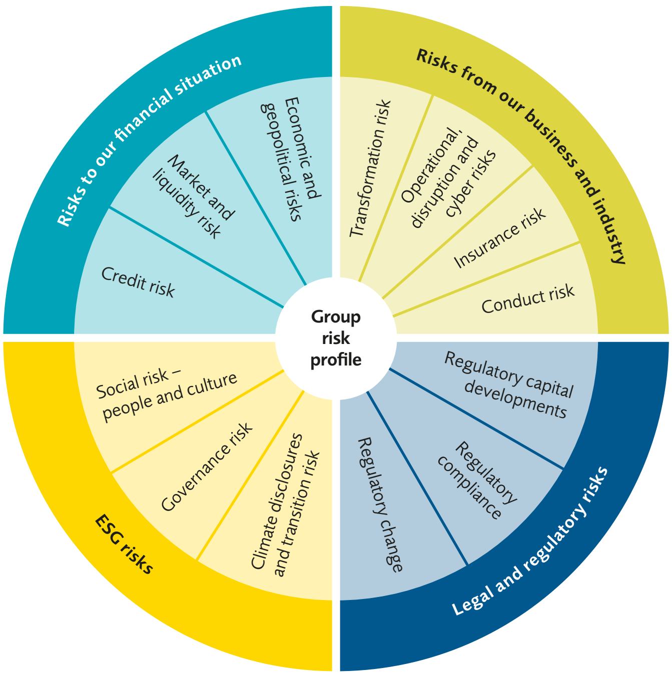
During 2020, the Group has continued to review and update its policies and processes for alignment with the requirements of its Group-wide supervisor. The Group has also focused on development of its Group-wide customer conduct risk framework and policy; its AI ethics principles; and enhancements to its operational resilience.

The following section provides more detail on our risk governance, risk culture and risk management process.

Risk management



Identified major risk categories



b Group Risk Framework

i. Risk governance and culture

Prudential's risk governance comprises the Board organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies that have been established to make decisions and control activities on risk-related matters.

The risk governance structure is led by the Group Risk Committee, supported by independent Non-executive Directors on risk committees of the Group's main subsidiaries. The Group Risk Committee reviews and approves changes made to the Group Risk Framework and to relevant policies. It also reviews and approves new risk policies and recommends to the Board any material policies which require Board approval. A number of core risk policies and standards support the Framework to enable risks to the Group to be identified, measured and assessed, managed and controlled, monitored and reported.

The risk governance arrangements for the Group's major businesses were delayered and strengthened in 2020 with the implementation of direct lines of communication, reporting and oversight of the risk committees of these businesses by the Committee. To support the enactment of these arrangements, the terms of reference for the major business risk committees were aligned and approved locally, and include a standing invitation for the Group Chief Risk and Compliance Officer (CRCO) and the requirement for risk escalations to the Committee.

Culture is a strategic priority of the Board, which recognises its importance in the way that the Group does business. A Group-wide culture framework is currently being implemented to unify the Group towards its shared purpose of helping people get the most out of life. Components of the framework include principles and values that define how the Group expects business to be conducted in order to achieve its strategic objectives, inform expectations of leadership and guide ESG activities. The culture framework components are intended to be supportive of sound risk management practices by requiring a focus on longer-term goals and sustainability, the avoidance of excessive risk taking and highlighting acceptable and unacceptable behaviours. The framework is supported through inclusion of risk considerations in performance management for key individuals; the building of appropriate skills and capabilities in risk management; and by ensuring that employees understand and care about their role in managing risk through open discussions. The Group Risk Committee has a key role in providing advice to the Remuneration Committee on risk management considerations to be applied in respect of executive remuneration.

Prudential's Group Code of Business Conduct and Group Governance Manual include a series of guiding principles that govern the day-to-day conduct of all its people and any organisations acting on its behalf. This is supported by specific risk-related policies which require that the Group act in a responsible manner. These include, but are not limited to, policies related to financial crime covering anti-money laundering and sanctions and anti-bribery and corruption. The Group's third-party supply policy requires that human rights and modern slavery considerations are embedded across all of its supplier and supply chain arrangements. Embedded procedures to allow individuals to speak out safely and anonymously against unethical behaviour and conduct are also in place.

ESG is overseen by the Board, which is responsible for determining strategy and prioritisation of key focus areas. In order to provide greater senior executive involvement and holistic oversight of ESG matters material to the Group, in 2020, a Group ESG Committee was established. The Committee, chaired by the Group Chief Financial Officer and Chief Operating Officer in his role as ESG sponsor, was supported by senior functional leaders and representatives from the Group's business units, including the chief investment officers of the Group's asset managers. The Group ESG Committee reported to the Board in 2020 through the Group Nomination & Governance Committee, comprising the Group's Chair, the Senior Independent Director, and the chairs of the Audit, Remuneration and Risk committees and was regularly attended by the Group Chief Executive. The policies and procedures to support how the Group operates in relation to certain ESG topics are included in the Group Governance Manual, which establishes standards for managing ESG issues across the Group and sets out the policies and procedures to support how Prudential operates. Further details on the Group's ESG governance arrangements, including the establishment in early 2021 of a Board Responsibility & Sustainability Working Group, are included in the ESG Report on pages 74 to 76.

ii. The risk management cycle

Risk identification

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

The ORSA is the ongoing process of identifying, measuring and assessing, managing and controlling, monitoring and reporting the risks to which the business is exposed. It includes an assessment of capital adequacy to ensure that the Group's solvency needs are met at all times. Stress and scenario testing, which includes reverse stress testing requiring the Group to ascertain the point of business model failure, is another tool that helps to identify the key risks and scenarios that may have a material impact on the Group. The risk profile is a key output from the risk identification and risk measurement processes and is used as a basis for setting Group-wide limits, management information, assessment of solvency needs, and determining appropriate stress and scenario testing. The Group's annual set of principal risks is given enhanced management and reporting focus.

Risk measurement and assessment

All identified risks are assessed based on an appropriate methodology for that risk. All quantifiable risks, which are material and mitigated by holding capital, are modelled in the Group's internal model, which is used to determine economic capital requirements and is subject to independent validation and processes and controls around model changes and limitations.

Risk management and control

The Group's control procedures and systems focus on aligning the levels of risk-taking with the Group's strategy and can only provide reasonable, and not absolute, assurance against material misstatement or loss. Risk management and control requirements are set out in the Group's risk policies and define the Group's risk appetite in respect of material risks and the framework under which the Group's exposure to those risks is limited. The processes to enable Group senior management to effect the measurement and management of the Group material risk profile in a consistent and coherent way, which include the flows of management information required, are also set out in the Group's risk policies. The methods and risk management tools that the Group employs to mitigate each of its major categories of risks are detailed in section 5 below.

Risk monitoring and reporting

The identification of the Group's principal risks informs the management information received by the Group Risk Committee and the Board. Risk reporting of key exposures against appetite is also included, as well as ongoing developments in the Group's principal and emerging risks.

iii. Risk appetite, limits and triggers

The Group recognises that interests of its customers and shareholders, and a managed acceptance of risk in pursuit of its strategy, lies at the heart of its business, and that effective risk management capabilities represent a key source of competitive advantage. Qualitative and quantitative expressions of risk appetite are defined and operationalised through risk limits, triggers and indicators. The Risk, Compliance and Security function reviews the scope and operation of these measures at least annually. The Board approves changes to the Group's aggregate risk appetite and the Group Risk Committee has delegated authority to approve changes to the system of limits, triggers and indicators.

Group risk appetite is defined and monitored in aggregate by the setting of objectives for its liquidity, capital requirements and non-financial risk exposure, covering risks to shareholders, including those from participating and third-party business. Group limits operate within these expressions of risk appetite to constrain material risks, while triggers and indicators provide additional defined points for escalation. The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade-offs implicit therein. This review is supported by the Risk and Compliance function, which uses submissions from local business units to calculate the Group's aggregated position relative to Group risk appetite and limits.

- **Capital requirements.** Limits on capital requirements aim to ensure that the Group maintains sufficient capital in excess of internal economic capital requirements in business-as-usual and stressed conditions, achieves its desired target rating to meet its business objectives, and supervisory intervention is avoided. The two measures currently in use at the Group level are the regulatory local capital summation method (LCSM) capital requirements (both minimum and prescribed levels) and internal economic capital requirements (ECap), which under the GWS Framework will be determined by the Group Internal Economic Capital Assessment (GIECA). In addition, capital requirements are monitored on local statutory bases.

- **Liquidity.** The objective of the Group's liquidity risk appetite is to ensure that sufficient cash resources are available to meet financial obligations as they fall due in business-as-usual and stressed scenarios. This is measured using a liquidity coverage ratio (LCR) which considers the sources of liquidity against liquidity requirements under stress scenarios.

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

Risk management

Risk identification

Risk identification covers Group-wide:

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

Risk measurement and assessment

Risks are assessed in terms of materiality.

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

Manage and control

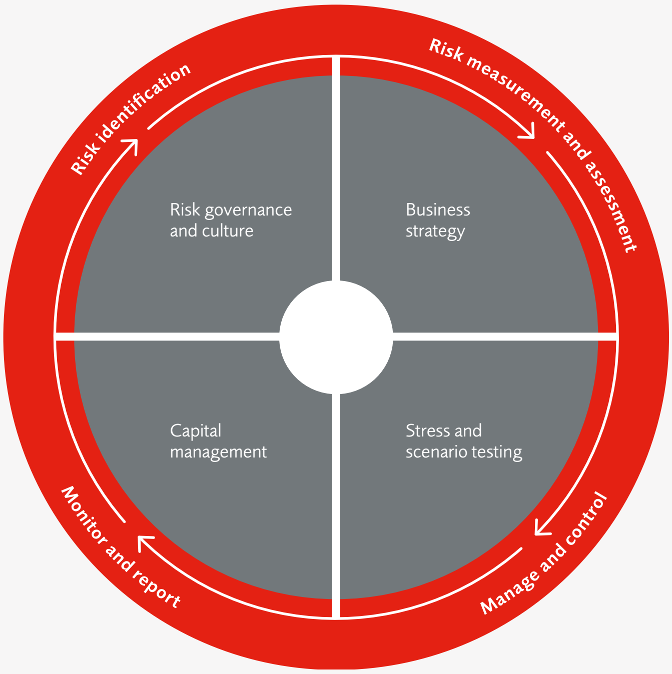
Risk appetite and limits allow for the controlled growth of our business, in line with business strategy and plan.

Processes that support the oversight and control of risks include:

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

Monitor and report

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



Risk governance and culture

Risk governance comprises the Board, organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies. The Group-wide culture framework includes principles and values that define how business is conducted in order to achieve its strategic objectives, inform expectations of leadership and guide ESG activities.

Business strategy

Business strategy and the business plan provide direction on future growth and inform the level of limits on solvency, liquidity and earnings and for our key risks. The Risk, Compliance and Security function provides input and opinion on key aspects of business strategy.

Capital management

Capital adequacy is monitored to ensure that internal and regulatory capital requirements are met, and that solvency buffers are appropriate, over the business planning horizon and under stress.

Stress and scenario testing

Stress and scenario testing is performed to assess the robustness of capital adequacy and liquidity, and the appropriateness of risk limits. Recovery planning assesses the effectiveness of the Group's recovery measures and the appropriateness of activation points.

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5. The Group's principal risks

Broadly, the risks assumed across the Group can be categorised as those relating to its financial situation; its business and industry; regulatory and legal compliance; and those relating to ESG. Principal risks, whether materialising within the Group or at third parties on which the Group relies, may have a financial impact and could also impact the performance of products or services provided to customers and distributors and the ability to fulfil commitments to customers, giving rise to potential risks to its brand and reputation. These risks, which are not exhaustive, are detailed below. The materiality of these risks, whether material at the level of the Group or its business units, is also indicated. The Group's disclosures covering risk factors are aligned to the same categories and can be found at the end of this document.

In reading the sections below, it is useful to understand that there are some risks that Prudential's policyholders assume by virtue of the nature of their products, and some risks that the Group and its shareholders assume. Examples of the latter include those risks arising from assets held directly by and for the Group or the risk that policyholder funds are exhausted. This report is focused mainly on risks to the shareholder but will include those which arise indirectly through policyholder exposures.

Covid-19 risks and responses

The Group has responded in a number of ways to the risks arising from the coronavirus pandemic; some responses were part of existing risk management processes and procedures, while others have been initiated specifically in response to the pandemic, in particular during the acute phases experienced in Q1 and Q2.

The Group Critical Incident Procedure (GCIP) defines specific governance to be invoked in the event of a critical incident, such as a significant market, liquidity or credit-related event. This includes, where necessary, the convening of a Critical Incident Group (CIG) to oversee, coordinate, and where appropriate, direct any activity during a critical incident. In response to the economic and financial market shocks triggered by the Covid-19 pandemic the Group CRCO invoked the GCIP and convened a series of CIG meetings to provide high-cadence monitoring and management of potential threats to the capital or liquidity position of the Group. Local Incident Management teams were also activated to monitor and manage the tailored response required to support the operations, customers and employees of the Group's businesses.

These risks arising from Covid-19, and the Group's responses to them, are summarised below, with further information provided, where relevant, within the descriptions of the Group's principal risks.

Risk areas	Responses
Staff safety and wellbeing	Proactive move to working from home arrangements across jurisdictions, with Local Incident Management teams monitoring country-specific developments, undertaking risk assessments and providing regular staff communications and support.
Customer outcomes are not met, increasing conduct risk	Initiatives and campaigns rolled out across markets, including customer cash benefits, goodwill payments, and extended grace periods for premium payments.
Disruption to the operations of the Group, and its key partners	Application of the Group and local business continuity plans. Local Incident Management teams activated to monitor, manage and lead a tailored response to ensure continuity of service to existing customers.
Financial market and liquidity impacts, including to Group and business unit solvency	Invocation of the GCIP and convening of a CIG to monitor and manage threats to the Group's solvency or liquidity position.
Heightened risk of phishing and social engineering tactics	Group-wide phishing and targeted awareness campaigns. Heightened threat monitoring and review of cyber hygiene controls. Active management of connections to the Group network.
Sales impacts	Roll-out of virtual face-to-face sales processes in most of the Group's markets with appropriate regulatory engagement, digital product offerings, oversight of incremental conduct and operational risks and ongoing monitoring of the commercial impact to existing sales channels.
Insurance risks, in particular increased lapses and surrenders resulting from the broader economic effects as well as increased and/or delayed morbidity impacts	Close monitoring by the Group's businesses and targeted management actions where necessary. Covid-19-related claims have not been material to date, but are being closely monitored.

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

The global economic and geopolitical environment may impact on the Group directly by affecting trends in financial markets and asset values, as well as driving short-term volatility. Risks in this category include the market risks to our investments and the credit quality of our investment portfolio as well as liquidity risk.

Global economic and geopolitical conditions

Changes in global economic conditions can impact Prudential directly; for example, by leading to reduced investment returns and fund performance and liquidity, and increasing the cost of promises (guarantees) that have been made to the Group's customers. Changes in economic conditions, such as the abrupt and uncertain longer-term impacts resulting from the Covid-19 crisis, can also have an indirect impact on the Group; for example, leading to a decrease in the propensity for people to save and buy Prudential's products, as well as changing prevailing political attitudes towards regulation.

The geopolitical environment can also impact the Group in a wide range of ways, both directly and indirectly. Financial markets and economic sentiment have been highly susceptible to geopolitical developments in recent years, with implications for the Group's financial situation. We have seen in recent times that geopolitical tensions can result in the imposition of protectionist or restrictive regulatory and trading requirements by governments and regimes. The Covid-19 pandemic has further prompted governments to rethink the current globalised nature of supply chains, while accessibility to vaccine supplies has the potential to contribute to an increase in geopolitical tensions. These factors may have geopolitical and trading implications, the full extent of which may not be clear for a while. Various governments have effected, or may effect, the postponement of elections and other constitutional or legislative processes in response to the pandemic, and the longer-term impact from this increase in constitutional and political uncertainty remains to be seen. The pandemic has had a negative impact on all economies, with increased fiscal burdens, higher levels of borrowing and reduced revenues. These pressures will impact on the business operating environments, for example, through changes to taxation, and are likely to contribute to political pressures for governments.

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 impact Hong Kong's economy. Being a key market for the Group which also hosts regional and head office functions, this could potentially impact Prudential's sales, operations and product distribution. For internationally active groups which operate across impacted jurisdictions such as Prudential, these government measures and responses add to 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. All these factors can increase the operational, business disruption, regulatory and financial market risks to the Group and can directly impact its sales and distribution networks. Developments in Hong Kong and the continuing impacts of the pandemic are being closely monitored by the Group and plans have been enacted to manage the disruption to the business, its employees and its customers within existing business resilience processes. Further information on the Group's business disruption risks are included below.

Macroeconomic and geopolitical risks are considered material at the level of the Group.

Market risks to our investments
(Audited)

This is the potential for reduced value of Prudential's investments resulting from the volatility of asset prices, driven by fluctuations in equity prices, interest rates, foreign exchange rates and property prices. Interest rates in the Group's key markets decreased to historically low levels in Q1 2020, with the stance of central banks making it likely they will remain extremely low for a while. A persistently low interest rate environment poses challenges to both the capital position of life insurers as well as to new business profitability and this is a scenario that the Group is planning for.

The Group has appetite for market risk where it arises from profit-generating insurance activities to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

The Group's market risks are managed and mitigated by the following:

- The Group market risk policy;
- The Group Asset Liability Committee – a first-line risk management advisory committee to the Group Chief Executive Officer which supports the identification, assessment and management of key financial risks significant to the achievement of the Group's business objectives;
- Risk appetite statements, limits and triggers;
- Asset and liability management programmes which include management actions such as asset allocation, bonus revisions, repricing and the use of reinsurance where appropriate;
- Hedging derivatives, including equity options and futures, interest rate swaps and swaptions and currency forwards;
- The monitoring and oversight of market risks through the regular reporting of management information; and
- Regular deep dive assessments.

As noted above, in response to the economic and financial market shocks triggered by the Covid-19 pandemic, the Group CRCO invoked the GCIP and convened a series of CIG meetings to provide high-cadence monitoring and management of any potential threats to the capital or liquidity position of the Group.

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

Market risks to our investments continued
(Audited)

Equity and property investment risk. In Asia, the shareholder exposure to equity price movements results from unit-linked products, where fee income is linked to the market value of the funds under management. Further exposure arises from with-profits businesses where bonuses declared are based broadly on historical and current rates of return from the Asia business's investment portfolios, which include equities.

In Jackson, investment risk arises from the assets backing customer policies. Equity risk is driven by the variable annuity business, where the assets are invested in both equities and bonds and the main risk to the shareholder comes from providing the guaranteed benefits offered. The exposure to this is primarily controlled by using a derivative hedging programme, as well as through the use of reinsurance to pass on the risk to third-party reinsurers.

Basis risk is the inherent risk associated with imperfect hedging and is caused by variables or characteristics that drive differences between the value of an underlying position and the hedge instruments used to offset changes in its value. Within Jackson's variable annuity business, basis risk can arise from differences between the performance of the Separate Account funds in which policyholders choose to invest and that of the instruments used to replicate these funds for hedging and liability modelling purposes, which are primarily linked to the S&P 500 index. This risk exposure is proportionate to the magnitude of liability risk/hedge position which fluctuates with equity and interest rate levels. While the market sell-off in Q1 2020 increased this liability risk/hedge exposure, the subsequent rally in equity markets over 2020 has had a corresponding opposite and positive impact. Jackson continues to actively evaluate the costs and benefits of ways to further mitigate basis risk.

Interest rate risk. This is driven by the valuation of Prudential's assets (particularly the bonds that it invests in) and liabilities, which are dependent on market interest rates and expose the Group to the risk of those moving in a way that is detrimental. Some products that Prudential offers are sensitive to movements in interest rates. As part of the ongoing management of this risk, a number of mitigating actions to the in-force business have been taken, as well as repricing and restructuring new business offerings in response to recent relatively low interest rates. Nevertheless, some sensitivity to interest rate movements is still retained. The impact of lower interest rates may also manifest through reduced solvency levels in some of the Group's businesses, impairing their ability to make remittances, as well as reduced new business profitability.

The Group's appetite for interest rate risk is limited to where assets and liabilities can be tightly matched and where liquid assets or derivatives exist to cover interest rate exposures.

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

Interest rate risk results from the cost of guarantees in the variable annuity and fixed index annuity business, which may increase when interest rates fall. The level of sales of variable annuity products with guaranteed living benefits is actively monitored, and the risk limits we have in place help to ensure we are comfortable with the level of interest rate and market risks incurred as a result. Derivatives are also used to provide some protection. Jackson is also affected by interest rate movements to its fixed annuity book where the assets are primarily invested in bonds and shareholder exposure comes from the mismatch between these assets and the guaranteed rates that are offered to policyholders. As at 1 June 2020, this risk has been substantially transferred as part of the reinsurance transaction with Athene, leaving only a limited exposure from residual policies including those from the blocks acquired externally (ie from the REALIC and John Hancock businesses).

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

In cases where a non-US dollar denominated surplus arises in an operation which is to be used to support Group capital, or where a significant cash payment is due from a subsidiary to the Group, this currency exposure may be hedged where it is believed to be economically favourable to do so. Further, the Group generally does not have appetite for significant direct shareholder exposure to foreign exchange risks in currencies outside the countries in which it operates, but it does have some appetite for this on fee income and on equity investments within the with-profits fund. Where foreign exchange risk arises outside appetite, currency swaps and other derivatives are used to manage the exposure.

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

Liquidity risk
(Audited)

Prudential's liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due, and the Group considers this under both normal and stressed conditions. It includes the risk arising from funds composed of illiquid assets and results from a mismatch between the liquidity profile of assets and liabilities. Liquidity risk may impact on market conditions and valuation of assets in a more uncertain way than for other risks like interest rate or credit risk. It may arise, for example, where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or where redemption requests are made against Prudential's external funds. Liquidity risk is considered material at the level of the Group.

Prudential has no appetite for any business to have insufficient resources to cover its outgoing cash flows, or for the Group as a whole to not meet cash flow requirements from its debt obligations under any plausible scenario.

The Group has significant internal sources of liquidity, which are sufficient to meet all of our expected cash requirements for at least 12 months from the date the financial statements are approved, without having to resort to external sources of funding. The Group has a total of $2.6 billion of undrawn committed facilities that can be made use of, expiring in 2025. Access to further liquidity is available through the debt capital markets and an extensive commercial paper programme is in place, and Prudential has maintained a consistent presence as an issuer in the market for the past decade.

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

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

Credit risk
(Audited)

Credit risk is the potential for a reduction in the value of investments which results from the perceived level of risk of an investment issuer being unable to meet its obligations (defaulting). Counterparty risk is a type of credit risk and relates to the risk of the counterparty to any contract we enter into being unable to meet their obligations causing the Group to suffer a loss.

Prudential invests in bonds that provide a regular, fixed amount of interest income (fixed income assets) in order to match the payments needed to policyholders. It also enters into reinsurance and derivative contracts with third parties to mitigate various types of risk, as well as holding cash deposits at certain banks. As a result, it is exposed to credit risk and counterparty risk across its business. The assets backing the Jackson general account portfolio and the Asia shareholder business means credit risk is considered a material risk for the Group's business units.

The Group has some appetite to take credit risk to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

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

- A credit risk policy and dealing and controls policy;
- Risk appetite statements and portfolio-level limits that have been defined on issuers, and counterparties;
- Collateral arrangements for derivative, secured lending reverse repurchase and reinsurance transactions which aim to provide a high level of credit protection;
- The Group Credit Risk Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews;
- Regular assessments; and
- Close monitoring or restrictions on investments that may be of concern.

The total debt securities[4] at 31 December 2020 were $125.8 billion (31 December 2019: $134.6 billion). Credit risk arises from the debt portfolio in the Asia business comprising the shareholder, with-profit and unit-linked funds, the value of which was $89.6 billion at 31 December 2020. The majority (69 per cent) of the portfolio is in unit-linked and with-profits funds. The remaining 31 per cent of the debt portfolio is held to back the shareholder business.

Credit risk continued
(Audited)

In the general account of the Group's US business, $36.0 billion of debt securities are held to support shareholder liabilities. The shareholder-backed debt portfolio of the Group's other operations was $0.2 billion as at 31 December 2020. Further details of the composition and quality of our debt portfolio, and exposure to loans, can be found in the IFRS financial statements.

Group sovereign debt. Prudential invests in bonds issued by national governments. This sovereign debt holding represented 28 per cent or $18.0 billion[1] of the shareholder debt portfolio of the Group as at 31 December 2020 (31 December 2019: 22 per cent or $18.8 billion of the shareholder debt portfolio). The particular risks associated with holding sovereign debt are detailed further in our disclosures on risk factors.

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt securities at 31 December 2020 are given in note C1 of the Group's IFRS financial statements.

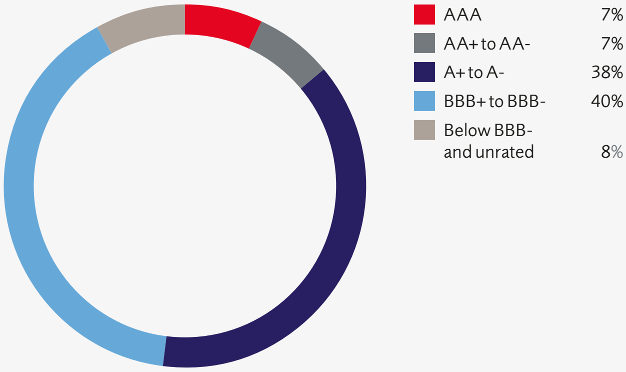
Corporate debt portfolio. In the Asia shareholder business, corporate debt exposures totalled $13.9 billion of which $12.4 billion or 89 per cent were investment grade rated. In the US general account, corporate debt exposures amounted to $26.6 billion following the Athene transaction, and the portfolio remains of high credit quality with 97 per cent[5] remaining investment grade rated.

Bank debt exposure and counterparty credit risk. Prudential's exposure to banks is a key part of its core investment business, as well as being important for the hedging and other activities undertaken to manage its various financial risks. Given the importance of its relationship with its banks, exposure to the sector is considered a material risk for the Group. The exposure to derivative counterparty and reinsurance counterparty credit risk, which includes the recently announced reinsurance agreement with Athene Life Re, is managed using an array of risk management tools, including a comprehensive system of limits. Where appropriate, Prudential reduces its exposure, buys credit protection or uses additional collateral arrangements to manage its levels of counterparty credit risk.

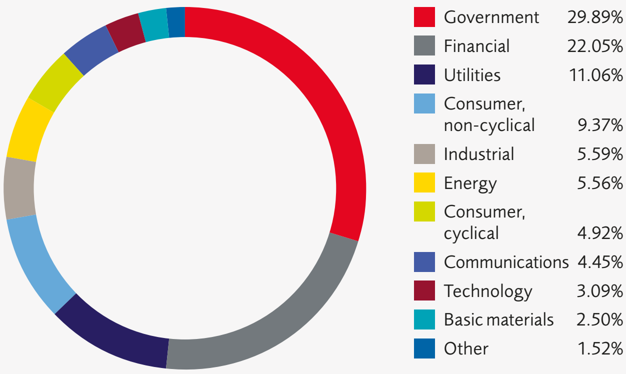
At 31 December 2020:

- 92 per cent of the Group's shareholder portfolio (excluding all government and government-related debt) is investment grade rated[2]. In particular, 52 per cent of the portfolio is rated[2] A- and above (or equivalent); and
- The Group's shareholder portfolio is well diversified: no individual sector[3] makes up more than 15 per cent of the total portfolio (excluding the financial and sovereign sectors). The exposures held by the shareholder-backed business and with-profits funds in bank debt securities at 31 December 2020 are given in note C1 of the Group's IFRS financial statements.

Shareholder exposure by rating



Shareholder exposure by sector



Risks from the nature of our business and our industry

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

Transformation risk

Prudential has a number of significant change programmes under way to deliver the Group's strategy for growth, improve customer experiences, strengthen its operational resilience and control environment, and meet regulatory and industry requirements. If the Group does not deliver these programmes to defined timelines, scope and cost, this may negatively impact on its operational capability; control environment; reputation; and ability to deliver its strategy and maintain market competitiveness.

Transformation risk remains a material risk for Prudential. The Group's transformation and change programmes inherently give rise to design and execution risks, and may introduce new, or increase existing, business risks and dependencies. Implementing further strategic transformation initiatives may amplify these risks. In order to manage these risks, the Group's Transformation Risk Framework aims to ensure that, for both transformation and strategic initiatives, strong programme governance is in place with embedded risk expertise to achieve ongoing and nimble risk oversight, and regular risk monitoring and reporting to risk committees is delivered.

Prudential's current portfolio of transformation and significant change programmes include the proposed demerger of Jackson from the Group; the expansion of the Group's digital capabilities and use of technology, platforms and analytics; and improvement of business efficiencies through operating model changes (covering data, systems and people). Programmes related to regulatory/industry change such as the transition to the Hong Kong IA's GWS Framework, changes required to effect the discontinuation of inter-bank offered rates (IBORs) in their current form and the implementation of IFRS 17 are also ongoing. See below for further detail on these regulatory changes. The Group is cognisant that the speed of technological change in the business could outpace its ability to anticipate all the unintended consequences that may arise. While the adoption of innovative technologies such as artificial intelligence has opened up new product opportunities and channels, it also exposes Prudential to potential information security, operational, ethical and conduct risks which, if not managed effectively, could result in customer detriment and reputational damage. The Transformation Risk Framework therefore operates alongside the Group's existing risk policies and frameworks in these areas to ensure appropriate controls and governance are in place to mitigate these risks.

Non-financial risks

In the course of doing business, the Group is exposed to non-financial risks. A combination of the complexity of the Group, its activities and the extent of transformation in progress creates a challenging operating environment. The Group's main non-financial risks are detailed below. These risks are considered to be material at the level of the Group.

Operational risk. Prudential defines operational risk as the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel or systems, or from external events. This may arise from employee error, model error, system failures, fraud or other events which disrupt business processes or has a detrimental impact to customers. Activities across the scope of our business, including operational activity, regulatory compliance, and those supporting ESG activities more broadly can expose us to operational risks. A large volume of complex transactions is processed by the Group across a number of diverse products and are subject to a high number of varying legal, regulatory and tax regimes. Prudential has no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement or monitor appropriate controls to manage operational risks.

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

The Group's requirements for the management of material outsourcing arrangements, which are in accordance with relevant applicable regulations, are included through its well-established Group-wide third-party supply policy. Third-party management is also included and embedded in the Group-wide framework and risk management for operational risk (see below).

