Financial statements

Contents

Index to Group IFRS financial statements

Consolidated income statement

	Note	2020 $m	2019 $m
Continuing operations:			
Gross premiums earned		42,521	45,064
Outward reinsurance premiums	B1.4	(32,209)	(1,583)
Earned premiums, net of reinsurance	B1.4	10,312	43,481
Investment return	B1.4	44,991	49,555
Other income	B1.4	670	700
Total revenue, net of reinsurance	B1.4	55,973	93,736
Benefits and claims	C3.1	(82,176)	(85,475)
Reinsurers' share of benefits and claims	C3.1	34,409	2,985
Movement in unallocated surplus of with-profits funds	C3.1	(438)	(1,415)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	B1.4	(48,205)	(83,905)
Acquisition costs and other expenditure	B2	(5,481)	(7,283)
Finance costs: interest on core structural borrowings of shareholder-financed businesses		(337)	(516)
Loss attaching to corporate transactions	D1.1	(48)	(142)
Total charges net of reinsurance	B1.4	(54,071)	(91,846)
Share of profit from joint ventures and associates, net of related tax	D6.3	517	397
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note		2,419	2,287
Remove tax charge attributable to policyholders' returns		(271)	(365)
Profit before tax attributable to shareholders' returns	B1.1	2,148	1,922
Total tax charge attributable to shareholders' and policyholders' returns	B3.1	(234)	(334)
Remove tax charge attributable to policyholders' returns		271	365
Tax credit attributable to shareholders' returns	B3.1	37	31
Profit from continuing operations		2,185	1,953
Loss from discontinued UK and Europe operations	D1.3	–	(1,161)
Profit for the year		2,185	792
Attributable to:			
Equity holders of the Company			
From continuing operations		2,118	1,944
From discontinued operations		–	(1,161)
Non-controlling interests from continuing operations		67	9
Profit for the year		2,185	792

Earnings per share (in cents)	Note	2020	2019
Based on profit attributable to equity holders of the Company:	B4		
Basic			
Based on profit from continuing operations		81.6¢	75.1¢
Based on (loss) profit from discontinued operations		–	(44.8)¢
Total		81.6¢	30.3¢
Diluted			
Based on profit from continuing operations		81.6¢	75.1¢
Based on (loss) profit from discontinued operations		–	(44.8)¢
Total		81.6¢	30.3¢

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

Consolidated statement of comprehensive income

	Note	2020 $m	2019 $m
Continuing operations:			
Profit for the year		2,185	1,953
Other comprehensive income (loss):			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		233	152
Related tax		–	(15)
		233	137
Valuation movements on available-for-sale debt securities:			
Unrealised gains arising in the year:			
Net unrealised gains on holdings arising during the year		3,271	4,208
Deduct net gains included in the income statement on disposal and impairment		(554)	(185)
		2,717	4,023
Related change in amortisation of deferred acquisition costs	C4.2	(41)	(631)
Related tax		(581)	(713)
		2,095	2,679
Impact of Jackson's reinsurance transaction with Athene:			
Gains recycled to the income statement on transfer of debt securities to Athene		(2,817)	–
Related change in amortisation of deferred acquisition costs	C4.2	535	–
Related tax		479	–
		(1,803)	–
Total valuation movements on available-for-sale debt securities		292	2,679
Total items that may be reclassified subsequently to profit or loss		525	2,816
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Net actuarial losses on defined benefit pension schemes		–	(108)
Related tax		–	19
Total items that will not be reclassified to profit or loss		–	(89)
Total other comprehensive income		525	2,727
Total comprehensive income for the year from continuing operations		2,710	4,680
Total comprehensive income from discontinued UK and Europe operations	D1.3	–	1,710
Total comprehensive income for the year		2,710	6,390
Attributable to:			
Equity holders of the Company			
From continuing operations		2,657	4,669
From discontinued operations		–	1,710
Non-controlling interests from continuing operations		53	11
Total comprehensive income for the year		2,710	6,390

Consolidated statement of changes in equity

	Note	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserves	Share-holders' equity	Non-controlling interests	Total equity
		Year ended 31 Dec 2020 $m							
Reserves									
Profit for the year		–	–	2,118	–	–	2,118	67	2,185
Other comprehensive income (loss)									
Exchange movements on foreign operations and net investment hedges net of related tax		–	–	–	239	–	239	(6)	233
Net unrealised valuation movements net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	300	300	(8)	292
Total other comprehensive income for the year		–	–	2,118	239	300	2,657	53	2,710
Dividends	B5	–	–	(814)	–	–	(814)	(18)	(832)
Reserve movements in respect of share-based payments		–	–	89	–	–	89	–	89
Effect of transactions relating to non-controlling interests	D1.2	–	–	(484)	–	–	(484)	1,014	530
Share capital and share premium									
New share capital subscribed	C8	1	12	–	–	–	13	–	13
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	(60)	–	–	(60)	–	(60)
Net increase in equity		1	12	849	239	300	1,401	1,049	2,450
Balance at 1 Jan		172	2,625	13,575	893	2,212	19,477	192	19,669
Balance at 31 Dec		173	2,637	14,424	1,132	2,512	20,878	1,241	22,119

	Note	Year ended 31 Dec 2019 $m							
		Share capital	Share premium	Retained earnings	Translation reserve*	Available-for-sale securities reserves	Share-holders' equity	Non-controlling interests	Total equity
Reserves									
Profit from continuing operations		–	–	1,944	–	–	1,944	9	1,953
Other comprehensive income (loss) from continuing operations:									
Exchange movements on foreign operations and net investment hedges net of related tax		–	–	–	135	–	135	2	137
Net unrealised valuation movements net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	2,679	2,679	–	2,679
Shareholders' share of actuarial gains and losses on defined benefit pension schemes net of related tax		–	–	(89)	–	–	(89)	–	(89)
Total other comprehensive income (loss) from continuing operations		–	–	(89)	135	2,679	2,725	2	2,727
Total comprehensive income from continuing operations		–	–	1,855	135	2,679	4,669	11	4,680
Total comprehensive income from discontinued operations*		–	–	(1,098)	2,808	–	1,710	–	1,710
Total comprehensive income for the year		–	–	757	2,943	2,679	6,379	11	6,390
Demerger dividend in specie of M&G plc	B5	–	–	(7,379)	–	–	(7,379)	–	(7,379)
Other dividends	B5	–	–	(1,634)	–	–	(1,634)	–	(1,634)
Reserve movements in respect of share-based payments		–	–	64	–	–	64	–	64
Effect of transactions relating to non-controlling interests		–	–	(143)	–	–	(143)	158	15
Share capital and share premium									
New share capital subscribed	C8	–	22	–	–	–	22	–	22
Impact of change in presentation currency in relation to share capital and share premium	C8	6	101	–	–	–	107	–	107
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	38	–	–	38	–	38
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	55	–	–	55	–	55
Net increase (decrease) in equity		6	123	(8,242)	2,943	2,679	(2,491)	169	(2,322)
Balance at 1 Jan		166	2,502	21,817	(2,050)	(467)	21,968	23	21,991
Balance at 31 Dec		172	2,625	13,575	893	2,212	19,477	192	19,669

* The $2,808 million movement in translation reserve from discontinued operations was recognised in other comprehensive income and represented an exchange gain of $140 million on translating the results from discontinued operations during the period of ownership in 2019 and the recycling of the cumulative exchange loss of $2,668 million through the profit or loss upon the demerger. The Group's accounting principles on foreign exchange translation are described in note A1.

Consolidated statement of financial position

	Note	31 Dec 2020 $m	31 Dec 2019 $m
Assets			
Goodwill	C4.1	961	969
Deferred acquisition costs and other intangible assets	C4.2	20,345	17,476
Property, plant and equipment	C11	893	1,065
Reinsurers' share of insurance contract liabilities note (i)	C3.1	46,595	13,856
Deferred tax assets	C7.2	4,858	4,075
Current tax recoverable	C7.1	444	492
Accrued investment income		1,427	1,641
Other debtors		3,171	2,054
Investment properties		23	25
Investments in joint ventures and associates accounted for using the equity method		1,962	1,500
Loans		14,588	16,583
Equity securities and holdings in collective investment schemes note (ii)		278,635	247,281
Debt securities note (ii)		125,829	134,570
Derivative assets		2,599	1,745
Other investments note (ii)		1,867	1,302
Deposits		3,882	2,615
Cash and cash equivalents		8,018	6,965
Total assets	C1	516,097	454,214
Equity			
Shareholders' equity		20,878	19,477
Non-controlling interests	D1.2	1,241	192
Total equity	C1	22,119	19,669
Liabilities			
Insurance contract liabilities	C3.1	436,787	380,143
Investment contract liabilities with discretionary participation features	C3.1	479	633
Investment contract liabilities without discretionary participation features	C3.1	3,980	4,902
Unallocated surplus of with-profits funds	C3.1	5,217	4,750
Core structural borrowings of shareholder-financed businesses	C5.1	6,633	5,594
Operational borrowings	C5.2	2,444	2,645
Obligations under funding, securities lending and sale and repurchase agreements		9,768	8,901
Net asset value attributable to unit holders of consolidated investment funds		5,975	5,998
Deferred tax liabilities	C7.2	6,075	5,237
Current tax liabilities		280	396
Accruals, deferred income and other creditors		15,508	14,488
Provisions	C9	350	466
Derivative liabilities		482	392
Total liabilities	C1	493,978	434,545
Total equity and liabilities	C1	516,097	454,214

The parent company statement of financial position is presented on page 302.

Notes

(i) At 31 December 2020, reinsurers' share of insurance contract liabilities included $27.3 billion in respect of the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd, as discussed in note D1.1.

(ii) Included within equity securities and holdings in collective investment schemes, debt securities and other investments as at 31 December 2020 are $2,007 million of lent securities and assets subject to repurchase agreements (31 December 2019: $90 million of lent securities only).

The consolidated financial statements on pages 209 to 301 were approved by the Board of Directors on 2 March 2021. They were signed on its behalf:

Shriti Vadera
Chair

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

Consolidated statement of cash flows

	Note	2020 $m	2019 $m
Continuing operations:			
Cash flows from operating activities			
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*		2,419	2,287
Adjustments to profit before tax for non-cash movements in operating assets and liabilities:			
Investments		(19,875)	(60,812)
Other non-investment and non-cash assets		(35,633)	(2,487)
Policyholder liabilities (including unallocated surplus of with-profits funds)		53,593	56,067
Other liabilities (including operational borrowings)		1,372	5,234
Investment income and interest payments included in profit before tax		(5,059)	(4,803)
Operating cash items:			
Interest receipts and payments		4,191	4,277
Dividend receipts		1,297	978
Tax paid		(555)	(717)
Other non-cash items		216	(96)
Net cash flows from operating activities note (i)		1,966	(72)
Cash flows from investing activities			
Purchases of property, plant and equipment	C11	(59)	(64)
Proceeds from disposal of property, plant and equipment		6	–
Acquisition of business and intangibles note (ii)		(1,142)	(635)
Disposal of businesses		–	375
Net cash flows from investing activities		(1,195)	(324)
Cash flows from financing activities			
Structural borrowings of shareholder-financed operations: note (iii)	C5.1		
Issuance of debt, net of costs		983	367
Redemption of subordinated debt		–	(504)
Fees paid to modify terms and conditions of debt issued by the Group		–	(182)
Interest paid		(314)	(526)
Payment of principal portion of lease liabilities		(138)	(137)
Equity capital:			
Issues of ordinary share capital		13	22
Non-controlling equity investment by Athene into the US business	D1.2	500	–
External dividends:			
Dividends paid to the Company's shareholders	B5	(814)	(1,634)
Dividends paid to non-controlling interests		(18)	–
Net cash flows from financing activities		212	(2,594)
Net increase (decrease) in cash and cash equivalents from continuing operations		983	(2,990)
Net cash flows from discontinued operations note (iv)	D1.3	–	(5,690)
Cash and cash equivalents at 1 Jan		6,965	15,442
Effect of exchange rate changes on cash and cash equivalents note (iv)		70	203
Cash and cash equivalents at 31 Dec		8,018	6,965

Notes

(i) Included in net cash flows from operating activities are dividends from joint ventures and associates of $118 million (2019: $85 million).

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

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

		Cash movements $m		Non-cash movements $m			
	Balance at 1 Jan	Issue of debt	Redemption of debt	Foreign exchange movement	Demerger of UK and Europe operations	Other movements	Balance at 31 Dec
2020	5,594	983	–	42	–	14	6,633
2019	9,761	367	(504)	116	(4,161)	15	5,594

(iv) The 2019 cash flows shown in the statement of cash flow above are presented excluding any transactions between continuing and discontinued operations. The 2019 effect of exchange rate changes included $78 million from discontinued operations up to demerger. See note D1.3 for details.

A1 Basis of preparation and exchange rates

Prudential plc ('the Company') together with its subsidiaries (collectively, 'the Group' or 'Prudential') is an Asia-led portfolio of businesses focused on structural growth markets. The Group currently has businesses in Asia, Africa and the US and head office functions in London and Hong Kong. The Group helps individuals get the most out of life through life and health insurance, and retirement and asset management solutions.

Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS Standards as issued by the IASB, the international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. At 31 December 2020, there were no differences between IFRS Standards as issued by the IASB, the international accounting standards as required by the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Group accounting policies are the same as those applied for the year ended 31 December 2019 with the exception of the adoption of the new and amended IFRS Standards as described in note A2.

Going concern basis of accounting

The Directors have made an assessment of going concern covering a period of at least 12 months from the date that these financial statements are approved. In making this assessment, the Directors have considered both the Group's current performance, solvency and liquidity and the Group's business plan taking into account the Group's principal risks and the mitigations available to it which are described in the Group Chief Risk and Compliance Officer's report. The assessment also includes the consideration of the results of a number of stress and scenario testing over the business plan covering scenarios that reflect the possible impacts of Covid-19. The stress tests included the assessment of 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).

Based on the above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for a period of at least 12 months from the date that these financial statements are approved. No material uncertainties that may cast significant doubt on the ability of the Group to continue as a going concern have been identified. The Directors therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements for the year ended 31 December 2020.

The parent company statement of financial position prepared in accordance with the UK Generally Accepted Accounting Practice (including Financial Reporting Standard 101 'Reduced Disclosure Framework') is presented on page 302.

Exchange rates

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

	Closing rate at year end		Average rate for the year to date	
USD : local currency	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Chinese yuan (CNY)	**6.54**	6.97	**6.90**	6.91
Hong Kong dollar (HKD)	**7.75**	7.79	**7.76**	7.84
Indian rupee (INR)	**73.07**	71.38	**74.12**	70.43
Indonesian rupiah (IDR)	**14,050.00**	13,882.50	**14,541.70**	14,140.84
Malaysian ringgit (MYR)	**4.02**	4.09	**4.20**	4.14
Singapore dollar (SGD)	**1.32**	1.34	**1.38**	1.36
Taiwan dollar (TWD)	**28.10**	29.98	**29.44**	30.91
Thai baht (THB)	**30.02**	29.75	**31.29**	31.05
UK pound sterling (GBP)	**0.73**	0.75	**0.78**	0.78
Vietnamese dong (VND)	**23,082.50**	23,172.50	**23,235.84**	23,227.64

Foreign exchange translation

In order to present the consolidated financial statements in USD, the results and financial position of entities not using USD as functional currency (ie the currency of the primary economic environment in which the entity operates) must be translated into USD. The general principle for converting foreign currency transactions is to translate at the functional currency spot rate prevailing at the date of the transactions. From 2020, Prudential determines and declares its dividend in USD. All assets and liabilities of entities not operating in USD are converted at closing exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income.

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

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

	2020 $m	**2019** $m
Asia operations	**235**	194
Unallocated to a segment	**(2)**	(42)
	233	152

A2 New accounting pronouncements in 2020

The IASB has issued the following new accounting pronouncements to be effective from 1 January 2020:

— Amendments to IAS 1 and IAS 8 'Definition of Material';
— Amendment to IFRS 3 'Business Combinations';
— Amendments to IFRS 7, IFRS 9 and IAS 39 'Interest Rate Benchmark Reform'; and
— Amendments to IFRS 16, 'Covid-19-Related Rent Concessions', effective from 1 June 2020.

The adoption of these pronouncements have had no significant impact on the Group financial statements.

A3 Accounting policies

Note A3.1 presents the critical accounting policies, estimates and judgements applied in preparing the Group's consolidated financial statements. Other accounting policies, where significant, are presented in the relevant individual notes. All accounting policies are applied consistently for both years presented and normally are not subject to changes unless new accounting standards, interpretations or amendments are introduced by the IASB.

A3.1 Critical accounting policies, estimates and judgements

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

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

Measurement of policyholder liabilities and unallocated surplus of with-profits	
The measurement basis of policyholder liabilities is dependent upon the classification of the contracts under IFRS 4. Impacts $462.1 billion of policyholder liabilities and unallocated surplus of with-profits funds including those held by joint venture and associates. Policyholder liabilities are estimated based on a number of actuarial assumptions (eg mortality, morbidity, policyholder behaviour and expenses). The Group applies judgement in determining the actuarial assumptions to be applied to estimate the future amounts due to or from the policyholder in the measurement of the policyholder liabilities.	IFRS 4 permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP) for insurance contracts and investment contracts with discretionary participating features. A modified statutory basis of reporting was adopted by the Group on first time adoption of IFRS Standards in 2005. This was set out in the Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP). The ABI SORP was withdrawn for the accounting periods beginning in or after 2015. As used in these consolidated financial statements, the term 'grandfathered' ABI SORP refers to the requirements of the pronouncements prior to its withdrawal. For investment contracts that do not contain discretionary participating features, IAS 39 is applied and, where the contract includes an investment management element, IFRS 15 'Revenue from Contracts with Customers' applies. The policies applied in each business unit are noted below. When measuring policyholder liabilities, a number of assumptions are applied to estimate future amounts due to or from the policyholder. The nature of assumptions varies by product and among the most significant is policyholder behaviour, particularly in the US. Additional details of valuation methodologies and assumptions applied for material product types are discussed in note C3.4.
Measurement of insurance contract liabilities and investment contract liabilities with discretionary participation features	**Asia insurance operations** The policyholder liabilities for businesses in Asia are generally determined in accordance with methods prescribed by local GAAP, adjusted to comply with the modified statutory basis where necessary. Refinements to the local reserving methodology are generally treated as changes in estimates, dependent on their nature. The UK-style with-profits funds' liabilities in Hong Kong are valued under the realistic basis in accordance with the requirements of 'grandfathered' FRS 27 'Life Assurance' (issued by the Accounting Standards Board in 2004 and withdrawn in 2015). The realistic basis requires the value of liabilities to be calculated as the sum of a with-profits benefits reserve, future policy-related liabilities and the realistic current liabilities of the fund. In Taiwan and India, US GAAP principles are applied. The sensitivity of Asia insurance operations to variations in key estimates and assumptions, including mortality and morbidity, is discussed in note C6.4.

Measurement of policyholder liabilities and unallocated surplus of with-profits continued	
	US insurance operations (Jackson) The policyholder liabilities for Jackson's conventional protection-type policies are determined under US GAAP principles with locked in assumptions for mortality, interest, policy lapses and expenses along with provisions for adverse deviations. For other policies, the policyholder liabilities include the policyholder account balance. For those investment contracts in the US with fixed and guaranteed terms, the Group uses the amortised cost model to measure the liability. The US has no investment contracts with discretionary participation features. The sensitivity of US insurance operations to variations in key estimates and assumptions, including policyholder behaviour, is discussed in note C6.4.
Measurement of investment contract liabilities without discretionary participation features	Investment contracts without discretionary participation features are measured in accordance with IAS 39 to reflect the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals, and taken directly to the statement of financial position as movements in the financial liability balance. Investment contracts without fixed and guaranteed terms are classified as financial instruments and designated as fair value through profit or loss because the resulting liabilities are managed and their performance is evaluated on a fair value basis. Where the contract includes a surrender option, its carrying value is subject to a minimum carrying value equal to its surrender value. Other investment contracts are measured at amortised cost.
Measurement of unallocated surplus of with-profits funds	Unallocated surplus of with-profits funds represents the excess of assets over policyholder liabilities, determined in accordance with the Group's accounting policies, that have yet to be appropriated between policyholders and shareholders for the Group's with-profits funds in Hong Kong and Malaysia. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess or shortfall of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to or from the unallocated surplus each period through a charge or credit to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation or depreciation on investments.
Liability adequacy test	The Group performs adequacy testing on its insurance liabilities to ensure that the carrying amounts (net of related deferred acquisition costs) and, where relevant, present value of acquired in-force business is sufficient to cover current estimates of future cash outflows. Any deficiency is immediately charged to the income statement. Jackson's liabilities for insurance contracts, which include those for separate accounts (reflecting the value of the related separate account assets), policyholder account values and guarantees measured as described in note C3.4 and the associated deferred acquisition cost asset, are measured under US GAAP and liability adequacy testing is performed in this context. Under US GAAP, most of Jackson's products are accounted for under Accounting Standards Codification Topic 944, Financial Services – Insurance of the Financial Accounting Standards Board (ASC 944) whereby deferred acquisition costs are amortised in line with expected gross profits. Recoverability of the deferred acquisition costs in the balance sheet is tested against the projected value of future profit using current estimates and therefore no additional liability adequacy test is required under IFRS 4. The deferred acquisition cost asset recoverability test is performed in line with US GAAP requirements, which in practice is at a grouped level of those contracts managed together.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

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

Presentation of results before tax attributable to shareholders

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

Profit before tax attributable to shareholders is $2,148 million and compares to profit before tax of $2,419 million.

The total tax charge for the Group reflects tax that, in addition to that relating to shareholders' profit, is also attributable to policyholders through the interest in with-profits or unit-linked funds. Further detail is provided in note B3. Reported IFRS profit before the tax measure is therefore not representative of pre-tax profit attributable to shareholders. Accordingly, in order to provide a measure of pre-tax profit attributable to shareholders, the Group has chosen to adopt an income statement presentation of the tax charge and pre-tax results that distinguishes between policyholders' and shareholders' returns.

Segmental analysis of results and earnings attributable to shareholders

The Group uses adjusted operating profit as the segmental measure of its results.

Total segmental adjusted operating profit is $6,463 million and is shown in note B1.1.

The basis of calculation of adjusted operating profit is provided in note B1.3.

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

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

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

Jackson holds a number of derivative instruments and debt securities. The selection of the accounting approach for these items significantly affects the volatility of profit before tax.

$457 million of the US investment return in the income statement arises from such derivatives and debt securities.

Jackson enters into derivative instruments to mitigate economic exposures. The Group has considered whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. The key factors considered in this assessment were the complexity of asset and liability matching in Jackson's product range and the difficulty and cost of applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book.

The Group has decided that, except for occasional circumstances, applying hedge accounting using IAS 39 to derivative instruments held by Jackson would not improve the relevance or reliability of the financial statements to such an extent that would justify the difficulty and cost of applying these provisions. As a result of this decision, the total income statement results are more volatile as the movements in the fair value of Jackson's derivatives are reflected within it. This volatility is reflected in the level of short-term fluctuations in investment returns, as shown in notes B1.1 and B1.2.

Under IAS 39, unless carried at amortised cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are carried at fair value. The Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements, unless impaired, being recorded as movements within other comprehensive income. Impairments are recorded in the income statement, as discussed in note (c) below.

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

Deferred acquisition costs (DAC) for insurance contracts

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

Impacts $16.2 billion of DAC as shown in note C4.2.

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

Asia insurance operations
For those business units applying US GAAP to insurance assets and liabilities, as permitted by the 'grandfathered' ABI SORP, principles similar to those set out in the US insurance operations paragraph below are applied to the deferral and amortisation of acquisition costs. For other business units in Asia, the general principles of the 'grandfathered' ABI SORP are applied. In general, deferral of acquisition costs is shown by an explicit carrying value in the balance sheet. However, in some Asia operations the deferral is implicit through the reserving basis.

US insurance operations
The most material estimates and assumptions applied in the measurement and amortisation of DAC balances relate to the US insurance operations.

The Group's US insurance operations apply FASB ASU 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' and capitalise only those incremental costs directly relating to successfully acquiring a contract.

For term life business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For fixed and fixed index annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders.

The majority of Jackson's DAC relates to its variable annuities business. For variable annuity business, a key assumption is the long-term investment return from the separate accounts, which for 2020 is 7.15 per cent (2019: 7.4 per cent). The impact of using this return is reflected in two principal ways, namely:

- Through the projected expected gross profits that are used to determine the amortisation of DAC. This is applied through the use of a mean reversion technique which is described in more detail below; and
- The required level of provision for claims for guaranteed minimum death, 'for life' withdrawal, and income benefits.

The present value of the estimated gross profit is computed using the rate of interest that accrues to policyholder balances (sometimes referred to as the contract rate).

Estimated gross profits for the fixed interest rate annuities, fixed index annuities and variable annuities include estimates of the following, each of which will be determined based on the best estimate of amounts over the life of the book of contracts without provision for adverse deviation:

- Amounts expected to be assessed against policyholder balances for mortality less benefit claims in excess of related policyholder balances;
- Amounts expected to be assessed for contract administration less costs incurred for contract administration;
- Amounts expected to be earned from the investment of policyholder balances less interest credited to policyholder balances;
- Amounts expected to be assessed against policyholder balances upon termination of contracts (sometimes referred to as surrender charges);
- Assumptions for the long-term investment return for the separate accounts;
- Assumptions for future hedge costs; and
- Other expected assessments and credits.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Deferred acquisition costs (DAC) for insurance contracts continued

Jackson uses a mean reversion methodology that sets the projected level of return for each of the next five years such that these returns in combination with the actual rates of return for the preceding three years (including the current year) average the assumed long-term annual return (gross of asset management fees and other charges to policyholders, but net of external fund management fees) over the eight-year period. Projected returns after the mean reversion period revert back to the long-term investment return. For further details on current balances, assumptions and sensitivity, refer to note C4.2.

To ensure that the methodology in extreme market movements produces future expected returns that are realistic, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than zero per cent per annum (both gross of asset management fees and other charges to policyholders, but net of external fund management fees) in each year.

Jackson makes certain adjustments to the DAC assets which are recognised directly in other comprehensive income ('shadow accounting') to match the recognition of unrealised gains or losses on available-for-sale securities causing the adjustments. More precisely, shadow DAC adjustments reflect the change in DAC that would have arisen if the assets held in the statement of financial position had been sold, crystallising unrealised gains or losses, and the proceeds reinvested at the yields currently available in the market.

Carrying value of distribution rights intangible assets

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

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

Affects $4.0 billion of assets as shown in note C4.2.

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

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

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

Financial investments – Valuation

Financial investments held at fair value represent $412.8 billion of the Group's total assets.

Financial investments held at amortised cost represent $14.6 billion of the Group's total assets.

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

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

Determination of fair value

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

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

Current market bid prices are used to value investments having quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties such as brokers or pricing services. Financial investments measured at fair value are classified into a three-level hierarchy as described in note C2.1.

Financial investments – Valuation continued

If the market for a financial investment of the Group is not active, the Group establishes fair value by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these financial investments. Details of the financial investments classified as 'level 3' to which valuation techniques are applied and the sensitivity of profit before tax to a change in the valuation of these items, are presented in note C2.2(ii).

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

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

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

Affects $49.3 billion of assets.

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

Available-for-sale securities

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

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

Additional details on the methodology and estimates used to determine impairments of the available-for-sale securities of Jackson are described in note C1.1.

Assets held at amortised cost

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

Reversal of impairment losses

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

A3 Accounting policies continued

A3.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued by the IASB but are not yet effective in 2020. For 2021 and beyond, the Group will prepare financial statements in accordance with UK-adopted international accounting standards and will be reliant on the UK adoption for the new accounting pronouncements that have not been endorsed by the EU by 31 December 2020.

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

IFRS 9 'Financial instruments: Classification and measurement'

IFRS 9 became mandatorily effective for the annual periods beginning on or after 1 January 2018, with early application permitted and transitional rules apply.

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

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

The classification and the measurement of financial assets and liabilities

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

Under IAS 39, 88 per cent of the Group's investments are valued at FVTPL and the Group's current expectation is that a significant proportion of its investments will continue to be designated as such under IFRS 9. The Group is currently evaluating whether some of the assets held at amortised cost today should be designated at FVTPL in conjunction with the required changes in classification to the relevant underlying liabilities upon adoption of IFRS 17.

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

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

A new impairment model based on an expected credit loss approach replaces the existing IAS 39 incurred loss impairment model, resulting in earlier recognition of credit losses compared to IAS 39. This aspect is the most complex area of IFRS 9 to implement and will involve significant judgements and estimation processes. The Group is currently assessing the scope of assets to which these requirements will apply but as noted above it is currently expected that the majority of assets will be held at FVTPL to which these requirements will not apply.

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

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

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

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

The fair value of the Group's directly held financial assets at 31 December 2020 and 2019 are shown below. Financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) as defined by IFRS 9 are shown separately. This excludes financial assets that meet the definition of held for trading or are managed and evaluated on a fair value basis.

Financial assets, net of derivative liabilities	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
	Fair value at 31 Dec 2020 $m	Movement in the fair value during 2020 $m	Fair value at 31 Dec 2020 $m	Movement in the fair value during 2020 $m
Accrued investment income	1,428	–	–	–
Other debtors	3,248	–	–	–
Loans note (1)	11,302	154	3,905	3
Equity securities and holdings in collective investment schemes	–	–	278,635	33,515
Debt securities note (2)	32,991	3,194	92,837	6,817
Derivative assets, net of derivative liabilities	–	–	2,117	(3,683)
Other investments	–	–	1,866	(36)
Deposits	3,882	–	–	–
Cash and cash equivalents	8,018	–	–	–
Total financial assets, net of derivative liabilities	60,869	3,348	379,360	36,616

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

Notes

(1) The loans that pass the SPPI test in the table above are primarily carried at amortised cost under IAS 39. Further information on these loans is as provided in note C1.

(2) The debt securities that pass the SPPI test in the table above are primarily held by Jackson and are classified as available-for-sale under IAS 39. The credit ratings of these securities, analysed on the same basis of those disclosed in note C1, are as follows:

Available-for-sale debt securities that pass the SPPI test	31 Dec 2020 $m	31 Dec 2019 $m
AAA	1,058	1,117
AA+ to AA-	6,830	11,328
A+ to A-	6,904	15,140
BBB+ to BBB-	9,812	17,972
Below BBB- and unrated	8,387	10,808
Total fair value	32,991	56,365

A3 Accounting policies continued

A3.2 New accounting pronouncements not yet effective continued

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

	Financial assets that pass the SPPI test		All other financial assets, net of derivative liabilities	
Financial assets, net of derivative liabilities, held by the Group's joint ventures and associates accounted for using the equity method	**Fair value at 31 Dec 2020** $m	**Movement in the fair value during 2020** $m	**Fair value at 31 Dec 2020** $m	**Movement in the fair value during 2020** $m
Accrued investment income	156	–	–	–
Other debtors	310	–	–	–
Loans	269	–	–	–
Equity securities and holdings in collective investment schemes	–	–	7,949	1,032
Debt securities	–	–	7,741	102
Deposits	777	–	–	–
Cash and cash equivalents	582	–	–	–
Total financial assets, net of derivative liabilities	2,094	–	15,690	1,134

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

IFRS 17 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17 'Insurance Contracts' to replace the existing IFRS 4 'Insurance Contracts'. In June 2020, the IASB issued amendments to IFRS 17, including delaying the effective date to reporting periods on or after 1 January 2023. The standard is subject to endorsement in the UK via the UK Endorsement Board which is currently being established. The Group intends to adopt the new standard on its mandatory effective date, alongside the adoption of IFRS 9.

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

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

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

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

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement.

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

IFRS 17 implementation programme

IFRS 17 is expected to have a significant impact as the requirements of the new standard are complex and requires a fundamental change to accounting for insurance contracts as well as the application of significant judgement and new estimation techniques. The effect of changes required to the Group's accounting policies as a result of implementing these standards, that are expected to alter the timing of IFRS profit recognition, are currently uncertain, particularly as amendments were issued by the IASB in June 2020 to IFRS 17. The implementation of this standard will involve significant enhancements to IT, actuarial and finance systems of the Group.

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

A Group-wide Steering Committee, chaired by the Group Chief Financial Officer and Chief Operating Officer with participation from the Group Risk function and the Group's and business units' senior finance managers, provides oversight and strategic direction to the implementation programme. A number of sub-committees are also in place to provide governance over the technical interpretation and accounting policies selected, design and delivery of the programme. During 2020, the Group has made significant progress with the development of the accounting policies and application methodologies and the build of the actuarial and finance systems. The Group is also assessing the IASB amendments issued in June 2020 and incorporating the changes into the delivery of the programme.

Other new accounting pronouncements

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

- Amendments to IFRS 9, IAS 39 and IFRS 7 and IFRS 16 'Interest rate benchmark reform – phase 2' issued in August 2020 and effective from 1 January 2021;
- Amendments to IAS 16, 'Property, Plant and Equipment: Proceeds before intended use' issued in May 2020 and effective from 1 January 2022;
- Reference to the Conceptual Framework – Amendments to IFRS 3, 'Business combination' issued in May 2020 and effective from 1 January 2022;
- Amendments to IAS 37 'Onerous contracts – Cost of fulfilling a contract' issued in May 2020 and effective from 1 January 2022;
- Annual Improvements to IFRS Standards 2018–2020 issued in May 2020 and effective from 1 January 2022;
- Amendments to IAS 1 'Classification of liabilities as current or non-current' issued in January 2020 and effective from 1 January 2023;
- Amendments to IAS 1 'Disclosure of accounting policies' issued in February 2021 and effective from 1 January 2023; and
- Amendments to IFRS 8 'Definition of Accounting Estimates' issued in February 2021 and effective from 1 January 2023.