The performance of the Group's core business activities places reliance on the IT infrastructure, provided by our external IT and technology partners, that supports day-to-day transaction processing and administration. This IT environment must also be secure, and an increasing cyber risk threat needs to be addressed as the Group's digital footprint increases and the sophistication of cyber threats continue to evolve – see separate information security risk sub-section below. Exposure to operational and other external events could impact operational resilience by significantly disrupting systems, operations and services to customers, which may result in financial loss, customer impacts and reputational damage. Operational challenges also exist in keeping pace with regulatory changes. This requires implementing processes to ensure we are, and remain, compliant on an ongoing basis, including regular monitoring and reporting.

Non-financial risks continued

Group-wide framework and risk management for operational risk
The risks detailed above form key elements of the Group's operational risk profile. A Group-wide operational risk framework is in place to identify, measure and assess, manage and control, monitor and report effectively on all material operational risks across the business. The key components of the framework are:

- Application of a risk and control self-assessment (RCSA) process, where operational risk exposures are identified and assessed as part of a periodical cycle. The RCSA process considers a range of internal and external factors, including an assessment of the control environment, to determine the business's most significant risk exposures on a prospective basis;
- An internal incident management process, which identifies, quantifies and monitors remediation conducted through root cause analysis and application of action plans for risk events that have occurred across the business;
- A scenario analysis process for the quantification of extreme, yet plausible manifestations of key operational risks across the business on a forward-looking basis. This is carried out at least annually and supports external and internal capital requirements as well as informing risk oversight activity across the business; and
- An operational risk appetite framework that articulates the level of operational risk exposure the business is willing to tolerate, covering all operational risk categories, and sets out escalation processes for breaches of appetite.

Outputs from these processes and activities performed by individual business units are monitored by the Risk function, which provides an aggregated view of the risk profile across the business to the Group Risk Committee and Board.

These core framework components are embedded across the Group via the Group Operational Risk Policy and Standards documents, which set out the key principles and minimum standards for the management of operational risk across the Group. The Group Operational Risk Policy, standards and operational risk appetite framework sit alongside other risk policies and standards that individually engage with key operational risks, including outsourcing and third-party supply, business continuity, financial crime, technology and data, operations processes and extent of transformation. These policies and standards include subject matter expert-led processes that are designed to identify, assess, manage and control operational risks, including:

- A transformation risk framework that assesses, manages and reports on the end-to-end transformation life cycle, project prioritisation and the risks, interdependencies and possible conflicts arising from a large portfolio of transformation activities;
- Internal and external review of cyber security capability and defences;
- Regular updating and testing of elements of disaster-recovery plans and the Critical Incident Procedure process;
- Group and business unit-level compliance oversight and testing in respect of adherence with in-force regulations;
- Regulatory change teams in place to assist the business in proactively adapting and complying with regulatory developments;
- On financial crime risks (see below), screening and transaction monitoring systems are in place and a programme of compliance control monitoring reviews is undertaken, as well as regular risk assessments;
- A framework is in place for emerging risk identification and analysis in order to capture, monitor and allow us to prepare for operational risks that may crystallise beyond the short-term horizon;
- Corporate insurance programmes to limit the financial impact of operational risks; and
- Reviews of key operational risks and challenges within Group and business unit business plans.

These activities are fundamental in maintaining an effective system of internal control, and as such outputs from these also inform core RCSA, incident management and scenario analysis processes and reporting on operational risk. Furthermore, they also ensure that operational risk considerations are embedded in key business decision-making, including material business approvals and in setting and challenging the Group's strategy.

Business disruption risk. Events in 2020 have shown how material business disruption risk is to effective business operations and delivery of business services to policyholders, and the potential impact to our customers and the market more broadly. The Group continuously seeks to develop greater business resilience through planning, preparation, testing and adaption. Business continuity management (BCM) is one of a number of activities undertaken by the Group Security function that helps the Group to protect its key stakeholders and its systems, and business resilience is at the core of the Group's embedded BCM programme. The BCM programme and framework are appropriately linked to all business activities, and includes business impact analyses, risk assessments, incident management plans, disaster recovery plans, and the exercising and execution of these plans. Based on industry standards, the BCM programme is designed to provide business continuity that matches the Group's evolving business needs and is appropriate to the size, complexity and nature of the Group's operations. Prudential is also taking a broader, multi-functional approach to building greater business resilience, working with our external third-party providers and our service delivery teams to improve our ability to withstand, absorb and recover from disruption to our business services, while minimising the impact on our customers. The Group continuously reviews and develops its contingency plans and its ability to respond effectively when disruptive incidents occur, such as those resulting from the Covid-19 pandemic and, prior to this, the Hong Kong protests in 2019. Business disruption risks are closely monitored by the Group Security function, with key operational effectiveness metrics and updates on specific activities being reported to the Group Risk Committee and discussed by cross-functional working groups.

Risks from the nature of our business and our industry continued

Non-financial risks continued

Information security risk and data privacy. Information security and data privacy risks remain significant considerations for Prudential. This includes the risk of malicious attack on its systems, network disruption and risks relating to data security, integrity, privacy and misuse. The cyber security threat and criminal capability in this area continues to evolve globally in sophistication and potential significance with an increased level of understanding of complex financial transactions which increases the risks to the financial services industry. The systemic risk of sophisticated but untargeted attacks remains elevated, particularly during times of heightened geopolitical tensions and during the current disruption caused by the Covid-19 pandemic. The scale of the Group's IT infrastructure and network (and the services required to monitor and manage it), stakeholder expectations and high-profile cyber security and data misuse incidents across industries mean that these risks are considered material at the level of the Group.

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

Developments in data protection requirements, such as the California Consumer Protection Act which came into force on 1 January 2020, continue to evolve worldwide. This increases financial and reputational implications for Prudential in the event of a breach of its (or third-party suppliers') IT systems. As well as protecting data, stakeholders expect companies and organisations to use personal information transparently and appropriately. New and currently unforeseeable regulatory issues may also arise from the increased use of emerging technology, data and digital services. This includes the international transfer of data which, as a global organisation, increases regulatory risks for Prudential. Given this, both information security and data privacy are key risks for the Group. As well as having preventative risk management in place, it is fundamental that the Group has robust critical recovery systems in place in the event of a successful attack on its infrastructure, a breach of its information security or a failure of its systems in order to retain its customer relationships and trusted reputation.

During 2020, work to operationalise the revised organisational structure and governance model for cyber security management has continued. This change has resulted in a centralised Group-wide Information Security and Privacy function, leveraging skills, tools and resources across the business under a 'centre of excellence' model. This global function is led by the Group Chief Information Security Officer and falls within the scope of the responsibilities of the Group Chief Digital Officer, working closely with the Group Risk and Compliance Function and Group CRCO to ensure appropriate second line oversight. Cyber risk management is also conducted locally within business units with input from business information security officers and with oversight from local risk committees. The Prudential plc Board is briefed at least twice annually on cyber security by the Group CISO and executive training is provided to ensure that members understand the latest regulatory expectations and the threats facing the Group and that they have the means to enable appropriate oversight in this area.

An updated Group-wide information security policy has been introduced that aligns to over 20 international standards such as ISO 27001/2, MAS, and NIST Cyber Security Framework to ensure full coverage and adoption of best practices. Local policies are also aligned to relevant local regulation or law. Our Group-wide privacy policy was developed in collaboration with industry experts to support a pragmatic approach to the evolving regulatory environment globally and ensure compliance with all applicable laws and regulations. This approach ensures that all our stakeholders have confidence in our approach to information security and risk management.

These developments have allowed the Group to progress on its cyber security strategy, which for 2020 has four key objectives:

- Automation of key processes to provide near real-time information on cyber security risks, allowing for increased response times scalability of defences to threat vectors across all security disciplines. This also enables improved, and more rapid, decision-making;
- Using technology for the rapid enablement of the Group's businesses, which supports the Group Digital Transformation strategy while meeting the security requirements and expectations;
- Optimisations for efficiency in cyber security and data privacy management. This includes the delivery of centralised services across the Group in areas such as vulnerability management; and
- Continuous identification and implementation of improvements to the people, processes or technology deployed on cyber security and privacy management.

Risks from the nature of our business and our industry continued

Non-financial risks continued

Model, user developed application (UDA) and robotics process automation (RPA) risk. There is a risk of adverse consequences arising from erroneous or misinterpreted tools used in core business activities, decision making and reporting. The Group utilises various tools 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. Many of these tools are an integral part of the information and decision-making framework of Prudential and errors or limitations in these tools, or inappropriate usage, may lead to regulatory breaches, inappropriate decision-making, financial loss, or reputational damage.

The Group has no appetite for model, UDA and RPA risk arising as a result of failing to develop, implement and monitor appropriate risk mitigation measures.

Prudential's model, UDA and RPA risk is managed and mitigated using the following:

- The Group's Model, UDA and RPA Risk Policy and relevant Guidelines;
- Annual risk assessment of all tools used for core business activities, decision making and reporting;
- Maintenance of appropriate documentation for tools used;
- Implementation of controls to ensure tools are accurate and appropriately used;
- Tools are subject to rigorous and independent model validation; and
- Regular reporting to the Risk-function to support the measurement and management of the risk.

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

Prudential operates in some high-risk countries where, for example, the acceptance of cash premiums from customers may be common practice, large-scale agency networks may be in operation where sales are incentivised by commission and fees, where there is a higher concentration of exposure to politically-exposed persons, or which otherwise have higher geopolitical risk exposure.

The Group-wide policies we have in place on anti-money laundering, fraud, sanctions and anti-bribery and corruption reflect the values, behaviours and standards that are expected across the business. Screening and transaction monitoring systems are in place and a series of improvements and upgrades are being implemented, while a programme of compliance control monitoring reviews is being undertaken. Risk assessments are performed annually at higher risk locations. Due diligence reviews and assessments against Prudential's financial crime policies are performed as part of the Group's business acquisition process. The Group continues to undertake strategic activity to monitor and evaluate the evolving fraud risk landscape, mitigate the likelihood of fraud occurring and increase the rate of detection.

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

Insurance risks
(Audited)

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

The principal drivers of the Group's insurance risk vary across its business units. Across Asia, where a significant volume of health and protection business is written, the most significant insurance risks are persistency risk, morbidity risk and medical inflation risk. In Jackson, policyholder behaviour risk is particularly material, especially in the take up of options and guarantees on variable annuity business which impacts profitability and is influenced by market performance and the value of policy guarantees.

The Group has appetite for retaining insurance risks in the areas where it believes it has expertise and operational controls to manage the risk and where it judges it to be more value-creating to do so rather than transferring the risk, and only to the extent that these risks remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

The impact of Covid-19 to economic activity and employment levels across the Group's markets has the potential to elevate the 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. In particular extended restrictions on movement could affect product persistency in the Group's Asia business. The pandemic may also result in elevated claims and policy lapses or surrenders in a less direct way, 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. While these impacts to the business have not been material to date, they are being closely monitored by the Group's businesses with targeted management actions being implemented where necessary, which includes additional Incurred But Not Reported (IBNR) claims reserves in some markets where deferrals in non-acute medical treatments due to movement restrictions have been observed.

Risks from the nature of our business and our industry continued

Insurance risks continued
(Audited)

The Group's persistency assumptions reflect similarly a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumptions. Persistency risk is managed by appropriate training and sales processes (including active customer engagement and service quality) and managed locally post-sale through regular experience monitoring and the identification of common characteristics of business with high lapse rates. Where appropriate, allowance is made for the relationship (either assumed or observed historically) between persistency and investment returns and any additional risk is accounted for. Modelling this dynamic policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within certain products. The effect of persistency on the Group's financial results can vary but depends mostly on product design and market conditions.

In Asia, Prudential writes significant volumes of health and protection business and so a key assumption is the rate of medical inflation, which is often in excess of general price inflation. There is a risk that the expenses of medical treatment increase more than expected, so the medical claim cost passed on to Prudential is higher than anticipated. Medical expense inflation risk is best mitigated by retaining the right to reprice our products each year and by having suitable overall claims limits within our policies, either limits per type of claim or in total across a policy, annually and/or over the policy lifetime. Prudential's morbidity risk is mitigated by appropriate underwriting when policies are issued and claims are received. Our morbidity assumptions reflect our recent experience and expectation of future trends for each relevant line of business.

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

- The Group's insurance, product and underwriting risk policies;
- The risk appetite statements, limits and triggers;
- Using persistency, morbidity and longevity assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;
- Using reinsurance to mitigate mortality and morbidity risks;
- Ensuring appropriate medical underwriting when policies are issued and appropriate claims management practices when claims are received in order to mitigate morbidity risk;
- Maintaining the quality of sales processes, training and using initiatives to increase customer retention in order to mitigate persistency risk;
- Using product repricing and other claims management initiatives in order to mitigate medical expense inflation risk; and
- Regular deep dive assessments.

Conduct risk
Prudential's conduct of business, especially the design and distribution of its products, is crucial in ensuring that the Group's commitment to meeting customers' needs and expectations are met. The Group's conduct risk framework, owned by the Group Chief Executive, was further developed in 2020 and reflects management's focus on customer outcomes.

Factors that may increase conduct risks can be found throughout the product life cycle, from the complexity of the Group's products, to its diverse distribution channels, including virtual face-to-face sales and sales via online digital platforms. In alignment with the Group's purpose of helping people get the most out of life, Prudential strives towards making health and protection coverage affordable and accessible to all. Through the Pulse by Prudential app, there is increased focused on making insurance more inclusive to underserved segments of society, through bite-size low cost digital products and services. Through this transition, Prudential must continue to ensure the quality of its ongoing servicing of all its customers. Prudential mitigates conduct risk with robust controls, which are identified and assessed through the Group's conduct risk assessment framework, regularly tested within its monitoring programmes, and overseen within reporting to its Boards and Committees.

Management of Prudential's conduct risk is key to the Group's strategy. Prudential's conduct risks are managed and mitigated using the following:

- The Group's code of business conduct and conduct standards, product and underwriting risk policies and other related policies;
- Ensuring the quality of sales and marketing material via robust review and sign off procedures;
- Ensuring sales practices meet commitments to customers and regulators via the use of well-designed monitoring programmes relevant to the type of business (insurance or asset management), distribution channel (agency, bancassurance, or digital) and ecosystem;
- Ensuring sales processes are designed to meet commitments to customers and regulators and that they are operating effectively via robust assurance programmes both pre and post implementation;
- Maintaining the quality of sales processes and training, and using other initiatives such as special requirements for vulnerable customers, to improve customer outcomes;
- Proper claims management and complaint handling practices;
- Regular deep dive assessments on, and monitoring of, conduct risks; and
- Conduct Risk Assessments.

Risks related to regulatory and legal compliance

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

Prudential operates under the ever-evolving requirements set out by diverse regulatory, legal and tax regimes which may impact Prudential's business or the way in which it is conducted. This covers a broad range of risks including changes in government policy and legislation, capital control measures, and new regulations at either national or international level. In addition to the risks arising from regulatory change, the breadth of local and Group-wide regulatory arrangements presents the risk that regulatory requirements are not fully met, resulting in specific regulator interventions or actions including retrospective interpretation of standards by regulators which may result in regulatory censure or significant additional costs to the business. Furthermore, as the industry's use of emerging technological tools and digital services increases, this is likely to lead to new and unforeseen regulatory issues and the Group is monitoring the regulatory developments and standards emerging around the governance and ethical use of technology and data.

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

The focus of some governments toward more protectionist or restrictive economic and trade policies could impact on the degree and nature of regulatory changes and Prudential's competitive position in some geographic markets. This could take effect, for example, through increased friction in cross-border trade, capital controls or measures favouring local enterprises such as changes to the maximum level of non-domestic ownership by foreign companies. These developments continue to be monitored by the Group at a national and global level and these considerations form part of the Group's ongoing engagement with government policy teams and regulators.

Further information on specific areas of regulatory and supervisory requirements and changes are included below.

Group-wide supervision. From 21 October 2019, Prudential's Group-wide supervisor changed to the Hong Kong IA. As a result, the Group currently applies the local capital summation method (LCSM) to determine Group regulatory capital requirements (both minimum and prescribed levels). 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 will be supported by further guidance material to be released by the Hong Kong IA. Prior to the GWS Framework becoming effective for the Group, which is expected in the second quarter of 2021 upon designation by the Hong Kong IA, Prudential remains subject to the Regulatory Letter signed with the Hong Kong IA. The letter outlines the interim supervision arrangements from October 2019 when it became the group-wide supervisor of the Group.

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

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). 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.

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

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 was 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 regimes will continue to be a near-term focus in the FSB's financial stability work, potentially being a key tool in informing decisions around the reformed G-SII designation in 2022.

Risks related to regulatory and legal compliance continued

In the US, various initiatives are under way to introduce fiduciary obligations for distributors of investment products, which may reshape the distribution of retirement products. Jackson has introduced fee-based variable annuity products in response to the potential introduction of such rules, and we anticipate that the business's strong relationships with distributors, history of product innovation and efficient operations should further mitigate any impacts.

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

IFRS 17. In May 2017, the International Accounting Standards Board (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 introduce fundamental changes to the IFRS-based reporting of insurance entities that prepare accounts according to IFRS from 2023. IFRS 17 is expected to, among other things, include altering the timing of IFRS profit recognition, and the implementation of the standard is likely to require changes to the Group's IT, actuarial and finance systems. The Group is reviewing the complex requirements of this standard and considering its potential impact.

Inter-bank offered rate reforms. In July 2014, the Financial Stability Board (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 (SONIA) benchmark in the UK and the Secured Overnight Financing Rate (SOFR) in the US could, among other things, impact the Group through an adverse effect on the value of Prudential's assets and liabilities which are linked to, or which reference IBORs, a reduction in market liquidity during any period of transition and increased legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

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

- Risk assessment of the Business Plan which includes consideration of current strategies;
- Close monitoring and assessment of our business environment and strategic risks;
- The consideration of risk themes in strategic decisions;
- Ongoing engagement with national regulators, government policy teams and international standard setters; and
- Compliance oversight to ensure adherence with in-force regulations and management of new regulatory developments.

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The Group's ESG-related risks

These include environmental risks associated with climate change (including physical and transition risks), social risks arising from diverse stakeholder commitments and expectations and governance-related risks.

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, all of whom have expectations, concerns and aims which may differ. Material risks associated with key ESG themes 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.

The Prudential ESG Strategic Framework, developed in 2020, focuses on giving people greater access to good health and financial security, responsible stewardship in managing the human impact of climate change and building human and social capital with its broad range of stakeholders. Prudential seeks to ESG-related risks to its strategy and their negative implications to stakeholder through a transparent and consistent implementation of this strategy in its key markets and across operational, underwriting and investment activities. The strategy is enabled by strong internal governance, sound business practices and a responsible investment approach, both as an asset owner and asset manager.

(a) Environmental risks

Prudential's strategic ESG focus on stewarding the human impacts of climate change recognises that environmental concerns, notably those associated with climate change, may pose significant risks to Prudential, its customers and other stakeholders. 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 Group's ESG-related risks continued

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 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 plans and which takes into consideration the impact on the economies, businesses and customers in the markets in which it operates and invests. Understanding and appropriately reacting to transition risk requires sufficient and reliable data on carbon exposure and transition plans for the assets in which the Group 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. More information about the activities the Group is undertaking to increase its understanding and risk management of these climate-related risks can be found in the Prudential plc ESG Report 2020, see pages 87 to 92.

(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 aims to attract, retain and develop highly-skilled staff, which relies on having in place responsible working practices and recognising the benefits of diversity and promoting a culture of inclusion. The Group's reputation extends to its 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 committed to playing a greater role in preventing and postponing illness in order to protect its customers as well as making health and financial security accessible through an increased focused on digital innovation, technologies and distribution methods for a broadening range of products and services. As a result, Prudential has access to 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 therefore actively manages the regulatory, ethical and reputational risks associated with actual or perceived 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 which Prudential monitors for, as well as ensuring support for its customers through this transformation.

(c) Governance risks

Maintaining high standards of corporate governance is crucial for the Group and its customers, staff and employees, reducing the risk of 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 increases the potential for reputational risks arising from poor governance.

Risk management and mitigation of ESG risks at Prudential include the following:

- The Group's ESG Strategic Framework focused on strategic differentiators and enablers;
- The Group Code of Business Conduct and Group Governance Manual including ESG linked policies;
- ESG risk identification including through emerging risk processes;
- Deep dives into ESG themes including climate-related risks; and
- Integrating ESG considerations into investment processes

Further information on the Group's ESG governance is included in section 4 above, and further detail on the Group's ESG Strategic Framework and the management of material risks associated with ESG themes are included in the ESG Report 2020, see pages 70 to 117.

Notes

1 Excluding assets held to cover linked liabilities and those of the consolidated investment funds.
2 Based on middle rating from Standard & Poor's, Moody's and Fitch. If unavailable, NAIC and other external ratings and then internal ratings have been used.
3 Source of segmentation: Bloomberg Sector, Bloomberg Group and Merrill Lynch. Anything that cannot be identified from the three sources noted is classified as other.
4 From half year 2020, to align more closely with the internal risk management analysis, the Group altered the compilation of its credit ratings analysis to use the middle of the Standard & Poor's, Moody's and Fitch ratings, where available. Where ratings are not available from these rating agencies, NAIC ratings (for the US), local external rating agencies' ratings and lastly internal ratings have been used. Securities with none of the ratings listed above are classified as unrated and included under the 'below BBB- and unrated' category. The total securities (excluding sovereign debt) that were unrated at 31 December 2020 were $780 million (31 December 2019: $648 million). Previously, Standard & Poor's ratings were used where available and if not, Moody's and then Fitch were used as alternatives.
5 Excluding assets in consolidated funds financed largely by external third-party (non-recourse) borrowings, for which the Group's exposure is limited to the investment held by Jackson. Including these assets, the US corporate debt portfolio is 93 per cent investment grade.

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

The Group's longer-term prospects

Prudential aims to make healthcare affordable and accessible, protect people's wealth and empower customers to save for their goals, which can often be over a time frame of many years. As such, Prudential considers that its purpose aligns closely with important societal needs, including making health and financial security more accessible, improving financial inclusion and education and transitioning to a low carbon economy. Prudential is focused on addressing these increasing needs, reflecting population demographics in our chosen markets. The drivers for this structural growth, such as the low penetration rates across the Asian region, are discussed on pages 19 to 25 alongside the activities we undertook during 2020 to expand our Asian and African footprint and enhance our capabilities, particularly through increased digitalisation. To enable the Group to focus exclusively on its high-growth Asia and Africa businesses, the Group intends to pursue the demerger of its US business allowing Jackson to focus on the distinct opportunities within the US retirement market. Further information on the progress of this demerger is set out on pages 06 to 07. In undertaking these activities, we aim to both meet the evolving needs of our customers and provide sustainable growth for our shareholders, which will ultimately lead to the viability of our business over the longer term.

In 2020, the Covid-19 pandemic has impacted the global economy and the related restrictions have applied to the Group's individual markets to varying degrees and at different periods. Our focus during this time has been on supporting our communities, customers and staff through the challenges created. The business has seen a short-term impact on sales but we believe the Covid-19 disruptions have also acted to intensify the structural opportunities in Asia and Africa over the longer term with a clear and increasing need for the broad-based products we deliver. During the pandemic, the Group has continued to innovate, as demonstrated by the continued rollout of Pulse by Prudential, to ensure we can capture these opportunities post Covid-19. The long-term macro-economic impacts of the pandemic remain uncertain but all of the Group's activities are underpinned by ongoing risk management, implemented via the Group Risk Framework and risk appetite limits described on pages 51 to 54.

The Group as a whole and each of its life assurance operations are subject to extensive regulation and supervision, which are designed primarily to reinforce the Group's management of its long-term solvency, liquidity and viability to ensure that it can continue to meet obligations to policyholders. Further details on the current capital strength of the Group are provided on pages 31 to 32.

The Group's management of wider environmental, social and governance issues that could pose a risk in the future to the Group is set out in the Environmental, Social and Governance report on pages 70 to 117.

This risk and regulatory focus supports the sustainability of our business over the longer term.

Period of viability assessment

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

The Directors performed the assessment by reference to the three-year plan period to 31 December 2023. Three years is considered an appropriate period as it represents the period covered by the detailed business plan that is prepared annually on a rolling three-year basis. In approving the business plan, the Directors reviewed the Group's projected performance with regards to profitability, cash generation and capital position, together with the parent company's liquidity over this three-year period. This projection involves setting a number of economic and other assumptions that are inherently volatile over a much longer reporting period. Such assumptions include foreign exchange rates, interest rates, economic growth rates, the impact on the business environment arising from the impact of Covid-19, geopolitical events and continued level of changes in regulation and supervision. The Directors are satisfied that this period is sufficient to enable a reasonable assessment of viability to be made.

The intended demerger of Jackson from the Group is expected to occur within the period covered by the viability statement. The Directors have therefore considered the ability of the Group to continue in its current form (ie the scenario in which the demerger does not proceed) for the three-year period ending 31 December 2023 as well as the viability of the Group in the more likely scenario that the demerger proceeds.

Assessment of principal risks over the period

The Group's business plan implements the Group's strategic objectives through the business model and activities discussed on pages 14 to 15. Matters considered as part of that planning process included the effect of current Covid-19 restrictions on people movement and face-to-face business activity and the continued rollout of Pulse by Prudential. Assessment of the risks to achieving the projected performance remains an integral part of the planning process. The Group's approach to risk management and a summary of the key risks facing the Group are set out on pages 45 to 69.

For the purposes of assessing the Group's viability, the Directors considered those risks where the impact of possible adverse external developments could be of such speed and severity to present a shock to the Group's financial position. The risks considered, from those detailed on pages 55 to 67 are: market risk, credit risk, liquidity risk and regulatory risk. The Directors considered the macroeconomic environment and geopolitical risks in the markets which the Group operates.

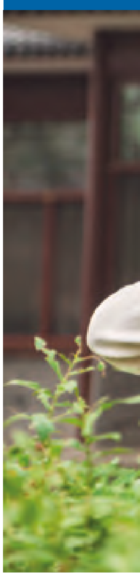
Stress and scenario testing
As noted above, underpinning the projections in the business plan are a number of economic and other assumptions. To evaluate the Group's resilience to significant deteriorations in market and credit conditions and other shock events, these risks are grouped together into scenarios which are then applied to the assumptions underlying the business plans considered. Scenarios considered include those reflecting the possible impacts of Covid-19 on new business, including the uncertainty as to the duration of restrictions in individual markets and the length of time for sales to recover to previous levels and different timings of expected regulatory changes. Separately stresses have been applied to the economic and non-economic assumptions underlying the base case business plan. These stresses assess the potential impact of up or down interest rate movements combined with corporate credit spread widening, a rating level downgrade on part of the credit asset portfolio, falling equity values and insurance stresses (such as changes in policyholder behaviour, including lapses, and increased morbidity in Asia). In addition, the adequacy of liquid resources of the Group's parent company across the plan period has been assessed by considering a stress scenario assuming the closure of short-term debt markets, as well as additional calls on central liquidity by the business units. In this liquidity stress scenario, the Group would have access to sufficient resources to meet the funding requirements of the business, after taking into account the Group's undrawn committed liquidity facilities of $2.6 billion, on top of central cash and short-term investment balances, which as at 31 December 2020 were $1.5 billion.

The scenarios tested showed that the Group would be able to maintain viability over the three-year period under assessment, after taking account of the actions available to management to mitigate the impacts on capital and liquidity in such scenarios. In addition, the Group conducts an annual reverse stress test which gives the Directors an understanding of the maximum resilience of the Group to extremely severe adverse scenarios. The projections in the business plan, and in the scenarios considered, do not assume that the Group accesses or relies upon the proceeds from any potential equity raise in the three-year period under assessment. This analysis assists in identifying management actions that could be implemented to restore the Group's capital and liquidity resources from extreme positions. This analysis also informs the Group's recovery plan and liquidity risk management plan.

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

Conclusion on viability
Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year plan period to December 2023.

Purpose and responsibility



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Introduction

In 2020 we reviewed our Environment, Social and Governance (ESG) strategy to evaluate how we use our capabilities to maximise our positive social and environmental impact.

This strategic review reflected the changes to Prudential set out in this Annual Report: our strategic focus on Asia and Africa, our continued evolution into a digitally enabled business, and how the Covid-19 pandemic has highlighted the global need for access to healthcare. This review was informed by work done in parallel to refresh the Company's purpose which is to help people get the most out of life. We deliver on that purpose by making healthcare affordable and accessible, helping people accumulate wealth through growing their assets, and empowering our customers to save for their goals. In this way, we ensure alignment of our creation of shareholder returns with our creation of societal value given the nature of our business and the markets in which we operate.

Our new ESG strategy distils the many ways in which we help our stakeholders into three core themes, all of which are closely linked to our strategy and business model:

Making health and financial security accessible: Working at scale, we give people greater access to good health and financial security. Covid-19, the rise in non-communicable conditions such as heart disease and diabetes, and ageing populations threaten to widen further the existing health, protection and savings gaps. Behind these megatrends lie countless individual stories of people who are anxious and struggling because of a lack of access to health and finance. We are committed to enabling as many individuals as possible in the markets in which we operate to make the most of their lives. In particular, we are increasing our focus on underserved communities and moving beyond our traditional role of financial protection to provide services that also prevent and postpone ill-health. Pulse, our health and wealth super-app now in live in 15 markets, is a key tool for us in meeting that ambition. Essential, too, are the tireless efforts of our colleagues, agents and other partners in developing product offerings that meet the needs of our diverse customer base. Our community investment programmes, focusing on education and financial literacy, also have an important role to play in building understanding of the benefits of financial products, and in building financial capabilities to ensure people can make informed financial decisions.

Stewarding the human impacts of climate change: We are a responsible steward in managing the human impact of climate change. We are a signatory to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), and as a significant asset manager and asset owner in regions forecast to be severely impacted by global warming, Prudential has a distinctive role to play in the transition to a low-carbon economy. We are decarbonising our investment portfolio and actively engaging with policymakers and investee businesses to encourage sustainable development. The economies of East Asia, where our businesses are concentrated, have a greater reliance on manufacturing and primary industries than more developed markets, where services account for a higher proportion of GDP. This means that the energy transition across the region is starting from a higher carbon intensity level and is likely to proceed at a slower pace than for more advanced economies. Recognising this, as we support the move to a lower-carbon economy in these emerging markets, we strive to ensure that the transition is an inclusive one for all of society – one that supports sustainable growth and economic health within our local markets and communities. We also recognise the importance of reducing the direct impact of our own operations on the environment and we continue to increase our level of ambition in relation to our own emissions footprint. This year we have set new and stretching targets for our Scope 1 and Scope 2 greenhouse gas emissions, with the aim of becoming net carbon neutral across these two scopes by the end of 2030. We are in the process of assessing similar suitable targets in respect of the carbon emissions from our investments. We also seek to apply ESG considerations more broadly in our investment process and our fiduciary and stewardship duties, to ensure that our investment decisions are aligned with our values and support our primary focus on healthy lives.