B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results

	Note	2020 $m	2019 $m AER note (i)	2019 $m CER note (i)	2020 vs 2019 % AER note (i)	2020 vs 2019 % CER note (i)
Continuing operations:						
Asia						
Insurance operations		3,384	2,993	2,978	13%	14%
Asset management		283	283	278	0%	2%
Total Asia		3,667	3,276	3,256	12%	13%
US						
Insurance operations		2,787	3,038	3,038	(8)%	(8)%
Asset management		9	32	32	(72)%	(72)%
Total US		2,796	3,070	3,070	(9)%	(9)%
Total segment profit		6,463	6,346	6,326	2%	2%
Other income and expenditure:						
Investment return and other income		6	50	50	(88)%	(88)%
Interest payable on core structural borrowings		(337)	(516)	(518)	35%	35%
Corporate expenditure [note (ii)]		(417)	(460)	(463)	9%	10%
Total other income and expenditure		(748)	(926)	(931)	19%	20%
Restructuring and IFRS 17 implementation costs [note (iii)]		(208)	(110)	(110)	(89)%	(89)%
Adjusted operating profit	B1.3	5,507	5,310	5,285	4%	4%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(4,841)	(3,203)	(3,191)	(51)%	(52)%
Amortisation of acquisition accounting adjustments [note (iv)]		(39)	(43)	(43)	9%	9%
Gain (loss) attaching to corporate transactions	D1.1	1,521	(142)	(143)	n/a	n/a
Profit before tax attributable to shareholders		2,148	1,922	1,908	12%	13%
Tax credit attributable to shareholders' returns	B3	37	31	36	19%	3%
Profit for the year from continuing operations		2,185	1,953	1,944	12%	12%
Loss for the year from discontinued operations		–	(1,161)	(1,165)	n/a	n/a
Profit for the year		2,185	792	779	176%	180%
Attributable to:						
Equity holders of the Company						
From continuing operations		2,118	1,944	1,935	9%	9%
From discontinued operations		–	(1,161)	(1,165)	n/a	n/a
Non-controlling interests from continuing operations		67	9	9	n/a	n/a
		2,185	792	779	176%	180%

Basic earnings per share (in cents)	Note	2020	2019 AER note (i)	2019 CER note (i)	2020 vs 2019 % AER note (i)	2020 vs 2019 % CER note (i)
Based on adjusted operating profit, net of tax, from continuing operations	B4	175.5¢	175.0¢	174.6¢	0%	1%
Based on profit for the year from continuing operations	B4	81.6¢	75.1¢	75.1¢	9%	9%
Based on profit (loss) for the year from discontinued operations	B4	–	(44.8)¢	(45.1)¢	n/a	n/a

Notes
(i) Segment results are 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. For definitions of AER and CER refer to note A1.
(ii) Corporate expenditure as shown above is primarily for head office functions in London and Hong Kong.
(iii) Restructuring and IFRS 17 implementation costs include those incurred in the US operations of $(46) million (2019: $(7) million).
(iv) Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012.

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

	2020 $m	2019 $m
Asia operations note (i)	(607)	657
US operations note (ii)	(4,262)	(3,757)
Other operations	28	(103)
Total	(4,841)	(3,203)

Notes

(i) *Asia operations*

In Asia, the short-term fluctuations reflect the net value movements on shareholders' assets and policyholder liabilities (net of reinsurance) arising from market movements in the year. In 2020, falling interest rates in certain parts of Asia led to lower discount rates on policyholder liabilities under the local reserving basis applied, which were not fully offset by unrealised bond and equity gains in the year and this led to the overall negative short-term investment fluctuations in Asia.

(ii) *US operations*

The short-term fluctuations in investment returns in the US are reported net of the related charge for amortisation of deferred acquisition costs (DAC) credit of $812 million as shown in note C4.2 (2019: credit of $1,248 million) and comprise amounts in respect of the following items:

	2020 $m	2019 $m
Net equity hedge result note (a)	(6,334)	(4,582)
Other than equity-related derivatives note (b)	1,682	678
Debt securities note (c)	474	156
Equity-type investments: actual less longer-term return	(40)	18
Other items	(44)	(27)
Total net of related DAC amortisation	(4,262)	(3,757)

Notes

(a) The purpose of the inclusion of the net equity hedge result in short-term fluctuations in investment returns is to segregate the amount included within pre-tax profit that relates to the accounting effect of market movements on both the value of guarantees in Jackson's products including variable annuities and on the related derivatives used to manage the exposures inherent in these guarantees. The level of fees recognised in short-term fluctuations in investment returns is determined by reference to that allowed for within the reserving basis.

The variable annuity guarantees are valued in accordance with either Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures or ASC Topic 944, Financial Services – Insurance depending on the type of guarantee. Both approaches require an entity to determine the total fee ('the fee assessment') that is expected to fund future projected benefit payments arising using the assumptions applicable for that method. The method under ASC Topic 820 requires this fee assessment to be fixed at the time of issue.

As the fees included within the initial fee assessment are earned, they are included in short-term fluctuations in investment returns to match the corresponding movement in the guarantee liability. Other guarantee fees are included in adjusted operating profit, which in 2020 were $704 million (2019: $699 million), pre-tax and net of related DAC amortisation. As the Group applies US GAAP for the measured value of the product guarantees, the net equity hedge result also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ.

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

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

The net equity hedge result can be summarised as follows:

	2020 $m	2019 $m
Fair value movements on equity hedge instruments*	(5,219)	(5,314)
Accounting value movements on the variable and fixed index annuity guarantee liabilities*	(2,030)	(22)
Fee assessments net of claim payments	915	754
Total net of related DAC amortisation	(6,334)	(4,582)

* The value movements on the variable annuity guarantees and fixed indexed annuity options and the derivative instruments held to manage their equity exposures are discussed in the Group Chief Financial Officer and Chief Operating Officer's report.

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

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

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

B1 Analysis of performance by segment continued

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

(c) Short-term fluctuations related to debt securities is analysed below:

	2020 $m	2019 $m
Credits (charges) in the year:		
Losses on sales of impaired and deteriorating bonds	(148)	(28)
Bond write-downs	(32)	(15)
Recoveries/reversals	1	1
Total credits (charges) in the year	(179)	(42)
Risk margin allowance deducted from adjusted operating profit*	92	109
	(87)	67
Interest-related realised gains (losses):		
Gains (losses) arising in the year†	724	220
Amortisation of gains and losses arising in current and prior years to adjusted operating profit	(168)	(129)
	556	91
Related amortisation of DAC	5	(2)
Total short-term fluctuations related to debt securities net of related DAC amortisation	474	156

* The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in adjusted operating profit with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in adjusted operating profit of Jackson for 2020 is based on an average annual risk margin reserve of 18 basis points (2019: 17 basis points) on average book values of $51.7 billion (2019: $62.6 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	2020 Average book value $m	2020 RMR %	2020 Annual expected loss $m	2019 Average book value $m	2019 RMR %	2019 Annual expected loss $m
A3 or higher	32,541	0.10	(31)	38,811	0.10	(38)
Baa1, 2 or 3	17,513	0.24	(42)	22,365	0.24	(53)
Ba1, 2 or 3	1,314	0.75	(10)	1,094	0.85	(9)
B1, 2 or 3	206	2.36	(5)	223	2.56	(6)
Below B3	108	3.36	(4)	75	3.39	(3)
Total	51,682	0.18	(92)	62,568	0.17	(109)
Related amortisation of deferred acquisition costs			12			19
Risk margin reserve charge to adjusted operating profit for longer-term credit-related losses†			(80)			(90)

† Excluding the realised gains that are part of the gain arising in respect of the reinsured Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd, as discussed in note D1.1.

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax net unrealised gain of $2,676 million, net of related amortisation of DAC, arising in the year (2019: $3,392 million) on debt securities classified as available-for-sale, partially offset by the recycling of $2,282 million gains, net of related amortisation of DAC, to the income statement on transfer of debt securities to Athene (see note D1.1). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C1.1.

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

Operating segments

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

Under the Group's management and reporting structure, its chief operating decision maker is the Group Executive Committee (GEC). In the management structure, responsibility is delegated to the Chief Executive Officers of the Group's Asia and US business units for the day-to-day management of their business units (within the framework set out in the Group Governance Manual). Financial management information used by the GEC aligns with these business segments. These operating segments, Asia operations and US operations, derive revenue from both insurance and asset management activities.

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

In preparation for the planned separation of Jackson, the management information received by the GEC has been revised in 2021, leading to a change in the Group's operating segments which will be presented in the 2021 half year report as discussed in the Group Chief Financial Officer and Chief Operating Officer's report.

Performance measure

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

- Short-term fluctuations in investment returns on shareholder-backed business. This includes the impact of short-term market effects on the carrying value of Jackson's guarantee liabilities and related derivatives as explained below;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
- Gain or loss on corporate transactions, such as in 2020 the effect of certain of the Group's reinsurance arrangements and costs associated with the work to plan for the separation of Jackson, and in 2019 disposals undertaken and costs connected to the demerger of M&G plc from Prudential plc.

Determination of adjusted operating profit for investment and liability movements

(a) With-profits business

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

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

The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the adjusted operating profit reflect the current year value movements in both the unit liabilities and the backing assets.

(c) US general account business

The adjusted operating profit for Jackson included in the Group's accounts is based on information reviewed by the GEC on an IFRS basis. 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 be based on the information local management reviews in preparation for them becoming a standalone entity.

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

The following value movements for Jackson's variable and fixed index annuity business are excluded from adjusted operating profit. See note B1.2:

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

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

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

Guaranteed benefit option for variable annuity guarantee minimum income benefit

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

(d) Policyholder liabilities that are sensitive to market conditions

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

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

B1 Analysis of performance by segment continued

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

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

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

(e) Assets backing other shareholder-financed long-term insurance business

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

Debt securities and loans

As a general principle, for debt securities and loans, the longer-term capital returns comprise two elements:

— Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the adjusted operating profit is reflected in short-term fluctuations in investment returns; and

— The amortisation of interest-related realised gains and losses to adjusted operating profit to the date when sold bonds would have otherwise matured.

At 31 December 2020, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group's insurance operations in Asia and the US was a net gain of $1,725 million (31 December 2019: net gain of $916 million).

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

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

Equity-type securities

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

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed business amounted to $4,954 million as at 31 December 2020 (31 December 2019: $3,473 million). The longer-term rates of return applied in 2020 ranged from 5.1 per cent to 16.9 per cent (31 December 2019: 5.0 per cent to 17.6 per cent) with the rates applied varying by business unit. These rates are broadly stable from year to year but may be different between regions, reflecting, for example, differing expectations of inflation in each local business unit. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations. The longer-term investment returns for the Asia insurance joint ventures and associates accounted for using the equity method are determined on a similar basis as the other Asia insurance operations described above.

For US insurance operations, as at 31 December 2020, the equity-type securities for non-separate account operations amounted to $2,128 million (31 December 2019: $1,481 million). For these operations, the longer-term rates of return for income and capital applied in 2020 and 2019, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2020	2019
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	4.8% to 5.8%	5.5% to 6.7%
Other equity-type securities such as investments in limited partnerships and private equity funds	6.8% to 7.8%	7.5% to 8.7%

Derivative value movements

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

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

(f) Fund management and other non-insurance businesses
For these businesses, the determination of adjusted operating profit reflects the underlying economic substance of the arrangements. Generally, realised gains and losses are included in adjusted operating profit with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, realised gains and losses on derivatives and other financial instruments are amortised to adjusted operating profit over a time period that reflects the underlying economic substance of the arrangements.

B1.4 Segmental income statement

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

Policy fees charged on linked policies for mortality, morbidity, asset management and policy administration are recognised when related services are provided.

Claims paid include maturities, annuities, surrenders, deaths and other claim events. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid. Death and other claims are generally recorded when notified with additional contract liabilities held, where appropriate, for 'incurred but not reported' (IBNR) claims.

	2020 $m				
	Asia	**US**	**Total segment**	**Unallocated to a segment**	**Group total**
Gross premiums earned	23,341	19,026	42,367	154	42,521
Outward reinsurance premiums note (i)	(1,615)	(30,584)	(32,199)	(10)	(32,209)
Earned premiums, net of reinsurance	21,726	(11,558)	10,168	144	10,312
Other income note (ii)	609	55	664	6	670
Total external revenue notes (iii), (iv)	22,335	(11,503)	10,832	150	10,982
Intra-group revenue	–	37	37	(37)	–
Interest income note (v)	1,961	2,380	4,341	36	4,377
Other investment return note B1.5	11,755	28,849	40,604	10	40,614
Total revenue, net of reinsurance	36,051	19,763	55,814	159	55,973
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance note C3.1	(28,488)	(19,617)	(48,105)	(100)	(48,205)
Acquisition costs and other operating expenditure note B2	(3,989)	(821)	(4,810)	(671)	(5,481)
Interest on core structural borrowings	–	(21)	(21)	(316)	(337)
Loss attaching to corporate transactions note D1.1	–	(18)	(18)	(30)	(48)
Total charges, net of reinsurance and loss on disposal of businesses	(32,477)	(20,477)	(52,954)	(1,117)	(54,071)
Share of profit from joint ventures and associates, net of related tax	517	–	517	–	517
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)*	4,091	(714)	3,377	(958)	2,419
Tax charge attributable to policyholders' returns	(271)	–	(271)	–	(271)
Profit (loss) before tax attributable to shareholders' returns	3,820	(714)	3,106	(958)	2,148
Analysis of profit (loss) before tax attributable to shareholders' returns:					
Adjusted operating profit (loss)	3,667	2,796	6,463	(956)	5,507
Short-term fluctuations in investment returns on shareholder-backed business	(607)	(4,262)	(4,869)	28	(4,841)
Amortisation of acquisition accounting adjustments	(5)	(34)	(39)	–	(39)
Gain (loss) attaching to corporate transactions note D1.1	765	786	1,551	(30)	1,521
	3,820	(714)	3,106	(958)	2,148

B1 Analysis of performance by segment continued

B1.4 Segmental income statement continued

	2019 $m				
	Asia	US	Total segment	Unallocated to a segment	Group total
Gross premiums earned	23,757	21,209	44,966	98	45,064
Outward reinsurance premiums	(1,108)	(467)	(1,575)	(8)	(1,583)
Earned premiums, net of reinsurance	22,649	20,742	43,391	90	43,481
Other income note (ii)	548	61	609	91	700
Total external revenue notes (iii),(iv)	23,197	20,803	44,000	181	44,181
Intra-group revenue	–	34	34	(34)	–
Interest income note (v)	1,569	2,971	4,540	67	4,607
Other investment return note B1.5	13,406	31,623	45,029	(81)	44,948
Total revenue, net of reinsurance	38,172	55,431	93,603	133	93,736
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance note C3.1	(29,119)	(54,734)	(83,853)	(52)	(83,905)
Acquisition costs and other operating expenditure note B2	(5,157)	(1,402)	(6,559)	(724)	(7,283)
Interest on core structural borrowings	–	(20)	(20)	(496)	(516)
Gain (loss) attaching to corporate transactions note D1.1	265	–	265	(407)	(142)
Total charges, net of reinsurance and gain on disposal of business	(34,011)	(56,156)	(90,167)	(1,679)	(91,846)
Share of profit from joint ventures and associates, net of related tax	397	–	397	–	397
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)*	4,558	(725)	3,833	(1,546)	2,287
Tax charge attributable to policyholders' returns	(365)	–	(365)	–	(365)
Profit (loss) before tax attributable to shareholders' returns from continuing operations	4,193	(725)	3,468	(1,546)	1,922
Analysis of profit (loss) before tax attributable to shareholders' returns from continuing operations:					
Adjusted operating profit (loss)	3,276	3,070	6,346	(1,036)	5,310
Short-term fluctuations in investment returns on shareholder-backed business	657	(3,757)	(3,100)	(103)	(3,203)
Amortisation of acquisition accounting adjustments	(5)	(38)	(43)	–	(43)
Gain (loss) attaching to corporate transactions note D1.1	265	–	265	(407)	(142)
	4,193	(725)	3,468	(1,546)	1,922

Notes

(i) In 2020, outward reinsurance premiums include $(30,156) million in respect of the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd.

(ii) Included within other income is revenue from the Group's continuing asset management business of $505 million (2019: $453 million). The remaining other income consists primarily of policy fee income from external customers.

(iii) In Asia, external revenue from no one individual market exceeds 10 per cent of the Group total, excluding Athene's reinsurance premium of $30,156 million, except for Hong Kong and Singapore in both 2020 and 2019. Total external revenue of Hong Kong is $9,232 million (2019: $9,821 million) and Singapore is $5,505 million (2019: $4,401 million).

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

(v) Interest income includes $2,197 million (2019: $2,817 million) in respect of financial assets not at fair value through profit and loss, of which $1 million (2019: $4 million) is accrued in respect of impaired securities.

B1.5 Other investment return

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

	2020 $m	2019 $m
Realised and unrealised gains (losses) on securities at fair value through profit or loss	40,070	49,809
Realised and unrealised (losses) gains on derivatives at fair value through profit or loss	(3,691)	(5,825)
Realised gains on available-for-sale securities, including impairment previously recognised in other comprehensive income*	3,371	185
Realised gains (losses) on loans	43	(3)
Dividends	1,249	1,000
Other investment (loss) income	(428)	(218)
Other investment return	40,614	44,948

* Included in realised gains on available-for-sale securities is $2,817 million arising upon derecognition of debt securities held by Jackson related to the reinsurance of fixed and fixed index annuities to Athene. These gains are excluded from adjusted operating profit and are recognised in the results of the corporate transaction as discussed in note D1.1.

Realised gains and losses on the Group's investments for 2020 recognised in the income statement amounted to a net gain of $2.8 billion (2019: a net loss of $2.0 billion).

B1.6 Additional analysis of performance by segment components

(a) Asia

	2020 $m				2019 $m
	Insurance	Asset management	Eliminations	Total	Total
Earned premiums, net of reinsurance	21,726	–	–	21,726	22,649
Other income	192	417	–	609	548
Total external revenue	21,918	417	–	22,335	23,197
Intra-group revenue	1	164	(165)	–	–
Interest income	1,956	5	–	1,961	1,569
Other investment return	11,729	26	–	11,755	13,406
Total revenue, net of reinsurance	35,604	612	(165)	36,051	38,172
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(28,488)	–	–	(28,488)	(29,119)
Acquisition costs and other expenditure note B2	(3,708)	(446)	165	(3,989)	(5,157)
Gain (loss) attaching to corporate transactions note D1.1	–	–	–	–	265
Total charges, net of reinsurance and gain (loss) attaching to corporate transactions	(32,196)	(446)	165	(32,477)	(34,011)
Share of profit from joint ventures and associates, net of related tax	400	117	–	517	397
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	3,808	283	–	4,091	4,558
Tax charge attributable to policyholders' returns	(271)	–	–	(271)	(365)
Profit before tax attributable to shareholders' returns	3,537	283	–	3,820	4,193
Analysis of profit before tax:					
Adjusted operating profit (loss)	3,384	283	–	3,667	3,276
Short-term fluctuations in investment returns on shareholder-backed business	(607)	–	–	(607)	657
Amortisation of acquisition accounting adjustments	(5)	–	–	(5)	(5)
Gain (loss) attaching to corporate transactions note D1.1	765	–	–	765	265
	3,537	283	–	3,820	4,193

B1 Analysis of performance by segment continued

B1.6 Additional analysis of performance by segment components continued

(b) US

	2020 $m				2019 $m
	Insurance	Asset management	Eliminations	Total	Total
Earned premiums, net of reinsurance	(11,558)	–	–	(11,558)	20,742
Other income	4	51	–	55	61
Total external revenue	(11,554)	51	–	(11,503)	20,803
Intra-group revenue	–	115	(78)	37	34
Interest income	2,380	–	–	2,380	2,971
Other investment return	28,848	1	–	28,849	31,623
Total revenue, net of reinsurance	19,674	167	(78)	19,763	55,431
Benefits and claims net of reinsurance	(19,617)	–	–	(19,617)	(54,734)
Acquisition costs and other operating expenditure	(741)	(158)	78	(821)	(1,402)
Interest on core structural borrowings	(21)	–	–	(21)	(20)
Loss attaching to corporate transactions note D1.1	(18)	–	–	(18)	–
Total charges, net of reinsurance and loss on disposal of businesses	(20,397)	(158)	78	(20,477)	(56,156)
(Loss) profit before tax	(723)	9	–	(714)	(725)
Analysis of profit (loss) before tax:					
Adjusted operating profit (loss)	2,787	9	–	2,796	3,070
Short-term fluctuations in investment returns on shareholder-backed business	(4,262)	–	–	(4,262)	(3,757)
Amortisation of acquisition accounting adjustments	(34)	–	–	(34)	(38)
Gain (loss) attaching to corporate transactions note D1.1	786	–	–	786	–
	(723)	9	–	(714)	(725)

B2 Acquisition costs and other expenditure

	2020 $m	2019 $m
Acquisition costs incurred for insurance policies note (v)	(3,070)	(4,177)
Acquisition costs deferred note C4.2	1,357	1,422
Amortisation of acquisition costs notes (i),(v)	81	694
Recoveries for expenses associated with Jackson's business ceded to Athene note (ii)	1,203	–
Administration costs and other expenditure (net of other reinsurance commission) notes (iii),(iv),(v)	(4,609)	(5,019)
Movements in amounts attributable to external unit holders of consolidated investment funds	(443)	(203)
Total acquisition costs and other expenditure	(5,481)	(7,283)

Notes

(i) The credit of $81 million in 2020 reflects $389 million arising in the US which is offset by a charge of $308 million in Asia as set out in note C4.2. The credit of $389 million in the US includes $1,576 million (2019: $1,248 million) recorded in short-term fluctuations in investment returns largely as a result of the losses arising from market effects on variable annuity guarantee liabilities and associated hedging. This is offset by a charge of $(764) million for the write-off of the DAC held for the in-force fixed and fixed index annuity liabilities reinsured to Athene and a charge of $(423) million (2019: $(297) million) for amortisation of acquisition costs recorded in adjusted operating profit.

(ii) As part of the reinsurance transaction with Athene Life Re Ltd discussed in note D1.1, Jackson received $1,203 million of ceding commission (including post-closing adjustments) as a recovery for past acquisition expenses associated with the business ceded.

(iii) Included in total administration costs and other expenditure is depreciation of property, plant and equipment of $(218) million (2019: $(227) million), of which $(145) million (2019: $(141) million) relates to the right-of-use assets recognised under IFRS 16 and interest on the IFRS 16 lease liabilities of $16 million (2019: $20 million). The 2020 amount also includes a credit of $770 million for the commission arising from the reinsurance transaction entered into by the Hong Kong business during the year as discussed in note D1.1. Administration costs and other expenditure includes $1 million (2019: $3 million) relating to the fee income on financial instruments that are not held at fair value through profit or loss.

(iv) During 2019, the Group paid $182 million of upfront fees to modify the terms and conditions of two subordinated debt instruments, which were expensed to the income statement as, in accordance with IAS 39, the transaction was treated as extinguishment of old debt and the issuance of new at fair value. Other fee expenses relating to financial liabilities held at amortised cost in 2020 and 2019 are part of the determination of the effective interest rate. All such amounts are included in 'Administration costs and other expenditure'.

(v) Total depreciation and amortisation expense is included in 'Acquisition costs incurred for insurance policies', 'Administration costs and other expenditure' and 'Amortisation of acquisition costs' and relates primarily to amortisation of DAC of insurance contracts and asset management contracts. The segmental analysis of interest expense (included in 'Administration costs and other expenditure'), other than interest expense in core structural borrowings (included separately in finance costs), and depreciation and amortisation (included within 'Total acquisition costs and other expenditure') is shown below. Interest expense on financial liabilities not at fair value through profit and loss for 2020 was $564 million (2019: $802 million).

	Other interest expense		Depreciation and amortisation	
	2020 $m	2019 $m	2020 $m	2019 $m
Asia operations:				
Insurance	(12)	(13)	(669)	(641)
Asset management	(1)	–	(16)	(14)
US operations:				
Insurance	(220)	(264)	346	901
Asset management	(1)	(2)	(4)	(4)
Total segment	(234)	(279)	(343)	242
Unallocated to a segment (other operations)	(18)	(27)	(40)	(30)
Total continuing operations	(252)	(306)	(383)	212

B2.1 Staff and employment costs

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

	2020	2019
Asia and Africa operations*	12,949	14,206
US operations	3,650	4,014
Head office function†	657	784
Total continuing operations	17,256	19,004
Discontinued UK and Europe operations‡	–	5,672
Total Group	17,256	24,676

* The Asia and Africa operations staff numbers above exclude 502 commission based sales staff (2019: 346) who have an employment contract with the Company.
† The 'Head office function' staff numbers include staff based in London and Hong Kong.
‡ Average staff numbers of the discontinued UK and Europe operations were for the period up to the demerger in October 2019.

B2 Acquisition costs and other expenditure continued

B2.1 Staff and employment costs continued

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

	2020 $m	2019 $m		
	Group total	Continuing	Discontinued	Group total
Wages and salaries	1,536	1,435	573	2,008
Social security costs	67	53	68	121
Defined benefit schemes*	–	(91)	(5)	(96)
Defined contribution schemes	76	69	41	110
Total Group†	1,679	1,466	677	2,143

* The credit incorporated the effect of actuarial gains and losses. Post-demerger of the UK and Europe operations in October 2019, the Group's defined benefit schemes costs are negligible.
† Total costs of employment in the table above include staff costs of the discontinued UK and Europe operations for the period up to the demerger in October 2019.

B2.2 Share-based payment

The Group offers discretionary share awards to certain key employees and all-employee share plans in the UK and a number of Asian locations. The compensation expense charged to the income statement is primarily based upon the fair value of the awards granted, the vesting period and the vesting conditions. The Company has established trusts to facilitate the delivery of Prudential plc shares under some of these plans. The cost to the Company of acquiring these newly issued shares held in trusts is shown as a deduction from shareholders' equity.

(a) Description of the plans

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

Share scheme	*Description*
Prudential Corporation Asia Long-Term Incentive Plan (PCA LTIP)	The PCA LTIP provides eligible employees with conditional awards. Awards are discretionary and vest after three years subject to the employee being in employment. Vesting of awards may also be subject to performance conditions. All awards are generally made in Prudential shares, or ADRs. In countries where share awards are not feasible due to securities and/or tax considerations, awards will be replaced by the cash value of the shares that would otherwise have vested.
Prudential Agency Long-Term Incentive Plan (LTIP)	Certain agents in Asia are eligible to be granted awards in Prudential shares under the Prudential Agency LTIP. These awards are structured in a similar way to the PCA LTIP described above.
Restricted Share Plan 2015 (RSP)	The Company operates the RSP for certain employees. Awards under this plan are discretionary, and the vesting of awards may be subject to performance conditions. All awards are made in Prudential shares or ADRs.
Deferred bonus plans	The Company operates a number of deferred bonus plans including the Group Deferred Bonus Plan (GDBP) and the Prudential Corporation Asia Deferred Bonus Plan (PCA DBP). There are no performance conditions attached to deferred share awards made under these arrangements.
Savings-related share option schemes*	Employees and eligible agents in a number of geographies are eligible for plans similar to the HMRC-approved Save As You Earn (SAYE) share option scheme in the UK. During the year ended 31 December 2020, eligible agents based in certain regions of Asia can participate in the International Savings-Related Share Option Scheme for Non-Employees.
Share purchase plans	Eligible employees outside the UK are invited to participate in arrangements similar to the Company's HMRC-approved UK SIP, which allows the purchase of Prudential plc shares. Staff based in Asia are eligible to participate in the Prudential Corporation Asia All Employee Share Purchase Plan.

* The total numbers of securities available for issue under the scheme is disclosed in note I(viii) in additional financial information.

(b) Outstanding options and awards

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

	Options outstanding under SAYE schemes				Awards outstanding under incentive plans	
	2020		2019		2020	2019
	Number of options millions	Weighted average exercise price £	Number of options millions	Weighted average exercise price £	Number of awards millions	
Balance at beginning of year:	3.8	12.38	4.9	12.10	33.0	32.8
Granted	0.4	9.64	0.6	11.13	20.2	13.4
Modification	–	–	0.3	11.95	–	4.3
Exercised	(0.9)	11.44	(1.7)	10.87	(10.3)	(9.8)
Forfeited	–	14.27	–	12.87	(1.5)	(2.5)
Cancelled	(0.1)	12.55	(0.1)	12.82	(0.1)	(0.7)
Lapsed/Expired	(0.9)	13.28	(0.1)	12.93	(0.7)	(1.0)
M&G plc awards derecognised on demerger*	–	–	(0.1)	13.37	–	(3.5)
Balance at end of year	2.3	11.86	3.8	12.38	40.6	33.0
Options immediately exercisable at end of year	0.5	12.64	0.9	11.33		

* Prior to the demerger in October 2019, employees of M&G plc were granted replacement awards over M&G plc shares, in exchange for existing Prudential Group awards outstanding under incentive plans. As designated replacement awards were granted, no cancellation was recognised in respect of the original awards. As the replacement awards are an obligation of M&G plc, these awards were derecognised by the Group on demerger. M&G plc employees with outstanding SAYE options on demerger were treated as 'good leavers', with both the vesting period and number of options exercisable curtailed on demerger.

The weighted average share price of Prudential plc for 2020 was £11.64 (2019: £15.05).

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

	Outstanding						Exercisable			
	Number outstanding (millions)		Weighted average remaining contractual life (years)*		Weighted average exercise prices £		Number exercisable (millions)		Weighted average exercise prices £	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Between £9 and £10	0.4	–	4.2	–	9.64	–	–	–	–	–
Between £11 and £12	1.2	2.4	2.2	2.0	11.11	11.19	0.3	0.9	11.11	11.33
Between £13 and £14	0.3	0.3	2.2	3.2	13.94	13.94	–	–	–	–
Between £14 and £15	0.4	1.1	1.3	2.0	14.55	14.55	0.2	–	14.55	–
Weighted average	2.3	3.8	2.4	2.1	11.86	12.38	0.5	0.9	12.64	11.33

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

(c) Fair value of options and awards

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

	2020			2019			
					SAYE options		
	Prudential LTIP (TSR)	SAYE options	Other awards	Prudential LTIP (TSR)	Granted in October 2019	Granted in November 2019	Other awards
Dividend yield (%)	–	3.45	–	–	3.66	2.10	–
Expected volatility (%)	41.08	27.55	–	22.14	25.58	23.92	–
Risk-free interest rate (%)	0.39	0.27	–	0.97	0.31	1.60	–
Expected option life (years)	–	3.92	–	–	3.96	3.47	–
Weighted average exercise price (£)	–	10.74	–	–	11.12	11.18	–
Weighted average share price at grant date (£)	10.49	9.64	–	16.07	13.94	13.77	–
Weighted average fair value at grant date (£)	4.93	1.95	10.54	6.32	2.90	3.35	15.39

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

B2 Acquisition costs and other expenditure continued

B2.2 Share-based payment continued

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

Risk-free interest rates are taken from swap spot rates with projection terms matching the corresponding vesting periods. For awards with a TSR condition, volatilities and correlations between Prudential and a basket of 12 competitor companies is required. For grants in 2020, the average volatility for the basket of competitors was 41.40 per cent (2019: 23.10 per cent). Correlations for the basket are calculated for each pairing from the log of daily TSR returns for the three years prior to the valuation date. Market implied volatilities are used for both Prudential and the basket of competitors. Changes to the subjective input assumptions could materially affect the fair value estimate.

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

Total expense recognised in 2020 in the consolidated financial statements relating to share-based compensation is $171 million (2019: $181 million), of which $166 million is accounted for as equity-settled.

The Group had $32 million of liabilities at 31 December 2020 (31 December 2019: nil) relating to share-based payment awards accounted for as cash settled.

B2.3 Key management remuneration

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

Total key management remuneration is analysed in the following table:

	2020 $m	2019 $m
Salaries and short-term benefits	20.0	25.2
Post-employment benefits	1.2	1.5
Share-based payments	14.6	13.1
	35.8	39.8

The share-based payments charge comprises $10.7 million (2019: $8.4 million), which is determined in accordance with IFRS 2 'Share-based Payment' (see note B2.2) and $3.9 million (2019: $4.8 million) of deferred share awards.

B2.4 Fees payable to the auditor

	2020 $m	2019 $m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2.3	2.2
Fees payable to the Company's auditor and its associates for other services:		
Audit of subsidiaries pursuant to legislation	9.2	9.5
Audit-related assurance services note (1)	3.5	5.7
Other assurance services	0.7	5.7
Services relating to corporate finance transactions	0.3	7.3
Total fees paid to the auditor	16.0	30.4
Analysed into:		
Fees payable to the auditor attributable to the continuing operations:		
Non-audit services associated with the demerger of the UK and Europe operations note (2)	–	11.7
Other audit and non-audit services	16.0	15.3
	16.0	27.0
Fees payable to the auditor attributable to the discontinued UK and Europe operations	–	3.4
	16.0	30.4

Notes

(1) Of the audit-related assurance service fees of $3.5 million in 2020 (2019: $5.7 million), $0.7 million (2019: $1.1 million) relates to services that are required by law.

(2) Of the $11.7 million one-off non-audit services fees in 2019 associated with the demerger of the UK and Europe operations, $4.4 million was for other assurance services required by regulation and $7.3 million was for services relating to corporate finance transactions.

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

B3 Tax charge

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

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

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

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

B3.1 Total tax charge by nature

The total tax (charge) credit in the income statement is as follows:

	2020 $m			2019 $m
Tax charge	**Current tax**	**Deferred tax**	**Total**	**Total**
Attributable to shareholders:				
Asia operations	(229)	(209)	(438)	(468)
US operations	59	408	467	345
Other operations	8	–	8	154
Tax (charge) credit attributable to shareholders' returns	(162)	199	37	31
Attributable to policyholders:				
Asia operations	(152)	(119)	(271)	(365)
Total tax (charge) credit	(314)	80	(234)	(334)

The tax credit attributable to shareholders' returns of $37 million is consistent with the tax credit arising in 2019 ($31 million), reflecting the tax credit on US derivative losses largely offsetting the tax charge on Asia profits.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in B3.2 below. The tax charge attributable to policyholders of $271 million above is equal to the profit before tax attributable to policyholders of $271 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses on an after-tax basis.

The total tax (charge) credit comprises:

	2020 $m	2019 $m
Current tax expense:		
Corporation tax	(445)	(589)
Adjustments in respect of prior years	131	28
Total current tax charge	(314)	(561)
Deferred tax arising from:		
Origination and reversal of temporary differences	33	235
Impact of changes in local statutory tax rates	(1)	7
Credit in respect of a previously unrecognised tax loss, tax credit or temporary difference from a prior period	48	(15)
Total deferred tax credit	80	227
Total tax charge	(234)	(334)

The $131 million of adjustments in respect of prior years primarily relates to US operations from the true up of the 2019 tax provision following finalisation and submission of the 2019 corporate income tax return during 2020 and the carry back of losses under the CARES Act.

In 2020, a tax charge of $102 million (2019: charge of $709 million) has been taken through other comprehensive income. The tax charge principally relates to an increase in the market value on securities of US insurance operations classified as available-for-sale partially offset by a tax credit arising on the recycling of gains to the income statement arising on the transaction with Athene.