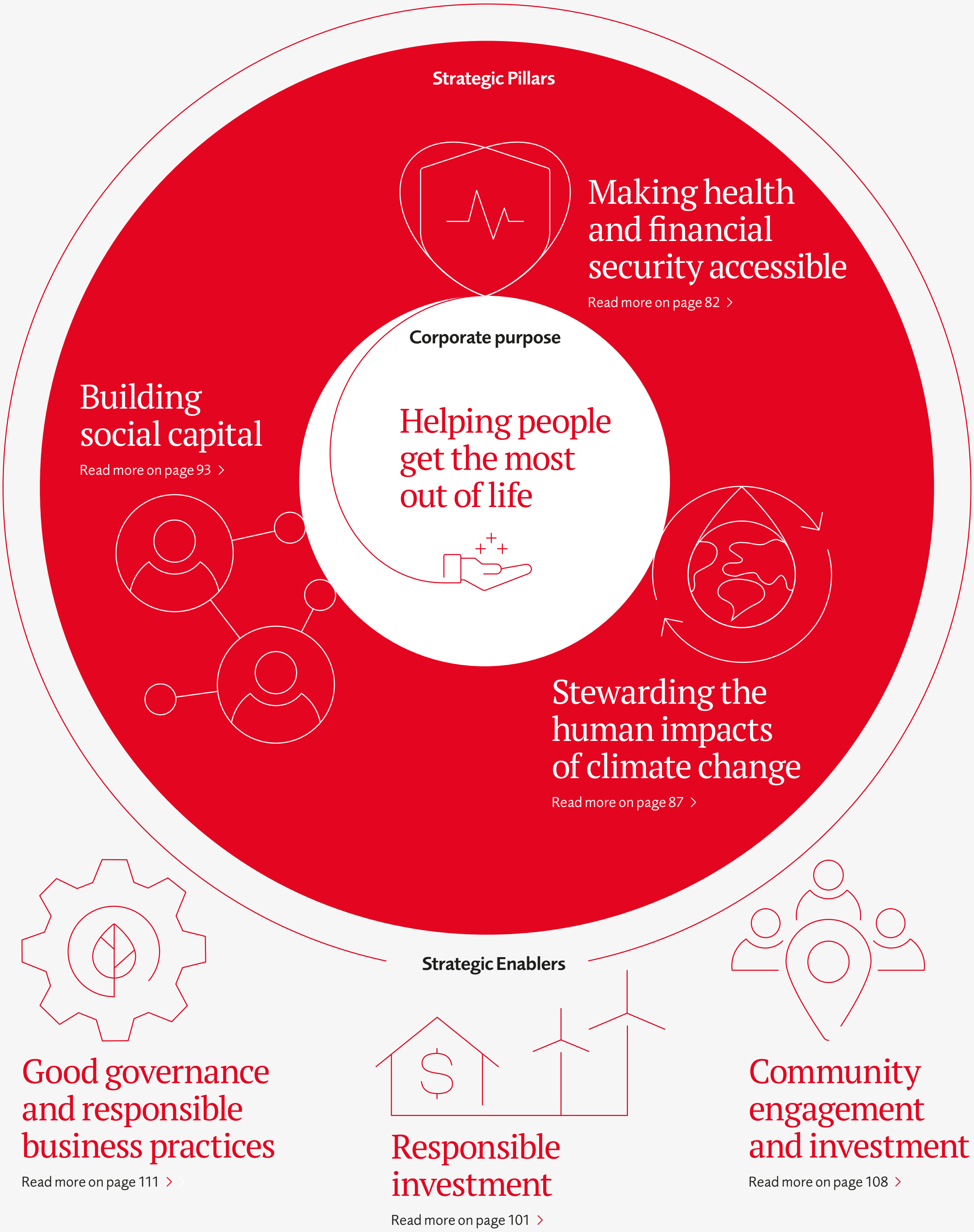
Building social capital: We are committed to building both our own human capital and our social capital with our broader stakeholders. We seek to empower people and unlock their potential. We do this by promoting diversity in representation and thought, and fostering a culture of inclusion and a sense of belonging within our organisation. Just as Prudential depends on the trust of our people, it also needs the trust of the external world. As we develop our digital capabilities, we need also to prioritise digital responsibility throughout our organisation. We must always keep in mind that our purpose to help people get the most out of life is the reason why we are investing purposefully in artificial intelligence, big data and other technologies, and that focus on the needs and interests of our users has to guide us in how we interact with them and handle their personal data as our capabilities develop.

This report covers the Group's ESG strategy and activities. It also presents the non-financial information statement and Section 172 Statement required by the UK Companies Act.

Our ESG Strategic Framework

Following our ESG review, we have developed a new ESG Strategic Framework (the 'framework'). This framework is fully aligned to our business strategy and our purpose of helping people to get the most out of life by making healthcare accessible and affordable, helping people accumulate wealth through growing their assets, and empowering our customers to save for their goals.

The key features of our ESG framework are its three strategic pillars which have clear alignment with our business strategy. Within each of these, specific differentiating focus areas have been identified where it is believed there is an opportunity for Prudential to make a meaningful impact, and as such greater focus will be placed on these differentiators.



The pillars and differentiators are:

1 Making health and financial security accessible
— Digital health innovation
— Inclusive offerings
— Digitally enabled financial literacy

2 Stewarding the human impacts of climate change
— Decarbonising our investment portfolio
— Supporting an inclusive transition

3 Building social capital
— Digital responsibility
— Diversity, inclusion and belonging

Our 2020 ESG report is structured in line with this framework and provides an update on our progress in the year across each of the pillars and enablers.

The following strategic enablers support these pillars:

— Good governance and responsible business practices

— Responsible investment

— Community engagement and investment

The United Nations Sustainable Development Goals (SDGs) were adopted by all UN Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure all people enjoy peace and prosperity by 2030. They are universally recognised and have been globally adopted by corporates as a means of articulating and measuring impact. They therefore provide a transparent and standardised mechanism of illustrating our intended outcomes. The focus areas of the strategic framework have been aligned to the SDGs. The alignment process focused on those SDGs where the Group can seek, over time, to make a meaningful impact because of the close relationship with our purpose and business strategy.

We have aligned with the SDGs at a target-level for the following goals and intended outcomes

SDG	SDG target		Intended outcome
1 No poverty	1 NO POVERTY	**1.4, 1.5**	Increased access to quality healthcare services, and financial services for the poor and the underserved, including microfinance. Improved resilience of the poor and reduction in their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.
3 Good health and wellbeing	3 GOOD HEALTH AND WELL-BEING	**3.8, 3.d**	Strengthened capacity of our local (and developing) markets, for early warning, risk reduction and management of national and global health risks. Increased access to quality healthcare and financial risk protection for all across Asia.
8 Decent work and economic growth	8 DECENT WORK AND ECONOMIC GROWTH	**8.3**	Promoted development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, including through access to financial services.
13 Climate action	13 CLIMATE ACTION	**13.1, 13.3**	Strengthened societal adaptive capacity for early warning, and risk reduction for climate-induced health impacts. Improved education, awareness and human capacity on climate change mitigation, adaptation, impact reduction and early warning.

Development of the ESG Strategic Framework

In line with good practice, the framework was developed following a rigorous analysis process, which identified key ESG stakeholder expectations from investors, rating agencies, government and regulators, stock exchanges, NGOs, industry and independent organisations, media and employees. This approach was taken to ensure that the framework ascertained the most material issues, considered as broad a spectrum of stakeholders as possible, and was tested robustly from their perspectives. The process also considered upcoming regulation to shape a view of expectations, emerging policy and peer themes to direction of travel, noting that this is a rapidly evolving area. This comprehensive internal and external stakeholder engagement informed the materiality assessment for the purposes of our 2020 ESG reporting. The Section 172 Statement below provides information on stakeholder engagement throughout the year, which was considered within the development of the ESG Strategic Framework where relevant.

Through this analysis, the three strategic pillars, plus the differentiators and enablers, were identified and defined at a high level. These proposals were discussed with a number of stakeholders across the Group in order to ensure our ESG strategy was fully integrated into the business, and to test and validate the proposed framework. This stakeholder group included those responsible for ESG and responsible investment-related activities within the business units, along with function leads (eg HR, Digital, Risk), business unit CEOs, the Group Executive Committee, and Board members.

The Strategic Framework was formally reviewed by the Group ESG Committee and then considered by the Group Nomination & Governance Committee, which recommended it to the Group Board, which formally approved it in December 2020.

Oversight of ESG

ESG is overseen by the Board, which is responsible for determining strategy and prioritisation of key focus areas. In order to provide greater senior executive involvement and holistic oversight of ESG matters material to the Group, in 2020 a Group ESG Committee was established, superseding the previous ESG Executive Committee. The Committee is chaired by the Group Chief Financial Officer and Chief Operating Officer, in his role as ESG sponsor. Membership of the Committee includes the Group Chief Risk and Compliance Officer, the Group HR Director, and senior representatives from the Group's asset owner and asset management business units, including, from 1 January 2021, the Chief Executives of Eastspring and PACS (Prudential's Singapore business). One of the Group ESG Committee's responsibilities is to oversee the Group's progress towards fulfilling our commitment to report against the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

In 2020, the Group ESG Committee reported to the Board through the Group Nomination & Governance Committee. The Board recognises that the next 12 to 18 months will be critical for the embedding of the ESG Strategic Framework within the Group, as well as for the progress of related matters such as the development and embedding of the Group's purpose and values, progressing diversity and inclusion (D&I) priorities, and building upon employee engagement activities. Therefore, in early 2021 the Board established a Responsibility & Sustainability Working Group, to be chaired by Alice Schroeder and comprising four Non-executive Directors, in order to ensure an appropriate level of Board engagement in, and oversight of, these matters during this critical period.

Our Group Governance Manual (GGM) sets out the policies and procedures by which the Group operates. It establishes standards for managing possible ESG issues across the Group. The GGM is subject to a formal content review each year, taking into consideration both internal and external factors.

As part of the Governance, Risk Management & Internal Control – Annual Statement of Compliance certification, all businesses across the Group assess their compliance position against each of the requirements set out in the Group Code of Business Conduct, Policies and Delegated Authorities. Any instances of GGM non-compliance identified by the businesses through their annual attestation are assessed by the Group policy owners and reported to the Group Audit Committee.

Our Group-wide policies relating to our ESG Strategic Framework, which are applicable to all entities, include:

ESG strategic pillar	Our Group-wide policies	Owner and date of last review
Making health and financial security accessible	To ensure we treat our customers fairly, management of conduct risks is key. Prudential mitigates conduct risk with robust controls, which are identified and assessed through the Group's conduct risk assessment framework, and regularly tested within its monitoring programmes. The Group Customer Conduct Risk Policy provides this framework and includes our Customer Conduct Standards, which set out the core values and standards that the Group expects all employees and persons acting on behalf of it to observe, and which further support our ESG strategy. These values and standards include specific requirements regarding customers. In particular, the Group has committed to: — Treat customers fairly; — Provide and promote products and services that meet customer needs, are clearly explained and deliver real value; — Maintain the confidentiality of our customer information; — Provide and promote high standards of customer service; and — Act fairly and in a timely way to address customer complaints and any errors we find.	Group Chief Executive December 2020
Stewarding the human impacts of climate change	Asset management businesses and insurance businesses (as asset owners) have distinct risks, including investing in different markets and asset classes; therefore, each business manages ESG-related matters through the pursuit of business-specific responsible investment policies. This is supported by our Group Code of Business Conduct and is underpinned by our Group-wide Responsible Investment Standards.	Business unit responsible executives
	Our Environment Policy outlines our approach to understanding and managing the direct environmental impact of the Group. This covers our measurement, monitoring, review and reporting of issues associated with our environmental performance.	Group Chief Financial Officer and Chief Operating Officer July 2020
Building social capital	Our Diversity and Inclusion Policy reflects our aspiration and aims to promote employee diversity and provide equal opportunities to all who apply for and those who perform work at every level of our organisation. The policy promotes diversity irrespective of sex, race, age, ethnic origin, social and cultural background, marital or civil partnership status, pregnancy, maternity and paternity, any gender reassignment, religion or belief, sexual orientation, disability, or part-time/fixed-term working arrangements, and seeks to ensure appropriate diversity of experience, skill sets and professional backgrounds. Further information on the diversity of our Board, our policy in respect of this, how this is implemented and the associated results in 2020 can be found in our Governance Statement on pages 120 to 169.	Group HR Director July 2020
	Our Employee Relations Policy outlines the way we engage with our employees and motivate them to achieve success for the Group: promoting positive relationships with employees, representative organisations and trade unions.	Group HR Director July 2020
	Our Performance and Learning Policy sets out the importance of our people and frames how we invest in their development to deliver against our strategy and the future success of the organisation. This includes our Performance Management Framework.	Group HR Director July 2020
	Our Remuneration Policy outlines our effective approach to appropriately rewarding our employees in a way that aligns incentives to business objectives and performance, and enables the recruitment, retention and incentivisation of high-calibre employees in line with our risk appetite and Group Reward Principles.	Group HR Director December 2020
	Our Talent Policy demonstrates how we attract, select and develop the best people for roles that will ensure high performance in the short term and future-proof leadership capability through building business-relevant longer-term succession and talent pipelines. It sets out our fair and effective approach to pursuing this.	Group HR Director July 2020
	Our Privacy Policy governs the protection of data and complies with the General Data Protection Regulation. Our Global Information Security Policy supports our global approach to security and our commitment to protecting the data entrusted to us by customers.	Group Chief Digital Officer July 2020

ESG strategic enabler	Our Group-wide policies	Owner and date of last review
Responsible investment	Asset management businesses and insurance businesses (as asset owners) have distinct risks, including investing in different markets and asset classes; therefore, each business manages ESG-related matters through the pursuit of business-specific responsible investment policies. This is supported by our Group Code of Business Conduct and is underpinned by our Group-wide Responsible Investment Standards.	Business unit responsible executives
Good governance and responsible business practices	The Group Code of Business Conduct sits at the heart of our Group Governance Manual, and highlights the ethical standards that the Board expects of itself, our employees, our agents and others working on behalf of the Group. The Code is supported by a set of Group-wide principles and values that define how the Group expects business to be conducted in order to achieve its strategic objectives.	Group Chief Executive December 2020
	Our Anti-Bribery and Corruption Policy covers our values for reputation, ethical behaviour and reliability. As an organisation we are focused on financial practices that align to those values and we prohibit corruption or bribery within our working practices.	Group Chief Risk and Compliance Officer July 2020
	Our Anti-Money Laundering and Sanctions Policy outlines how we prohibit money laundering or terrorist financing in our working practices, setting out how we establish parameters to prevent this taking place across the organisation and the commitment we have to comply with sanctions, laws and regulations by screening, prohibiting or restricting business activity, and following up through investigation.	Group Chief Risk and Compliance Officer July 2020
	Our Security Policy outlines our commitment to ensuring that security aligns to industry-recommended practice for managing our regulatory and legal obligations. This includes how we manage incidents under the Speak Out programme, our whistleblowing process.	Group Chief Risk and Compliance Officer July 2020
	Our Tax Risk Policy includes our processes to manage tax-related risk, by identifying, measuring, controlling and reporting on issues considered an operational, reputational or regulatory risk.	Group Chief Financial Officer and Chief Operating Officer July 2020
	Our Political Donations Policy outlines our position that as an organisation we do not donate to political parties. This is defined as covering any political party or candidate or any other organisation that attempts to affect support for any political party. It is defined as covering any payment or gift or contribution, direct or indirect, as defined by the UK's Political Parties, Elections and Referendums Act 2000. The policy covers expenditure on engagement activity on public policy discussions and applies across the Group.	Group Chief Financial Officer and Chief Operating Officer July 2020
	Our Third-Party Supply Policy covers how we manage and oversee our third-party arrangements, through due diligence/selection criteria, contractual requirements, the ongoing monitoring of such relationships, and reporting and escalation. Additionally, the policy considers the requirements of the UK Modern Slavery Act and the principles of the UN's Universal Declaration of Human Rights.	Group Chief Financial Officer and Chief Operating Officer July 2020
	Our Health and Safety Policy covers our employees, business partners, customers and others that may be affected by our operations. This details our health and safety core principles, our commitments and the measuring and reporting on our health and safety performance.	Group Chief Financial Officer and Chief Operating Officer July 2020
Community engagement and investment	Our Community Investment Policy covers how we are committed to working with the communities in which we operate as active and supportive members. It also outlines our strategy for investing in the community and how we make investments and report against them.	Group Chief Financial Officer and Chief Operating Officer and Group HR Director July 2020

Non-financial information statement

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

The Group's Strategic Report, including this ESG report and the Section 172 Statement, includes information required by the non-financial reporting provisions contained in sections 414CA and 414CB of the Companies Act 2006. These reporting requirements are met in a number of sections of our Annual Report. The diagram below illustrates where the relevant material is presented.

Section 172 Statement:
Our people
Read more on pages 79 to 80 ›

ESG Strategic Pillar:
Building social capital
Read more on pages 93 to 100 ›

ESG Strategic Enabler:
Good governance and responsible business practices
Read more on page 113 ›

ESG Strategic Enabler:
Good governance and responsible business practices
Read more on page 111 ›

ESG Strategic Pillar:
Making health and financial security accessible
Read more on pages 82 to 86 ›

ESG Strategic Pillar:
Stewarding the human impacts of climate change
Read more on pages 87 to 92 ›

ESG Strategic Pillar:
Building social capital
Read more on pages 93 to 100 ›

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UK Companies Act, Section 172 Statement

Section 172 of the UK Companies Act requires each Director to act in a way that he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing this, Section 172 requires a Director to have regard (among other matters) to the needs of employees, suppliers, customers and other wider stakeholder interests. During 2020 we engaged with our various stakeholder groups closely and we took account of their concerns in our decision-making. Below we have outlined how we have engaged with our stakeholders and the outcome of that engagement.

We ensure that our Board meets its duty under Section 172 of the UK Companies Act in a number of ways. A briefing note is circulated in advance of each Board meeting reminding Directors of their statutory duties under Section 172 and reiterating who the Group's key stakeholders are. The annual Board evaluation process takes into account how the operation of the Board affects the consideration of stakeholder issues and seeks to identify improvements in this area. We ensure that our Section 172 obligations are taken into account in our Board succession planning and training, stakeholder engagement is addressed in the Board's Terms of Reference, and there is guidance for individuals who prepare Board papers that references Section 172 duties and our key stakeholders. We ensure that we take account of any conflicts between different stakeholder concerns, and resolve such conflicts as smoothly as possible at the highest level necessary.

Good governance and responsible business practices are key strategic enablers to building a sustainable long-term business, as discussed further in our ESG Report on page 111. Through our Group Code of Business Conduct, we ensure that we maintain the highest standards of behaviour throughout our business. Our Group Code of Business Conduct sets out the standards the Board expects in relation to employee behaviour, and our business units run mandatory training programmes to highlight the personal obligations applicable to each individual. The Board reviews both the content of the Group Code of Business Conduct and business unit compliance each year. Meanwhile, our Group-wide whistleblowing programme, Speak Out, enables all stakeholders to raise concerns, helping to maintain the highest standards of behaviour. Whistleblowing reporting is overseen by the Group Audit Committee and business unit audit committees through quarterly reporting and through frequent discussion with the Group Resilience Director, with any material issues reported to the Board. On an annual basis, emerging trends and an assessment of the effectiveness of our whistleblowing approach are reported to the Group Audit Committee.

Key stakeholder engagement

During 2020 we engaged with our various stakeholder groups closely and we took account of their concerns in our decision-making. Three key areas of focus for the Board in 2020 were: the decision to pursue the separation of Jackson in order to focus on the Asia and Africa businesses; the impact of the restrictions imposed by governments across the world as a result of the Covid-19 pandemic; and the articulation of our ESG strategy for our business. We describe below how the Board considered the impact on its stakeholders across each of these.

Looking more widely, pages 14 to 15 of this report describes our business model and the outcomes we believe it delivers for each of our key stakeholder groups. The discussion below sets out how the Group has engaged with these key groups during 2020.

Consideration of stakeholders in key matters addressed by the Board

Decision to pursue the separation of Jackson and focus on the Asian and African businesses

The Group announced in March 2020 the Board's decision to pursue the proposed separation of Jackson to enable the Group to focus on its Asia and Africa businesses. The Group Chief Executive's report on page 06 sets out the Board's decision and progress on the separation of Jackson. In arriving at this strategic decision the Board took into account the needs of key stakeholders, including investors, colleagues and customers. The Board believes that the Group, and Jackson after the proposed separation, should benefit from improved alignment of management and employees to their businesses, customers and shareholders, and simplified, more efficient, operating and reporting structures. Jackson's separation will complete Prudential's transformation from a diversified, global group into a focused business exclusively targeting the long-term structural opportunities of Asia and Africa. Accordingly, the Prudential Board believes that the proposed demerger will lead to an improvement in strategic, operational and financial execution for both the Group and Jackson after the proposed separation, which will enhance their speed and agility to adapt to their customers' evolving needs and manage stakeholder relationships, and improve financial outcomes for shareholders. The Board has regularly consulted with significant investors as it determined this strategy. As set out below, Board members met with significant investors during the year and discussed the Group strategy proposals.

In addition, the Board has received regular briefings and engaged in regular communications to employees on the impact of changes arising from the proposed strategy on colleagues prioritising the fair treatment of all employees.

In determining the strategy of the proposed separation of Jackson, the Board considered that this will enable the Group to focus on meeting the protection and financial security needs of customers in growing markets in Asia and Africa through its differentiated product and geographic portfolio and developing digital platform.

Impacts arising from the Covid-19 pandemic

The Group Chief Executive's report on page 06 sets out the ways the Board and Group have supported our stakeholders during the Covid-19 pandemic.

ESG Strategic Framework

A key factor in determining how the Group builds a sustainable business that addresses the wider concerns and needs of the communities in which it operates is the execution of its ESG strategy. In 2020, following the completion of the demerger of M&G plc, the Board took the view that it was appropriate to consider the future ESG strategy for the Group, aligned with its business strategy as an Asia-focused Group. It was important that this ESG strategy addressed the needs of all stakeholders, and the importance of the global challenges of climate change and the Covid-19 pandemic, as the business evolves to have a greater digital focus.

The Board, facilitated by the Nomination & Governance Committee, oversaw the process for the development of the ESG strategy, including the consultation of stakeholder groups to consider their ESG expectations of the Group. These stakeholder groups included investors, regulators, NGOs, governments, employees and rating agencies. A number of common themes emerged from these consultations, including climate change, closing the protection gap and human capital management. These helped inform the direction and areas of emphasis within the strategic framework, and specifically the three pillars as set out on page 72. The proposals were discussed with a number of stakeholders across the Group in order to ensure our ESG strategy was fully integrated into the business, and to test and validate the proposed framework. All Board members were invited to provide their input at the start of the strategy development process to shape the suggested areas of focus. They were invited, again, to comment on the strategic framework as it developed. Following management approval by the Group ESG Committee, the framework was then considered by the Nomination & Governance Committee and the Board formally approved it in December 2020. Further details of the strategy and framework are set out on pages 72 to 74.

The Board recognises that the next 12 to 18 months will be critical for the embedding of the framework within the Group, as well as for the progress of related matters, such as the development and embedding of the Group's purpose and values, progressing D&I priorities, and building upon employee engagement activities in 2020. Therefore, in early 2021, the Board established a Responsibility & Sustainability Working Group in order to ensure an appropriate level of Board engagement in, and oversight of, these matters during this critical period.

Other significant engagement with stakeholder groups

Customers

The Group's purpose is to help people get the most out of life. We do this by making health and financial security accessible and affordable, protecting people's wealth and growing their assets. The needs of our customers are therefore central to what we do.

We engage directly with our customers through contact centres, dedicated account managers, sales support units, business processing and servicing, face-to-face advice (where possible), mobile phone apps and telephone technical support teams. The development of our digital proposition, specifically our digital health app, Pulse by Prudential, has enabled us to give our customers a greater range of services, including through partnerships with others. This is described in more detail in our Strategic report on page 24. We are attracting a younger demographic and are able to respond quickly to emerging needs. For example, we responded to the pandemic by providing free, limited-time Covid-19 cover for new or existing customers or Pulse users in a number of markets. The Board has actively discussed and supported the evolution of the digital strategy throughout 2020.

The outcome of our engagements with customers is transmitted through the business and used to shape the design of our products and how and where we distribute those products, and ultimately to inform strategic decisions made at Board level. Decisions about which markets to access, what kind of products to offer and how to develop our agency force, our bank partnerships and our digital capabilities, are all driven by an understanding of what customers want, based on engagement with those customers.

Investors

The Group has continued to maintain an open dialogue with investors to ensure that investors' perspectives and concerns are considered in the Board's decision-making. During 2020, Executive Directors attended over 150 meetings, conferences and events with investors, discussing topics including the Group's strategy, financial performance and future development. In addition, the former Chair, Paul Manduca, carried out 10 meetings with investors. The current Chair, in her then capacity as Chair-elect and Non-executive Director, has attended over 25 meetings with international and UK-based investors both during her introduction to the business and as part of ongoing investor engagement. These investors included large current investors as well as previous holders, but also included smaller institutional groups with specific matters to discuss, such as the Group's engagement with ESG and technology. The Board receives regular updates from the Group Investor Relations team on the Group's continuing wider engagement with investors.

The scope of discussions focused on the Group's strategy, in particular shareholder views on the question of whether and when to pursue the separation of Jackson and focus on the Asian and African businesses, and Board succession. The perspectives gained from these meetings, and the need for broad investor support, were considered by the Board when making key strategic decisions and communicating those decisions to the market.

The Chairman of the Remuneration Committee, Anthony Nightingale, and the senior Non-executive Director, Philip Remnant, have met with a number of senior investors throughout the year, and the results of these meetings and extensive written communications were considered when determining the Group's Remuneration Policy.

Our people

Ongoing employee engagement is one of the critical factors to ensure successful delivery of the Group's strategic objectives and the Board is keen to increase its focus in this important area. In 2019, the Board expanded the role of two Non-executive Directors to include responsibility for employee engagement: Kai Nargolwala covers our businesses in Asia and Africa, and Tom Watjen is responsible for our UK and US workforce. Following Kai Nargolwala's retirement as a Non-executive Director at the conclusion of the 2021 Annual General Meeting and the planned separation of the Jackson business, the Board intends to transfer responsibility for workforce engagement activities to its newly established Responsibility & Sustainability Working Group, which is expected to operate until the 2022 Annual General Meeting. The Working Group has a broad remit as described on page 137. As part of this, it will also consider the best method for employee engagement in the longer term, to ensure this is tailored to the culture and strategic priorities of the refocused Group following the planned separation of the Jackson business, and make a recommendation to the Board for implementation following the 2022 Annual General Meeting.

Kai Nargolwala and Tom Watjen discharged their duties through a range of interactions with staff during 2020 including:

— **Site visits**
Our Non-executive Directors had the opportunity to visit Prudential sites and to interact with our people face-to-face in small groups and through formal meetings where physical meetings were compatible with safe working practices.

— **Virtual events**
Particularly during the Covid-19 period, our Non-executive Directors met colleagues through an array of remote events, including the Asia Virtual Regional Conference, staff town halls and meetings of the Jackson D&I Council and the Global D&I Council.

— **Employee survey**
95 per cent of staff participated in a Group-wide employee engagement survey carried out in May 2020. This level of participation substantially exceeded our expectations and the market benchmark. The headline level of employee engagement is encouraging and at par with all industries globally, as well as with the insurance and financial services industries. The table below includes a number of insights from the survey. The survey will be repeated in order to assess our progress over time.

— **Collaboration Jam**
During September 2020, all staff in Asia, Africa and our London head office were invited to join a Collaboration Jam, a 72-hour conversation facilitated online that focused on how the Group can best live its purpose and culture. Over three days, more than 5,400 colleagues participated in the Jam, making a total of 14,000 visits and posting nearly 30,000 observations.

The table below describes the key themes that interested our people during the year:

Theme	
Culture	— During 2020, the Group reaffirmed our culture and articulated a renewed purpose, which is to help people get the most out of life. We aspire to a culture that is purpose-led, customer-focused and digitally-savvy. Living the culture around this purpose contributes to our success, sustainable growth, and ability to do the right thing for all stakeholders, including customers, colleagues, shareholders, regulators and society at large. The Board discussed progress in this area in February, April and July 2020. — Our people bring our culture to life by living the Company's values. The May 2020 employee survey found that employees are strongly positive about these values, with 83 per cent of respondents identifying favourably with being empathetic, nimble, courageous, curious and ambitious. In September 2020, we hosted a three-day virtual Collaboration Jam that saw our people come together to define the mindsets and behaviours that embody each value. The values will serve as the basis for peer feedback, which will be incorporated into annual appraisals. — It is important for our stakeholders that people are able to raise a concern should they see something within the organisation that conflicts with their personal or professional ethical standards. To this end, in 2020 we strengthened our Speak Out platform, a secure, externally hosted channel where concerns can be reported confidentially and, if preferred, anonymously so that concerns can be investigated impartially and independently. — The Board will receive further updates on the development of our purpose-led culture during 2021.
Covid-19 and wellbeing	— While the Covid-19 pandemic unfolded at different times and with varying levels of impact across the footprint of the Group, all parts of the business were devoted to ensuring the physical, emotional and social health and safety of our people, taking into account employee preferences during this time. Our response to the pandemic and the ways in which we have protected our people have been a theme across the Board's discussions during 2020. The Remuneration Committee also received an update on this topic in September 2020. — Almost all employees have spent at least part of 2020 working remotely, in line with local restrictions and guidance. — No employees were furloughed or made redundant as a result of the pandemic. Our remuneration programmes operated as usual during the pandemic period with medical insurance coverage extended to offer free Covid-19 testing where necessary. Employees received their regular remuneration during any periods of shielding or self-isolation. — Asia has established a mental health strategy, emphasising virtual connections and community engagement as part of our commitment to D&I. — All of our businesses have run regular sessions to support the physical, mental, emotional and social wellbeing of our people. Mental health provision has been strengthened in a number of our insurer benefit arrangements. — The Collaboration Jam and employee survey earlier in the year highlighted the challenges of remote working and work-life balance during the Covid-19 pandemic. To coincide with World Mental Health Day, we held our first global wellbeing day in October. This consisted of a series of online sessions across all time-zones, including a session in which our leaders shared their own stories about the mental health challenges that they have faced. Jackson and our London office have offered regular sessions on different aspects of wellbeing and stress management. — The Board has received regular updates from management on how our people have been supported. — Beyond this, it is essential that the Group reacts to the trends in workforce expectations that have been intensified and accelerated by the pandemic, particularly around new and more flexible ways of working. Each business is exploring how we can meet the expectations of existing and future staff about flexibility around schedules and location.
Organisational change	— The last 12 months have seen tremendous external challenges and significant changes within the organisation. — Board members have received regular briefings about the planned changes and what they mean for our people. — While this has naturally been a time of some uncertainty and strain for our people, the Group has supported employees through both the pandemic and the restructuring activity taking place in Jackson and London head office, communicating regularly and clearly and prioritising the fair treatment of all our employees.
Diversity and inclusion	— In February 2020, the Remuneration Committee approved the 2019 UK Gender Pay Gap report, which was published in March 2020. This showed a general closing of gender pay gaps in our UK workforce. — In July and December 2020, the Nomination & Governance Committee discussed the steps that the Group is taking to leverage everyone's potential, strength and diversity of thought, to create an open, transparent, supportive and inclusive environment and culture of belonging. — In July, we established the Global D&I Council to empower employees and create a sense of belonging by respecting and appreciating differences. Kai Nargolwala and Tom Watjen joined the Council's meeting in November, when the agenda included an update on the Collaboration Jam and sponsorship and mentorship for key talent. — Several Board members joined a Jackson session on D&I initiatives and their response to the Black Lives Matter movement. This was discussed by the Board in July 2020. — During 2020, Jackson doubled the period of paid parental leave available to all new parents and quadrupled the benefit to cover adoption expenses. During 2020, parental leave arrangements in Asia were also reviewed. Changes included an increase in the period of paid leave by a third and the introduction of paid leave when an employee becomes a parent through adoption or surrogacy. — In September 2020, we established the new role of Group Diversity and Inclusion Director, responsible for leading our progress in building a workforce which reflects our communities and in creating a sense of belonging which respects and values differences. — We have been included in the 2021 Bloomberg Gender-Equality Index, recognising our progress in this area.

Regulators
Since the demerger of M&G plc, the Group has been subject to the consolidated supervision of the Hong Kong Insurance Authority (IA) as Prudential's Group-wide supervisor. We have engaged with the Hong Kong IA on a regular basis, with the Directors meeting with the regulator on a periodic basis and sharing an agreed range of management information. In September 2020 Mike Wells, Mark FitzPatrick, James Turner and Nic Nicandrou presented to the Regulatory College of Supervisors on the Group's strategy and key business initiatives. The Board also considered and responded to feedback received from the College following its conclusion.

The Board receives regular updates on our engagement with the Hong Kong IA regarding the shape of its legislative and regulatory framework. We, along with other large insurers in the region, have engaged directly with the supervisor on the development of the proposed Group-wide Supervision (GWS) framework, which is expected to be effective for Prudential upon designation by the Hong Kong IA in the second quarter of 2021, subject to transitional arrangements. Discussions covered areas such as capital, risk management and governance issues impacting Prudential and the industry.

The Hong Kong IA applies principles and standards to the Group through existing requirements to ensure that we are a fit and proper controller of regulated insurance companies. The Hong Kong IA's principles include financial integrity, effective corporate governance and sound risk management. We undertook a gap analysis of the Group's policies and processes against Hong Kong IA requirements for the proposed GWS framework.

Governments and wider society
During 2020, a number of key points emerged from our engagements with governments and legislatures, but the most pressing concern has been how we cooperate with our governmental stakeholders in response to the global health crisis. Covid-19 has underlined the importance of working together with governments and our communities to increase life and health insurance penetration to protect individuals and families. We continue to work with governments, regulators and politicians on ways to close this gap. With the roll-out of Pulse, we have increased our engagement with policymakers on health systems, health financing and the role of technology across our markets. In Hong Kong, we have been actively advocating for a digital health strategy framework to the city's top policymaker in collaboration with the local business community. Our vision is to establish a digital health ecosystem for the city and the Guangdong-Hong Kong-Macao Greater Bay Area. During 2020, we have also engaged with policy, regulatory and political stakeholders on COP26 and related themes such as inclusion, the need for a just and inclusive energy transition and the role of private finance in improving responsible investment frameworks.

We respond to ad hoc requests from NGOs and hold meetings with them throughout the year. During 2020, many of our stakeholders were concerned with the impact of Covid-19 on the communities in which we operate. In response to the pandemic, we launched a $2.5 million Covid-19 relief fund to help support vulnerable communities and provide medical equipment to hospitals and clinics in Asia. The Prudence Foundation partnered with the IFRC and NatGeo to rapidly develop a Safe Steps Covid-19 campaign in response to the pandemic earlier this year. The campaign was distributed across networks in Asia and Africa. More details of our community investment are set out on page 108.

Suppliers
Each of our critical suppliers has a nominated contact within Prudential, and we meet those suppliers on a regular basis to address concerns on both sides. We wish to treat our suppliers fairly so we both mutually benefit from our relationship. As an example, at the Group's head office in London, to support our supply chain through the difficult trading circumstances triggered by the global pandemic, we provided payment assistance from March 2020. We immediately switched to 10-day payment terms for all our London head office small suppliers with under 100 employees. This has so far benefited 136 suppliers with a total of £6 million of accelerated payments made to assist their cash flow.

On an annual basis, the Board reviews our approach to addressing Modern Slavery in our supply chain.

About this report
This report provides a summary of Prudential plc's ESG performance. The contents meet the ESG 'comply or explain' requirements under the Rules Governing Listing of Securities on the Stock Exchange of Hong Kong Limited.

More information on key topics, such as our tax strategy, can be found in our regular financial reports and standalone reports, available on our website. We aim to disclose our ESG management and performance as transparently as possible. The Board of Prudential plc has approved this report.

Scope of the ESG report
Information included in this report covers our activities in the 2020 calendar year, both at Group level and within our various operations globally, including Jackson. It does not include our joint venture partnerships, unless otherwise stated.

Content of the ESG report
We have continued to evaluate which ESG matters are most material to the Group, with a focus on those that matter most to our stakeholders. In 2020, as part of our ESG strategic review exercise, we considered and refreshed the material ESG issues. This included identifying emerging ESG trends, risks and opportunities directly applicable to the Group and our stakeholders. This informed the development of the ESG Strategic Framework. Our 2020 ESG report is structured in line with this framework and provides an update on our progress in the year across each of the pillars and enablers.

This report includes all mandatory ESG reporting requirements outlined within the Hong Kong Stock Exchange Listing Rules and all ESG general disclosures and KPIs in the guidance determined to be material, with the exception of A1.3 (Total hazardous waste produced and intensity) and A2.5 (Total packaging materials used for finished products produced), which are not relevant to Prudential plc given the nature of the business.

Where there are laws and regulations in respect of matters deemed as material which may have a significant impact on Prudential, these are noted within the relevant section of this report. For example, regulatory and legislative developments are increasingly including references to climate-related risks and incorporating reporting recommendations such as those outlined in the Task Force on Climate-related Financial Disclosures (TCFD) framework. The Group's governance processes require all businesses and functions to demonstrate compliance with Group-wide and local regulatory and legal requirements as part of the annual controls attestation. Further detail on the supervision and regulation of the Group is set out in Prudential plc's Form 20-F report for 2020 which will be published on Prudential plc's website.

Selected indicators are assured by Deloitte LLP and Deloitte's assurance statement can be found on the Prudential plc website.

1. Strategic Pillar: Making health and financial security accessible

We pursue with ambition the closure of the health, protection and savings gaps in Asia and Africa. We see this as core to our purpose to help people to get the most out of life – by making people healthier and wealthier. We are committed to closing these gaps by improving the health and financial wellbeing of those who interact with us, generating positive behavioural change towards healthier lives, and increasing access to healthcare for all.

To do this we focus on: digital health innovation – to promote inclusion through affordability and accessibility, and healthier outcomes for those we interact with; inclusive offerings – to increase penetration in underserved populations, and bring diversity to our product offering, reflective of our customer base; and digitally enabled financial literacy – to build trust and understanding of protection benefits and options, and wider savings and digital capabilities. In doing this we support our customers to prevent, postpone and protect against ill-health.

Digital health innovation

As a leading health insurer in Asia, we are evolving from providing protection to playing a role in the prevention and postponement of ill-health. To make this happen, we believe that the adoption of digital technology at scale is vital.

Pulse by Prudential, our health and wealth super-app, is a core part of our strategy to make health and wellness accessible and affordable. Using AI-powered tools and personalised services, Pulse, which is free to download, empowers people to take control of their personal health, anytime and anywhere. The app has been downloaded around 20 million times in Asia and Africa, as of February 2021.

Initially launched in Malaysia in 2019, Pulse is now available across 15 markets in Asia and Africa, with relevant services available in local languages. Across our markets, the Pulse offering continues to evolve as we grow our local health and technology partners. Covid-19 has accelerated the impact of Pulse by Prudential, increasing the demand for digital health tools and for healthcare services that can be accessed remotely. More information on the roll-out of Pulse and our digital health response to Covid-19 is available on pages 85 to 86.

We are committed to developing Pulse into an end-to-end health and wellness platform integrating primary care, wellness and chronic disease management. We work collaboratively with a range of partners to provide value-added services and subscription plans across the health and wellness spectrum to all users. To date, Pulse has integrated 32 local and regional partners. Our partnership with Halodoc in Indonesia enables us to provide a range of telemedicine services through Pulse, including consulting with doctors online and purchasing and arranging the delivery of prescriptions. We are also partnering with Naluri, a Malaysian health tech start-up, to enhance our food journaling user experience within Pulse. This partnership will enable users in the region to access dieticians, helping users plan a healthy and balanced diet, contributing to their wellness goals.

We recognise the importance of building trust in the markets where we operate. We have worked with health ministries and insurance regulators to understand the local health and financial landscape and the challenges we can help to address. We have also used local epidemiology to understand common health concerns in the region. For example, in Thailand, specific prompts and questions have been built into our symptom checker in recognition of the fact that many common diseases are related to poor water quality or source contamination. We have also worked with public hospitals and doctors to gain insights, which helps us to triage Pulse users appropriately.

Our Pulse app was awarded 'Technology Initiative of the Year' at the Asia Insurance Industry Awards 2020. Pulse was also recognised by the UK government for its positive impact in South-east Asia. The Foreign, Commonwealth and Development Office has included Pulse in its 'Great for Partnership' initiative, a campaign to promote the best of the UK overseas.

As we continue to develop Pulse, we have embraced agile ways of working, exemplified by the use of 'hot houses'. During these intense workshops, a wide range of employees from across the Group with different skills and expertise collaborate to explore new ideas, design and implement solutions to deploy into our Pulse app within days, providing immediate benefits to Pulse users.

Supporting the development of mobile health

The successful adoption of digital health tools like Pulse is dependent upon the accessibility and acceptance of mobile and digital health tools. We therefore work with a range of stakeholders in the markets where we operate to understand the challenges and opportunities associated with the development of mobile health in local markets.

Our recent report, The Health of Asia Barometer, underscores the unprecedented opportunity offered by digital health technologies to improve access to healthcare in Asia. The report, published by The Economist Intelligence Unit, explores attitudes to healthcare in Asia, highlighting the demand for tools and services to help people in the region better navigate the healthcare system. The report, which surveyed 5,000 adults across 13 markets, highlighted consumer appetite towards the digitisation of health.

- 54 per cent believe that medical care is accessible and affordable;
- 81 per cent say technology has already improved their access to health services; and
- 71 per cent will rely on technology even more heavily to improve personal health and wellbeing.

To fulfil the potential of digital healthcare, the report recommends greater public-private collaboration, suggesting that governments partner with private companies to deliver digitally innovative ways to promote and manage health and wellness among citizens.

In 2020, we expanded our Singapore-based PRUFintegrate initiative to include our global and regional teams and seven other Prudential business units. The PRUFintegrate initiative is a partner network of fintech, insurtech, healthtech and medtech companies. We received a total of 99 entries, and evaluated solutions from fintech companies based in Asia, Europe and Africa. Our focus in 2020 was on artificial intelligence, as well as the health, wealth and SME ecosystems on Pulse. This global outreach was made possible through the APIX platform that was set up by the Monetary Authority of Singapore, the ASEAN Bankers Association and the World Bank Group's International Finance Corporation.

In the Philippines, we continue to support the development of mobile digital health solutions. Following our 2019 white paper exploring the current legal and regulatory framework for mobile health in the Philippines, we launched the 'Healthscape Dialogue Series' during 2020. This seeks to build a multi-stakeholder platform to discuss the most pressing topics in Philippine healthcare, providing an important forum for industry players across sectors to come together and discuss how to improve the access of more Filipinos to affordable and quality healthcare services. Webinars over the course of 2020 have covered the use of AI and mobile technology, preventative healthcare and telemedicine. We also partnered with the Analytics Association of the Philippines to provide a webinar on digital transformation in life insurance and the role of big data in achieving financial inclusion and better health for more Filipinos.

Inclusive offerings

As part of our commitment to making health and financial security accessible, we recognise the importance of increasing penetration in the markets where we operate, providing products and services to previously underserved populations. By bringing diversity to our product offering, we will be able to better reflect the needs of our customer base, and integrate any lifestyle impacts from emerging social risks associated with major public health and demographic trends into our product offering. This will include, but not be limited to, lower-income groups, ageing populations, small and medium-sized enterprises and sharia offerings.

Demographics are changing in a number of our markets. In response to Thailand's rapidly ageing population, Prudential Thailand has launched PRUTriple Eight (PRU888), a life insurance plan that allows for effective financial planning at every stage of a person's life. Based on the latest projections by the United Nations Population Fund, Thailand will fully transition into an aged society by 2021, with the number of senior citizens aged 60 and above expected to make up 20 per cent of the total population. As a result, the country will face emergent issues concerning social security, healthcare costs and intergenerational equity in a far shorter time than developed nations. This rapid speed of ageing calls for appropriate response, policies and programmes to help resolve the issues. The PRU888 plan provides financial security to customers including death benefits as well as accidental death coverage where we will pay eight times the normal death benefit up to age 88 while providing annual cashback and a maturity benefit at age 88.

Prudential Indonesia continues to innovate to provide affordable financial protection for Indonesians by launching Asuransi Jiwa Kumpulan Syariah PRUTect Care (PRUTect Care), Prudential Indonesia's first digital product available on our health and wealth super-app, Pulse. As a sharia-based offering, PRUTect Care provides basic natural death benefit coverage, as well as various optional benefits, for a monthly contribution as low as Rp8,000 (US$0.50). To protect more Indonesians, Prudential collaborated with digital partners Gadjian and Kitabisa.com to offer PRUTect Care.

In 2020, Prudential Indonesia launched Asuransi Jiwa Ayariah PRUCinta (PRUCinta), its first sharia-based traditional life insurance product. A simple and affordable product, PRUCinta provides optimised death compensation benefits covering a period of 20 years. PRUCinta shows Prudential Indonesia's aspirations to become a leading contributor to the Indonesian sharia industry and to expand life insurance coverage to a broader segment of the population.

In response to outbreaks of dengue fever, a mosquito-borne viral disease, across South-east Asia, our businesses in Thailand, Cambodia and Singapore have all launched affordable insurance plans to provide customers with cover for dengue fever. Prudential Thailand launched its first digital insurance plan, 'PRUDengue', in partnership with AIS, a leading telecom operator in Thailand's mobile network. AIS customers can purchase PRUDengue via Pulse, launched by Prudential Thailand in June. Dengue fever has impacted nearly one million people in Thailand over the last 10 years. PRUDengue is an all-round and affordable insurance plan to support the insured with a lump-sum payout. PRUDengue's basic package, with an annual premium at THB249 (US$8), provides total benefits of up to THB70,000 (US$2,332). Applicants are not required to complete any health or income check for this plan.

Prudential Cambodia has also launched an affordable insurance solution for dengue fever and malaria. With an annual premium of US$4, the product is Prudential Cambodia's first micro-insurance offering and demonstrates Prudential Cambodia's ambition to making insurance accessible to all Cambodians. With over 34,000 cases of dengue fever in Singapore during 2020, Prudential Singapore launched its affordable insurance plan, PRUSafe Dengue, on Pulse. For a premium of S$5, PRUSafe Dengue provides a number of benefits over a three-month period. In the Philippines, we have also begun to develop bite-sized offerings to help increase insurance penetration and to target specific protection needs of the market. Initial offerings include dengue cover and a breast cancer product.

In December, Prudential Singapore introduced the Spark Kindness Movement. The movement aims to narrow the protection gap by providing underprivileged families with financial support in the event of accidental death. For every PRUActive Protect or PRUCancer 360 policy sold in December, we provided a complimentary two-year Accidental Death Insurance Coverage of S$10,000 to a parent of a low-income family supported by our community partner, AMKFSC Community Services Limited. This coverage provides hope to the children of these families by giving them the means to continue their education. A total of 3,022 individuals from these families received complimentary coverage through the Spark Kindness Movement and Prudential Singapore plans to extend this programme in the future to benefit more underserved populations.

In Taiwan, we offer a micro-insurance policy to a non-profit, the Taiwan Fund for Children and Families, to support disadvantaged families and children. During 2020 this policy has helped support 284 families. Our Taiwan life business, PCA Life Assurance, continues to address child protection issues and in November launched its Child Health white paper, to advocate for child health and protection in Taiwan. PCA Life worked with the Research Centre of Big Data at Taipei Medical University to conduct research and analysis into the factors that affect child growth.

In Malaysia, our CSR initiative, PRUKasih, provides free temporary financial relief to urban low-income families coping with a sudden loss of income due to illness, accident or death. Since this programme started in 2014, more than RM10 million (~US$2.5 million) has been paid out in claims, and during 2020, we supported 40,429 households across 35 communities with PRUKasih. To help PRUKasih communities mitigate the effects of the pandemic, we provided free Covid-19 coverage whereby a cash payment would be made in the event of hospitalisation and/or death.

Also in Malaysia, PruBSN Microtakaful Jariyah provided basic microtakaful coverage to 25,000 underprivileged families during the year. This initiative is the first of its kind in Malaysia and provides complimentary basic takaful coverage for a 12-month term to selected heads of the household from low-income groups. Beneficiaries receive RM10,000 (~US$2,500) in the event that their family breadwinner passes away.

In Ghana, we have collaborated with leading industry partners to deliver an innovative mobile insurance plan, SafeNet, to new customers. The partnership between Prudential Ghana, Vodafone, MicroEnsure and Enterprise will offer Ghanaians key insurance benefits, including cover for hospital cash compensation, accidental injuries or disabilities, and general life insurance. We have teamed up with Enterprise as co-underwriters for SafeNet, a new mobile insurance product that offers an easy way of buying flexible insurance. Vodafone, Ghana's second-largest mobile network operator, is using a platform developed by MicroEnsure to distribute SafeNet to Vodafone subscribers. In line with our commitment to help limit the economic impact on customers of Covid-19, SafeNet will be offered to more than nine million Vodafone subscribers as free insurance cover in the first half of 2021.

Helping to upskill small businesses

In November 2020, Prudential Singapore brought together 80 small and medium-sized enterprises (SMEs) across 50 industries and a government agency – SkillsFuture Singapore (SSG) – to co-create the SME Skills Accelerator programme. This one-year programme is part of Prudential Singapore's value-added services for SMEs to help them upskill and support them in their innovation efforts. SMEs are entitled to curated training programmes that are subsidised by SSG on topics such as design thinking, digital transformation and workplace learning. As part of the programme, SMEs get to join a network of like-minded people to share best practices and improve processes. SMEs are also connected to a dedicated skills manager who advises on the SMEs' upskilling needs.

Recognising the significant impact of the Covid-19 pandemic on micro, small and medium enterprises (MSMEs), Prudential Indonesia has supported MSMEs across Indonesia by holding a series of financial literacy training webinars, in partnership with AKUMANDIRI, SMESCO and the Tangan di Atas Community. The initiative includes a series of webinar sessions delivered by experts from Prudential Indonesia, covering key financial literacy topics including the importance of financial management, business capital, developing business strategies, and cash flow management for business entities.

Promoting financial literacy

The promotion of financial literacy is a priority for Prudential and we actively seek to build trust and improve understanding of protection benefits and options. In doing this we support our customers to prevent, postpone and protect against ill-health. Financial literacy is a key focus area for Prudence Foundation. More information on the broader work of Prudence Foundation can be found in the Community Engagement and Investment section on page 108 of this report.

Cha-Ching – a global financial education programme

Developed by Prudential to address the gap in financial literacy for children, Cha-Ching is a global financial education and responsibility programme aimed at children aged seven to 12. Now in its 10th year, the programme continues to grow and expand across our markets and is well received by educators, parents, children and government stakeholders. We continue to develop a blended learning approach to financial literacy, leveraging digital tools and platforms as well as the school environment. Our aim is to ensure that Cha-Ching is accessible and available to millions of children, parents and teachers across the world for free, providing them with the right foundations in financial literacy.

The Cha-Ching Curriculum was developed in partnership with Junior Achievement (JA), and has been successfully implemented in Asia for five years through strong partnerships with NGOs and governments in eight markets: the Philippines, Indonesia, Malaysia, Vietnam, Taiwan, Singapore, Cambodia and Thailand. To date, more than 15,000 teachers have been trained to deliver the Cha-Ching Curriculum in schools, with over 600,000 primary school students having been taught the lessons of earn, save, spend and donate.

The Cha-Ching Curriculum school implementation programme has also expanded into Africa, and in 2020 Prudence Foundation extended its partnership with JA in Africa, to teach the Cha-Ching Curriculum to primary school students across six countries: Kenya, Ghana, Zambia, Nigeria, Uganda and Côte d'Ivoire over the next three years. By adopting the proven teacher-led model for Cha-Ching, which has seen success in Asia, we will similarly work to improve financial literacy in Africa, in a sustainable and scalable way.

In Asia, the Cha-Ching cartoons continue to be broadcast on Cartoon Network, reaching over 31 million households every day. Cha-Ching content is also accessed online via the website and through digital channels including social media, with over 86 million views to date.

In an effort to increase the reach and impact of Cha-Ching, we also introduced several new digital initiatives in 2020. These have supported the broader reach of Cha-Ching, particularly in the Covid-19 environment, which has limited in-person teaching, and these are intended to continue into 2021:

— The Cha-Ching Kid$ At Home programme, aimed at parents, was launched amidst the backdrop of Covid-19. Available for free online, this consists of guides and at-home activities providing families with an engaging and interactive way to teach financial literacy at home. A digital media campaign was launched to raise awareness, reaching more than 3.7 million people via social media. The educational resources have been actively promoted by Prudential businesses through social media campaigns and public webinars and have been viewed or downloaded over 25,000 times via the Cha-Ching website. In Singapore, Indonesia and Myanmar, employee volunteers have also been trained to deliver the Cha-Ching Curriculum online through webinars.

- In September 2020, Prudence Foundation introduced the online Cha-Ching Financial Accreditation (CCFA), to acknowledge and support the teacher community working to deliver the Cha-Ching Curriculum in schools across Asia. The CCFA platform was launched in the Philippines, Indonesia and Vietnam and will expand to further markets in 2021. This online assessment is endorsed by education authorities and was developed in alignment with the OECD Core Competencies Framework on Financial Literacy for Youth and the ASEAN Teachers Competency Framework. To date, over 4,000 teachers have registered and 2,400 have completed the CCFA online course.
- In the Philippines, Prudence Foundation and JA have worked closely with the Department of Education (DepEd) to incorporate Cha-Ching into the national distance learning approach implemented in response to Covid-19. Cha-Ching printed materials will be distributed to over 157,000 students at home, supplemented by online teaching where possible. Cha-Ching lessons will also be broadcast via TV and radio as part of DepEd's implementation, expected to reach over 56,000 students.
- Cha-Ching videos and parent resources have been made available for free on the Pulse by Prudential app in Singapore with expansion into other markets expected in 2021.

In the US, the Jackson Charitable Foundation has reached more than eight million students since 2017 by partnering with Discovery Education and Junior Achievement USA. We provide free music videos and classroom and at-home activities with Cha-Ching Money Smart Kids to teach elementary school students how to earn, save, spend and donate. The demand for virtual financial education continues to increase, with Cha-Ching Money Smart Kids seeing record engagement in 2020. The Jackson Charitable Foundation has also sponsored 500 high schools to use Ramsey Education's Foundations in Personal Finance curriculum for the 2020-21 school year, at no cost to the schools. Since this partnership began in 2018, the Foundation has committed $2.7 million toward financial education for high school students across the country, reaching 100,000 students in total.

In Malaysia, in line with our commitment to uplift PRUKasih communities and build their financial resilience, we introduced education programmes focused on financial planning. We also rolled out the PRUKasih Entrepreneurship Programme to equip participants with entrepreneurial skills and knowledge. To foster greater collaboration between the public and private sectors on financial empowerment through education, we launched a five-part webinar series, featuring a range of panellists, including Malaysia's Central Bank, Bank Negara Malaysia. The webinar series included topics such as the state of financial education in the country and the creation of a unified financial literacy curriculum.

#MoneyParenting

During 2020, our Asian asset manager, Eastspring, launched its #MoneyParenting initiative. Following a survey of 10,000 parents across nine Asian markets, we found that 51 per cent of parents in Asia do not know if they have been successful teachers and role models for their children. Recognising that parents pass on their attitudes and beliefs about finance to children, Eastspring is aiming to help parents become better role models and to provide them with the knowledge, skills and tools to effectively teach their children about money and plan for their future. When asked what help they wanted in order to teach their child how to use and manage money better, 43 per cent of parents across Asia said they wanted to learn more about financial management themselves. In response to the survey and its findings, Eastspring has launched a dedicated microsite on its website, providing tools and resources for parents to empower them as they are teaching their children about the financial and social responsibilities that come with money.

Pulse roll-out and digital health initiatives

We have provided some examples to illustrate how we have begun to roll-out Pulse across our businesses. Our Pulse offering continues to develop as we work collaboratively with a range of partners to provide value-added services and subscription plans across the health and wellness spectrum to all users. As we design these services, we consider emerging population risks and public health trends, such as rising levels of obesity, increasing urbanisation and ageing populations.

Hong Kong: The launch of Pulse in Hong Kong made us the first in the market to offer an AI-powered chatbot to provide clinically validated information and recommendations for symptoms. Recognising the specific needs of its customers, Pulse users in Hong Kong can access a digital Chinese Medicine Body Constitution Test. Useful information, including hospital listings is now available on Pulse to make information easily accessible for customers.

Malaysia: In October 2020, we launched our Step Up Against Cancer Challenge in Malaysia through Pulse to increase cancer awareness and to highlight the importance of financial protection against cancer. Users are challenged to take at least 5,000 steps a day in order to earn free cancer coverage. Users can connect their fitness device to the Pulse app, allowing them to earn different levels of cancer coverage, depending on the number of steps they take.

Indonesia: Following the release of Pulse in Indonesia, the #SehatBarengPulse (Get Healthy with Pulse) movement was launched. The campaign encouraged users to lead a healthier lifestyle through a series of challenges, including lowering sugar intake and cholesterol levels.

Vietnam: The launch of Pulse in Vietnam enabled users to access features including Health Checkup, Symptom Check, Body Mass Index Measurement and Wrinkle Index Measurement. The app also includes hundreds of articles equipping users with medical information on healthy lifestyles, symptoms and treatments. Prudential Vietnam also introduced an online cancer insurance product, iProtect, on Pulse in September.

Cambodia: Prudential Cambodia was the first to bring AI-based preventative healthcare to Cambodia, through the launch of Pulse. Health infrastructure in Cambodia in both the public and private sectors is underdeveloped, and convenient access to quality healthcare is difficult for most Cambodians. The initial Pulse roll-out included a 'hospital locator' feature for users to access all hospitals and clinics covered under the National Social Security Fund, which is a social health safety net for two million people employed in the formal sector.

Digital health response to the Covid-19 pandemic

Hong Kong: Prudential was the first in the market to launch free Covid-19 coverage to over 300,000 Hong Kong residents. Following rapid take-up, we offered free protection to a further 200,000 Hong Kong residents. During the fourth wave of the Covid-19 outbreak, Prudential Hong Kong announced that it would allocate HK$5 million to its Covid-19 Caring Fund, which provides additional financial support for individuals affected by Covid-19. Eligible applicants can apply through the Pulse app to receive a subsidy of HK$10,000 to relieve their financial burden caused by the pandemic.

Singapore: Pulse was launched in Singapore in April 2020, and was a key part of our response in supporting the community in the fight against the virus. Users of the app were entitled to a daily hospitalisation allowance if they were hospitalised for Covid-19. Prudential Singapore also subsidised part of the consultation costs for users until 30 June 2020, so it cost only S$15 per consultation. Non-customers were eligible to receive a S$100 daily allowance (for up to three months of hospitalisation) if they were hospitalised between the date of their Pulse app registration and 31 May 2020.

Indonesia: In response to the Covid-19 pandemic, Prudential Indonesia provided free Covid-19 coverage and was the first in the market to offer additional protection for Covid-19. Prudential Indonesia also extended the grace period for premium payments, simplified its claims procedure and established a dedicated team for Covid-19 claims. Leveraging Pulse, Prudential Indonesia and Halodoc provided premium-free Covid-19 rapid tests for members of the public in Jakarta and Surabaya. Prudential Indonesia also launched PRUCekatan to enable customers to consult with their agents and access comprehensive protection solutions virtually, rather than through face-to-face meetings.

Thailand: To encourage social distancing during the pandemic, Prudential Thailand partnered with 10 hospitals in Thailand to offer customers access to specialist healthcare services and medication via telemedicine. Customers could choose to schedule a consultation with a doctor via video conference, purchase and arrange for delivery of prescription medicine to their homes or arrange for a home visit by a doctor if necessary.

Africa: Across our eight markets in Africa, we provided customers, staff and agents with a range of additional Covid-19 insurance cover at no cost to themselves. Prudential Africa also simplified its claims procedures and enabled claims to be made via WhatsApp. Additional training was provided to our agents and we enabled customers to buy insurance without the need to meet face-to-face with an agent.

Laos: Prudential Laos extended the grace period for premium payments from 30 days to 60 days. Free Covid-19 coverage was also provided for all existing policyholders, as well as for new policies purchased between 1 May and 31 August 2020. Free Covid-19 cover was offered to the staff of hotels providing quarantine services. In May, Prudential Laos donated 3,000 face shields to the Ministry of Health to protect frontline workers against Covid-19.

The Philippines: Pulse launched in the Philippines in February 2020 and at the onset of the pandemic, was used to provide free Covid-19 protection and personal accident coverage – a one-time, 45-day insurance product to protect the insured against death from Covid-19 or accident. It was the first insurer in the country to offer extra protection against Covid-19.

Malaysia: Prudential was the first insurer in Malaysia to introduce Covid-19 coverage for our customers and this was subsequently extended to non-customers at no additional cost. In the initial stages of the pandemic, we launched public service announcements and content on Pulse and various media channels to educate the public about the virus and how to stay safe. We also supported the Ministry of Health's efforts to conduct more Covid-19 tests by reimbursing our customers for taking the test. Customers facing financial difficulties were able to apply to our premium deferment relief programme.