B3 Tax charge continued

B3.2 Reconciliation of shareholder effective tax rate

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

	2020					2019	
	Asia operations $m	US operations $m	Other operations $m	Total attributable to shareholders $m	Percentage impact on ETR %	Total attributable to shareholders $m	Percentage impact on ETR %
Adjusted operating profit (loss)	3,667	2,796	(956)	5,507		5,310	
Non-operating profit (loss)*	153	(3,510)	(2)	(3,359)		(3,388)	
Profit (loss) before tax	3,820	(714)	(958)	2,148		1,922	
Expected tax rate:	20%	21%	18%	21%			
Tax at the expected rate	764	(150)	(172)	442	20.6%	393	20.4%
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates note (i)	(102)	(45)	–	(147)	(6.8)%	(126)	(6.6)%
Deductions not allowable for tax purposes	32	11	–	43	2.0%	55	2.9%
Items related to taxation of life insurance businesses note (ii)	(152)	(106)	–	(258)	(12.0)%	(317)	(16.5)%
Deferred tax adjustments	26	–	–	26	1.2%	(33)	(1.7)%
Unrecognised tax losses note (iii)	–	–	146	146	6.8%	46	2.4%
Effect of results of joint ventures and associates note (iv)	(123)	–	(6)	(129)	(6.0)%	(100)	(5.2)%
Irrecoverable withholding taxes	1	–	34	35	1.6%	59	3.1%
Other	(10)	(3)	(7)	(20)	(1.0)%	13	0.7%
Total	(328)	(143)	167	(304)	(14.2)%	(403)	(20.9)%
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years note (v)	21	(158)	4	(133)	(6.2)%	(67)	(3.5)%
Movements in provisions for open tax matters note (vi)	(20)	–	(13)	(33)	(1.5)%	(1)	(0.1)%
M&G demerger related activities	–	–	–	–	0.0%	76	4.0%
Impact of carry back of US losses under the CARES Act	–	(16)	–	(16)	(0.7)%	–	–
Impact of changes in local statutory tax rates	1	–	–	1	0.0%	–	–
Adjustments in relation to business disposals and corporate transactions	–	–	6	6	0.3%	(29)	(1.5)%
Total	2	(174)	(3)	(175)	(8.1)%	(21)	(1.1)%
Total actual tax charge (credit)	438	(467)	(8)	(37)	(1.7)%	(31)	(1.6)%
Analysed into:							
Tax charge (credit) on adjusted operating profit (loss)	495	313	(8)	800		773	
Tax credit on non-operating profit (loss)*	(57)	(780)	–	(837)		(804)	
Actual tax rate on:							
Adjusted operating profit (loss):							
Including non-recurring tax reconciling items	13%	11%	1%	15%		15% note (vii)	
Excluding non-recurring tax reconciling items	13%	16%	0%	17%		15%	
Total profit (loss)	11%	65%	1%	(2)%		(2)% note (vii)	

* 'Non-operating profit (loss)' is used to refer to items excluded from adjusted operating profit and includes short-term investment fluctuations in investment returns on shareholder-backed business, corporate transactions and amortisation of acquisition accounting adjustments.

Notes

(i) The $102 million in Asia operations primarily relates to non-taxable investment income in Taiwan, Singapore and Malaysia.

(ii) The principal reason for the decrease in the Asia operations reconciling items from $192 million in 2019 to $152 million in 2020 is due to a decrease in investment gains in Indonesia and Philippines which are subject to a lower rate of taxation under local legislation. The $106 million (2019: $125 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business.

(iii) The $146 million (2019: $46 million) adverse reconciling item in unrecognised tax losses reflects losses arising where it is unlikely that relief for the losses will be available in future periods.

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

(v) The $158 million prior year adjustment in US operations comprises the truing up from the 2019 tax provision computed in the 2019 accounts to the submitted 2019 tax return and a number of one-off adjustments to prior year deferred tax balances.

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

	2020 $m
Balance at 1 Jan	198
Movements in the current year included in tax charge attributable to shareholders	(33)
Provisions utilised in the year	(34)
Other movements*	(18)
Balance at 31 Dec	113

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

(vii) The 2019 actual tax rates of the relevant business operations are shown below:

	2019			
	Asia operations	**US operations**	**Other operations**	**Total attributable to shareholders**
Tax rate on adjusted operating profit (loss)	13%	14%	10%	15%
Tax rate on profit (loss) before tax	11%	48%	10%	(2)%

B4 Earnings per share

		2020					
	Note	**Before tax** $m B1.1	**Tax** $m B3	**Non-controlling interests** $m	**Net of tax and non-controlling interests** $m	**Basic earnings per share** cents	**Diluted earnings per share** cents
Based on adjusted operating profit		5,507	(800)	(148)	4,559	175.5¢	175.5¢
Short-term fluctuations in investment returns on shareholder-backed business		(4,841)	987	75	(3,779)	(145.5)¢	(145.5)¢
Amortisation of acquisition accounting adjustments		(39)	7	2	(30)	(1.1)¢	(1.1)¢
Gain (loss) attaching to corporate transactions		1,521	(157)	4	1,368	52.7¢	52.7¢
Based on profit for the year		2,148	37	(67)	2,118	81.6¢	81.6¢

		2019					
	Note	**Before tax** $m B1.1	**Tax** $m B3	**Non-controlling interests** $m	**Net of tax and non-controlling interests** $m	**Basic earnings per share** cents	**Diluted earnings per share** cents
Based on adjusted operating profit		5,310	(773)	(9)	4,528	175.0¢	175.0¢
Short-term fluctuations in investment returns on shareholder-backed business		(3,203)	772	–	(2,431)	(94.0)¢	(94.0)¢
Amortisation of acquisition accounting adjustments		(43)	8	–	(35)	(1.3)¢	(1.3)¢
Loss attaching to corporate transactions		(142)	24	–	(118)	(4.6)¢	(4.6)¢
Based on profit for the year from continuing operations		1,922	31	(9)	1,944	75.1¢	75.1¢
Based on loss for the year from discontinued operations					(1,161)	(44.8)¢	(44.8)¢
Based on profit for the year					783	30.3¢	30.3¢

B4 Earnings per share continued

Basic earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests, by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts and consolidated investment funds, which are treated as cancelled. For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. No adjustment is made if the impact is anti-dilutive overall.

The weighted average number of shares for calculating basic and diluted earnings per share in 2020 is set out as below:

Number of shares (in millions)	2020	2019
Weighted average number of shares for calculation of basic earnings per share	2,597	2,587
Shares under option at end of year	2	4
Shares that would have been issued at fair value on assumed option price at end of year	(2)	(4)
Weighted average number of shares for calculation of diluted earnings per share	2,597	2,587

B5 Dividends

	2020		2019	
	Cents per share	$m	Cents per share	$m
Dividends relating to reporting year:				
First interim ordinary dividend	5.37¢	140	20.29¢	528
Second interim ordinary dividend	10.73¢	280	25.97¢	675
Total	16.10¢	420	46.26¢	1,203
Dividends paid in reporting year:				
Current year first interim ordinary dividend	5.37¢	140	20.29¢	526
Second interim ordinary dividend for prior year	25.97¢	674	42.89¢	1,108
Total	31.34¢	814	63.18¢	1,634

First and second interim dividends are recorded in the period in which they are paid. In addition to the dividends shown in the table above, on 21 October 2019, following approval by the Group's shareholders, Prudential plc demerged its UK and Europe operations (M&G plc) via a dividend in specie of $7,379 million.

Dividend per share

The 2020 first interim ordinary dividend of 5.37 cents per ordinary share was paid to eligible shareholders on 28 September 2020.

The second interim ordinary dividend for the year ended 31 December 2020 of 10.73 cents per ordinary share will be paid on 14 May 2021 to shareholders included on the UK and HK registers respectively, on 26 March 2021 (Record Date) and to the Holders of US American Depositary Receipts as at 26 March 2021. The second interim ordinary dividend will be paid on or about 21 May 2021 to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) on the Record Date.

Shareholders holding shares on the UK or Hong Kong share registers will continue to receive their dividend payments in either GBP or HKD respectively, unless they elect otherwise. Shareholders holding shares on the UK or Hong Kong registers may elect to receive dividend payments in USD. Elections must be made through the relevant UK or Hong Kong share registrar on or before 23 April 2021. The corresponding amount per share in GBP and HKD is expected to be announced on or about 5 May 2021. The USD to GBP and HKD conversion rates will be determined by the actual rates achieved by Prudential buying those currencies prior to the subsequent announcement. Holders of American Depositary Receipts (ADRs) will continue to receive their dividend payments in USD. Shareholders holding an interest in Prudential shares through The Central Depository (Pte) Limited (CDP) in Singapore will continue to receive their dividend payments in SGD at an exchange rate determined by CDP.

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

C Financial position

C1 Group assets and liabilities by business type

The analysis below is structured to show the investments and other assets and liabilities of the Group by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business.

The Group has revised its disclosures relating to the investments, other assets and liabilities of the Group in these consolidated financial statements, including combining various disclosures into a single section and giving further analysis of the categories of debt securities. The 2019 comparative information, in particular that relating to investments, has been re-presented from previously published information to conform to the current year format and the altered approach to credit ratings analysis described below.

Debt securities are analysed below according to the issuing government for sovereign debt and to credit ratings for the rest of the securities.

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. Additionally, government debt is shown separately from the rating breakdowns in order to provide a more focused view of the credit portfolio.

In the table below, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB- ratings. Financial assets which fall outside this range are classified as below BBB-.

C1 Group assets and liabilities by business type continued

	31 Dec 2020 $m									
	Asia insurance									
	With-profits business note (i)	Unit-linked assets and liabilities	Other business	Asia Asset manage-ment	Elimina-tions	Total Asia	US note (ii)	Unallo-cated to a segment	Elimina-tion of intra-group debtors and creditors	Group total
Debt securities note (iii), note C1.1										
Sovereign debt										
Indonesia	385	658	564	12	–	1,619	–	–	–	1,619
Singapore	3,939	551	979	117	–	5,586	–	–	–	5,586
Thailand	–	–	1,999	11	–	2,010	–	–	–	2,010
United Kingdom	–	7	–	–	–	7	–	–	–	7
United States	24,396	21	2,551	–	–	26,968	5,126	–	–	32,094
Vietnam	–	11	2,881	–	–	2,892	–	–	–	2,892
Other (predominantly Asia)	1,322	700	3,508	19	–	5,549	30	173	–	5,752
Subtotal	30,042	1,948	12,482	159	–	44,631	5,156	173	–	49,960
Other government bonds										
AAA	1,420	96	405	–	–	1,921	377	–	–	2,298
AA+ to AA-	129	2	28	–	–	159	522	–	–	681
A+ to A-	811	131	339	–	–	1,281	188	–	–	1,469
BBB+ to BBB-	452	16	196	–	–	664	3	–	–	667
Below BBB- and unrated	631	9	450	–	–	1,090	–	1	–	1,091
Subtotal	3,443	254	1,418	–	–	5,115	1,090	1	–	6,206
Corporate bonds										
AAA	1,228	221	540	–	–	1,989	265	–	–	2,254
AA+ to AA-	1,943	476	1,871	–	–	4,290	869	–	–	5,159
A+ to A-	7,289	695	5,194	1	–	13,179	10,759	–	–	23,938
BBB+ to BBB-	9,005	1,299	4,785	–	–	15,089	12,686	–	–	27,775
Below BBB- and unrated	2,814	849	1,477	2	–	5,142	1,975	6	–	7,123
Subtotal	22,279	3,540	13,867	3	–	39,689	26,554	6	–	66,249
Asset-backed securities										
AAA	74	9	24	–	–	107	2,110	–	–	2,217
AA+ to AA-	2	1	–	–	–	3	171	–	–	174
A+ to A-	15	–	16	–	–	31	741	–	–	772
BBB+ to BBB-	12	–	9	–	–	21	163	–	–	184
Below BBB- and unrated	9	2	8	–	–	19	48	–	–	67
Subtotal	112	12	57	–	–	181	3,233	–	–	3,414
Total debt securities	55,876	5,754	27,824	162	–	89,616	36,033	180	–	125,829
Loans										
Mortgage loans note C1.2	–	–	158	–	–	158	7,833	–	–	7,991
Policy loans	1,231	–	341	–	–	1,572	4,507	10	–	6,089
Other loans	492	–	16	–	–	508	–	–	–	508
Total loans	1,723	–	515	–	–	2,238	12,340	10	–	14,588
Equity securities and holdings in collective investment schemes										
Direct equities	15,668	13,064	3,321	71	–	32,124	253	4	–	32,381
Collective investment schemes	18,125	7,392	1,633	10	–	27,160	25	7	–	27,192
US separate account assets note (ii)	–	–	–	–	–	–	219,062	–	–	219,062
Total equity securities and holdings in collective investment schemes	33,793	20,456	4,954	81	–	59,284	219,340	11	–	278,635
Other financial investments note (iv)	1,566	405	2,139	97	–	4,207	4,094	47	–	8,348
Total financial investments note (vi)	92,958	26,615	35,432	340	–	155,345	271,807	248	–	427,400
Investment properties	–	–	6	–	–	6	7	10	–	23
Investments in joint ventures and associates accounted for using the equity method	–	–	1,689	273	–	1,962	–	–	–	1,962
Cash and cash equivalents note (vii)	1,049	587	1,317	156	–	3,109	1,621	3,288	–	8,018
Reinsurers' share of insurance contract liabilities note (v)	257	–	11,102	–	–	11,359	35,232	4	–	46,595
Other assets note (viii)	1,538	252	9,254	839	(62)	11,821	19,813	3,788	(3,323)	32,099
Total assets	95,802	27,454	58,800	1,608	(62)	183,602	328,480	7,338	(3,323)	516,097
Shareholders' equity	–	–	12,785	1,102	–	13,887	8,511	(1,520)	–	20,878
Non-controlling interests	–	–	2	144	–	146	1,063	32	–	1,241
Total equity	–	–	12,787	1,246	–	14,033	9,574	(1,488)	–	22,119
Contract liabilities and unallocated surplus of with-profits funds note (ii)	86,410	25,433	37,845	–	–	149,688	296,513	262	–	446,463
Core structural borrowings	–	–	–	–	–	–	250	6,383	–	6,633
Operational borrowings	194	–	99	23	–	316	1,498	630	–	2,444
Other liabilities note (ix)	9,198	2,021	8,069	339	(62)	19,565	20,645	1,551	(3,323)	38,438
Total liabilities	95,802	27,454	46,013	362	(62)	169,569	318,906	8,826	(3,323)	493,978
Total equity and liabilities	95,802	27,454	58,800	1,608	(62)	183,602	328,480	7,338	(3,323)	516,097

	31 Dec 2019 $m									
	Asia insurance									
	With-profits business note (i)	Unit-linked assets and liabilities	Other business	Asia Asset management	Eliminations	Total Asia	US note (ii)	Unallocated to a segment	Elimination of intra-group debtors and creditors	Group total
Debt securities note (iii), note C1.1										
Sovereign debt										
Indonesia	222	610	488	–	–	1,320	–	–	–	1,320
Singapore	3,514	554	708	94	–	4,870	–	–	–	4,870
Thailand	–	–	1,398	19	–	1,417	–	–	–	1,417
United Kingdom	–	7	–	–	–	7	–	615	–	622
United States	20,479	113	2,827	–	–	23,419	6,160	597	–	30,176
Vietnam	1	15	2,900	–	–	2,916	–	–	–	2,916
Other (predominantly Asia)	1,745	665	2,809	13	–	5,232	9	116	–	5,357
Subtotal	25,961	1,964	11,130	126	–	39,181	6,169	1,328	–	46,678
Other government bonds										
AAA	1,752	81	538	–	–	2,371	977	–	–	3,348
AA+ to AA-	135	8	78	–	–	221	495	–	–	716
A+ to A-	890	159	389	–	–	1,438	245	–	–	1,683
BBB+ to BBB-	356	88	201	–	–	645	4	–	–	649
Below BBB- and unrated	31	9	381	–	–	421	–	2	–	423
Subtotal	3,164	345	1,587	–	–	5,096	1,721	2	–	6,819
Corporate bonds										
AAA	732	384	516	–	–	1,632	341	–	–	1,973
AA+ to AA-	1,574	441	1,908	–	–	3,923	1,566	–	–	5,489
A+ to A-	5,428	542	5,063	–	–	11,033	17,784	–	–	28,817
BBB+ to BBB-	5,443	883	3,497	–	–	9,823	22,775	–	–	32,598
Below BBB- and unrated	2,111	569	781	3	–	3,464	2,157	2	–	5,623
Subtotal	15,288	2,819	11,765	3	–	29,875	44,623	2	–	74,500
Asset-backed securities										
AAA	236	19	104	–	–	359	3,658	–	–	4,017
AA+ to AA-	132	6	46	–	–	184	780	–	–	964
A+ to A-	1	–	14	–	–	15	1,006	–	–	1,021
BBB+ to BBB-	–	–	–	–	–	–	359	–	–	359
Below BBB- and unrated	–	–	–	–	–	–	212	–	–	212
Subtotal	369	25	164	–	–	558	6,015	–	–	6,573
Total debt securities	44,782	5,153	24,646	129	–	74,710	58,528	1,332	–	134,570
Loans										
Mortgage loans note C1.2	–	–	165	–	–	165	9,904	–	–	10,069
Policy loans	1,089	–	316	–	–	1,405	4,707	9	–	6,121
Other loans	374	–	19	–	–	393	–	–	–	393
Total loans	1,463	–	500	–	–	1,963	14,611	9	–	16,583
Equity securities and holdings in collective investment schemes										
Direct equities	14,143	12,440	1,793	59	–	28,435	150	4	–	28,589
Collective investment schemes	15,230	6,652	1,680	14	–	23,576	40	6	–	23,622
US separate account assets note (ii)	–	–	–	–	–	–	195,070	–	–	195,070
Total equity securities and holdings in collective investment schemes	29,373	19,092	3,473	73	–	52,011	195,260	10	–	247,281
Other financial investments note (iv)	963	383	1,363	106	–	2,815	2,791	56	–	5,662
Total financial investments note (vi)	76,581	24,628	29,982	308	–	131,499	271,190	1,407	–	404,096
Investment properties	–	–	7	–	–	7	7	11	–	25
Investments in joint ventures and associates accounted for using the equity method	–	–	1,263	237	–	1,500	–	–	–	1,500
Cash and cash equivalents note (vii)	963	356	1,015	156	–	2,490	1,960	2,515	–	6,965
Reinsurers' share of insurance contract liabilities note (v)	152	–	5,306	–	–	5,458	8,394	4	–	13,856
Other assets note (viii)	1,277	237	6,983	826	(35)	9,288	17,696	3,440	(2,652)	27,772
Total assets	78,973	25,221	44,556	1,527	(35)	150,242	299,247	7,377	(2,652)	454,214
Shareholders' equity	–	–	9,801	1,065	–	10,866	8,929	(318)	–	19,477
Non-controlling interests	–	–	2	153	–	155	–	37	–	192
Total equity	–	–	9,803	1,218	–	11,021	8,929	(281)	–	19,669
Contract liabilities and unallocated surplus of with-profits funds note (ii)	70,308	23,571	26,814	–	–	120,693	269,549	186	–	390,428
Core structural borrowings	–	–	–	–	–	–	250	5,344	–	5,594
Operational borrowings	303	21	122	27	–	473	1,501	671	–	2,645
Other liabilities note (ix)	8,362	1,629	7,817	282	(35)	18,055	19,018	1,457	(2,652)	35,878
Total liabilities	78,973	25,221	34,753	309	(35)	139,221	290,318	7,658	(2,652)	434,545
Total equity and liabilities	78,973	25,221	44,556	1,527	(35)	150,242	299,247	7,377	(2,652)	454,214

C1 Group assets and liabilities by business type continued

Notes

(i) The with-profits business of Asia comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore operations. 'Other business' includes assets and liabilities of other participating businesses and other non-linked shareholder-backed business.