2. Strategic Pillar: Stewarding the human impacts of climate change

We recognise that climate change presents a serious global challenge, with significant potential economic consequences and direct and indirect impacts on people's health and livelihoods, and we are proactive in enabling the transition to a low-carbon economy. We do this by decarbonising our investment portfolio and working towards sustainable development and energy transition in all our markets. Reflecting the stage of their development, the economies in which we operate tend have a greater reliance on fossil fuels and more exposure to carbon intensive industries than in more developed markets. For example, for the five largest South-east Asian economies of Indonesia, Thailand, Malaysia, the Philippines and Vietnam (plus China) an average of 36.2 per cent of GDP was derived from mining, manufacturing and other industrial activities in 2018. This compared to 18.6 per cent and 17.5 per cent for the US and UK respectively in the same year. This means that the energy transition across the region is likely to proceed at a different pace than for more advanced economies. Recognising this, as we support the move to a lower-carbon economy in these emerging markets, we strive to ensure that the transition is an inclusive one for all of society – one that supports sustainable growth and economic health within our local markets and communities.

Decarbonising our investment portfolio

Our strategic focus on stewarding the human impacts of climate change through decarbonisation of our investment portfolio over time recognises that climate change presents long-term risks to the sustainability of our business. It also acknowledges that, as a responsible corporate citizen, Prudential needs to play its part in the transition to a lower carbon global economy and the collective efforts to limit the rise in global warming that can lead to catastrophic climate change. As a significant investor and an asset owner with long-term investment horizons and liabilities, the Group is vulnerable to climate-related transition risks, and in a position to invest in, and develop, products linked to climate resilience. Our approach to reducing the carbon footprint of our investment portfolio is one which supports sustainable growth and takes into consideration the impact on the economies, businesses and customers in the markets in which we operate and invest.

Approach to climate-related risk

Prudential is a signatory to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Our approach to climate change and climate-related risk is covered below. To show how we are meeting TCFD requirements, we have mapped our disclosures to each of its pillars. This is shown in a table at the end of this section of the report.

Initially categorised as emerging risks, the ESG risks associated with our business, which include climate risk, have more recently been upgraded to Group Principal Risk status. Recently, we have engaged a dedicated climate risk consultancy to further refine our understanding of the nature and materiality of the risks posed by climate change to the business.

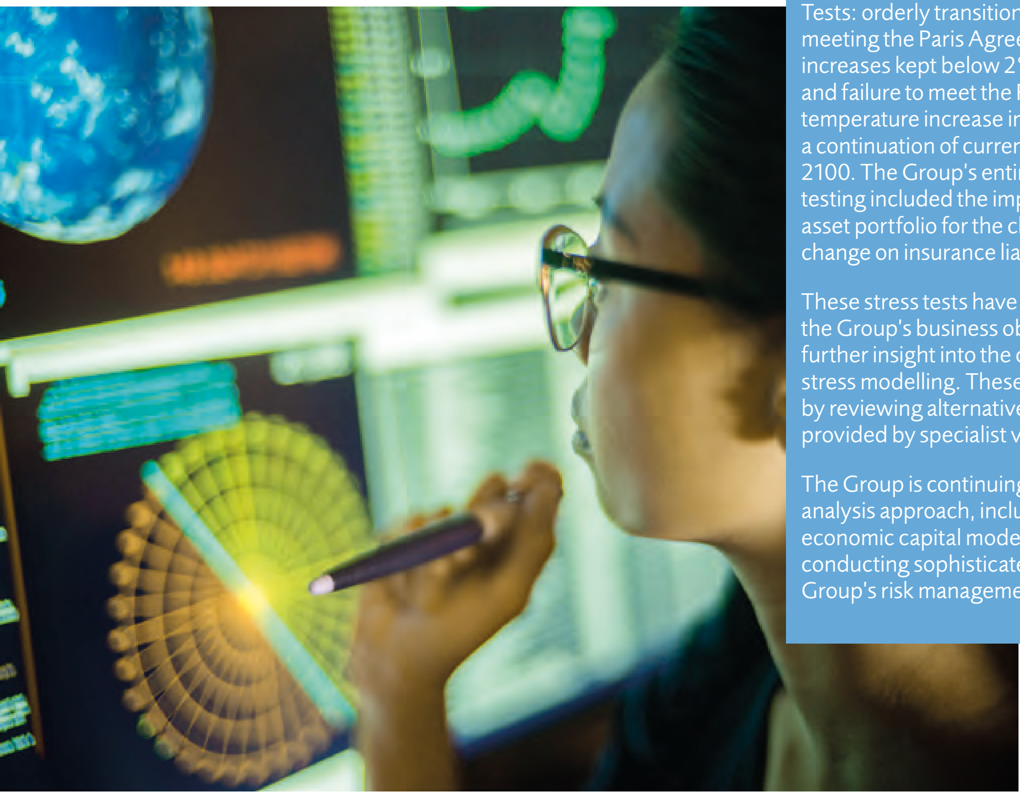
The table below lists the key climate risks facing Prudential. The sections that follow provide further detail on the activities undertaken to assess, manage and mitigate these risks.

Risk category	Description	Response
Assets	The Group has financial exposure to assets in carbon-intensive and carbon-reliant sectors that may fail to adapt, innovate or pivot to a lower-carbon business model. These assets are at risk of taxation, regulation and/or reduced demand, leading to impairments or downgrades and/or stranding. Physical climate impacts can also lower the value of assets held.	— Development of metrics to measure the potential financial impacts from climate-related transition risk in the asset book. — Use of scenario analysis to model the exposure assuming different pathways and different temperature scenario.
Insurance	Given the complex interactions with other environmental, demographic and social changes, the impact of climate change on mortality and/or morbidity can be difficult to reliably estimate on a standalone basis.	— Qualitative assessment of the potential impacts from climate risk on our insurance liabilities.
Data and model limitations	Methods for assessing and quantifying the financial impact of climate risks continue to evolve in the industry and also within the Group. The limitations in data and asset and liability modelling make it more difficult to accurately assess the financial impact on the Group, particularly for longer-term time horizons.	— Participation in industry groups and collaboration with data and risk modelling providers to help drive improvements in climate data quality and risk modelling tools.
Regulatory and legislative compliance	The pace and volume of new climate-related regulation across all markets could pose compliance and operational challenges that may necessitate multi-jurisdictional coordination.	— Regulatory change teams are in place to assist the business in proactively adapting and complying with regulatory developments. — Constructive engagement with policymakers and NGOs.
Operational resilience	Operational impacts from physical risk events challenge operational resilience, including impacts to third parties and the servicing of our customers.	— Regular updating and testing of elements of disaster-recovery plans and the Critical Incident Procedure process. — The use of scenario analysis using data sources (including IPCC data) to identify additional vulnerabilities to physical risk.

The risks are also influenced by the broader political, economic and societal backdrop in which the Group operates. These factors interact with, and can amplify and shape, the impacts of climate-related risks. Examples of risk factors that could exacerbate climate risks include geopolitical issues, political processes, such as negotiations to curb emissions, or the unfolding Covid-19 pandemic, which is reshaping global economic activity.

Activity throughout 2020
Work to quantify and model the nature of our climate risk exposure has continued throughout 2020, consistent with our strategic focus on climate change risk and in alignment with the TCFD recommendations. The Group Risk and Group Actuarial functions have led efforts to deepen understanding of the exposure to climate-related risks in our asset management and asset owner businesses across the Group. Activity has included the identification of metrics to measure exposure to greenhouse emissions, measuring the carbon footprint of our asset book, the selection of scenarios for stress testing assets, and investment in new tools to support carbon footprinting and scenario analysis.

A key activity has been the use of scenario analysis to model the Group's exposure to climate-related risk, assuming different transition pathways and temperature scenarios (see case study). The modelling has helped to further our understanding of the nature of the climate risk the Group faces. This has reinforced that the main financial risk is to the asset side of the balance sheet. This finding is consistent with our business model: as a major asset owner and manager, we rely on investment returns to meet the longer-term obligations of our liabilities and thus are vulnerable to risks that interrupt or impair those returns. The finding also reinforces the case for the strategic objective to decarbonise the investment portfolio, which is both a way in which Prudential can limit its exposure to potential transition risks, as well as contribute to global efforts to decarbonise the global economy.



The potential impact from climate risk on our insurance liabilities has also been investigated. To better understand the potential impact to our insurance liabilities, a qualitative assessment of the impact of climate-related risk on insurance risk was carried out by Group Actuarial during the year. This established that over the short term, such as over the three years of the current business plan cycle, climate change is not expected to materially increase or decrease claims for our life and health business. Over the longer term, the financial impacts from climate-related risks on our insurance liabilities could be more significant, for example on reserving implications, if there is a step change in long-term morbidity and/or mortality expectations, and medical inflation. However, the overall financial impact will be mitigated by our ability to reprice contracts and develop new products.

Response to climate-related risks
We believe that the new strategic ESG framework and the long-term goals to decarbonise the investment portfolio and support an inclusive transition are an important way in which we can meet to meet stakeholder expectations and fulfil our fiduciary obligations. It will reduce the Group's exposure to asset risk – which includes transition risk – over time, while also contributing to efforts to decarbonise the global economy.

Recognising that transition risk represents the nearest-term and most impactful financial risk to the Group, the Group Risk function undertook an initial transition risk analysis on insurance assets managed in segregated portfolios by the Group's asset managers.

Case study

Modelling climate change risk: The role of scenario testing

During 2020, the Group undertook a stress testing exercise based on the three scenarios laid out within the PRA Insurance Stress Tests: orderly transition (temperature increases kept below 2°C, meeting the Paris Agreement); disorderly transition (temperature increases kept below 2°C but with delayed and sudden policies); and failure to meet the Paris Agreement (specifically, reaching a temperature increase in excess of 4°C assuming no transition and a continuation of current policy trends), with a time horizon up to 2100. The Group's entire asset portfolio was included, and the testing included the impact of physical and transition risk on the asset portfolio for the chosen scenarios. The impacts of climate change on insurance liabilities was also investigated.

These stress tests have informed discussions on how to assess the Group's business objectives and strategy and have provided further insight into the capabilities and data required for future stress modelling. These analyses have also been complemented by reviewing alternative scenario testing methodologies using tools provided by specialist vendors or open solutions.

The Group is continuing to explore and develop its scenario analysis approach, including investigating the use of the Group's economic capital model, and ultimately formalise the process for conducting sophisticated climate scenario analysis as part of the Group's risk management frameworks.

This focused on investments where Prudential both maintains direct control of the mandate and exerts some influence over the investment process. Provisional reports were produced using climate-related data and metrics provided through a proprietary vendor tool. This facilitates a breakdown of the contributions of different sectors to the overall carbon footprint metrics of the asset book and highlights the most carbon-intensive sectors, including those most at risk of being stranded. It also enables the most carbon-intensive companies held in the asset book – and thus the largest issuer contributors to the overall metrics – to be determined and monitored. We have also determined the initial weighted average carbon intensity (WACI) of the listed equity and corporate bond asset classes of our insurance investment portfolio.

Building on this work, we are continuing to develop metrics that are appropriate for our business, to support an enhanced management and reporting process for climate risk. As well as WACI, other potential metrics under consideration include the percentage of the portfolio in carbon-intensive sectors, stranded asset exposure as a percentage of assets under management, and portfolio exposure to clean technology solutions. These metrics were considered at a Board Risk Committee workshop held to discuss the potential business impacts of transition and physical climate risks. Work to enhance the management and reporting of climate risk will continue in collaboration with our asset management and asset owner business units, with the aim of integrating climate risk metrics and monitoring into broader investment processes and aligning with the responsible investment framework.

We also continue to develop our scenario testing capabilities and have engaged with a climate risk consultancy to perform a focused exercise using their scenario modelling capability. Investigating different methodologies supports the Group's ability to determine climate scenarios appropriate to its nature, scale and complexity. The potential impacts of different scenarios on the balance sheet were discussed in 2020 with the Technical Actuarial Committee (TAC), which sets the methodology for the economic capital model. To date, the impacts have been indirectly incorporated into the economic capital model via the market risk calibrations. No additional adjustment is considered necessary at this time and this will be kept under regular review.

Our existing business continuity management programmes are assessing the risk of natural disasters, including those caused by significantly altered climatic conditions, such as increased frequency and severity of tropical storms or increased flooding. The Group remains focused on its operational resilience and is supplementing existing activities with scenario analysis to identify additional areas of vulnerability that may arise due to climate change, including assets, operations, third party supply chains and customers. Group Risk has trialled a number of dedicated risk management platforms and has shared the outputs with local business continuity teams to help inform assessment and management of physical risks to operations in territories for which they are responsible.

Transparency and engagement

As well as the work to enhance internal management and reporting of climate-related information, we participate in external benchmarks to provide additional visibility to stakeholders on our climate-related activity. We aim continually to improve the transparency and utility of our reporting.

In 2020, we continued to participate in CDP (formerly the Carbon Disclosure Project) and maintained our score with a B grading (2019: B). We continue to participate in ClimateWise and received an improved score of 68 per cent (2019: 51 per cent), which we believe reflects the progress we have made over the year in our management and reporting of climate issues.

To help address industry issues, such as the limitation of climate-related disclosures and evolution of data availability and climate risk modelling for financial market participants, we participate in industry bodies that can help drive improvements in risk management processes and lobby for improved standards.

We also seek to collaborate with peers and other investors to amplify the impacts of our activity in this area. These activities are described in more detail in the Responsible Investment section on page 101.

As noted in the list of material risks, the pace and volume of regulatory and legislative compliance developments poses a challenge to the Group. As part of our ongoing government relations activity, we regularly engage with regulators and monitor evolving climate risk-related initiatives that could develop into new regulation in the markets in which we operate. In a similar manner, we also engage constructively with policymakers and NGOs to shape the evolution of regulation and standards relating to climate risk. For example, during 2020 Prudential Hong Kong joined an industry-wide task force established by the Hong Kong Insurance Authority and Hong Kong Federation of Insurers to work on several areas within 'green insurance'. More information on our engagement and regulatory interactions, including those related to climate risks and opportunities, can be found in the Responsible Investment section on page 101.

Supporting an inclusive transition

Our Asian markets include highly developed economies such as Hong Kong and Singapore that have diversified, service-led economies and mature financial markets, and emerging markets that are more dependent on primary and energy-intensive industries. These emerging markets have a greater reliance on fossil fuels in their generation mix, and less developed financial systems.

This means that the energy transition across the region is likely to proceed at a slower pace than for advanced economies as reflected in the countries' Nationally Determined Contributions, as required by the Paris Agreement. This point was highlighted by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore (MAS). Speaking at a Financial Times Investing for Good Asia Digital Conference on 13 October 2020, Mr Menon noted that 'Asia is at a different stage of development, with millions of people still lacking access to electricity, modern sanitation, and drinking water. While demand for affordable energy will continue to grow strongly, most Asian economies are still heavily dependent on fossil fuels for their energy needs and it is unrealistic to suddenly replace fossil fuels with renewable energy.'

For Prudential, this means that, while we are committed to an objective to decarbonise our investment portfolio, we are mindful of the need to implement the strategy in a way that acknowledges the nature of the markets in which we operate and seeks to share the financial and social burden of the transition in a fair manner. Our support for an inclusive transition aims to balance our responsibilities and obligations to all our stakeholders.

We recognise the importance of coalition building in delivering an inclusive transition. As a member of the Sustainable Development Investment Partnership (SDIP), coordinated by the World Economic Forum with support from the OECD, we work with public and private sector institutions in emerging markets, particularly in South-east Asia, to scale domestic and international investment in sustainable infrastructure and promote energy transition. The SDIP's ASEAN Hub, whose Steering Group Prudential has co-chaired since 2017, launched a Sustainable Investment Innovation Roundtable in 2020, a monthly forum to catalyse new ideas for scaling up investments to further the SDGs.

Capturing opportunities

We also recognise that the implementation of our strategic ESG framework can generate opportunities for the Group. Some of these opportunities will come through our efforts to take early mitigating action against the climate risks we identify, including incorporating transition risk into investment decisions to reduce the risk of being exposed to stranded assets.

Others will come through supporting an inclusive transition. The infrastructure and capital expenditure required to enable the transition represents attractive investment opportunities in many cases. For example, there is a role for institutions to both develop new products and invest in structures and mechanisms that enable a managed withdrawal from reliance on coal-powered electricity within developing economies.

In response to this, we have developed several responsible investment products that channel our customers' savings towards ESG-themed investments, such as the Asia Sustainable Bond Fund recently launched by Eastspring. More information on our ESG-related investment activity is available in the Responsible Investment section on page 101.

Climate change is also likely to drive demand for new health products, given the linkage of climate change to human health through changes in the incidence of diseases and the emergence of new diseases. We have launched a dengue alert service to customers in some Asian markets through our Pulse super-app. The decision to offer the application reflects the increasing incidence of dengue fever in the region, driven by warmer temperatures and higher humidity. This alert service is complemented by the provision of affordable insurance plans for the markets in which dengue is prevalent – see Inclusive offerings within Making health and financial security accessible for more information.

Case study

Helping Asia exit from coal: The Energy Transition Mechanism

Writing for the World Economic Forum as part of the Great Reset series in May 2020, Don Kanak, then chairman of Eastspring, outlined a proposal for a 'Coal Retirement Mechanism', which would accelerate the transition to renewables in developing countries where coal use is high and poised to grow – see www.weforum.org/agenda/2020/05/how-to-replace-coal-and-accelerate-the-energy-transition-in-developing-countries/. An investment fund would be established in collaboration with national authorities consistent with climate commitments to purchase and retire coal fired power plants over 10 to 15 years, cutting short their expected lifetimes of 30 to 40 years or more. Investors in the fund would include developed country governments and multilateral banks with access to low-cost capital. The proposal is an example of how we are seeking to support the markets and communities in which we operate to manage the challenge of the energy transition.

Since then, the proposal has been updated and renamed as the Energy Transition Mechanism (ETM) and was published on the World Economic Forum as part of the 2021 Davos Agenda series. The ETM would accelerate the retirement of carbon-intensive power assets, dramatically expand demand for renewables, and provide time and resources for a just transition. www.weforum.org/agenda/2021/01/how-to-accelerate-the-energy-transition-in-developing-economies.

Next steps

Over the next three years, we will work to strengthen management of climate risk across the Group. We will approach this as a Group-wide cross-functional initiative, with participation from our asset owner and asset manager businesses, risk, actuarial, and government relations colleagues.

Scenario analysis will be an important area of focus as we plan to move it into our mainstream risk management processes during 2021 and to begin internally reporting findings within Group and business unit level management information. As we further investigate how climate risk impacts our business in the long term, we aim to operationalise and to continue to increase the use of scenario testing. We plan to voluntarily run scenario tests emerging from regulators, such as the Bank of England's exploratory climate risk scenario for banks and insurers in 2021.

We are aware that many companies have set targets in alignment with the Paris Agreement. We are in the process of assessing similar suitable targets in respect of the carbon emissions from our investments, given their importance within our overall emissions profile, and our overarching strategic commitment to decarbonising our investment portfolio.

In the interim, we continue to increase our level of ambition in relation to our own emissions footprint. This year we have set new and stretching targets for our Scope 1 and Scope 2 greenhouse gas emissions, with the aim of becoming net carbon neutral across these two scopes by the end of 2030. More information on the environmental impact of our direct operations is available on page 114.

During 2021 we will continue to scale up our engagement strategy with key policy and political stakeholders around the COP26 conference in November with a focus on financial sector issues to support the just transition and sustainable finance priorities in particular for emerging markets.

TCFD: Disclosure Alignment

Pillar	Recommended disclosure	Response reference	Additional comments
Governance Disclose the organisation's governance around climate-related risks and opportunities.	a) Describe the Board's oversight of climate-related risks and opportunities.	Oversight of ESG (page 74); Response to climate-related risks (page 88)	***Board oversight of climate change risk significantly strengthened:*** — In 2020 ESG was overseen by the Board through the Group Nomination & Governance Committee. — In early 2021, the Board established a Responsibility & Sustainability Working Group until May 2022 in order to ensure an appropriate level of Board engagement in, and oversight of, ESG matters (including climate change). — Board Risk Committee workshop held to evaluate the climate change risks facing the Group, discuss transition and physical risk concepts and review potential Key Risk Indicators (KRI).
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	Oversight of ESG; Governance (within the Responsible Investment section) (page 101)	***Management oversight enhanced:*** — Group ESG Committee established to oversee ESG (including climate-related risks), chaired by the Group Chief Financial Officer and Chief Operating Officer, supported by senior functional leaders and representatives from the Group's business units. — Work is under way to bring climate risk into the scope of other relevant governance structures, such as the Group Responsible Investment Advisory Committee (GRIAC) that provides overall review and recommendations for policies on responsible investment activities including climate related investment strategies. — The Technical Actuarial Committee (TAC) is responsible for setting the methodology for Prudential's assets, liabilities and capital requirements, which includes the consideration of climate change.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Approach to climate-related risks (page 87); Capturing opportunities (page 90)	***Risk identification work completed:*** — The risk identification and scenario process has identified six major risk categories. ***Opportunities identified to support climate change mitigation and adaptation:*** — The Pulse digital health platform supports the surveillance and diagnosis of diseases that are becoming more prevalent due to climate change. — Investment products include the Asia Sustainable Bond Fund launched by Eastspring
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Our ESG strategy (page 71); Response to climate-related risks (page 88); Supporting an inclusive transition (page 89); Next steps (page 90)	***New ESG Strategic Framework being rolled out:*** — A new framework includes stewarding human impacts of climate change as a key pillar via decarbonising the investment portfolio and pursuing an inclusive transition. The strategy will drive and shape the Group's overall response to climate change in future years. ***Capacity building efforts continuing:*** — This includes membership of climate risk bodies, such as Climate Action 100+, and investor initiatives (eg, the PRI in an asset manager capacity).
	c) Describe the potential impact of different scenarios, including a 2°C scenario, on the organisation's businesses, strategy, and financial planning.	Next steps (page 90); Capturing opportunities (page 90)	***Adoption of further targets under review:*** — Process underway to assess suitable targets in respect of the carbon emissions from our investment portfolio. — Potential to explore further environmental/climate risk opportunities (such as the development of investment, insurance and digital products to support climate risk).

Pillar	Recommended disclosure	Response reference	Additional comments
Risk management Disclose how the organisation identifies, assesses and manages climate-related risks.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	Approach to climate-related risks (page 87)	***Material climate change risks facing the Group have been identified and assessed:*** — Relevant climate risks identified through the emerging risk, Group Principal Risk and Risk Identification processes. — This output has been supplemented with an in-house analysis of transition risk across specimen insurance portfolios and a materiality assessment undertaken in collaboration with an external consultant. — Initial stress test of the Group balance sheet carried out to establish the broad quantum of financial exposure to transition and physical and liability risk. ***Policy surveillance and engagement/Peer benchmarking:*** — Regular monitoring of regulatory and policy initiatives globally has been initiated.
	b) Describe the organisation's processes for managing climate-related risks.	Response to climate-related risks (page 88); Next steps (page 90); Responsible Investment (Engagement) (page 103)	***Climate-related risk is integrated into risk management considerations:*** — Developing metrics appropriate for the business, to support an enhanced management and reporting process of climate risk (eg WACI). — Analysis of the impact of climate change on capital modelling has been undertaken by Group Actuarial and submitted for consideration by TAC. — Regulatory change teams proactively adapting and complying with regulatory developments. — Operational resilience relating to climate risks captured by the Group Business Continuity Management programme. — Active engagement with carbon intensive companies (including through industry collaborations).
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Response to climate-related risks (page 88); Next steps (page 90)	***Further work to integrate climate-related risks in risk management processes under way:*** — Climate risk treated as a cross-cutting risk that has significant interdependencies with, and impacts on, other risk types. — Engagement with insurance industry forums and data providers to remain apprised of developments in this area.
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Response to climate-related risks (page 88); Next steps (page 90)	***Identification of potential metrics for measuring and reporting climate risk exposures completed:*** — 'Proof of concept' identified a set of potential metrics that could be used to assess and manage climate risk, including Weighted Average Carbon Intensity (WACI). ***Work underway to report additional climate-related metrics:*** — Appropriate metrics under consideration for each major asset class.
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Environment (within Good governance and responsible business practices) (page 114)	***Disclosures provided:*** — Scope 1 and 2 emissions (market basis) declined by 13.4 per cent to 48,840 tCO_2e. — Intention to review our Scope 3 reporting boundaries and broaden these over time.
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Next steps (page 90)	***New environmental targets set:*** — Target includes an aim to be carbon-neutral across Scope 1 and Scope 2 emissions (on a full-time employee basis) by the end of 2030. — Process under way to assess suitable targets in respect of the carbon emissions from our investment portfolio.

B D E

3. Strategic Pillar: Building social capital

We are committed to building both our own human capital and our social capital with our broader stakeholders. We do this by promoting diversity in representation and thought, and fostering a culture of inclusion and a sense of belonging within our organisation. As an organisation, we depend not only on the trust of our people, but also the trust of the external world. As we develop our digital capabilities, we prioritise digital responsibility throughout our organisation. Our focus on the needs and interests of our users is central to our investment in new technologies, shaping how we interact with them and handle their personal data as our capabilities progress.

Diversity, inclusion and belonging

We are committed to building our human capital, seeking to empower our people and unlock their potential. We do this by striving for diversity in representation and thought, and fostering a culture of inclusion and belonging within our organisation. During 2020, we launched a new inclusive purpose statement: We help people get the most out of life.

Diversity and inclusion strategy

In 2020, we established a Global Diversity & Inclusion (D&I) Council, co-chaired by our Group Chief Financial Officer and Chief Operating Officer and Group HR Director, with representation from colleagues across the Group. The Council replaces regional advisory committees and groups. During 2020, we also appointed our first Group Diversity & Inclusion Director to help support our ambition in this area. The D&I Council is responsible for defining our global D&I strategy and supporting programmes, promoting and championing D&I initiatives in respective business units and challenging the organisation when progress is limited. The Council reports to the Nomination & Governance Committee twice a year.

Case study

Defining inclusive leadership behaviours

During 2020, as part of its commitment to establish inclusive leadership at all levels, the Global D&I Council held a workshop with representatives from across our businesses in order to define our inclusive leadership behaviours. The workshop concluded with a panel session with external speakers, entitled, 'Leaders make change happen'. Our inclusive leadership behaviours are to:

— Nurture inclusion – seek out and embrace diverse perspectives;
— Cultivate transparency – provide visibility and display authenticity and vulnerability;
— Actively sponsor – recognise, develop and support talent;
— Drive accountability – take personal responsibility for behaviours and outcomes; and
— Demonstrate care – demonstrate genuine care and interest in others.

These behaviours have been embedded into our leadership development frameworks and senior leadership recruitment processes, as well as into our new values. During 2021 we will continue to reinforce inclusive leadership and behaviours in development and training interventions to help our leaders and people to understand and embed the behaviours we wish to promote. We will also focus on embedding inclusive leadership traits into performance management objectives to reward the behaviours that strengthen belonging and enhance inclusion. Inclusive leadership behaviours will also form a part of our assessment of candidates during the recruitment process.

Our previous Group-wide D&I focus placed emphasis on attributes of diversity such as gender, ethnicity, nationality and experience. During 2020, the Group has also focused on inclusion, which represents the extent to which employees feel valued, respected, encouraged to fully participate, and able to be their authentic selves.

The Council has established a global D&I Charter with the goal to empower employees and create a sense of belonging by respecting and appreciating differences. The Charter is aligned to our purpose and states that the Council will deliver our purpose by creating a culture in which diversity is celebrated and inclusion assured, for our colleagues, customers and partners.

The Charter makes the following commitments:
- D&I approach to be clear and public;
- Establish inclusive leadership at all levels, role modelled from the top;
- Illustrate how inclusive leadership drives innovation and supports greater connectivity;
- Inclusion to be integral in the Prudential values which guide behaviours;
- Reshape our recruitment, reward and recognition programmes to eliminate bias;
- Engage suppliers and corporate partners committed to inclusive practices; and
- Product offerings which address the diversity of our customer needs.

The D&I Charter also outlines our Group D&I Policy, which aims to actively promote employee diversity and provide equal opportunities to all who apply for and those who perform work within our organisation, including our Directors. The policy applies to all of our business units and promotes diversity irrespective of sex, race, age, ethnic origin, social and cultural background, marital or civil partnership status, pregnancy, maternity and paternity, any gender reassignment, religion or belief, sexual orientation, disability, or part-time/fixed-term working arrangements. The policy also promotes diversity of experience, skill sets and professional backgrounds and is reviewed annually by our Group HR Director. We give full and fair consideration to applications for employment made by disabled persons and make appropriate arrangements for continuing the employment of, and arranging training for, employees who have become disabled. We seek to promote the training, career development and progression of disabled persons, making appropriate adaptations where required. Chief Human Resource Officers across our business units are responsible for the implementation, monitoring and review of the policy locally and, as part of the management of the Group Governance Manual, each business unit confirms to Group HR that it has complied with all of our HR policies, including the D&I Policy.

In line with our new D&I Charter, a number of initiatives have taken place during 2020 to improve inclusivity at Prudential. We have conducted a review of recruitment processes, with a new Group Recruitment Policy embedding D&I measures to be introduced in 2021. We are working to mitigate bias in recruitment practices by reviewing the language used in job descriptions and by using more objective selection tools. During 2020, Jackson doubled the period of paid parental leave available to all new parents and quadrupled the benefit to cover adoption expenses. Parental leave arrangements in Asia were also reviewed, with changes including an increase in the period of paid leave by a third and the introduction of paid leave when an employee becomes a parent through adoption or surrogacy. Our HR function has formed a working group with our Risk function to more visibly encourage 'speaking up' and to find constructive ways to call out non-inclusive behaviour. This complements our new Consensual Relationship Policy and Discrimination and Harassment Policy, both of which apply from January 2021. These policies reflect our continuing commitment to a professional and supportive working environment, where everybody is treated fairly, has equal opportunities, and is respected and valued for their contributions to our Company.

D&I performance

As a signatory to the HM Treasury Women in Finance Charter since 2016, we have a target of 30 per cent women in senior management by the end of 2021. At 31 December 2020 this figure was 32 per cent. The Hampton-Alexander Review set recommendations in 2016 for FTSE 350 companies to achieve a minimum 33 per cent target for women on boards and in the two layers of leadership below the board by the end of 2020. At the end of 2020, 29 per cent of our Board was made up of women.

While we did not meet recommendations of the Hampton-Alexander Review as at 31 December 2020, Shriti Vadera replaced Paul Manduca as Chair on 1 January 2021 and Chua Sock Koong and Ming Lu will be joining the Board in May 2021. With these changes, following the retirement of Kai Nargolwala at the AGM, the representation of women on the Board will increase to 36 per cent. We have met the recommendation of the Parker Review to have at least one director from an ethnic group background on the Board. While our diversity figures have improved year-on-year, we recognise that we have more to do in this area. As such, during 2021 we will establish new diversity targets and our local business units will define their own targets and plans to meet these objectives.

During 2020 we again submitted responses to the ShareAction Workforce Disclosure Initiative and the Bloomberg Gender Equality Index, being listed on the 2021 index for the first time.

Prudential headcount as at 31 December 2020

Gender diversity: senior management

Male	Year	Female
68%	**2020**	32%
72%	2019	28%
71%	2018	29%
75%	2017	25%
83%	2012	17%

Gender diversity: all employees

Headcount	Total	Male	Female	Non-binary	Undis-closed[5]	Unspeci-fied[4]
Chair[1] and Independent Non-executive Directors	11	7	4	0	0	0
Executive Directors	3	3	0	0	0	0
Group Executive Committee (GEC) Includes Executive Directors	7	6	1	0	0	0
Senior Managers[2] Excludes the Chair[1], all Directors and GEC members	114	77	37	0	0	0
Whole Company[3] Full Time Equivalent Includes Chair[1], all Directors, GEC members, Senior Managers	18,687	8,182	10,326	5	28	146

Notes
1 Chair has since been replaced with a female starting 1 January 2021.
2 The definition of Senior Managers in 2020 has changed and the number of Senior Managers has doubled compared to 2019 after the recategorisation. The 2020 Senior Managers definition includes the local business unit CEOs, Chief Officers and other business critical staff.
3 Excludes Prudential Corporation Asia Joint Ventures.
4 No specification or information is captured on gender for an immaterial number of our employees. These employees are recorded as 'unspecified'.
5 In some of our businesses, we provide our employees with the option to not disclose their gender. For these employees, gender is recorded as 'undisclosed'.

Due to Covid-19, activities of the affinity networks at Prudential in 2020 were limited, although some key events did take place. Across various locations, Prudential Corporation Asia's PruPride network once again hosted a Pink Day in October, with active participation in Hong Kong, Vietnam, Taiwan, Cambodia and Thailand. A women's network event with a virtual panel session in September, attended by 185 colleagues on the topic 'Leaders make change happen', was hosted by Group Human Resources Director Jolene Chen and Non-executive Director Alice Schroeder. Our new Board Chair, Shriti Vadera, hosted an in-person networking event in November with Eastspring colleagues in Singapore. Jackson's business resource and affinity groups (BRAGs), each supported by one or more executive sponsors, continued their activities through the year: Pride (LGBT+); VIBE (Vision in Black Excellence); Jackson Young Professionals; Empower (women's network); Enable (for disabled people); and Associates-in-motion (for pre-retirees). A focus for 2021 is to enhance our governance procedures and structures for affinity networks to support them through a global engagement programme to enhance employee engagement globally, regionally and locally.

Racial justice – Jackson's response to the killing of George Floyd
In the aftermath of the killing of George Floyd in late May, the US experienced protests that raised awareness and heightened discussion of issues related to racial bias, structural racism and social justice. The ramifications of these events have broadly impacted society, including the business community and Jackson directly. Jackson's leadership has actively engaged with associates on these issues and continues to engage on this issue.

In the week following the killing of George Floyd, Jackson's D&I Advisory Council held meetings with the Visions in Black Excellence (VIBE) affinity group and senior leaders to discuss the impact on associates and Jackson's response. Jackson-wide communications from Jackson's CEO reinforced the message of 'One Jackson' and encouraged associates to support each other. Jackson hosted a series of all-associate panels and training opportunities, including a 'Listening to our Peers' panel to hear associates' experiences with racism. Jackson and VIBE also held a celebration for Juneteenth and the PRIDE affinity network hosted a discussion with Liliana Reyes, a Latinx, transgender woman and civil rights activist.

Jackson also introduced two training courses that were mandatory for all associates. The first addressed the stereotype threat that exists when actions, conscious or not, contribute to persistent racial segregation. The second addressed the impact of affinity biases that influence workplace choices, based on perceived similarities and differences.

Jackson also made charitable contributions of $250,000 to NAACP Lansing Chapter, $100,000 to Urban League of Middle Tennessee, and $100,000 to Facing History and Ourselves in Chicago. This investment signals Jackson's commitment to local philanthropy, which presents an opportunity to further engage Jackson's affinity groups as partners in equitable community involvement.

Employee engagement
Engagement with our people is a key priority for Prudential and the Board. Two of our Non-executive Directors, Kai Nargolwala for Asia and Africa and Tom Watjen for the US and the UK, were appointed to represent the interests of our people, a duty which they discharged through a range of interactions with staff during 2020. While the Covid-19 pandemic limited opportunities for our Non-executive Directors to interact with our people, a number of face-to-face meetings in small groups took place. Non-executive Director engagement was supplemented with virtual events and our Non-executive Directors also met colleagues through an array of remote events, including the Asia Virtual Regional Conference, staff town halls and meetings of the Jackson Diversity & Inclusion Council and the Global D&I Council.

Case study

Collaboration Jam

Our global employee survey highlighted employee communication and collaboration as an area for improvement. To further engage our people in defining our values as well as to signal our intent to foster open, honest and two-way dialogue across the Company, we hosted a Collaboration Jam in September 2020. A three-day inclusive online conversation, the Collaboration Jam provided a platform for colleagues to connect and co-create solutions for the issues that matter most to employees. More than 5,400 colleagues participated, resulting in nearly 30,000 comments and posts. The most popular discussion threads were 'Open Conversations', 'Listening to Others' and 'Change and Agility'. Building on this activity and the progress made to date, we will commence a three-year journey to embed the desired culture and position Prudential as a place where people can connect, grow and succeed.

Following Kai Nargolwala's retirement as a Non-executive Director at the conclusion of the 2021 Annual General Meeting and the planned separation of the Jackson business, the Board intends to transfer responsibility for workforce engagement activities to its newly established Responsibility & Sustainability Working Group, which is expected to operate until the 2022 Annual General Meeting. As part of this, it will also consider the best method for employee engagement in the longer term, to ensure this is tailored to the culture and strategic priorities of the refocused Group following the planned separation of the Jackson business, and make a recommendation to the Board for implementation following the 2022 Annual General Meeting.

Global employee survey

We are committed to building a culture that is purpose-led, customer-focused, and digitally-savvy. In May 2020, we conducted an engagement survey to establish a baseline of cultural health and validate our proposed purpose and values in a bottom-up manner.

The survey was conducted using an industry-leading employee engagement platform that provides a range of surveys and broad global benchmarks across industries. More than 11,400 employees from Asia, Africa and the UK participated in the survey, producing a 95 per cent response rate. In the US, Jackson carries out its own employee survey and was therefore not included in this survey.

The engagement survey covered topics including leadership, communication, innovation, career and work-life balance. The survey design was based on academic research and good practice among organisational psychologists. The survey found that 85 per cent of colleagues are proud to work for Prudential. Areas for improvement include communication, collaboration, feedback and work-life balance.

Following the survey, briefings were conducted for the Group Executive Committee as well as the two Non-executive Directors responsible for workforce engagement. The Board received an update on the survey results in July 2020 and summary briefings were provided to stakeholder groups across the Company. Each local business unit has now undertaken detailed action planning in response to its results. Group-wide actions include the launch of a science-based mental health and wellbeing app, the Collaboration Jam (see case study) and the strengthening of Speak Out, our Group-wide whistleblowing programme.

Another global employee survey was undertaken in January 2021 to help assess the effectiveness of actions taken during the year and to highlight our focus areas for 2021. We have made notable progress in many areas, including learning, feedback and recognition, and diversity and inclusion. Collaboration and communication was our most improved factor, up by 7 percentage points.

Leadership and talent development

To ensure appropriately targeted leadership and talent development initiatives, we define various leadership and talent segments across our Group. Our senior leaders continue to play a critical role in driving strategic initiatives, which advance the Group's strategy and culture across our markets, business units and functions. To future-proof our success in an increasingly digital environment, we have redefined the leadership capabilities that we need to drive the business, focusing on inspiring followership when teams work both remotely and from an office; fostering innovation by enabling disruption while ensuring psychological safety; delivering at pace and scale through digital and agile practices; and developing sustainable commercial strategies to deliver aggressive business growth with social responsibility.

Within the leadership community, we focus on the Executive Council and the Senior Management Teams (SMTs). The Executive Council is a small group of individuals holding pivotal Group roles and with key capabilities for our future success. During 2020, we held virtual workshops with this group on positive resilience, creating psychological safety and sustaining team engagement in a remote setting. For the SMTs, we held culture workshops to mobilise teams around our shared purpose and to deepen trust and collaboration. We also provided a new performance coaching programme for 120 of these leaders to specifically develop their coaching skills for remote settings, to help them better engage and empower their teams.

We have focused on capability building within our key talent pools. We conduct an annual talent review and identify successors for executive and senior leadership roles. To support this, during 2020 we defined critical success profiles for senior leader roles. These were used to design our new Executive Development Centre, which will specifically target the business unit CEO pipeline. The critical success profiles have also been used to adapt our existing assessment centres across our talent pipeline.

For those identified as our most strategic talent pool, typically those who are currently SMT and have potential to grow to larger roles and be successors to our Group Executive Committee roles within five years, we have focused on ensuring they have exposure to Group strategic projects and expanded role responsibilities, and are provided with specific, tailored development interventions, where appropriate.

In January 2021, we launched a three-year Sponsorship Programme matching our most senior leaders to protégés, identified through our talent review process, enabling a more diverse talent pipeline to gain visibility and be considered for stretch opportunities and roles. During 2021, we also plan to provide an experiential culture leadership journey to around 200 of our senior leaders, with the aim of developing the behaviours needed to help build an inclusive culture and to create a space where our values can be actively demonstrated by everyone.

We have also taken steps to deepen our functional talent pipeline and to accelerate the development of potential successors. Actions taken include the creation of a CFO development programme to accelerate identified business unit CFO successors and the provision of role expansion and enrichment opportunities for senior leaders in Group Digital. Jackson has focused on ongoing leadership capability assessments for its identified successors and high-potential population.

Where internal successors are not apparent, we aim to attract and retain the best talent across industries, irrespective of generation, culture or gender. We have further adapted our hiring practices to minimise unintentional systematic bias. Practices such as artificial intelligence-assisted job description/advertisements, use of psychometrics to evaluate fit to purpose and values, criterion-based interview methods with diverse panels, and a diverse candidate slate have all been introduced in key markets with wider roll-out through the introduction of our Recruitment Policy in early 2021.

We have continued to support and encourage mobility in our organisation to facilitate the sharing of knowledge and experience. Notwithstanding challenges from Covid-19, more than 100 people moved between our businesses in 2020. Specifically in our insurance growth markets, where this is a strategic priority, we held a virtual talent expo to introduce each business and its job opportunities.

In 2021, we will focus on continuing to broaden our talent pipeline and on building an environment where talent can most easily access the opportunities that match their aspirations. With increasing digitalisation and the need for digital skillsets and capabilities, we are providing our people with comprehensive training and learning opportunities to help them upskill, cross skill, and even reskill themselves to maximise their potential.

Performance and reward

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

Our UK business, Prudential Services Limited, has recently reported its 2020 UK Gender Pay Gap data and details can be found on the Group's website (www.prudentialplc.com/esg). Three of the four gender pay gap figures have increased in 2020, largely driven by the demerger of M&G plc, which saw a number of women in senior roles transfer to M&G. The pay gap remains volatile year-on-year due to the small number of colleagues employed by Prudential Services Limited, which makes the calculation sensitive to any changes in roles. While female representation in our leadership roles has increased from 25 per cent in 2017 to 33 per cent in 2020 in our London Head Office, the continuing pay gap reflects the fact that we have more men than women in leadership roles.

Remuneration is linked to the delivery of business goals, our values and expected behaviours. We ensure that our rewards for our people do not incentivise inappropriate risk-taking by assessing employees on 'what' they have achieved, and on 'how' they have done so.

Case study

Supporting our people through Covid-19

While the Covid-19 pandemic unfolded at different times and with varying levels of impact across our markets, all parts of the business were devoted to ensuring the physical, emotional and social health and safety of our people, taking into account employee preferences during this time. Almost all employees spent at least part of 2020 working remotely, in line with local restrictions and guidance. Asia has established a mental health strategy, emphasising virtual connections, as well as community engagement as part of our commitment to diversity and inclusion. Jackson and our London office have offered regular sessions on different aspects of wellbeing and stress management. To coincide with World Mental Health day, we held our first global wellbeing day in October. This consisted of a series of online sessions across all time zones, including a session in which our leaders shared their own stories about mental health challenges they have faced. The Board has received regular updates from management on how our people have been supported. Beyond this, it is essential that the Group reacts to the trends in workforce expectations that have been intensified and accelerated by the pandemic, particularly around new and more flexible ways of working. Each business is exploring how we can meet the expectations of existing and future staff about flexibility around schedules and location.

The Jackson High Five Recognition Program enables individuals to recognise their colleagues in areas of creativity, empowerment, execution, impact, investment in relationships and respect. In our London office, Angel Court, the Prudential Stars awards enable individuals to nominate colleagues, recognising examples of exceptional contributions, specifically in the areas of delivering synergy, adding value, fostering innovation, demonstrating stakeholder focus and maintaining risk awareness.

We are committed to paying the London Living Wage to permanent and temporary employees, and to contractors who regularly work at our premises in the UK. We also believe in the importance of giving employees the opportunity to benefit from the Group's success through share ownership, and operate share plans for employees in the UK and Asia. This includes the award-winning PruSharePlus plan, which enables employees in Asia to share in the longer-term success of the business and actively encourages share ownership and engagement. Similar all-employee share plans operate in the UK.

Executive remuneration

The Group's executive remuneration arrangements reward the achievement of Group, business, functional and personal targets, provided that performance is aligned to the Group's risk framework and appetite and that our conduct expectations, as well as those of our regulators and other stakeholders, are met. Extensive information on executive remuneration is provided into the Directors' remuneration report within the Annual Report.

In light of the Covid-19 pandemic, the Executive Directors agreed to voluntarily forgo their 2020 salary increases. On 1 April 2020, Executive Directors' salaries were reduced to their December 2019 level. In May 2020, Executive Directors' pension benefits were reduced from 25 per cent of salary to 13 per cent of salary, aligning Executive Directors with the employer pension contribution available to the UK-based workforce.

As part of the three-year cycle, we presented an updated Directors' Remuneration Policy at the 2020 Annual General Meeting and received the support of 95.8 per cent of shareholders in a binding vote.

In order to strengthen the community of interest between executives and other shareholders, remuneration is linked to sustained performance over the longer term. For example, 40 per cent of Executive Directors' bonus is deferred in shares for three years. Executive Directors are required to meet shareholding guidelines and a two-year holding period applies to long-term incentive awards in addition to the three-year performance period. The 2020 Directors' Remuneration Policy requires departing Executive Directors to retain a substantial interest in the Company's shares for two years after they leave the Board.

To further increase transparency of executive remuneration and its alignment with the pay of other employees, we published our CEO pay ratio one year in advance of the disclosure becoming a requirement under the UK Companies (Miscellaneous Reporting) Regulations 2018 in the 2018 Directors' remuneration report. Further information on our CEO pay ratio is detailed in the Directors' remuneration report within the Annual Report.

Digital responsibility

Digital innovation is central to our aim of helping our customers to be healthier and wealthier. We are ambitious and we act with integrity with regards to digital responsibility. We are resolute in our commitment to fairness, safety and transparency in the design, governance and operation of our digital ecosystem.

Digital responsibility and Pulse

We are committed to providing robust security protection over both our Pulse app and customer data. Using the Monetary Authority of Singapore's regulations as a leading standard, we have developed a master set of security controls, from which the core security features have been integrated into our Pulse app. These include multi-factor authentication as part of the device registration process, mandating minimum mobile device operating systems versions, prevention of jailbroken and rooted devices from using Pulse, and the secure transmission and storage of data.

Our Pulse ecosystem relies on partnerships with a range of third parties. All business partners we engage go through a detailed due diligence process to ensure that they meet our high standards on data security and protection requirements. We conduct information security and privacy impact assessments as part of the third-party management process to ensure that robust security and privacy controls are in place for all of our ecosystem partnership engagements.

To align the range of regulatory expectations and requirements across our businesses relating to customer privacy, we have developed the OnePulse Privacy Framework (OPF) to standardise the implementation of privacy controls. Referencing the General Data Protection Regulation (GDPR) requirements, the OPF outlines the mandatory and configurable controls to be built into our Pulse app, covering data subject rights, customer consent and privacy notices. More information about our approach to privacy is available below.

Data within our digital ecosystem is treated the same as all data in our organisation and is governed by the Group-wide Information Security Policy and Group-wide Privacy Policy. Pulse collects information about users in order to provide relevant services to them, which includes contact details, facial recognition information for log-in and fitness information from the user's wearable devices. Health-related information is collected by our health partners (such as Babylon) directly and Prudential will only receive a user's health information from our health partners with the user's explicit consent. All information collected is transparent to the user through the Privacy Notice provided to them before user registration.

Information security

Information security is rated as a principal risk in our business, demonstrating our continued commitment to securely managing the information our customers entrust to us.

During 2020 we embedded a single Group-wide information security team leveraging skills, experience and resource globally via a 'centres of excellence' model. This new model supported increased collaboration and sharing of skills across the whole Group.

The global model has allowed us to consolidate and rationalise information security technologies and processes across the Group, enabling security services to become more consistent and effective. This is critical to our business as it ensures the appropriate assessment, management and assurance of all third parties with the potential to manage or impact Prudential Group data or systems.

Case study

Response to challenges posed by Covid-19

The Covid-19 pandemic has resulted in a large-scale move to remote working, significantly changing the working culture for staff and agents, as well as the way we engage with customers. In response to these new ways of working, we scaled up secure remote access, including VPN services, in the early stages of the pandemic. Additionally, Prudential has leveraged existing collaboration toolsets and capabilities, which have been integrated with security services to enable more secure and efficient team working.

As part of the change to remote working practices, Prudential undertook a reassessment of all employee laptops to ensure that secure remote working software had been correctly deployed and configured. In addition, the assessment reviewed and ensured that all laptops are protected against known vulnerabilities, and a more stringent approach for remote access has been adopted. During 2020, phishing campaign frequency was increased to monthly. Simulated phishing emails are tailored within regions and the sophistication of the techniques varies to ensure that staff are continually challenged to learn. The results of these campaigns and training completion rates are tracked across the Group to ensure that this remains an area of focus.

A refreshed Global Information Security Policy came into effect in 2020 and was applied to all Group business units to ensure consistency in processes. The policy is mapped to numerous international and local standards including:

- ISO27002;
- NIST Cyber Security Framework;
- The New York Department of Financial Services Cybersecurity Regulation;
- The Monetary Authority of Singapore Guidelines on Technology Risk Management;
- The Hong Kong Insurance Authority Guideline on Cybersecurity; and
- The Bank Negara Malaysia Risk Management in Technology Standard.

This supports our global approach to security and our commitment to protecting the data entrusted to us by customers across our global footprint. The policy is also supported by a suite of technical standards. Our Security function retains its overarching commitment to protect the business, comply with all applicable laws and regulations, and support the growth of the Group securely.

Oversight and governance of information security
The Group-wide Information Security and Privacy Committee defines and provides governance and the risk management framework for information security risks across the Group. This Committee meets at least quarterly and is a sub-committee of the Group Executive Risk Committee (GERC), chaired by the Group Chief Risk and Compliance Officer.

As a standing member of the GERC, the Group Chief Information Security Officer (CISO) provides regular updates to the GERC and the Group Risk Committee on the cyber threats facing Prudential and the progress of Prudential's security programme. On a half-yearly basis, the Group CISO also holds a dedicated session with the Group Risk Committee to enable a more in-depth discussion on the cyber risk facing Prudential.

Our Group-wide framework for information security
The Group-wide framework for information security rests on four key tenets to defend and protect the Group, our information and our customers' data. These are 1) automation, 2) Global Security Operations Centre, 3) accelerate development of people skills and 4) continuous improvement.

1. Automation
Automation allows us to increase the speed and scale of our defences and reduce the need for human interaction in a number of incident types. This frees our team to focus on more challenging initiatives and on continuously maturing our security and privacy disciplines.

Throughout 2020 we have continued to focus on automating security services to increase effectiveness and consistency and create efficiencies. As part of our approach to continuously integrate and deploy new tools into our Pulse ecosystem, we have introduced automated security testing toolsets. These help to ensure that security is integrated into the development life cycle from the beginning of the process, providing early feedback about any vulnerabilities.

2. Global Security Operations Centre (SOC)
A global SOC is in place to provide 24-hour threat and incident management and provides consistent, appropriate 24-hour support to our global businesses in the case of any suspicious event.

We retain membership of various intelligence-sharing networks, such as the Financial Services Information Sharing and Analysis Centre, and maintain industry relationships to support intelligence-sharing through our network of connections.

The function of the Cyber Threat Intelligence team is to assist our teams and businesses in understanding the cyber threats we face and to focus on providing actionable intelligence. The ultimate goal of the intelligence provided is to guide our decisions to ensure the most relevant and impactful risks for our business are addressed.

3. Accelerate development of people skills
Our staff are critical to protecting the information entrusted to us by our customers. Consequently, information security awareness training is an integral component in ensuring that our information and systems

remain safe. All members of staff, including temporary staff, across all our businesses are mandated to complete this training at least annually. Training is provided locally to support local languages and reflect any local regulatory and legal requirements, and completion is tracked within each business. The artificial intelligence skills of our digital security team are assessed and further development opportunities are provided to them.

We have rolled out a programme across the Group to support information security staff through Certified Information Systems Security Professional (CISSP) training and accreditation. The CISSP is one of the most highly regarded professional accreditations for information security worldwide and covers a broad scope of security domains. The programme began in Jackson and has now been extended across the Group-wide Information Security team, with over 40 members of the full-time security team across the Group holding the CISSP certification.

Throughout the year our Non-executive Directors have access to one-to-one training, often delivered by the Group CISO, on topics including cyber threats and privacy. This ensures that they can not only protect themselves and the information they handle on a daily basis, but also engage in Board-level oversight of information security risks from a more informed and confident position, something we consider to be essential to the oversight of our strategy and risk management.

4. Continuous improvement Given the rapid evolution of threats, the security and privacy disciplines need to be in a state of continuous improvement across the three dimensions of people, process and technology. The model to measure the maturity of our security and privacy programme has been completed, with progress being made on rationalisation and optimisation of technology solutions.

The success of our information security programme is measured from both an internal and external perspective. Externally, benchmarking is conducted regularly to ensure that Prudential's cyber security maturity level is above the industry, and internally we assess the organisation's compliance level against the defined security controls as per our Group Information Security Policy and Group Privacy Policy and relevant standards. Security metrics, which measure the level of robustness of our security controls, are generated on a monthly basis to enable the organisation to respond and adapt to any potential adverse changes in our security position.

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

Privacy
In 2020, a key focus was on driving consistency of approach to the management of data privacy issues in order to embed high standards across the Group and ensure compliance with the Group Privacy Policy. This was supported by the roll-out of a global privacy management platform across the Group to assist with management of privacy activities and to automate privacy control assessments where possible. Activities also took place to enhance and embed processes to ensure compliance with regional and local privacy requirements, including the California Consumer Privacy Act, which took effect on 1 January 2020.

Our Group Privacy Office continues to maintain oversight of privacy compliance. The office works with our businesses across Asia, Africa and the US to support and advise on ongoing privacy compliance as well as to provide a point of escalation for resolving data privacy issues. Privacy is integrated within the Group-wide Information Security & Privacy team, which reports to the Group CISO, giving coverage of each region and the different countries in which Prudential operates.

AI ethics and governance
While the use of artificial intelligence (AI) could bring tremendous benefits, we are aware of the potential risks in deploying AI. Our Global AI Council, chaired by the Group Chief Digital Officer, is responsible for oversight of AI tools and their implementation in our business. The Global AI Council meets quarterly and includes a number of working groups, which review all projects incorporating AI and machine learning across our business units before they receive approval.

During 2020, we developed a set of AI Ethics Principles, reviewed by the Global AI Council. The principles were approved by the Group Risk Committee, on behalf of the Board, which retains ultimate responsibility for setting the Group's ethical standards. These principles sit alongside our Group Code of Business Conduct and set out the standards expected of our colleagues responsible for designing, developing and operating complex applications.

The principles are:

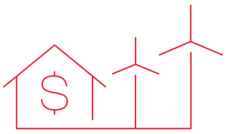
— Effectiveness and value – we design tools with a clearly defined purpose to deliver value for our stakeholders;
— Explainability and transparency – we are transparent that AI tools are used as part of our products and services and explain this simply;
— Bias and fairness – we ensure that AI treats people fairly to avoid bias and unfair discrimination;
— Robustness – we design AI tools that are highly reliable and robust;
— Compliance – we comply and respect relevant regulations, including human rights laws;
— Accountability and responsibility – we accept accountability and responsibility for the outcome of the use of AI tools;
— Privacy and security – we respect user privacy and security; and
— Assurance – we continuously review and monitor our AI deployment and outcomes to ensure that these principles are met.

The Global AI Council is supported by six working groups:

1. Products and pricing – to drive the automation of actuarial work;
2. People – to upskill and certify the AI capabilities of all Prudential employees;
3. Data – to align with Prudential's data governance and management;
4. Technology and platform – to review and approve AI technology and supplier choices;
5. IP – to safeguard Prudential's AI intellectual property; and
6. Ethics – to approve AI prototypes for compliance with Prudential's AI Ethics Principles.

As we invest in AI, big data and other technologies to deliver on our purpose, we are providing everyone in the organisation, regardless of their roles, with opportunities to learn more about these technologies, so that they can participate and contribute to helping our customers. For those who want to advance further, we have created an AI Bootcamp, consisting of a five-level certification process, which covers advanced AI, machine learning, data analytics, as well as AI use in healthcare and finance. An overarching theme of the bootcamp is AI for good and helping families and communities in need.

A D



4. Strategic Enabler: Responsible investment

As a significant allocator of capital in financial markets, our commitment to responsible investment encompasses our role as both asset owner and asset manager. In that capacity, we play a vital role in the transition to a lower carbon economy. We seek to apply ESG considerations more broadly in our investment decisions and our fiduciary and stewardship duties, including ensuring that our investment decisions are aligned with our values around diversity and support our primary focus on healthy lives.

Governance

As with other ESG matters, responsible investment activity is overseen by the Group ESG Committee. More information on the Group ESG Committee is provided in the report introduction.

Operational responsibility for responsible investment activity is delegated to the Group Responsible Investment Advisory Committee (GRIAC). The GRIAC is constituted as a sub-committee of the Group ESG Committee and provides a forum for Group and business units to consider responsible investment approaches. The GRIAC is co-chaired by Prudential Corporation Asia's Chief Investment Officer, Insurance Investment and Co-CIO, Eastspring, respectively senior executives within our main asset owner and asset management businesses. Other permanent members include the CIOs of the major life businesses and the President, CEO and CIO of PPM, as well as representatives from the Group Finance and Group Risk functions.

> "As a significant allocator of capital in financial markets, our commitment to responsible investment encompasses our role as both asset owner and asset manager. In that capacity, we play a vital role in the transition to a lower carbon economy."

Asset owner/asset manager relationship

Historically, Prudential has adopted a principles-based approach to coordinate responsible investment activity across the Group. These principles have been codified into standards, which are set out in the Group Responsible Investment Standards (GRIS) and govern the conduct of responsible investment activity across the Group.

These principles set the tone and parameters under which the Group's asset owner and asset manager businesses develop responsible investment policies appropriate to the markets in which they operate.

During 2021, we will seek further to develop our asset owner Responsible Investment Policy and align expectations across our asset manager mandates, including how ESG considerations will be monitored and measured over time.

Our approach to responsible investment reflects our belief that the quality of corporate governance practices, and how companies manage the environmental and social aspects of their operations, are material to reducing risk and delivering superior financial returns and, ultimately, longer-term shareholder value. It also recognises that responsible investment requires a patient approach and an understanding that changes in corporate behaviour should support shareholder value over time.

Asset owner level

Direction

Apply principles, standards and decision-useful framework to implement Group ESG strategy.

Activity/implementation

Interpret Group ESG strategy with respect to responsible investment principles.

Identify and consider alignment to global standards and frameworks to inform the Group-level approach.

Define how frameworks will apply Group-wide.

Asset manager level

Direction

Apply investor-specific policies and processes to meet requirements of principles-based framework.

Activity/implementation

Asset manager to clearly articulate RI policies and approaches to Group-level approaches.

Asset manager demonstrates process consistency.

Case study

ESG integration case study: Multinational car company challenged to meet new regulations

ESG consideration

During the review of a multinational automotive corporation headquartered in Europe, PPM's research analyst noted concerns about the company's ability to meet European carbon dioxide emission standards, which could lead to meaningful regulatory fines and negative consumer views given the increasingly environmentally conscious consumer. Despite what PPM believed was a solid company balance sheet (strong net industrial cash position and significant gross liquidity), its analyst viewed the company as behind other automotive corporations in its investment in and development of electric vehicles.

PPM analysis

Electric vehicle penetration gained momentum in early 2020 at the onset of Europe's tougher emissions rules. Effective 1 January 2020, the rules imposed more stringent targets for passenger cars and vans – based upon average fleet-wide carbon dioxide emissions (g/km).

PPM's research team discussed the issue in detail during an investment grade review of the automotive industry that assessed the company's positioning among its peers. The research revealed that the company had one of the largest percentage gaps in reducing its year-on-year average fleet-wide carbon dioxide emissions versus its peers and was at the most risk of not meeting standards. While the potential monetary fines were viewed as manageable, the company would be required to undertake significant investment in research and development to catch up with the leaders in the industry, or risk losing meaningful market share.

Outcome

Considering all factors related to the risk and return of the company, the changes to regulations, and the company's progress in developing electric vehicles and increasing its mix to meet emissions standards, PPM downgraded its internal rating. Its analysts will continue to monitor the company's improvements toward emissions goals alongside company fundamentals.

ESG integration

We seek to integrate ESG factors into our investment decisions, alongside traditional financial analysis, to better manage risk and generate sustainable, long-term returns for our customers.

Within Eastspring, the Singapore-based equity team focuses on exploiting opportunities where risk perceptions and expectations have become misaligned. ESG issues are incorporated into the fundamental analysis and decision-making process to the extent that the team believe they could have a material impact on a company's valuation and financial performance. Similarly, for the fixed income team, only ESG issues that are material to the issuer's credit fundamentals and the valuation of the bond are factored into the analysis. For both equity and fixed income, companies are not excluded solely on perceived ESG issues.

This approach to integrate only material ESG factors into investment decision making does not preclude investment in sustainable investment opportunities. For example, in August 2020 Eastspring invested THB 1 billion ($30 million) in the Thai government's inaugural THB 30 billion sustainability bond. The bond carries a 15-year maturity, with proceeds divided between a project to expand the Mass Rail Transit System and to support various expenditures under the government's Covid-19 Rehabilitation Package.

PPM follows a broadly similar approach to Eastspring. ESG factors are incorporated into the investment process where it is believed they may have a material impact on the financial performance of the investment. Investments are not automatically excluded at strategy or fund level on ESG grounds. Rather, the manager works with clients, who will specify exclusion lists unique to their ESG values and requirements.