(ii) Further analysis of the shareholders' equity by business type of the US operations is provided below:

	31 Dec 2020 $m			31 Dec 2019 $m
	Insurance	Asset management	Total	Total
Shareholders' equity	8,506	5	8,511	8,929

The US separate account assets comprise investments in mutual funds attaching to the variable annuity business that are held in the separate account. The related liabilities are reported in contract liabilities at an amount equal to the separate account assets.

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

(iv) Other financial investments comprise derivative assets, other investments and deposits.

(v) Reinsurers' share of contract liabilities includes the reinsurance ceded in respect of the acquired REALIC business by the Group's US insurance operations and at 31 December 2020 also includes amounts ceded in respect of the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd, as discussed in note D1.1.

(vi) Of the total financial investments of $427,400 million as at 31 December 2020 (31 December 2019: $404,096 million), $288,310 million (31 December 2019: $260,896 million) are due to be recovered within one year.

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

	31 Dec 2020 $m	31 Dec 2019 $m
Cash	2,492	2,071
Cash equivalents	5,526	4,894
Total cash and cash equivalents*	8,018	6,965
Analysed as:		
Held by the Group's holding and non-regulated entities and available for general use	3,250	2,491
Other funds not available for general use by the Group, including funds held for the benefit of policyholders	4,768	4,474
Total cash and cash equivalents	8,018	6,965

* The Group's cash and cash equivalents are held in the following currencies as at 31 December 2020: USD 59 per cent, GBP 15 per cent, HKD 3 per cent, SGD 3 per cent, MYR 8 per cent and other currencies 12 per cent (31 December 2019: USD 59 per cent, GBP 13 per cent, HKD 8 per cent, SGD 3 per cent, MYR 5 per cent and other currencies 12 per cent).

(viii) Of total 'Other assets' at 31 December 2020, there are:
– Property, plant and equipment (PPE) of $893 million (31 December 2019: $1,065 million). Movements in the PPE including right-of-use assets are provided in note C11; and
– Accrued investment income and other debtors, which are analysed as follows:

	31 Dec 2020 $m	31 Dec 2019 $m
Interest receivable	1,008	1,064
Other accrued income	419	577
Total accrued investment income	1,427	1,641
Amounts receivable due from:		
Policyholders	757	574
Intermediaries	2	4
Reinsurers	920	216
Other sundry debtors	1,492	1,260
Total other debtors	3,171	2,054
Total accrued investment income and other debtors	4,598	3,695
Analysed as:		
Expected to be settled within one year	4,151	3,191
Expected to be settled beyond one year	447	504
	4,598	3,695

(ix) Within 'Other liabilities' are accruals, deferred income and other liabilities of $15,508 million (31 December 2019: $14,488 million), which are analysed as follows (detailed maturity analysis is provided in note C2):

	31 Dec 2020 $m	31 Dec 2019 $m
Accruals and deferred income	702	582
Creditors arising from direct insurance and reinsurance operations	2,296	2,831
Interest payable	74	68
Funds withheld under reinsurance agreements	4,628	3,760
Other creditors	7,808	7,247
Total accruals, deferred income and other creditors	15,508	14,488

C1.1 Additional analysis of debt securities

This note provides additional analysis of the Group's debt securities. With the exception of certain debt securities classified as 'available-for-sale' under IAS 39, which primarily relate to US insurance operations as disclosed below, the Group's debt securities are carried at fair value through profit or loss.

(a) Holdings by consolidated investment funds of the Group

Of the $125,829 million of Group's debt securities at 31 December 2020 (31 December 2019: $134,570 million), the following amounts were held by consolidated investment funds:

	31 Dec 2020 $m			31 Dec 2019 $m
	Asia	US	Total	Total
Debt securities held by consolidated investment funds	15,928	1,145	17,073	22,113

(b) Additional analysis of US debt securities

Debt securities for US operations included in the statement of financial position comprise:

	31 Dec 2020 $m	31 Dec 2019 $m
Available-for-sale	34,650	57,091
Fair value through profit and loss	1,383	1,437
Total US debt securities	36,033	58,528

The corporate bonds held by the US insurance operations comprise:

	31 Dec 2020 $m	31 Dec 2019 $m
Publicly traded and SEC Rule 144A securities*	17,870	34,781
Non-SEC Rule 144A securities	8,684	9,842
Total US corporate bonds	26,554	44,623

* A 1990 SEC rule that facilitates the resale of privately placed securities under Rule 144A that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.

(c) Movements in unrealised gains and losses on Jackson available-for-sale debt securities

The movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of $3,496 million at 31 December 2019 to a net unrealised gain of $3,396 million at 31 December 2020 is analysed in the table below.

		Changes in unrealised appreciation (depreciation) reflected in other comprehensive income		
	31 Dec 2020 $m	Gains recycled to income statement on transfer of debt securities to Athene $m note D1.1	Unrealised gains (losses) arising in the year $m	31 Dec 2019 $m
Assets fair valued at below book value				
Book value	5,111			3,121
Unrealised loss	(144)		(117)	(27)
Fair value (as included in statement of financial position)	4,967			3,094
Assets fair valued at or above book value				
Book value	26,143			50,474
Unrealised gain	3,540	(2,817)	2,834	3,523
Fair value (as included in statement of financial position)	29,683			53,997
Total				
Book value	31,254			53,595
Net unrealised gain (loss)	3,396	(2,817)	2,717	3,496
Fair value (as included in the statement of financial position)	34,650			57,091

C1 Group assets and liabilities by business type continued

C1.1 Additional analysis of debt securities continued

Book value represents cost or amortised cost of the debt securities. Jackson available-for-sale debt securities fair valued at below book value (in an unrealised loss position) is analysed further below.

(i) Fair value as a percentage of book value

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

	31 Dec 2020 $m		31 Dec 2019 $m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	4,902	(128)	3,083	(25)
Between 80% and 90%	13	(2)	11	(2)
Below 80%	52	(14)	–	–
Total	4,967	(144)	3,094	(27)

(ii) Unrealised losses by maturity of security

	31 Dec 2020 $m	31 Dec 2019 $m
1 year to 5 years	(12)	(1)
5 years to 10 years	(15)	(12)
More than 10 years	(115)	(7)
Mortgage-backed and other debt securities	(2)	(7)
Total	(144)	(27)

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

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

	31 Dec 2020 $m			31 Dec 2019 $m		
Age analysis	Non-investment grade	Investment grade*	Total	Non-investment grade	Investment grade*	Total
Less than 6 months	(15)	(118)	(133)	(1)	(20)	(21)
6 months to 1 year	(4)	(7)	(11)	(1)	(1)	(2)
1 year to 2 years	–	–	–	–	(1)	(1)
2 years to 3 years	–	–	–	–	(1)	(1)
More than 3 years	–	–	–	–	(2)	(2)
Total	(19)	(125)	(144)	(2)	(25)	(27)

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

Further, the following table shows the age analysis of the securities at 31 December 2020 whose fair values were below 80 per cent of the book value by reference to the length of time the securities have been in an unrealised loss position (31 December 2019: nil):

	31 Dec 2020 $m	
Age analysis	Fair value	Unrealised loss
Less than 3 months	–	–
3 months to 6 months	51	(14)
More than 6 months	1	–
Total below 80%	52	(14)

(d) Asset-backed securities

The Group's holdings in asset-backed securities (ABS) comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities.

The US operations' exposure to asset-backed securities comprises:

	31 Dec 2020 $m	31 Dec 2019 $m
RMBS		
Sub-prime (31 Dec 2020: 1% AAA)	29	93
Alt-A (31 Dec 2020: 30% AAA, 41% A)	12	116
Prime including agency (31 Dec 2020: 90% AAA, 1% AA, 5% A)	224	862
CMBS (31 Dec 2020: 87% AAA, 5% AA, 4% A)	1,588	3,080
CDO funds (31 Dec 2020: 78% AAA, 8% AA, 14% A), $nil exposure to sub-prime	524	696
Other ABS (31 Dec 2020: 14% AAA, 6% AA, 68% A), $27 million exposure to sub-prime	856	1,168
Total US asset-backed securities	3,233	6,015

(e) Group bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in bank debt securities are analysed below. The table excludes assets held to cover linked liabilities and those of the consolidated investment funds.

Exposure to bank debt securities

	31 Dec 2020 $m					31 Dec 2019 $m
	Senior debt	Subordinated debt				
Shareholder-backed business	Total	Tier 1	Tier 2	Total	Group total	Group total
Asia	902	175	242	417	1,319	993
Eurozone	223	4	12	16	239	337
United Kingdom	360	6	79	85	445	723
United States	1,464	7	81	88	1,552	3,134
Other	189	2	41	43	232	647
Total	3,138	194	455	649	3,787	5,834
With-profits funds						
Asia	402	557	437	994	1,396	1,130
Eurozone	41	21	10	31	72	131
United Kingdom	198	11	106	117	315	155
United States	1,028	14	82	96	1,124	34
Other	186	8	204	212	398	284
Total	1,855	611	839	1,450	3,305	1,734

(f) Impairment of US available-for-sale debt securities and other financial assets

In accordance with the Group's accounting policy set out in note A3.1, impairment reviews were performed for available-for-sale securities and loans and receivables.

During the year ended 31 December 2020, a charge for impairment net of recoveries of $62 million (2019: charge of $17 million) was recognised for available-for-sale securities and loans and receivables held by Jackson.

Jackson, with the support of internal credit analysts, regularly monitors and reports on the credit quality of its holdings of debt securities.

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

In 2020, the Group realised gross losses on sales of available-for-sale securities of $193 million (2019: $70 million) with 69 per cent (2019: 51 per cent) of these losses related to the disposal of fixed maturity securities of the top 10 individual issuers, which were disposed of to limit future credit loss exposure. Of the $193 million (2019: $70 million), $148 million (2019: $28 million) relates to losses on sales of impaired and deteriorating securities.

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

For 2020, the amount of gross unrealised losses for fixed maturity securities classified as available-for-sale under IFRS in an unrealised loss position was $144 million (2019: $27 million). Note B1.2 provides further details on the impairment charges and unrealised losses of Jackson's available-for-sale securities.

C1 Group assets and liabilities by business type continued

C1.2 Additional analysis of US mortgage loans

In the US, mortgage loans of $7,833 million at 31 December 2020 (31 December 2019: $9,904 million) are all commercial mortgage loans that are secured by the following property types: industrial, multi-family residential, suburban office, retail or hotel. The average loan size is $18.5 million (31 December 2019: $19.3 million). The portfolio has a current estimated average loan to value of 54 per cent (31 December 2019: 54 per cent).

At 31 December 2020, Jackson had mortgage loans with a carrying value of $493 million (31 December 2019: nil) where the contractual terms of the agreements had been restructured to grant forbearance for a period of six to fourteen months. Under IAS 39, restructured loans are reviewed for impairment with an impairment recorded if the expected cash flows under the newly restructured terms discounted at the original yield (the pre-structured interest rate) are below the carrying value of the loan. No impairment is recorded for these loans in 2020 as the expected cash flows and interest rate did not materially change under the restructured terms.

C2 Fair value measurement

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

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

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

C2.1 Determination of fair value

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

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

Other than the loans which have been designated at fair value through profit or loss, the carrying value of loans and receivables is presented net of provisions for impairment. The fair value of loans is estimated from discounted cash flows expected to be received. The discount rate used is updated for the market rate of interest where applicable.

The fair value of the subordinated and senior debt issued by the parent company is determined using quoted prices from independent third parties.

The fair value of financial liabilities (other than subordinated debt, senior debt and derivative financial instruments) is determined using discounted cash flows of the amounts expected to be paid.

Valuation approach for level 2 fair valued assets and liabilities

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

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

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

Valuation approach for level 3 fair valued assets and liabilities

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

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

C2.2 Fair value measurement hierarchy of Group assets and liabilities

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

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

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for $34,650 million (31 December 2019: $58,302 million) of debt securities classified as available-for-sale, principally in the US operations. All assets and liabilities held at fair value are measured on a recurring basis. As of 31 December 2020, the Group did not have any financial instruments that are measured at fair value on a non-recurring basis.

Financial instruments at fair value

	31 Dec 2020 $m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant unobservable market inputs note (i)	Valuation based on significant observable market inputs note (ii)	Total
Loans	–	416	3,461	3,877
Equity securities and holdings in collective investment schemes	272,863	5,224	548	278,635
Debt securities	75,998	49,769	62	125,829
Other investments (including derivative assets)	123	2,477	1,866	4,466
Derivative liabilities	(298)	(184)	–	(482)
Total financial investments, net of derivative liabilities	348,686	57,702	5,937	412,325
Investment contract liabilities without discretionary participation features held at fair value	–	(792)	–	(792)
Net asset value attributable to unit holders of consolidated investment funds	(5,464)	(17)	(494)	(5,975)
Other financial liabilities held at fair value	–	–	(3,589)	(3,589)
Total financial instruments at fair value	343,222	56,893	1,854	401,969
Percentage of total (%)	86%	14%	0%	100%
Analysed by business type:				
Financial investments, net of derivative liabilities at fair value:				
With-profits	78,203	11,481	395	90,079
Unit-linked and variable annuity separate account	244,206	1,075	–	245,281
Non-linked shareholder-backed business	26,277	45,146	5,542	76,965
Total financial investments, net of derivative liabilities at fair value	348,686	57,702	5,937	412,325
Other financial liabilities at fair value	(5,464)	(809)	(4,083)	(10,356)
Group total financial instruments at fair value	343,222	56,893	1,854	401,969

C2 Fair value measurement continued

C2.2 Fair value measurement hierarchy of Group assets and liabilities continued

	31 Dec 2019 $m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant unobservable market inputs note (i)	Valuation based on significant observable market inputs note (ii)	Total
Loans	–	–	3,587	3,587
Equity securities and holdings in collective investment schemes	243,285	3,720	276	247,281
Debt securities	67,927	66,637	6	134,570
Other investments (including derivative assets)	70	1,676	1,301	3,047
Derivative liabilities	(185)	(207)	–	(392)
Total financial investments, net of derivative liabilities	311,097	71,826	5,170	388,093
Investment contract liabilities without discretionary participation features held at fair value	–	(1,011)	–	(1,011)
Net asset value attributable to unit holders of consolidated investment funds	(5,973)	(23)	(2)	(5,998)
Other financial liabilities held at fair value	–	–	(3,760)	(3,760)
Total financial instruments at fair value	305,124	70,792	1,408	377,324
Percentage of total (%)	81%	19%	0%	100%
Analysed by business type:				
Financial investments, net of derivative liabilities at fair value:				
With-profits	66,061	7,762	260	74,083
Unit-linked and variable annuity separate account	217,838	1,486	–	219,324
Non-linked shareholder-backed business	27,198	62,578	4,910	94,686
Total financial investments, net of derivative liabilities at fair value	311,097	71,826	5,170	388,093
Other financial liabilities at fair value	(5,973)	(1,034)	(3,762)	(10,769)
Group total financial instruments at fair value	305,124	70,792	1,408	377,324

Notes

(i) Of the total level 2 debt securities of $49,769 million at 31 December 2020 (31 December 2019: $66,637 million), $7,676 million (31 December 2019: $8,915 million) are valued internally. The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(ii) At 31 December 2020, the Group held $1,854 million (31 December 2019: $1,408 million) of net financial instruments at fair value within level 3. This represents less than 1 per cent (2019: less than 1 per cent) of the total fair valued financial assets net of financial liabilities.

Included within these net assets and liabilities are policy loans of $3,455 million (31 December 2019: $3,587 million) measured as the loan outstanding balance, plus accrued investment income, attached to acquired REALIC business and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of $3,609 million (31 December 2019: $3,760 million) is also classified within level 3. The fair value of the liabilities is equal to the fair value of the underlying assets held as collateral, which primarily consist of policy loans and debt securities. The assets and liabilities offset and therefore their movements have no impact on shareholders' profit and equity.