Ⓓ

Stewardship and engagement

As custodians of our customers' assets, it is important that we act in ways consistent with our stewardship responsibilities. This means seeking to maximise the long-term capital growth of the assets entrusted to us, while remaining accountable to our customers for our actions and being aware of our duty to uphold their best interests when carrying out investment activities. We aim to meet these requirements in several ways, including:

— Pursuing an active investment policy that aligns engagement activity with the long-term investment thesis to hold the asset in the portfolio;
— Treating shareholder voting rights as a valuable asset and seeking to vote all holdings;
— Developing and adhering to principles of conduct governing our stewardship activities, including the fiduciary relationship with customers; and
— Ensuring that our approach to stewardship is aligned to best practice. Notably, Eastspring is a member of International Corporate Governance Network (ICGN) and its stewardship approach is aligned with the ICGN Global Stewardship Principles and ICGN Global Governance Principles. It is also a member of the Asian Corporate Governance Network, which seeks to promote high standards of corporate governance across the Asia-Pacific region.

Engagement

Engagement is a core part of providing effective stewardship and an important means of generating long-term value. We seek to encourage business and management practices that support sustainable financial performance through constructive interaction, based on our in-depth knowledge of the companies and their business environment.

Our approaches to engagement vary across our asset owner and asset manager businesses, reflecting differences in local investment practices and norms, and consistent with the Group's principles-based framework to coordinate its responsible investment activities. However, within this broad framework, some common principles and practices apply. These include: that engagement is an important way to identify material risks and opportunities to investment; that maintaining a continuing and open dialogue with management is key to building relationships, and thus effective influence; and, that collaboration with other investors (through bodies such as Climate Action 100+ or the Asia Investor Group on Climate Change (AIGCC)) is a helpful way to amplify the effectiveness of our engagement activity on ESG issues. The use of voting rights is also an important means to signal investor preferences to company management and it is the Group's policy to vote on their holdings (see Proxy voting below).

The level of conviction to hold a particular investment can be impacted by the results of engagement. Where conviction levels fall below an appropriate level, the position may be divested. This was the case, for example, with a recent engagement by Eastspring with a company providing education services. During our engagements, the company did respond with some improvement to their initial proposed corporate governance. However we did not have a sufficient level of confidence in the standard of governance or controls in place to avoid future contentious proposals. Given the lower level of conviction around the range of potential outcomes we felt there was insufficient valuation support to compensate for observed risks and Eastspring exited the position.

Both Eastspring and PPM undertake company engagements focused on both financial and non-financial matters on an annual basis. With respect to specific engagements related to material ESG issues, Eastspring's equity and fixed income teams have conducted over 300 unique engagements in 2020, in addition to engagement on financial issues with companies.

Proxy voting

Alongside engagement, voting is considered part of the investment process and the pathway to value realisation. It is therefore integral to our stewardship responsibilities. By exercising our votes, we seek both to add value and to protect our interests as shareholders. We consider the issues, meet company management if necessary and vote accordingly. Where possible, we seek to discuss any contentious resolutions with investee companies before casting our votes in order to ensure that our objectives are understood, and our votes will be cast in the best interests of our investors and clients.

Where appropriate, we use third-party investment advisers to aid the process of making proxy voting decisions. Both Eastspring and PPM engage Institutional Shareholder Services (ISS), a fellow signatory to the United Nations-supported Principles for Responsible Investment (PRI), to provide administrative assistance in connection with voting proxies.

The policies and guidelines of the proxy advisers are periodically reviewed to understand the nature of their recommendations and test their compatibility with our requirements. However, specific policies and advice from the proxy adviser are not applied mechanically. We always apply our judgement and decide how to vote on each resolution on its merits in the context of the principles of our proxy policy.

In Asian and emerging markets, proxy voting activity is commonly focused on governance matters, with fewer shareholder resolutions focused on environmental or social matters. However, our equity team actively vote and take any material ESG issues that have been identified into consideration.

While our equity teams are typically supportive of company management, where applicable we use proxy voting actively to signal to management our expectations for improvement in behaviours.

In 2020, Eastspring voted on 99.63 per cent of the total number of proxy votes in which it was eligible to vote. Eastspring voted with management recommendations 90.33 per cent of the time and voted against management recommendations 9.67 per cent of the time. Please refer to Eastspring's website for more information on its proxy voting record www.eastspring.com/about-us/responsible-investment.

Engagement activity through 2020: Notable examples

In order to highlight the breadth of topics and engagements that have taken place, we provide a selection of recent engagement case studies under the 'Environmental', 'Social' and 'Governance' headers. Often, the engagements span more than one ESG dimension, and where this is the situation, the case study is allocated to the ESG category on the basis of a judgement as to which dimension is more material.

Environmental

Case studies

Global Emerging Markets Equity Team, Singapore: Environmental engagement

Company A, a Korean power company, is a valuation outlier and has been a long-term holding, with which we have maintained ongoing engagement.

Objective: Our engagement is aimed at understanding its long-term strategy around transition to a low-carbon economy, to enable us to perform our fiduciary duties and decisions around proxy voting from a well-informed position.

Scope: In 2020, we engaged with Company A in a discussion about the company's long-term strategy for dealing with carbon emissions. It shared that it has a long-term plan to increase renewable energy and to reduce dependence on coal-fired power generation. We discussed the future of the power company's overseas coal power projects and its commitment in October 2020 to not build any overseas coal plants going forward, but only energy-efficient, renewable-type plants. This is aligned with its commitments to grow renewable energy domestically, add no new coal power plants, start to close coal-fired capacity, and to invest in technology to reduce carbon emissions. Notably, the company's overseas coal project plants in South Africa and the Philippines are being converted to liquefied natural gas (LNG) or terminated.

Subsequently, we engaged with the company on its anti-corruption policies. In response to corruption issues, it has responded by putting in place governance structures that include enhanced processes, training and monitoring.

Outcomes: Demonstrating a response through restructuring and capital allocation towards renewable energy, and improvement to governance structures.

Japan Equity Team, Singapore

Company B is one of the world's largest steel producers.

Objective: Our ongoing engagement since 2017 is aimed at understanding the company's position on three key issues: carbon emissions and energy usage (including disclosure policies), board governance and structure, and workplace safety.

Process: In 2020, our three engagement meetings focused on potential structural change in the industry and the need to reduce capacity, and progress in implementing new (hydrogen-based) steel-making technologies. The team also discussed the potential impact of recent regulation by the Japanese government aimed at reducing coal-fired power generation capacity. The engagement was also undertaken in fulfilment of our obligations as a member of the Climate Action 100+.

Outcome: We observed that management was making good progress towards finalising specific medium and long-term climate change targets, as part of the ultimate target of becoming carbon-neutral by 2050. In terms of board governance and structure, the company sought and received approval from shareholders in June 2020 to transition its governance model. The dialogue has supported the case for continued investment in the company.

Social (labour rights, health and safety)

Case study

Malaysian Equity Team, Malaysia

Company C is a large global glove manufacturer.

Objective: To determine whether the company was putting processes in place to improve labour practices.

Process: In June, we engaged with Company C following allegations of forced labour practices from a UK Channel 4 report. We noted that these allegations, which were brought up in December 2018, had resurfaced and that the company had made progress in rectifying these claims.

In July, we sought further clarification from management when the US Customs and Border Protection (CBP) placed a detention order on disposable gloves manufactured by some of the company's subsidiaries. Management shared that they had remedied some of the key issues, such as retention of identification documents, and were looking into the reimbursement of recruitment fees.

We engaged again in November, following an accident that resulted in the amputation of a worker's arm. The purpose of this engagement was to remind the company to take remedial actions to keep workers safe and close gaps that may contribute to accidents. Subsequently, it was uncovered that the worker had not followed the company's standard operating procedure, which the company will investigate remedying with extensive education. It has continued to improve its training programmes by adding training in native languages, revamping on-site training to include accident-prone areas, and increasing training hours.

Outcome: While we recognised that the company had made significant improvement in labour market practices, we continue to stress to management that, as one of the largest glove manufacturers in the world, it needs to set better standards and be vigilant about ESG issues, and we will continue to engage with it on labour issues into 2021.

Governance (Board composition and diversity)

Case studies

Japan Equity Team, Singapore

Company D is a Japanese international chemical manufacturing company.

Objective: Gain a better understanding of the corporate governance structure and practices to perform our fiduciary duties and decisions around proxy voting from a well-informed position.

Process: In January, we conducted a discussion with the company on its broad ESG approach and its specific positioning for meeting environmental product demands (eg bioplastics). We also highlighted the need for improvements in board structure and function and the nominations and succession process.

We continued our engagement in July, when we conducted a discussion of the ongoing evolution of its governance structure and approach and its oversight and management ownership of ESG-related matters. In our ongoing engagements, we have noted that the company's board and broader governance structures have shown a significant step forward (eg improving board independence, voluntary committee structure).

The company has noted that these changes are, partially, in response to our ongoing engagement. It also detailed its increased focus on ESG with a new ESG committee that reports directly to the board. We were satisfied that ESG governance and management ownership appear to be improving.

Beyond this progress, however, we have also discussed that we would like to see continued progress in terms of board independence, diversity, and change to an independent committee system.

Outcome: Gained clarity on timeline for implementing PRI framework and the company's efforts on ESG.

Japan Equity Team, Singapore

Company E is a credit card issuer and transaction processing company.

Proxy Voting Objective: Proxy vote signals the accountability of chairman and CEO for the delivery of poor longer-term returns.

Process: The current chairman has been both chairman and CEO since 2000. Over this period return on equity (ROE) has been weak and has further deteriorated over the past three years. Although the company's management did seek to buy back some shares, we did not feel this was sufficient to address the issue. We felt a clear strategy needed to be articulated to grow the business, amid fierce competition from other traditional credit card players and new cashless players.

A vote was due to be held at the company AGM to re-elect the chairman (and other directors). While our proxy adviser recommendation, and company management vote was 'For' the re-election of the Chairman, we decided to vote 'Against' re-election on the basis of his accountability for the poor historic performance of the company.

Outcome: In addition to acknowledging the company's historic delivery of poor trend returns, our analysis suggests the company has a good platform and there is sufficient valuation upside to support our level of conviction around the overall governance of the company. However, our vote 'Against' the re-election of the chairman signals our position in relation to accountability for historic performance and the need for a change in leadership to support a clear strategy for growth.

D

Capacity building, collaboration and industry and regulatory engagement

We continue to seek opportunities to build capacity and enhance capabilities within our responsible investment practices. In August 2020, Eastspring participated in a sustainability benchmarking process and capacity-building exercise with the World Wide Fund for Nature (WWF), one of the world's largest independent environmental organisations. WWF works with industry associations, regulators, stock exchanges and investors in Asia to support ESG risk analysis and opportunity identification. The benchmarking process is being used as an enabler to further embed sustainability into the business and is aligned with the Group's strategic focus areas. As part of an ongoing focus on continuous improvement to meet our sustainability ambitions, Eastspring has incorporated actions from the benchmarking exercise into four sustainability work streams focused around purpose, governance, climate strategy and responsible investment. Eastspring also participated in the Asia Investor Group on Climate Change (AIGCC) Climate Change Training Project Advisory Committee, the region's first accredited climate change training.

Collaboration

We continue to view collaboration with investors through collective initiatives and industry bodies as another way to build capacity and to amplify the effectiveness of our engagement activity. Two examples of collective bodies in which we participate are Climate Action 100+ and the AIGCC. Climate Action 100+ is an investor-led initiative to engage systemically important greenhouse gas emitters across the global economy. The AIGCC aims to raise awareness and encourage action among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low-carbon investing. Where appropriate, some of our engagements are coordinated through these bodies.

We have aligned our responsible investment approach to industry best practice through our support for the United Nations Principles of Responsible Investment. Ninety-nine per cent of Prudential Hong Kong's investment portfolio is managed by asset managers that are PRI signatories. Prudential supports PPM's and Eastspring's membership as PRI signatories. Eastspring has been a PRI signatory since February 2018. In 2020, it submitted its first official PRI Report and achieved A+ scores across two categories and A scores across four categories, well above the median scores for the PRI's asset management signatories. An A+ score was achieved for Strategy and Governance and ESG Integration in Listed Equities modules; and an A rating was awarded for Listed Equities – Active Ownership, Fixed Income – SSA, Fixed Income – Corporate (Financial), and Fixed Income – Corporate (Non-Financial).

PPM became a signatory in October 2018 and received an A score for its approach to Strategy and Governance, placing it among the top tier of asset managers in this category.

Regulatory and industry engagement
It is important that our strategic approach to responsible investment develops in line with broader thinking around the issue. Therefore, we seek to engage with policy bodies and regulators in the markets in which we operate to both shape the debate and to align our approach to evolving best practice on the topic. Some examples of notable industry engagements and collaboration undertaken during 2020 are:

BU	Theme	Regulatory/industry initiative
Group (Prudential plc)	Global/regional initiatives	At a Group level, our compliance and government relations functions provide input to regulatory consultations and engage with international bodies, such as the Sustainable Development Investment Partnership (SDIP) – an initiative of the World Economic Forum (WEF) – and the Institute of International Finance (IIF) that are active in setting standards for responsible investment. Notable examples of Group engagement activity through 2020 include the monitoring of the work of the Network for Greening the Financial System (NGFS) and input into the International Association of Insurance Supervisors (IAIS) paper on the Supervision of Climate-related Risks in the Insurance Sector, jointly with the Sustainable Insurance Forum (SIF).
Prudential Hong Kong Ltd (PHKL)	Sustainable insurance	PHKL participates in the Green Insurance task force established in 2020 by the Hong Kong Federation of Insurers. This supports the Green and Sustainable Finance Cross-Agency Steering Group, of which the Hong Kong Insurance Authority is a member. Discussions are at an early stage, but the focus of the taskforce will be on generating industry-wide actions to promote sustainable and environmental business practices, as well as to develop regulatory, green product and investment frameworks.
Prudential Assurance Company Singapore (PACS)	Sustainable insurance	PACS is a member of the Sustainable Insurance Taskforce. It is working with the MAS (Monetary Authority of Singapore), LIA (Life Insurance Association), GIA (General Insurance Association) and SRA (Singapore Reinsurance Association) to develop a set of sustainable insurance guidelines.
PCA Life Assurance Taiwan (PCALT)	Stewardship	PCALT is a signatory to the Taiwan Stock Exchange's 'Stewardship Principles for Institutional Investors'.
Eastspring	Risk management	Eastspring contributed to a consultation paper by the Investment Manager Association of Singapore which consolidated industry feedback to MAS on proposed guidelines for environmental risk management.
	Responsible investment	Eastspring participated in an online seminar hosted by the UNPRI and Korea Financial Investment Association (KOFIA). The event aimed to help educate Korean institutional investors on socially responsible investment/responsible investment concepts, both ensuring a basic level of understanding of responsible investment and providing the opportunity to learn how investor peers have been undertaking responsible investment.
	ESG funds	Eastspring participated in a group meeting with The Securities and Futures Commission of Hong Kong (SFC) on key proposed enhancements for ESG funds, which sets out the expectations on how the existing Code on Unit Trusts and Mutual Funds and disclosure guidance would apply to ESG funds.
	Responsible investing (fixed income)	Eastspring Singapore co-hosted a virtual roundtable with Asian Investor discussing key opportunities and challenges in incorporating ESG within Asian fixed income portfolios.

Product development and client engagement

We are continuing to expand our ESG offering to clients to meet the growing demand for responsible investment products in our markets. In December 2019, Eastspring launched the Asia Sustainable Bond Fund, which supports sustainable objectives, as well as meeting client needs for an ESG-themed investment product. Our Singapore and Hong Kong-based life businesses are anchor investors into the fund. While the fund's AUM remains modest at $73 million, during 2020 Eastspring continued to engage with interested gatekeepers from both retail and institutional investors on the Asia Sustainable Bond Fund strategy, as it builds its performance track record with a view to increasing third-party investment. The fund follows an absolute-return targeting strategy and does not target a specific benchmark. Notwithstanding this, recent performance compares well with broadly similar indices, such as the JPMorgan Asia Credit – ESG Index.

In November 2020, Prudential Hong Kong, through its participating life fund, provided the cornerstone funding for a new ESG ETF provided by BlackRock through its iShares unit. The fund tracks the MSCI USA Minimum Volatility ESG Reduced Carbon Target Index, which reduces greenhouse gas emission intensity by 63 per cent and exposure to fossil fuel reserves by 95 per cent, relative to the parent benchmark.

Other significant ESG-themed asset owner initiatives through 2020 include the adoption by Prudential Assurance Malaysia Berhad of sustainable investing strategies for local equity investment within its PRULink Strategic Fund, and the initiation of a project by PT Prudential Life Assurance (PLAI) to publish ESG scores for all its investment-linked product (ILP) funds. PLAI is also in the process of changing the benchmark for one of its existing ILP funds to a new ESG index (the IDX ESG Leaders) developed by the Indonesia Stock Exchange.

Outlook for 2021 and next steps

Prudential recognises that strengthening our approach to responsible investment is an ongoing and long-term process that we expect will evolve over time.

For 2021, as an asset owner, we expect to take further steps to expand and make more explicit our expectations of asset managers in the areas of ESG integration and engagement. The recent establishment of Eastspring Portfolio Advisers (EPA) will help to facilitate and implement our asset owner requirements with asset managers. EPA is our investment centre of excellence for tactical asset allocation, model portfolio construction, manager selection, liability-driven investments and solutions and derivative expertise. From an asset owner perspective, EPA will integrate ESG in all relevant processes within its remit. EPA's complete view of the asset owner portfolio will contribute to a holistic and coherent approach on ESG. The establishment of EPA has also created a platform where the asset owner and the asset manager can discuss, monitor and advance the ESG initiatives.

As well as these steps to improve the alignment of asset owner and asset manager objectives, we will continue to develop our overall approach by identifying and aligning with selected global standards and initiatives that help to frame and inform our principles-based approach to the impacts and opportunities of ESG. In this context, our Asian business is investigating becoming a PRI signatory as an asset owner in 2021.

By taking ESG issues into account, we can meet our clients' financial expectations, serve their other long-term interests and meet the expectations of society.

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5. Strategic Enabler: Community engagement and investment

Our approach to community investment

Our community investment strategy is closely aligned with our business purpose and with our stakeholders' concerns and interests. Our strategy is focused around health and resilience issues relevant to the communities in which we operate, education (particularly financial education) and building resilience across communities. This is underscored by a desire for strong employee engagement in the work we do. Our strong contribution continues to improve lives and build communities, wherever we work. Our relationships with our charity partners are long term, involving support through both funding and skills-based employee volunteering.

Governance of community investment

Our businesses are guided by the framework for investing in the community, as laid out in our Group-wide Community Investment Policy and the Group's ESG strategy. Within that framework they have the autonomy to manage their own community investment programmes. For business units in Asia and Africa, Prudence Foundation, a unified charitable organisation governed by a statutory board of directors, provides regular review of strategy and spending for community investment, which maximises the impact in these regions. In the US, a governance committee of Jackson and the Jackson Charitable Foundation board of directors regularly reviews community investment activity, strategy and spend. Going forward, the Responsibility & Sustainability Working Group will oversee our community engagement and investment activities on behalf of the Board.

Our Group-wide Community Investment Policy sets minimum standards, as well as prohibiting political funding and contributions to religious organisations that have a clear aim to propagate a set faith. It is the Group's policy neither to make donations to political parties nor to incur political expenditure, within the meaning of those expressions as defined in the UK Political Parties, Elections and Referendums Act 2000. The Group did not make any such donations or incur any such expenditure in 2020.

Monitoring and measuring community investment

Our community investment performance metrics are aligned to the Business for Societal Impact (B4SI) Framework (formerly known as London Benchmarking Group), which is used to monitor progress and guide the valuation of both cash and in-kind contributions, employee volunteering and management costs.

In 2020, the Group spent $33.2 million (2019: $29.1 million) supporting community activities. Direct cash donations to charitable organisations amounted to $25 million (2019: $20.6 million). The balance includes in-kind donations, as set out on the Group website, calculated in accordance with Business for Societal Impact (B4SI) framework. The in-kind total includes 112,000 hours of colleague volunteer service for our local communities. Our primary focus areas for community investment in 2020 were health, social and welfare issues, which together accounted for 46 per cent of investment in 2020; followed by education (20 per cent), environment (15 per cent) and emergency relief (7 per cent). In 2020, 63 per cent of our community investment activity was in Asia and Africa, and 35 per cent in the US. The remaining 2 per cent, attributed to London head office, includes both UK and global activity.

Our 2020 community investment reporting is assured by Deloitte LLP. Further information and Deloitte's assurance statement can be found at www.prudentialplc.com/esg.

Covid-19 Relief Fund

Prudential's flagship international volunteering programme, the Chairman's Challenge, has been bringing people together across the Group to help their communities since 2006. In 2020, the Chairman's Challenge joined forces with Prudential Corporation Asia to create a $2.5 million Group-wide Covid-19 Relief Fund. The fund was administered by Prudence Foundation, Prudential's community investment arm in Asia and Africa, and distributed to Prudential's markets around the world, allowing them flexibility to allocate funding based on local knowledge of community needs. Funds were used to support approved charitable and community projects tackling the immediate impact of the pandemic, and its social and economic consequences. Local businesses' programmes included supporting vulnerable communities with Covid-19 messaging, hygiene and sanitation, nutrition and educational programmes. For example:

— Prudential Thailand and Eastspring Thailand donated THB4.9 million (US$150,000) to four hospitals in November. The donation will contribute to the construction of airborne infectious isolation rooms and acute respiratory infection clinics in the four hospitals. Prudential Thailand also donated 2,500 face shields made by its employees to help protect medical professionals and frontline health workers.
— In the Philippines, the Covid-19 Relief Fund donated PhP5 million (US$100,000) to the Philippine General Hospital (PGH) Medical Foundation Inc to support the University of the Philippines (UP)-PGH Covid-19 programme. PGH serves as one of the primary Covid-19 referral hospitals in the Philippines and its Covid-19 programme seeks to equip its healthcare workers with personal protective equipment, including N95 masks, goggles, face shields, and cover-all suits. It also provides medical equipment for cardiac and respiratory care to Covid-19 patients.
— Our Covid-19 Relief Fund was used in Côte d'Ivoire to provide food to vulnerable communities and to deliver a three-month awareness and training programme with AGIS, an NGO, to at-risk areas. In Ghana the fund supported three programmes, including School for Languages, to provide Covid-19 materials and guidance in local Ghanaian languages, as much of the information on Covid-19 is provided in English. In Nigeria the Covid-19 Relief Fund supported a project with Slum2School, to engage 3,000 nursery, primary and secondary school learners between May and December across 20 vulnerable communities.
— Jackson used the fund to support immediate community needs resulting from Covid-19. Jackson awarded $150,000 to non-profits across Chicago, Lansing and Nashville, providing direct financial assistance in tandem with long-term financial coaching and education to individuals and families impacted by the pandemic. This strategic approach provided immediate support for the most vulnerable while working toward a more secure financial future, core to both Jackson's philanthropic and business purposes.

In addition to the Covid-19 Relief fund, Prudential supported communities through other initiatives:

- With elderly people facing a higher risk from Covid-19 than the general population, Prudence Foundation partnered with HelpAge International. Prudence Foundation supported the production of two Safe Steps Elderly Care videos, which provided simple and clear guidelines to care-givers on how to protect older people in care homes, prevent infection and ensure appropriate measures for care-givers' health and safety. HelpAge is working with its network members in Asia alongside the care homes and local governments to disseminate these guidelines to over 1,200 recipients directly. The videos have been translated into five languages and a dedicated website was created to host the information and videos. The videos were available on YouTube, Facebook and Twitter during August 2020, reaching over 42,000 people.
- Jackson has also provided a total of $1.34 million in community grants to support non-profits, which are facing reduced fundraising revenue.
- Since April, Jackson wholesalers have conducted webinars where, for each adviser in attendance, a donation is made to the Feeding America Food Bank in the adviser's local community. Donations totalling $350,100 have been made to more than 100 different food banks across the country, meaning Jackson has helped to provide over 3.5 million meals. Jackson has also partnered with the Nashville Food Project, preparing 6,075 meals for at-risk youth in the underused corporate dining centre.

Financial education

Developed by Prudential to address the gap in financial literacy for children, Cha-Ching is a global financial education and responsibility programme catering for children aged seven to 12 years old. Now in its 10th year, the programme continues to grow and expand across all our markets and is well received by educators, parents, children and government stakeholders. For more information on our approach to promoting financial literacy and how it supports making health and financial security more accessible, please see page 84.

Safety

Safe Steps

Safe Steps is a campaign designed to provide key messaging and raise awareness on life-saving issues across our markets. It now covers disasters, road safety, first aid and Covid-19. Developed in partnership with the International Federation of Red Cross and Red Crescent Societies (IFRC) and NatGeo, it continues to reach millions of people in Asia and Africa via numerous media and government partnerships. The Safe Steps programmes have also been made available and shared on Prudential's Pulse super-app in Hong Kong and the Philippines, and through local television and media partnerships and government partnerships in Cambodia, Myanmar, Malaysia, the Philippines and Vietnam over the years.

A new Safe Steps Covid-19 campaign was also developed in partnership with the IFRC and NatGeo and launched in March 2020, providing key educational messages and awareness on Covid-19. The campaign has been distributed throughout the year across Asia and Africa, leveraging the Safe Steps network.

Building on the success of Safe Steps, in 2019 Prudence Foundation launched Safe Steps Kids, a partnership with the IFRC and Cartoon Network. This initiative uses popular cartoon characters to equip millions of children with actionable information to protect themselves and others in the event of emergencies or disaster situations. The programme has been leveraged by local national Red Cross societies in Malaysia, Singapore, Indonesia and the Philippines through school activities, reaching more than 2,500 students directly. In 2020, in view of the pandemic, Safe Steps Kids online activities have been organised by the Malaysia Red Crescent Society and Indonesian Red Cross Society.

Safe Steps continues to have significant reach. For example:

- Safe Steps programmes continue to reach over 250 million people a day in Asia and 80 million people a month in Africa via media partnerships;
- Safe Steps Kids has a TV reach of 31 million households every day; and
- On social media, Safe Steps Kids has reached over 11 million viewers, and its videos have been viewed 3.1 million times across all digital platforms.

Safe Steps Road Safety Africa was launched in Côte d'Ivoire at the end of 2019 and continues to be promoted across the continent via multimedia distribution on both regional and national TV networks. In December 2020, the campaign was launched in Zambia in partnership with the Road Traffic Safety Agency, the Red Cross and several media partners.

Safe Steps D-Tech Awards

In addition to providing life-saving information, Prudence Foundation launched the Disaster Tech (D-Tech) Innovation Programme in 2019. The objective of the programme is to find, fund and support innovative disaster tech solutions that could save lives in natural disaster events, and to catalyse innovation and increase investment and non-financial support through partnerships. The programme has been unified with the Safe Steps programme and relaunched as the Safe Steps D-Tech Awards. Efforts in 2020 have focused on preparing for the next competition to be held in 2021. The second edition of the awards launched in December 2020, inviting applicants across both profit and non-profit sectors. Finalists will be announced in June 2021 and will have the opportunity to receive grants from a pool of $200,000, as well as mentorship, technology support and access to investor networks. Our network of partners supporting the D-Tech Awards has grown to include humanitarian partner IFRC, technology partner Lenovo and strategic partners Antler, AVPN, National Geographic, e27, Give2Asia, Hatcher+, Jubilee Capital Management and Tech for Impact among others.

Disaster risk reduction in schools

The Comprehensive Safe Schools Framework (CSSF) is a globally recognised framework to ensure that all children are educated in a safe environment. At its core, the framework focuses on three key pillars – school infrastructure, school disaster management and disaster risk education, with an emphasis on disasters to which schools and communities may be exposed. Since 2013, Prudence Foundation has been supporting the implementation of Safe Schools in partnership with Save the Children and Plan International, which aims to address the objectives of the CSSF, as well as the objectives of the Sendai Framework for Disaster Risk Reduction.

To date, Safe Schools has been implemented in Indonesia, Vietnam, Thailand, Cambodia and the Philippines, with 90,000 students directly trained in capacity building, training and planning, together with 42,000 adults across five countries. In 2019 Prudence Foundation renewed its partnership with Plan International to roll out the programme across Thailand, Cambodia and the Philippines between 2019 and 2022, aiming to reach a further 20,000 children and adults by the end of 2022.

In the Philippines, Prudence Foundation has partnered with Save the Children and the Philippines' Department of Education on a strategic initiative to develop a management information system for schools designed to reduce disaster risk, together with training and capacity building for teachers and local government officials. As of 2020, the project has successfully completed the build of a comprehensive Disaster Risk Reduction Management Information System (DRRMIS). The system is now being piloted in selected regions, with the eventual aim for a nationwide roll-out once the pilot is completed at the end of 2021, potentially benefiting over 20 million students and almost 47,000 schools nationwide. External consultants have also been engaged to conduct an independent evaluation of the programme, with the intent to share evidence-based impacts and build a case study for other governments to reduce disaster risk and replicate this approach across other countries.

Health

A key area of focus for Prudence Foundation has been early childhood care and development. In 2020, Prudence Foundation entered a new partnership with UNICEF to implement a regional Early Childhood Development (ECD) programme. The programme focuses on developing a regional strategy to advance ECD aligned with the Nurturing Care Framework, and implementing an effective communication strategy to raise awareness around holistic nurturing care for children aged up to three years old. The communication strategy seeks to raise awareness and to provide essential knowledge and skills to parents and care-givers around holistic nurturing care for children aged from birth to three years old, which is of particular importance during the Covid-19 pandemic, which has adversely impacted young children. The programme will be piloted in Indonesia to reach 90,000 children and their parents or care-givers by the end of 2021.

Prudence Foundation has become a founding member of The China Children Development Fund, which aims to promote healthy and comprehensive child development in poor areas in China by supporting cross-disciplinary empirical research and translating the results into policies and practices. We also support two three-year ECD programmes in rural China under the China Development Research Foundation. REACH (Rural Education and Child Health) is a programme aimed at enhancing parental capabilities and behaviours as well as improving children's health with nutritional support. Under this programme over 1,500 children will be impacted. The second programme is a nutrition improvement programme, which focuses on improving the quality and standards of school nutrition in poverty-stricken areas.

Jackson's community investment approach

Jackson engages its colleagues and strengthens its links with local communities by providing grants, community sponsorships, donation matching and volunteering hours across Lansing, Chicago and Nashville, and nationally through the Jackson Charitable Foundation to increase financial education across the country.

- Lansing: In June, Jackson announced a $750,000 partnership with the Greater Lansing Food Bank to expand the food bank's warehouse. This campaign engaged more than 430 colleagues who personally donated to the project. The new warehouse doubled the square footage, allowing the campaign to increase overall distribution of food from 9 million meals annually to 18 million meals by 2025 and increase daily volunteers by 100 per cent.
- Nashville: On 3 March 2020, tornadoes caused devastation in communities across Greater Nashville, leaving 25 people dead and 309 injured, and destroying many homes and businesses. Jackson colleagues supported tornado relief efforts with supply collections, volunteer opportunities and matched funding donations to the Community Foundation of Middle Tennessee's (CFMT) Emergency Response Fund. Colleagues contributed $19,620 and volunteered 181 hours towards relief efforts.
- Volunteering: In 2020, 848 Jackson associates volunteered, with the company contributing over 29,000 volunteer hours nationally. For the sixth time, Jackson was awarded the US President's Volunteer Service Award. This year, the recognition was elevated to the Gold level in recognition of completing 15,000 hours of volunteering with Junior Achievement during the 2018-2019 school year teaching financial education and work readiness.

London community investment activity

Prudential RideLondon first took place in 2013, and has become the world's greatest festival of cycling, inspiring tens of thousands of people to take up the sport and raising over £77 million for charity from 2013 to 2019. In 2020, the final year of Prudential's sponsorship, the event was replaced with a virtual event, My Prudential RideLondon, due to the Covid-19 pandemic. More than 10,000 people signed up to take on a range of challenges both in the UK and across the world, with participants riding as far afield as the US, Brazil, Kenya, Japan and Australia, and £3 million was raised for charity.

In 2020, Prudential's London Head Office agreed new three-year partnerships with four local charities supporting projects tackling homelessness, isolation and loneliness, mental health and social inclusion. Partnerships were established with The Connection at St Martin's; The Cares Family; Mind in the City, Hackney and Waltham Forest; and The Amos Bursary. The four charities were chosen by a panel of colleague volunteers and the projects are all closely aligned with our overall ESG strategy in helping to make health and financial security available to underserved communities.

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6. Strategic Enabler: Good governance and responsible business practices

Strong governance processes are the foundation of our business and critical to maintaining trust with stakeholders, particularly in the highly regulated financial markets within which we operate. Our governance framework is clear about our standards of behaviour and those standards flow into every part of what we do, including our financial performance and tax practices, as well as operating to mitigate financial crime and informing how we deal with our customers and suppliers. We also recognise the importance of reducing the direct impact of our own operations on the environment and see this as a non-negotiable responsible business practice.

Standards of conduct

Our Group Code of Business Conduct sits at the heart of the Group Governance Manual, our internal governance framework that sets out the principles by which we conduct our business and ourselves. The Code highlights the ethical standards that the Board expects of itself, our employees, our agents and others working on behalf of the Group, and is supported by a set of Group-wide principles and values that define how the Group expects business to be conducted in order to achieve its strategic objectives. Our Group Governance Manual presents our Group-wide approach to governance, risk management and internal control, and is subject to regular review to ensure that we meet the expectations of our stakeholders. In 2020 the Group Governance Manual was updated to align with our post-demerger structure and revised operating model, and now serves as the single governance data source for all colleagues across the Group. Each business must certify annual compliance with the requirements set out in the Manual, including the Code, Delegated Authorities and Group-wide policies.

Tax strategy and reporting

The responsible and sustainable management of our tax affairs helps us to maintain constructive relations with our stakeholders and play a positive role in the economy and the wider communities in which we operate. In 2020 we made a total tax contribution of $2,114 million. This significant contribution plays an important part in helping the communities in which we operate to provide valuable public services and build infrastructure for the benefit of the wider community and the economy.

We understand the importance of paying the right amount of tax on time. We manage our tax affairs transparently and seek to build constructive relationships with tax authorities in all the countries in which we operate. Our Tax Risk Policy outlines our processes to identify, measure, control and report on tax risk, and is regularly reviewed and refreshed.

Our tax strategy is published annually and complies with the mandatory requirements under the UK 2016 Finance Act, focusing on:

- Acting responsibly and taking an objective view in all our tax matters;
- Managing tax in line with our Group governance and risk management procedures; and
- Ensuring transparency and engagement with all our stakeholders.

In addition, our tax strategy document includes a number of additional disclosures, including a country-by-country disclosure of revenues, profits, average employee numbers and taxes for countries where more than $5 million tax was paid. Furthermore, we provide a breakdown of the types and amount of taxes we pay globally. This includes taxes borne and collected on employee income, such as social security. Our tax strategy document also provides more detail on what drives our tax payments and demonstrates that our tax footprint (ie where we pay taxes) remains consistent with our business and employee footprint.

We actively monitor developments in the tax transparency agenda and look to further develop the disclosure of meaningful tax information to help our various stakeholders' understanding of our tax footprint. We will be publishing our updated tax strategy, which will include more information on the tax we paid in 2020, how we manage our tax affairs and the governance and management of tax risk, by 31 May 2021.

Fighting financial crime

We take the fight against money laundering, terrorist financing, bribery, corruption and fraud seriously and are committed to implementing and maintaining industry-leading policies and standards.

Our Group-wide financial crime policies were updated in 2020 to integrate Group and business unit policy requirements, reflecting a streamlined governance structure across the Group following the demerger of M&G plc.

All our Group-level financial crime policies are cascaded down to local business units through regional compliance teams, which ensure adherence to the Group requirements and applicable local laws and regulations. These policies form part of the Group Governance Framework, with business units attesting their compliance to the requirements each year. During the year, the Group and business units undertake a range of monitoring activities to ensure that business units are complying with Group policies and the legal and regulatory framework by which we are governed. This includes quarterly reporting, annual risk assessments, compliance monitoring reviews and reporting to Board-level committees, as set out below. Specifically, our Anti-Money Laundering and Sanctions and Anti-Bribery and Corruption policies provide clear standards and guidance to our diverse businesses and highlight the importance of effective due diligence when dealing with customers, vendors and other third parties.

We complete annual risk assessments across all our businesses to assess and monitor their risk profile. The residual financial crime risk is managed through the continuous enhancement of the control environment and is implemented at local level. In recent years we have implemented an automated transaction monitoring system in Hong Kong, Singapore, Indonesia, the Philippines and Vietnam to profile transactions and identify suspicious activities for reporting to law enforcement agencies.

We are committed to complying with international sanctions requirements and continue to monitor international sanctions closely, integrating updated lists into our regular customer and vendor screening processes. During the course of 2020, we have focused in particular on the US-China sanctions that have been issued in order to assess their impact on our business activities. We have upgraded our screening capabilities across all of our Asian businesses, ensuring compliance with regulatory requirements and improving operational efficiency.

The Group Risk Committee continues to review the effectiveness of the financial crime programme and the Group Compliance team regularly updates the Committee on risks, issues, the effectiveness of controls and the improvements made to processes in the financial crime framework. The Group Risk Committee regularly reviews a number of risk indicators in relation to financial crime, including the numbers and percentages of high-risk customers and politically exposed persons, and seeks investigation of movements. It also reviews trends in automated transaction activity alerts and employee-generated suspicious transaction reports. The Committee also reviews gifts and hospitality received and offered to ensure that they comply with our policy. All material matters on financial crime are reported to the Committee.

The financial crime teams remain committed to professional development and regularly participate in conferences and seminars in the UK, the US, Hong Kong and Singapore to build colleagues' skills and knowledge in specialist areas. Best practices are cascaded through training and communications, as well as the implementation of enhancements to operational systems. These ensure that our colleagues are fully prepared to recognise any form of economic crime and take adequate steps to combat it. We provide training to our staff to ensure that they are familiar with international standards and best practice, as well as being well equipped to implement our policies in their respective markets. Training completion levels are monitored throughout the year.

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Whistleblowing

Our Group-wide whistleblowing procedures apply to all our colleagues and are supported by Speak Out, our Group-wide whistleblowing programme. Speak Out is available both internally and externally to staff, contractors, vendors, agents, customers and the public, enabling reporters to raise concerns in a choice of languages through web and hotline channels. Reporters are able to log concerns covering a range of issues, including but not limited to anti-bribery and corruption, compliance breaches, discrimination and harassment and health and safety. Concerns are recorded by an independent third party and investigated by internal appropriately trained and skilled investigators that are independent of the businesses they investigate. On an annual basis, all colleagues are required to complete a Speak Out computer-based training module. The programme is also supported by communications and awareness materials.

Whistleblowing reporting is overseen by the Group Audit Committee and business unit audit committees through quarterly reporting and through frequent discussion with the Group Resilience Director, with any material issues reported to the Board. On an annual basis, emerging trends and an assessment of the effectiveness of our whistleblowing approach are reported to the Group Audit Committee.

The Speak Out programme is widely used throughout the Group, and during 2020 cases were reported across 24 jurisdictions, including the US, the UK, Hong Kong, Singapore and the Philippines. The number of cases reported across our Asian business units represented 87 per cent of Speak Out cases, which is a reflection of our business footprint. During 2020, the top three issues reported through our whistleblowing channels related to discrimination, harassment or unfair treatment, compliance breaches and misconduct. HR-related cases accounted for 43 per cent of the total cases reported. This figure is in line with the external benchmarks that we use to monitor our Speak Out programme. The percentage of cases being reported openly, rather than anonymously, increased by 3 per cent year-on-year from 2019, which is considered an indicator of growing trust and confidence in the programme. Our Group Security Policy outlines our zero-tolerance approach to retaliation against reporters of any concerns raised via Speak Out.

Supply chain

Our Group Code of Business Conduct outlines the values and standards that are required of each of our suppliers. Our Group Third Party Supply Policy is core to our supply chain governance and specifies our position on supply chain management, setting out our approach to due diligence, selection criteria, contractual requirements and ongoing monitoring of relationships.

Business units conduct due diligence before engaging with, and ultimately selecting, a new supplier. We perform regular due diligence, including daily anti-money laundering checks on our supplier payments, supplier review meetings and audits where required, and our policies and procedures are supported by regular employee training exercises.

Our due diligence requires our suppliers to pass financial stability tests and demonstrate a track record of high performance. We also review the controls the supplier has in place to prevent data leakage and look for any personal data protection issues. Additional due diligence is enacted for any problem categories where we are exposed to potential labour malpractice issues. Our Speak Out whistleblowing service enables employees to raise any concerns they may have in relation to our third-party relationships, and our contractors and third-party suppliers are also able to use this service.

In Asia, we have continued to progress our roll-out of the Coupa procurement management platform across our business units. By improving visibility across all third party spend, the system will facilitate cost savings, procurement and expense controls and process efficiencies. The system has now been implemented across our businesses in Hong Kong, Malaysia, Singapore, Thailand, Indonesia and the Philippines. Our business units in Vietnam and Taiwan and our asset management business, Eastspring, are expected to roll-out Coupa over the course of 2021, ensuring that more than 80 per cent of our third-party expenditure in Asia is processed and approved on one common platform.

We are also rolling out a dedicated third-party risk management system module and accompanying processes that will digitise and automate our vendor governance procedures, enabling us to complete all necessary risk assessments as part of our vendor and contract onboarding processes. This system module, Coupa Risk Assess, integrates into our Coupa procurement management platform and will provide us with detailed visibility of third-party risks across all our key risk domains, in particular information and technology security, data privacy, anti-bribery and corruption and business continuity and resiliency risks. This will improve our ability to mitigate risks and strengthen preventative risk management controls, thereby improving the resilience of our supply chain collaboratively with our vendors, providing greater assurance on our operating business environment. Coupa Risk Assess will also enable us to generate detailed insights into the level of commitment to ESG issues across our supplier footprint. The implementation is expected to be completed across all our markets in Asia during 2021.

Case study

Supporting smaller suppliers during Covid-19

In our commitment to supporting our supply chain through the difficult trading circumstances triggered by the global pandemic, we provided payment assistance from March 2020. We immediately switched to 10-day payment terms for all our London head office small suppliers with under 100 employees. This has so far benefited 136 suppliers with a total of £6 million of accelerated payments made to assist their cash flow. □

To ensure that ESG is embedded in our end-to-end procurement processes, we have developed a specific ESG question set and scoring matrix. This is now incorporated in all our Global RFPs (request for pricing) issued to suppliers during the tender stage and requires a formal response by the potential supplier in respect of the following:

- Their commitment to ESG globally;
- Governance of ESG within their organisation;
- The leadership structure they have within their own organisation on ESG matters;
- ESG transparency on reporting and how that is executed;
- The responsible sourcing practices they use for their own supply chain buying;
- The use of management systems to track their own ESG compliance;
- Ethics and policy documents with their organisation to formally mandate ESG topics;
- Labour practice documents (to confirm ethical behaviour/modern slavery controls);
- Health and Safety best practices are confirmed as embedded for employee wellbeing; and
- Initiatives the supplier is launching to enhance their own ESG agenda.

Upholding our commitments to human rights

Being a responsible business requires organisations to ensure that they meet and strive to surpass commitments to the UN's Declaration of Human Rights. We are committed to ensuring that modern slavery, human trafficking, child labour or any other issue that subjugates human rights is eradicated from our supply chain. For more information around how we are identifying and managing our risks in relation to modern slavery, human trafficking, and child and forced labour, please read our Modern Slavery Statement on the Prudential plc website.

Across Asia, we apply the Third Party Risk Management policy, which ensures compliance to the Group's Third Party Supply policy. All third-party agreements across all countries in Asia are required to undergo due diligence activities, which include human trafficking, anti-money laundering and anti-bribery and corruption checks on the third parties that we deal with.

As in 2019, we reviewed our UK supplier spend to examine and reconfirm that, against the Walk Free Foundation's Global Slavery Index, we are not exposed to modern slavery issues in our supply chain. Our repeat review of this exercise has identified that, across the top 100 countries in the index, 2.5 per cent of UK procurement spend is exposed to these territories. This compares to 2.8 per cent in 2019. Our spend in these countries is in categories that are typically considered to be low-risk, such as property rental and professional services. Full supplier due diligence is maintained in these areas to avoid any potential issues and an expert panel meets each week to review both new contracts and renewals to ensure that we remain vigilant on potential modern slavery exposure and ESG topics. In the UK, we require our suppliers to pay their employees the London or UK Living Wage, as set by the Greater London Authority and Centre for Research in Social Policy respectively.

E

Responsible working practices and health and safety procedures

Prudential recognises the importance of health, safety and wellbeing to help staff get the most out of life and meet our business objectives. By providing a safe and healthy workplace and preventing work-related injury and ill-health through the implementation of appropriate policy and standards, we are able to provide an environment that helps employees to connect, grow and succeed in their work. In 2020 the Group-level policy and standards were revised and aligned with ISO 45001:2018, the international standard for Occupational Health and Safety. The policy and standards apply to all our companies, locations and activities.

For the year ending 31 December 2020, no work-related fatalities were recorded (2019: zero). There were 30 health and safety incidents, resulting in 422 days of lost time (2019: 74 incidents resulting in 203 days of lost time). The increase in lost time is accounted for by two incidents in the United States: a road traffic accident (164 lost days), and a manual handling case (198 lost days).

Health and safety programmes across the Group have this year primarily focused on the response to Covid-19, ensuring that appropriate precautions are implemented in the workplace. We have also focused on providing training and awareness on prevention measures and health and safety best practices for the home. Communications are regularly sent to staff reminding them of the behaviours and protocols needed to protect themselves and the wider community from Covid-19. Our communications have focused on local regulatory changes, maintaining high standards of hygiene, protocols around health monitoring and attendance at the office, and sensible social distancing. Where staff have returned to the office, masks are encouraged to be worn by staff in common areas of the office and in some jurisdictions this is mandated due to local regulations. The Group has also provided intranet resource centres where staff can seek information concerning Covid-19 precautions and best practices, travel restrictions and Covid-related news.

Health and safety teams across the Group have provided online seminars for staff and are available to staff should they have any questions or concerns. We have also implemented PRUThrive, a holistic wellbeing programme to support the mental, physical, financial, family and social wellbeing of employees. We also provide a 24-hour Employee Assistance Programme, offering support and advice through an external provider, and in 2020 launched a science-based mental health and wellbeing app.

D

Treating customers fairly and responsible product design

The value that products are likely to bring to our customers and the quality of product materials and ongoing communications are given the utmost consideration in our businesses. Although many of the financial needs and objectives of our customers are simple, the products we design may seem complex from a customer's perspective. This complexity may make it difficult for a customer to understand the costs and value of the product, and how best to utilise the product to meet their needs.

Prudential's products are designed in accordance with customer conduct standards of treating customers fairly and of providing products and services that meet customer needs, are easy to understand and deliver real value. We design products with a deep understanding of the target customers' protection and savings needs across their life stages. Our development process includes the assessment of policyholders' reasonable expectations created by the product and determines how those expectations are met and managed throughout the product lifecycle.

We aim to simplify our insurance products and how they are explained in product documentation and by salespersons, so that customers can easily understand the features, benefits and associated terms and conditions and are able to clearly assess how products fit with their needs. To protect vulnerable customers, our product development process identifies customer segments for whom the product is not suitable and/or where assistance and further protection might be needed during the sales journey (eg additional point of sales controls, welcome calls). Identifying and treating vulnerable customers with extra care is a core component of training for our sales force.

New products are approved by business unit product committees that comprise of participants from relevant business functions to ensure there is a complete understanding of product risks, including financial, capital and regulatory considerations, as well as a focus on the potential customer experience.

Through Pulse, our health and wealth super-app, we are increasingly focused on making insurance more inclusive to underserved populations of society, through bite-sized digital products and services at little or no cost, and minimal or no underwriting criteria or barriers.

We are also expanding from mortality and morbidity protection, to helping people prevent and postpone adverse health events. Accessible to everyone, Pulse combines healthcare and technology to help and incentivise people to prevent and postpone disease and protect customers by empowering them to take control of their health and wellbeing. We are also working with our distribution partners to increasingly design protection products with diversity and inclusion in mind, such as creating products for gender-specific needs.

We strive to ensure our claims process is simple, fair and transparent, and our staff and agents are professionally trained to support customers in their time of need. Each of our businesses closely monitors customer satisfaction using surveys at touchpoints throughout the customer journey, and also through the monitoring of complaints.

Our businesses are required to comply with their local regulatory requirements and meet our Group-wide policies and standards, including our Group Code of Business Conduct and our Customer Conduct Risk Policy, which covers the fair treatment of customers. Compliance is achieved through the regular training of intermediaries to ensure that the salesforce has a clear understanding of our products, the target customers for each product, and the customer risks inherent in each product; and through the embedding of controls, including customer financial needs analysis and risk appetite profiling, to ensure the suitability of product sales. We are increasingly using technology, particularly electronic point-of-sale tools and e-submissions, to control the sales process and provide sufficient consumer safeguards. During 2020, our compliance controls evolved as we introduced virtual face-to-face selling and remote selling options during the Covid-19 pandemic. Compliance monitoring is performed across the customer and product life cycle, and disciplinary frameworks reinforce compliance through actions up to and including termination.

Management of direct operational environmental impacts

We seek to actively reduce our direct impact on the environment in line with our purpose of improving the lives of our customers and their communities. To understand our impact, we measure our environmental performance and take action to improve our performance.

Our Group Environment Policy forms part of our Group Governance Manual and applies to our operational properties worldwide, guiding our approach to the management of the direct impacts of our business units. This includes compliance with environmental laws and regulations with respect to emissions, energy consumption, water use, waste disposal, environmental supply chain management and the adoption of risk management principles for all property-related matters. As with all policies, business unit performance is monitored against the Group Environment Policy and updates are provided to the Board. More information on our broader strategic approach to the management of climate change risks and opportunities is provided in the stewarding of the human impacts of climate change section on page 87 of this report.

The highlights of our 2020 environmental performance are available below. Our 2020 reporting covers the period 1 October 2019 to 30 September 2020, and selected indicators are assured by Deloitte LLP. Where relevant, comparatives have been restated to remove M&G data.

We have set a target to become net carbon neutral across our Scope 1 and Scope 2 emissions by the end of 2030, through a combination of a 25 per cent reduction per full time employee (FTE) in our operational emissions, and the implementation of carbon offsetting initiatives. The expression of the target in terms of an intensity ratio, rather than as a gross emissions figure, allows for the future growth in the size of our business, while driving improvements in the overall efficiency of our operations. These targets will take effect from 2021. Further details are provided later in this section.

Energy and emissions data

Greenhouse gas (GHG) emissions are broken down into three scopes. We have included full reporting for Scope 1 and 2 and selected Scope 3 reporting. Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity, heating and cooling. We have stated our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. Our Scope 3 footprint includes UK-booked business travel, water consumption from the UK, US and Asia, and waste generated from the UK and US. Aligned with our past commitments, we chose to offset our UK-procured air travel emissions.

SECR Report

We are required to report our global GHG emissions for 2020 in accordance with the Streamlined Energy and Carbon Reporting (SECR) format of the Companies Act 2006 (Strategic and Directors' Reports). This statement is shown below.

	2020	
	UK and offshore	**Global (excluding UK and offshore)**
Emissions from activities for which the company own and control, including combustion of fuel and operation facilities (Scope 1) tCO_2e	147	5,490
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2, location based) tCO_2e	125	42,995
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2, market based) tCO_2e	208	42,995
Total gross Scope 1 and Scope 2 emissions (location-based) tCO_2e	272	48,485
Intensity ratio: tCO_2e/m^2	0.0484	0.0972
Intensity ratio: tCO_2e/fte	1.0146	2.6245
Energy consumption used to calculate above emissions: kWh (Scope 1)	764,344	23,903,383
Energy consumption used to calculate above emissions: kWh (Scope 2)	543,498	77,714,027

For the purposes of compliance with the requirements of SECR, we confirm that no energy reduction projects were undertaken in the UK portfolio during 2020. Information on our Asian initiatives is included below under 'Regional emissions trends'.

Group Position

A summary of our Scope 1, 2 and 3 emissions is provided below. The table also includes a total for Scope 3 data in relation to air travel, water and waste.

Emissions Source (tCO_2e)	**2020**	**2019**	**Change**
Gross emissions			
Scope 1	5,637	7,332	-23.1%
Scope 2 – Market based	43,203	49,092	-12.0%
Scope 2 – Location based	43,120	48,900	-11.8%
Scope 3	2,164	6,248	-65.4%
Total: Scopes 1 & 2*	48,840	56,424	-13.4%
Total: Scopes 1, 2 & 3†	51,004	62,672	-18.6%
Carbon intensity			
kg per m^2 – Scopes 1 & 2	96.24	105.38	-8.7%
Tonnes per employee – Scopes 1 & 2	2.61	3.14	-16.9%
kg per m^2 – Scopes 1, 2 & 3	100.51	117.05	-14.1%

* Market based emissions.
† Assured Scope 3 emissions.

Data notes:
Reporting period: 1 October 2019 to 30 September 2020.
Full details about scope of reported data included in our Basis of Reporting (https://www.prudentialplc.com/esg).
Deloitte LLP has provided limited assurance over selected environmental metrics in accordance with the International Auditing and Assurance Standards Board's (ISAE3000 (Revised)) international standard. Further information and Deloitte's assurance statement can be found on the Prudential plc website at www.prudentialplc.com/esg.
Data restatements: 2019 Scope 1 emission data restated to reflect improved availability of fuel usage data.
To enable comparative reporting in terms of performance reductions (both absolute and by intensity) the reported data for 2019 and 2020 excludes M&G.

Across our occupied estate, our global absolute Scope 1 and 2 (market-based) GHG emissions were 48,840 tCO_2e, down 13.4 per cent on 2019. The main driver of the decline was the widespread reduction in energy use within our office network associated with the Covid-19 pandemic.

When normalised against net lettable floor area, our Scope 1 and 2 emissions were 96.24 kg CO_2e/m^2. This represented an 8.7 per cent reduction over 2019.

The magnitude of the decline across the total Scope 1 and 2 emissions was relatively modest, given the scale of the operational disruption caused by the pandemic. This reflects that most of the office estate in Asia and Africa remained open through the period to support a continued, albeit reduced, employee presence (through for example split team working). With social distancing measures in operation, the increased floor space required for each employee did not result in a proportionate reduction in energy use. It should also be noted that the effect of the timing of the reporting period for Group emissions (1 October 2019 to 30 September 2020) means that only nine months of pandemic-related impacts were captured in the 2020 reporting. With more of our employees working from home (and, therefore, consuming electricity) there has been an increase in emissions from this source, which has not been captured in our reporting. We have, however, started work to model the potential impact in order to understand the associated implications, noting that these would technically be categorised as Scope 3 emissions.

Total Scope 3 reported emissions fell by nearly two-thirds to 2,164 tCO_2e. Air travel, which accounts for the majority of reported Scope 3 emissions, and it fell by 67.7 per cent to 1,965 tCO_2e reflecting the impact of travel restrictions and other control measures related to the pandemic. We continue to work with our business units across all of our regions to extend our Scope 3 emission reporting.

Across Scope 1, 2 and 3, emissions per square metre fell 14.1 per cent to 100.51 kg CO_2e/m^2.

In 2021, we intend to review our Scope 3 reporting boundaries and broaden these over time. Our ultimate intention is to calculate and disclose emissions from our wider supply chain and investment portfolio in line with broader improvements in the quality of data and breadth of disclosures.

Regional emission trends

The restructuring of the Group, resulting in the demerger of M&G, has substantially reduced the Group's office footprint in the UK. The majority of the estate is now located in Asia and, to a lesser extent, in Africa.

Asia's Scope 2 emissions have been in decline since 2017, falling to 23,183 t CO_2e for Scope 2 emissions from 26,627 tCO_2e in 2019 and were impacted by the pandemic, as noted above. During 2020, a total of 34 energy efficiency and behavioural change projects were carried out in Asia, with a combined estimated saving of 895 tCO_2e per year. Measures implemented included the installation of LED lighting, installation of direct current motors in fan coil units and reducing lighting operation hours. We also implemented eight waste reduction initiatives in 2020, including initiatives such as donating excess furniture to be used in an agency office rather than disposal in Malaysia, and providing reusable lunch bags and reducing the use of plastic single use water bottles in Indonesia.

Our occupied estate in Africa expanded by 68 per cent in 2020, with a concurrent increase in headcount of 75 per cent, and we expect the Africa footprint to continue to grow. The gathering of energy data in Africa continues to become more reliable, leading to improvements in data quality and completeness.

The Jackson property portfolio represents 26 per cent of the occupied area of Prudential and accounts for 49 per cent of the Scope 1 and 2 emissions footprint. This is predominately due to the presence of data and disaster recovery centres in the portfolio, which are very energy-intensive and against which it is more challenging to deliver energy saving. However, there has been a 12.1 per cent intensity reduction in Scope 1 and 2 emissions in 2020, reducing them to 179 kg CO_2e/m^2. These reductions can be attributed predominantly to lower occupancy and shutdowns associated with the pandemic, as the occupied area and overall headcount have remained consistent with 2019. The impact of the pandemic is also noted in the 35 per cent reduction in Scope 1 emissions.

Waste and recycling

The quality of our waste and recycling reporting continues to improve, although some challenges remain. For example, where we are tenants in multi-tenanted buildings, the data is only provided to us on a consolidated basis and not broken down by individual tenant.

During 2020 we generated 749 tonnes of waste in the UK and US included in our Scope 3 reporting. The Scope 3 carbon emissions associated with our total waste generation are calculated at 140 tCO_2e, a minor contribution to our overall corporate footprint in comparison with the energy use of our buildings and air travel. Of the UK and the US total, 62 per cent was diverted from landfill through recycling, composting or incineration.

The gathering of waste data in Asia has increased in 2020. We have developed a set of Waste Management Guidelines to raise awareness of the importance of accurate reporting of waste, as well as to practical advice on waste reduction measures for employees engaged in waste management activities.

Water consumption

In 2020, absolute use of water across our global occupied estate (excluding Africa) was 170,648 m^3, an intensity ratio of $0.35m^3/m^2$, a reduction of 26 per cent when compared with our like-for-like water consumption in 2019.

As part of our site assessment programme in Asia, the inspection team looked at our water usage to identify ways in which we could reduce our water consumption. As we are predominately tenants in multi-tenanted buildings, where the landlords are responsible for the maintenance and management of the air conditioning, toilets and other common facilities, only limited opportunities to reduce our water consumption were identified.

"Our aim is to become net carbon-neutral across our Scope 1 and Scope 2 emissions by the end of 2030, through a combination of a 25 per cent reduction (per FTE) in our operational emissions and implementing carbon offsetting initiatives."

Global environmental targets
In 2016 we developed a global environmental targets framework to drive improvements in environmental operational performance. As reported in our 2019 report, this framework was based on the operational footprint of the pre-demerger Prudential Group and, as such, several targets are no longer relevant to the demerged Group.

Our Asian operations have completed four of their five targets, and partially completed the fifth target. Through the programmes implemented as part of this process, we have gained a greater insight into how our sites currently consume energy and the opportunities to reduce this consumption. Notably, we have completed an environmental emission review for the 20 largest energy-consuming locations; created environmental guidelines for all new leasing and fit-out projects; and reviewed our water efficiency and waste management with guidelines adopted by our businesses. The energy management campaign was delayed to better leverage the data collected in the energy assessment, and then further delayed by the Covid-19 pandemic, but will be launched in 2021 to support our new targets.

New targets for 2030
During 2020, we reviewed our global environmental targets framework and have established new targets for the period 2021 to 2030. Our aim is to become net carbon-neutral across our Scope 1 and Scope 2 emissions by the end of 2030, through a combination of a 25 per cent reduction (per FTE) in our operational emissions and implementing carbon offsetting initiatives. This commitment is aligned to our purpose of helping people get the most out of life by enabling a lower-carbon economy through good governance and responsible business practices. The new target will apply across all our operations and improve our ability to communicate a simple and clear environmental strategic direction to all our stakeholders.

During 2020, we engaged a global property services company in a multi-year contract to provide specialist environmental consultancy services to support our aim of reducing the intensity ratios in our Scope 1 and 2 carbon emissions.

Our priority is to reduce our carbon emissions, on an intensity metric, and the site assessment programme has highlighted a number of initiatives that we can implement across the property portfolio to achieve this aim, as well as practical measures that we can take to deliver operational improvements. From these assessments, Scope 1 and 2 carbon reduction road maps are being developed to support the delivery against our target.

We have gained a clear understanding of how we use energy within our property portfolio, and given that the majority of our office space is leased on relatively short-term commitments, we have opportunities to address operational improvements as leases come up for renewal through implementing energy-saving measures or selecting more energy-efficient spaces.

In parallel to these initiatives in our existing property portfolio, we are rolling out a campaign in 2021 to drive behavioural change in terms of energy, water and waste reduction, and it is anticipated that this will be vital to the achievement of our targets.

We are implementing a range of tools and initiatives that will enable further reductions in the Group's energy consumption footprint over the longer term. Some examples include the development of green leasing and design guidelines to assist property management teams to select premises and design our workplaces that will help achieve energy efficiencies; the embedding of sustainability considerations being highlighted in our project approval process; and improved performance tracking through the use of a web-based platform, which will enable our businesses to track progress against targets at an asset level.

Enforcement actions and other regulatory events
No fines or regulatory actions occurred during the year for environmental incidents (2019: zero).

Strategic report approval by the Board of Directors
The strategic report set out on pages 10 to 117 is approved by the Board of Directors.

Signed on behalf of the Board of Directors

Mike Wells
Group Chief Executive

2 March 2021