Excluding the loans and funds withheld liability under Jackson's REALIC reinsurance arrangements as described above, which amounted to a net liability of $(154) million (31 December 2019: $(173) million), the level 3 fair valued financial assets net of financial liabilities were a net asset of $2,008 million (31 December 2019: $1,581 million). Of this amount, equity securities of $3 million (31 December 2019: nil) are internally valued, representing less than 0.2 per cent of the total fair valued financial assets net of financial liabilities. Internal valuations are inherently more subjective than external valuations. The $2,008 million referred to above includes the following items:

- Private equity investments in both equity securities and limited partnerships within other financial investments of $1,970 million (31 December 2019: $1,301 million) consisting of investments held by Jackson which are primarily externally valued in accordance with International Private Equity and Venture Capital Association guidelines using the proportion of the company's investment in each fund as shown in external valuation reports;
- Equity securities and holdings in collective investment schemes of $445 million (31 December 2019: $276 million) consisting primarily of property and infrastructure funds held by the Asia participating funds, which are externally valued using the net asset value of the invested entities;
- Liabilities of $(494) million (31 December 2019: $(2) million) for the net asset value attributable to external unit holders in respect of consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets; and
- Other sundry individual financial instruments of a net asset of $87 million (31 December 2019: net asset of $4 million).

Of the net asset of $2,008 million (31 December 2019: $1,581 million) referred to above:

- A net assets of $395 million (31 December 2019: $258 million) is held by the Group's Asia participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments; and
- A net asset of $1,613 million (31 December 2019: $1,323 million) is held to support non-linked shareholder-backed business, all of which are externally valued and are therefore inherently less subjective than internal valuations. These instruments consist primarily of private equity investments held by Jackson as described above. If the value of all these level 3 financial instruments decreased by 20 per cent, the change in valuation would be $(319) million (31 December 2019: $(264) million), which would reduce shareholders' equity by this amount before tax. All of this amount would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of adjusted operating profit.

(ii) Transfers into and out of levels

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

During 2020, the transfers between levels within the Group's portfolio, were primarily transfers from level 1 to level 2 of $3,927 million (2019: $678 million) and transfers from level 2 to level 1 of $1,631 million (2019: $1,121 million). These transfers which relate to equity securities and debt securities arose to reflect the change in the observed valuation inputs and in certain cases, the change in the level of trading activities of the securities. There were transfers into level 3 of $53 million in the year (2019: nil).

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

The following table reconciles the value of level 3 fair valued assets and liabilities at 1 January 2020 to that presented at 31 December 2020.

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

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

	2020 $m						
Reconciliation of movements in level 3 assets and liabilities measured at fair value	**Loans**	**Equity securities and holdings in collective investment schemes**	**Debt securities**	**Other investments (including derivative assets)**	**Net asset value attributable to unit holders of consolidated investment funds**	**Other financial liabilities**	**Total**
Balance at 1 Jan	3,587	276	6	1,301	(2)	(3,760)	1,408
Total gains (losses) in income statement[note]	(2)	4	(5)	(37)	15	(1)	(26)
Total gains (losses) recorded in other comprehensive income	–	9	–	–	(1)	(1)	7
Purchases and other additions	–	428	10	700	(520)	–	618
Sales	–	(169)	(2)	(98)	14	–	(255)
Issues	277	–	–	–	–	(475)	(198)
Settlements	(401)	–	–	–	–	648	247
Transfers into level 3	–	–	53	–	–	–	53
Balance at 31 Dec	3,461	548	62	1,866	(494)	(3,589)	1,854

	2019 $m								
Reconciliation of movements in level 3 assets and liabilities measured at fair value	**Loans**	**Equity securities and holdings in collective investment schemes**	**Debt securities**	**Other investments (including derivative assets)**	**Derivative liabilities**	**Borrowings attributable to with-profits businesses**	**Net asset value attributable to unit holders of consolidated investment funds**	**Other financial liabilities**	**Total**
Balance at 1 Jan	6,054	656	1,505	6,714	(539)	(2,045)	(1,258)	(4,335)	6,752
Removal of discontinued UK and Europe operations	(2,509)	(440)	(1,498)	(5,513)	–	2,045	1,258	451	(6,206)
Total gains (losses) in income statement[note]	1	(11)	6	30	539	–	–	(28)	537
Total gains (losses) recorded in other comprehensive income	–	3	–	(6)	–	–	–	(11)	(14)
Purchases	–	69	–	269	–	–	(2)	–	336
Sales	–	(1)	(7)	(193)	–	–	–	–	(201)
Issues	275	–	–	–	–	–	–	(143)	132
Settlements	(234)	–	–	–	–	–	–	306	72
Balance at 31 Dec	3,587	276	6	1,301	–	–	(2)	(3,760)	1,408

Note

Of the total net gains and (losses) in the income statement of $(26) million in 2020 (2019: $537 million), $(46) million (2019: $19 million) relates to net unrealised gains and losses of financial instruments still held at the end of the year, which can be analysed as follows:

	2020 $m	**2019** $m
Equity securities and holdings in collective investment schemes	(34)	(11)
Debt securities	1	–
Other investments	(26)	34
Net asset value attributable to unit holders of consolidated investment funds	13	–
Other financial liabilities	–	(4)
Total	(46)	19

C2 Fair value measurement continued

C2.2 Fair value measurement hierarchy of Group assets and liabilities continued

(iii) Assets and liabilities at amortised cost and their fair value

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

	31 Dec 2020 $m				31 Dec 2019 $m			
	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	Fair value	Carrying value	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	Fair value	Carrying value
Assets								
Loans	2,027	9,303	11,330	10,711	1,865	11,646	13,511	12,996
Liabilities					–	–	–	–
Investment contract liabilities without discretionary participation features	–	(3,218)	(3,218)	(3,188)	–	(3,957)	(3,957)	(3,891)
Core structural borrowings of shareholder-financed businesses	(7,518)	–	(7,518)	(6,633)	(6,227)	–	(6,227)	(5,594)
Operational borrowings (excluding lease liabilities)	(1,948)	–	(1,948)	(1,948)	(2,015)	–	(2,015)	(2,015)
Obligations under funding, securities lending and sale and repurchase agreements	(1,344)	(8,702)	(10,046)	(9,768)	(48)	(9,087)	(9,135)	(8,901)
Total	(8,783)	(2,617)	(11,400)	(10,826)	(6,425)	(1,398)	(7,823)	(7,405)

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

C2.3 Additional information on financial instruments

(i) Financial risk

Liquidity analysis

Contractual maturities of financial liabilities on an undiscounted cash flow basis

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

	31 Dec 2020 $m								
		Contractual maturity profile for financial liabilities							
Financial liabilities	Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undis-counted cash flows
Core structural borrowings of shareholder-financed businesses[C5.1]	6,633	139	1,261	2,000	631	–	–	3,725	7,756
Lease liabilities under IFRS 16	496	142	317	84	20	–	1	–	564
Other operational borrowings	1,948	909	108	473	691	–	–	–	2,181
Obligations under funding, securities lending and sale and repurchase agreements	9,768	3,983	4,461	1,764	147	–	–	–	10,355
Accruals, deferred income and other liabilities	15,508	9,877	290	36	218	–	–	5,087	15,508
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	5,975	5,975	–	–	–	–	–	–	5,975
Total	40,328	21,025	6,437	4,357	1,707	–	1	8,812	42,339

Financial liabilities	Total carrying value	31 Dec 2019 $m — Contractual maturity profile for financial liabilities: 1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total undis-counted cash flows
Core structural borrowings of shareholder-financed businesses C5.1	5,594	105	1,146	888	648	–	–	3,725	6,512
Lease liabilities under IFRS 16	630	145	388	113	37	18	1	–	702
Operational borrowings	2,015	941	188	232	1,132	2	–	–	2,495
Obligations under funding, securities lending and sale and repurchase agreements	8,901	2,067	5,476	1,902	278	–	–	–	9,723
Accruals, deferred income and other liabilities	14,488	9,172	636	1	–	248	–	4,431	14,488
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	5,998	5,998	–	–	–	–	–	–	5,998
Total	37,626	18,428	7,834	3,136	2,095	268	1	8,156	39,918

Maturity analysis of derivatives
The following table shows the carrying value of the gross and net derivative positions.

	Carrying value of net derivatives $m: Derivative assets	Derivative liabilities	Net derivative position
31 Dec 2020	**2,599**	**(482)**	**2,117**
31 Dec 2019	1,745	(392)	1,353

All net derivatives of $2,117 million (31 December 2019: $1,353 million) have been included at fair value due within one year or less, representing the basis on which they are managed (ie to manage principally asset or liability value exposures). The Group has no cash flow hedges and, in general, contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments.

Maturity analysis of investment contracts
The table below shows the maturity profile for investment contracts based on undiscounted cash flow projections of expected benefit payments.

	Maturity profile for investment contracts $m: Total carrying value	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total undis-counted cash flows
31 Dec 2020	**3,658**	**519**	**1,713**	**215**	**575**	**710**	**17**	**3,749**
31 Dec 2019	4,366	600	2,015	534	350	961	12	4,472

The undiscounted cash flows in the maturity profile shown above excludes contracts which have no stated maturity but which are repayable on demand. 2019 cash flows have been adjusted to show them on a consistent basis.

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

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

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

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

C2 Fair value measurement continued

C2.3 Additional information on financial instruments continued

Credit risk

The Group's maximum exposure to credit risk of financial instruments before any allowance for collateral or allocation of losses to policyholders is represented by the carrying value of financial instruments on the balance sheet that have exposures to credit risk comprising cash and cash equivalents, deposits, debt securities, loans and derivative assets, accrued investment income and other debtors, the carrying value of which are disclosed at the start of this note and note (ii) below for derivative assets. The collateral in place in relation to derivatives is described in note (iii) below. Note C1.2 describes the security for the loans held by the Group. The Group's exposure to credit risk is further discussed in note C6 below.

Of the total loans and receivables held, $8 million (31 December 2019: $7 million) are past their due date but are not impaired. Of the total past due but not impaired, $1 million are less than one year past their due date (31 December 2019: $1 million). The Group expects full recovery of these loans and receivables.

There are no financial assets that would have been past due or impaired had the terms not been renegotiated in both years.

In addition, the Group did not take possession of any other collateral held as security in both years.

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

Foreign exchange risk

As at 31 December 2020, the Group held 9 per cent (31 December 2019: 8 per cent) of its financial assets and 30 per cent (31 December 2019: 25 per cent) of its financial liabilities in currencies, mainly USD, other than the functional currency of the relevant business units or the currency to which the functional currency is pegged (eg financial assets and liabilities of USD denominated business in Hong Kong). The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts and currency swaps as described in note (ii) below.

The amount of exchange loss recognised in the income statement in 2020, except for those arising on financial instruments measured at fair value through profit or loss, is $33 million (2019: $72 million).

(ii) Derivatives and hedging

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

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39. The Group has no fair value and cash flows hedges under IAS 39 at 31 December 2020 and 2019. All derivatives that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded in the income statement.

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

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

Derivatives held and their purpose

The Group enters into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward contracts, swaps and swaptions.

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

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

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

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

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

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

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

Hedging
Up to 31 December 2019, the Group had designated perpetual subordinated capital securities totalling $3.7 billion as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson. This net investment hedge was 100 per cent effective in 2019. The Group had no net investment, cash flow or fair value hedges in place during 2020.

(iii) Derecognition, collateral and offsetting
Derecognition of financial assets and liabilities
The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred.

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

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

The Group has entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. At 31 December 2020, the fair value of the collateral held in respect of these transactions, which is represented by the purchased securities, was $603 million (31 December 2019: $1,011 million).

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

At 31 December 2020, the Group had $2,007 million (31 December 2019: $90 million) of lent securities and assets subject to repurchase agreements. The cash and securities collateral held or pledged under such agreements were $2,047 million (31 December 2019: $95 million).

C2 Fair value measurement continued

C2.3 Additional information on financial instruments continued

Collateral and pledges under derivative transactions

At 31 December 2020, the Group had pledged $2,422 million (31 December 2019: $1,301 million) for liabilities and held collateral of $2,306 million (31 December 2019: $1,883 million) in respect of over-the-counter derivative transactions. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

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

Other collateral

At 31 December 2020, the Group had pledged collateral of $2,614 million (31 December 2019: $3,299 million) in respect of other transactions. This principally arises from Jackson's membership of the Federal Home Loan Bank of Indianapolis (FHLBI) primarily for the purpose of participating in the bank's collateralised loan advance programme with short-term and long-term funding facilities. The membership requires Jackson to purchase and hold a minimum amount of FHLBI capital stock, plus additional stock based on outstanding advances in the form of either short-term or long-term notes or funding agreements issued to FHLBI.

Offsetting assets and liabilities

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

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

	31 Dec 2020 $m				
		Related amounts not offset in the balance sheet			
	Gross amount included in the balance sheet note (i)	Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	Net amount note (iv)
Financial assets:					
Derivative assets	2,523	(122)	(1,249)	(890)	262
Reverse repurchase agreements	588	–	–	(588)	–
Total financial assets	3,111	(122)	(1,249)	(1,478)	262
Financial liabilities:					
Derivative liabilities	(203)	122	69	–	(12)
Securities lending and repurchase agreements	(1,384)	–	244	1,140	–
Total financial liabilities	(1,587)	122	313	1,140	(12)

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

Notes

(i) The Group has not offset any of the amounts included in the balance sheet.
(ii) Represents the amount that could be offset under master netting or similar arrangements where the Group does not satisfy the full criteria to offset in the balance sheet.
(iii) Excludes initial margin amounts for exchange-traded derivatives.
(iv) In the tables above, the amounts of assets or liabilities included in the balance sheet would be offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables.

C3 Policyholder liabilities and unallocated surplus

C3.1 Group overview

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

	Asia $m note C3.2	US $m note C3.3	Discontinued UK and Europe operations $m	Total $m
Balance at 1 Jan 2019 note (a)	105,408	236,380	210,002	551,790
Comprising: note (b)				
– Policyholder liabilities on the consolidated statement of financial position (excludes $50 million classified as unallocated to a segment)	91,836	236,380	193,020	521,236
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,198	–	16,982	20,180
– Group's share of policyholder liabilities of joint ventures and associates note (c)	10,374	–	–	10,374
Removal of discontinued UK and Europe operations	–	–	(210,002)	(210,002)
Net flows: note (d)				
Premiums	20,094	20,976	–	41,070
Surrenders	(4,156)	(17,342)	–	(21,498)
Maturities/deaths/other claim events	(2,800)	(3,387)	–	(6,187)
Net flows	13,138	247	–	13,385
Shareholders' transfers post-tax	(99)	–	–	(99)
Investment-related items and other movements	12,824	32,922	–	45,746
Foreign exchange translation differences	1,299	–	–	1,299
Balance at 31 Dec 2019/1 Jan 2020	**132,570**	**269,549**	**–**	**402,119**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes $186 million classified as unallocated to a segment)	115,943	269,549	–	385,492
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	4,750	–	–	4,750
– Group's share of policyholder liabilities of joint ventures and associates note (c)	11,877	–	–	11,877
Net flows: note (d)				
Premiums	20,760	18,671	–	39,431
Surrenders	(4,730)	(15,832)	–	(20,562)
Maturities/deaths/other claim events	(2,565)	(3,708)	–	(6,273)
Net flows	13,465	(869)	–	12,596
Shareholders' transfers post-tax	(116)	–	–	(116)
Investment-related items and other movements	17,269	27,833	–	45,102
Foreign exchange translation differences	2,105	–	–	2,105
Balance at 31 Dec 2020	**165,293**	**296,513**	**–**	**461,806**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes $262 million classified as unallocated to a segment)	144,471	296,513	–	440,984
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	5,217	–	–	5,217
– Group's share of policyholder liabilities of joint ventures and associates note (c)	15,605	–	–	15,605
Average policyholder liability balances note (e)				
2020	**143,948**	**283,031**	**–**	**426,979**
2019	115,015	252,965	–	367,980

Notes

(a) The 1 January 2019 policyholder liabilities of the Asia insurance operations were after deducting the intra-group reinsurance liabilities ceded by the discontinued UK and Europe operations (M&G plc) to the Hong Kong with-profits business, which were recaptured in October 2019 upon demerger.

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

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

(d) The analysis includes the impact of movements in premiums, claims and investment-related items on policyholders' liabilities. The amount does not represent actual premiums, claims and investment movements in the year recognised in the income statement. For example, premiums shown above exclude any deductions for fees/charges; claims (surrenders, maturities, deaths and other claim events) shown above represent the release of technical provision for policyholder liabilities rather than the actual claims amount paid to the policyholder.

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

C3 Policyholder liabilities and unallocated surplus continued

C3.1 Group overview continued

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

	Asia $m	US $m	Discontinued UK and Europe operations $m	Total $m
Balance at 1 Jan 2019	51,705	236,380	51,911	339,996
Removal of discontinued UK and Europe operations	–	–	(51,911)	(51,911)
Net flows:				
Premiums	10,372	20,976	–	31,348
Surrenders	(3,610)	(17,342)	–	(20,952)
Maturities/deaths/other claim events	(1,168)	(3,387)	–	(4,555)
Net flows[note]	5,594	247	–	5,841
Investment-related items and other movements	4,186	32,922	–	37,108
Foreign exchange translation differences	777	–	–	777
Balance at 31 Dec 2019/1 Jan 2020	**62,262**	**269,549**	**–**	**331,811**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes $186 million classified as unallocated to a segment)	50,385	269,549	–	319,934
– Group's share of policyholder liabilities relating to joint ventures and associates	11,877	–	–	11,877
Net flows:				
Premiums	11,028	18,671	–	29,699
Surrenders	(3,933)	(15,832)	–	(19,765)
Maturities/deaths/other claim events	(970)	(3,708)	–	(4,678)
Net flows[note]	6,125	(869)	–	5,256
Investment-related items and other movements	9,143	27,833	–	36,976
Foreign exchange translation differences	1,353	–	–	1,353
Balance at 31 Dec 2020	**78,883**	**296,513**	**–**	**375,396**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes $262 million classified as unallocated to a segment)	63,278	296,513	–	359,791
– Group's share of policyholder liabilities relating to joint ventures and associates	15,605	–	–	15,605

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

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

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

	Gross insurance contract liabilities $m note (e)	Reinsurer's share of insurance contract liabilities $m note (a),(e)	Investment contract liabilities $m note (b)	Unallocated surplus of with-profits funds $m
Balance at 1 Jan 2019	(410,947)	14,193	(110,339)	(20,180)
Removal of discontinued UK and Europe operations	87,824	(2,169)	105,196	16,982
Income and expense included in the income statement for continuing operations[note (c)]	(55,579)	1,795	(311)	(1,415)
Other movements[note (d)]	–	–	(63)	(112)
Foreign exchange translation differences	(1,441)	37	(18)	(25)
Balance at 31 Dec 2019/1 Jan 2020	**(380,143)**	**13,856**	**(5,535)**	**(4,750)**
Income and expense included in the income statement[note (c)]	(55,034)	32,723	349	(438)
Other movements[note (d)]	–	–	765	–
Foreign exchange translation differences	(1,610)	16	(38)	(29)
Balance at 31 Dec 2020	**(436,787)**	**46,595**	**(4,459)**	**(5,217)**

Notes

(a) Includes reinsurers' share of claims outstanding of $1,527 million (31 December 2019: $1,094 million). The increase in reinsurers' share of insurance contract liabilities in 2020 includes $27.3 billion in respect of the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd.

(b) This comprises investment contracts with discretionary participation features of $479 million at 31 December 2020 (31 December 2019: $633 million) and investment contracts without discretionary participation features of $3,980 million at 31 December 2020 (31 December 2019: $4,902 million).

(c) The total charge for benefits and claims in 2020 shown in the income statement comprises the amounts shown as 'Income and expense included in the income statement' in the table above of $(22,400) million (2019: $(55,510) million) together with claims paid of $(27,491) million (2019: $(29,585) million), net of amounts attributable to reinsurers of $1,686 million (2019: $1,190 million).

(d) Other movements include premiums received and claims paid on investment contracts without discretionary participating features, which are taken directly to the balance sheet in accordance with IAS 39. In 2019, the changes in the unallocated surplus of with-profits funds also resulted from the recapture of the intra-group reinsurance agreement between the discontinued UK and Europe operations and Asia insurance operations prior to the demerger, which was eliminated in the income statement.

(e) The movement in the gross contract liabilities and the reinsurer's share of insurance contract liabilities during 2020 includes the impact of a change to the calculation of the valuation interest rate (VIR) used to value long-term insurance liabilities in Hong Kong. The effect of the change to the VIR was such that the implicit duration of liabilities is reduced and closer to best estimate expectations. The change reduced policyholder liabilities (net of reinsurance) of the Hong Kong's shareholder-backed business at 31 December 2020 by $907 million. The resulting benefit is included within short-term fluctuations in investment returns.

(iv) Reinsurers' share of insurance contract liabilities

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

	31 Dec 2020 $m				31 Dec 2019 $m
	Asia note (b)	**US** note (c)	**Unallocated to a segment**	**Total**	**Total**
Insurance contract liabilities note (a)	11,186	33,881	1	45,068	12,762
Claims outstanding	173	1,351	3	1,527	1,094
Total	11,359	35,232	4	46,595	13,856

Notes

(a) The increase in the reinsurers' share of insurance contract liabilities in 2020 compared to 2019 primarily relates to the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd.

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

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

The Group cedes certain business to other insurance companies. Although the ceding of insurance does not relieve the Group from its liability to its policyholders, the Group participates in such agreements largely for the purpose of managing its loss exposure. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk from similar geographic regions, activities or economic characteristics of the reinsurers to minimise its exposure from reinsurer insolvencies. Of the reinsurers' share of insurance contract liabilities balance of $46,595 million at 31 December 2020 (31 December 2019: $13,856 million), 99 per cent (31 December 2019: 97 per cent) was from reinsurers with rating A- and above by Standard & Poor's or other external rating agencies.

During 2020, net commissions received on ceded business for Asia totalled $1,005 million (2019: $355 million) and claims incurred ceded to external reinsurers totalled $432 million (2019: $552 million). The 2020 net commissions received includes $770 million in respect of the reinsurance transaction entered into by the Hong Kong business as discussed in note D1.1. There was $1 million (2019: nil) of deferred gains in the year.

Net commissions received on ceded business for Jackson totalled $1,223 million (2019: $20 million) and claims incurred ceded to external reinsurers totalled $1,663 million (2019: $630 million). The 2020 net commissions received includes $1,203 million in respect of the Athene reinsurance transaction entered into by Jackson as discussed in note D1.1. There was no deferred gains in the year (2019: nil).

C3 Policyholder liabilities and unallocated surplus continued

C3.2 Asia insurance operations

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

		Shareholder-backed business		
	With-profits business $m	Unit-linked liabilities $m	Other business $m	Total $m
Balance at 1 Jan 2019	53,703	25,704	26,001	105,408
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	50,505	20,846	20,485	91,836
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,198	–	–	3,198
– Group's share of policyholder liabilities relating to joint ventures and associates note (a)	–	4,858	5,516	10,374
Premiums				
New business	1,611	1,837	2,419	5,867
In-force	8,111	2,361	3,755	14,227
	9,722	4,198	6,174	20,094
Surrenders note (b)	(546)	(2,929)	(681)	(4,156)
Maturities/deaths/other claim events	(1,632)	(149)	(1,019)	(2,800)
Net flows	7,544	1,120	4,474	13,138
Shareholders' transfers post-tax	(99)	–	–	(99)
Investment-related items and other movements	8,638	1,663	2,523	12,824
Foreign exchange translation differences note (d)	522	363	414	1,299
Balance at 31 Dec 2019/1 Jan 2020	**70,308**	**28,850**	**33,412**	**132,570**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	65,558	23,571	26,814	115,943
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	4,750	–	–	4,750
– Group's share of policyholder liabilities relating to joint ventures and associates note (a)	–	5,279	6,598	11,877
Premiums				
New business	1,338	1,851	2,063	5,252
In-force	8,393	2,358	4,757	15,508
	9,731	4,209	6,820	20,760
Surrenders note (b)	(797)	(2,982)	(951)	(4,730)
Maturities/deaths/other claim events	(1,595)	(196)	(774)	(2,565)
Net flows	7,339	1,031	5,095	13,465
Shareholders' transfers post-tax	(116)	–	–	(116)
Investment-related items and other movements note (c)	8,127	2,107	7,035	17,269
Foreign exchange translation differences note (d)	752	518	835	2,105
Balance at 31 Dec 2020	**86,410**	**32,506**	**46,377**	**165,293**
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	81,193	25,433	37,845	144,471
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	5,217	–	–	5,217
– Group's share of policyholder liabilities relating to joint ventures and associates note (a)	–	7,073	8,532	15,605
Average policyholder liability balances note (e)				
2020	**73,375**	**30,678**	**39,895**	**143,948**
2019	58,032	27,277	29,706	115,015

Notes

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

(b) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening policyholder liabilities) is 6.3 per cent in 2020 (2019: 7.0 per cent).

(c) Investment-related items and other movements in 2020 primarily represents equity market gains as well as fixed income asset gains and lower discount rates due to falling interest rates.

(d) Movements in the year have been translated at the average exchange rates for the year ended 31 December 2020 and 2019. The closing balance has been translated at the closing spot rates as at 31 December 2020 and 2019. Differences upon retranslation are included in foreign exchange translation differences.

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

(ii) Duration of policyholder liabilities

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

	31 Dec 2020 $m	31 Dec 2019 $m
Policyholder liabilities	144,471	115,943

Expected maturity:	31 Dec 2020 %	31 Dec 2019 %
0 to 5 years	20	18
5 to 10 years	19	18
10 to 15 years	15	15
15 to 20 years	12	13
20 to 25 years	10	11
Over 25 years	24	25

(iii) Policyholder liabilities and unallocated surplus by business unit

The table below shows the policyholder liabilities and unallocated surplus, excluding joint ventures and associates and net of external reinsurance by business unit:

	31 Dec 2020 $m	31 Dec 2019 $m
Hong Kong	73,338	58,800
Indonesia	4,617	4,933
Malaysia	8,756	7,725
Singapore	32,264	27,427
Taiwan	8,178	6,801
Other Asia insurance operations	11,176	9,549
Total Asia	138,329	115,235

C3.3 US insurance operations

(i) Analysis of movements in policyholder liabilities

	Variable annuity separate account liabilities $m	General account and other business $m	Total $m
Balance at 1 Jan 2019	163,301	73,079	236,380
Premiums	12,776	8,200	20,976
Surrenders	(12,767)	(4,575)	(17,342)
Maturities/deaths/other claim events	(1,564)	(1,823)	(3,387)
Net flows note (a)	(1,555)	1,802	247
Transfers from general to separate account	951	(951)	–
Investment-related items and other movements note (b)	32,373	549	32,922
Balance at 31 Dec 2019/1 Jan 2020	195,070	74,479	269,549
Premiums	14,990	3,681	18,671
Surrenders	(11,300)	(4,532)	(15,832)
Maturities/deaths/other claim events	(1,854)	(1,854)	(3,708)
Net flows note (a)	1,836	(2,705)	(869)
Transfers from separate to general account	(2,190)	2,190	–
Investment-related items and other movements note (b)	24,346	3,487	27,833
Balance at 31 Dec 2020	219,062	77,451	296,513
Average policyholder liability balances note (c)			
2020	207,066	75,965	283,031
2019	179,186	73,779	252,965

C3 Policyholder liabilities and unallocated surplus continued

C3.3 US insurance operations continued

Notes

(a) Net outflows in 2020 were $(869) million (2019 inflows: $247 million) with surrenders and withdrawals from general account and other business exceeding new inflows on this business given lower volumes of institutional and fixed and fixed-index annuities sales in the year, partially offset by net inflows into the variable annuity separate accounts. This is discussed further in the Group Chief Financial Officer and Chief Operating Officer's report.

(b) Positive investment-related items and other movements in variable annuity separate account liabilities of $24,346 million for 2020 largely represent positive separate account return following the increase in the US equity market growth in the year and asset gains arising from declining bond yields.

(c) Average policyholder liabilities have been based on opening and closing balances, adjusted for any acquisitions, disposals and other corporate transactions arising in the year. Included within the policyholder liabilities for the general account and other business of $77,451 million at 31 December 2020 are $27.3 billion in respect of the reinsured Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd, as discussed in note D1.1.

(ii) Duration of policyholder liabilities

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

	31 Dec 2020			31 Dec 2019		
	Variable annuity separate account liabilities $m	General account and other business $m	Total $m	Variable annuity separate account liabilities $m	General account and other business $m	Total $m
Policyholder liabilities	219,062	77,451	296,513	195,070	74,479	269,549
Expected maturity:	%	%	%	%	%	%
0 to 5 years	39	36	39	41	45	42
5 to 10 years	27	22	26	27	27	27
10 to 15 years	16	17	16	16	13	15
15 to 20 years	9	11	10	9	8	9
20 to 25 years	5	6	5	4	4	4
Over 25 years	4	8	4	3	3	3

(iii) Aggregate account values

The table below shows the distribution of account values for fixed annuities (fixed interest rate and fixed index), the fixed account portion of variable annuities, and interest-sensitive life business within the range of minimum guaranteed interest rates as described in note C3.4(b). The table below excludes, in 2020, the liabilities that were fully reinsured to Athene in June 2020. As at 31 December 2020, approximately 90 per cent (31 December 2019: 87 per cent) of Jackson's fixed annuities, variable annuity fixed account options and interest-sensitive life business account values have a current crediting rate that is at the lowest level allowed for under the terms of the policy.

	Fixed annuities and the fixed account portion of variable annuities		Interest-sensitive life business	
Minimum guaranteed interest rate	31 Dec 2020* $m	31 Dec 2019 $m	31 Dec 2020 $m	31 Dec 2019 $m
> 0% – 1.0%	6,758	6,952	–	–
> 1.0% – 2.0%	302	12,994	–	–
> 2.0% – 3.0%	4,709	13,701	270	270
> 3.0% – 4.0%	623	1,561	2,819	3,018
> 4.0% – 5.0%	280	2,236	2,488	2,597
> 5.0% – 6.0%	73	278	2,045	2,031
Total	12,745	37,722	7,622	7,916

* The decrease in 2020 compared to 2019 primarily relates to the reinsurance of substantially all of Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd as discussed in note D1.1.

C3.4 Products and determining contract liabilities

Classification of insurance and investment contracts

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

Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. This judgement is applied in considering whether the material features of a contract gives rise to the transfer of significant insurance risk, which is made at the point of contract inception and not revisited.

For the majority of the Group's contracts, classification is based on a readily identifiable scenario that demonstrates a significant difference in cash flows if the covered event occurs (as opposed to does not occur) reducing the level of judgement involved.

Contracts that transfer financial risk to the Group but not significant insurance risk are classified as investment contracts. Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4. Investment contracts without such discretionary participation features are accounted for as financial instruments under IAS 39.

Insurance business units	Insurance contracts and investment contracts with discretionary participation features	Investment contracts without discretionary participation features
Asia	— With-profits contracts — Unit-linked policies — Health and protection policies — Non-participating term contracts — Whole life contracts	— Minor amounts for a number of small categories of business
US	— Variable annuity contracts — Fixed annuity contracts — Fixed index annuity contracts — Group pay-out annuity contracts — Life insurance contracts	— Guaranteed investment contracts (GICs) — Minor amounts of 'annuity certain' contracts

C3.4(a) Asia

Contract type	*Description and material features*	*Determination of liabilities*
With-profits and participating contracts	Provides savings and/or protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the local business unit. Participating products often offer a guaranteed maturity or surrender value. Declared regular bonuses are guaranteed once vested. Future bonus rates and cash dividends are not guaranteed. Market value adjustments and surrender penalties are used for certain products where the law permits such adjustments. Guarantees are predominantly supported by the segregated funds and their estates.	As explained in note A3.1, with-profits contracts are predominantly sold in Hong Kong, Malaysia and Singapore. The total value of the with-profits funds is driven by the underlying asset valuation with movements reflected principally in the accounting value of policyholder liabilities and unallocated surplus.
Unit-linked	Combines savings with protection, the cash value of the policy primarily depends on the value of the underlying unitised funds.	The attaching liabilities largely reflect the unit value obligation driven by the value of the investments of the unit fund. Additional contract liabilities are held for guaranteed benefits beyond the unit fund value, generally using a gross premium valuation method, as discussed below for health and protection business. These additional provisions are recognised as a component of other business liabilities.

C3 Policyholder liabilities and unallocated surplus continued

C3.4 Products and determining contract liabilities continued

C3.4(a) Asia continued

Contract type	*Description and material features*	*Determination of liabilities*
Health and protection	Health and protection features are offered as supplements to the products listed above or sold as standalone products. Protection covers mortality and/or morbidity benefits including health, disability, critical illness and accident coverage.	The approach to determine the contract liabilities is generally driven by the local solvency basis. The discount rates used to determine the contract liabilities are derived in line with the measurement basis applied in each local business unit and are generally based on the risk-free rates applicable to the underlying contacts, including appropriate margins. A gross premium valuation (GPV) method is typically used in those local businesses where a risk-based capital framework is adopted for local solvency. Under the GPV method, all cash flows are valued explicitly using best estimate assumptions with a suitable margin for prudence. This is achieved either through adding an explicit allowance above best estimate to the assumptions, or by applying an overlay constraint such that on day one no negative reserves (ie where future premium inflows are expected to exceed future claims and outflows) are derived at an individual policyholder level, or at a product/fund level, or a combination of both. The margin for prudence is released to profit over the life of the contract. The Hong Kong business unit applies a net premium valuation method (NPV) to determine the future policyholder benefit provisions, subject to minimum floors at the policyholder's asset share or guaranteed cash surrender value as appropriate. For India and Taiwan, US GAAP is applied for measuring insurance liabilities. For these businesses, the future policyholder benefit provisions for non-linked business are determined using the net level premium method, with an allowance for surrenders, maintenance and claims expenses. In Vietnam, an estimation basis to determine the contract liabilities is aligned substantially to that used by the local business units applying the GPV method.
Non-participating term contracts, whole life and endowment assurance	Non-participating savings and/or protection where the benefits are guaranteed, determined by a set of defined market-related parameters, or determined at the discretion of the local business unit. These products often offer a guaranteed maturity and/or surrender value. It is common in Asia for regulations or market-driven demand and competition to provide some form of capital value protection and minimum crediting interest rate guarantees. This is reflected within the guaranteed maturity and surrender values. Guarantees are supported by shareholders.	The approach to determining the contract liabilities is generally driven by the local solvency basis, as discussed for health and protection business above.

C3.4(b) US

Contract type	*Description and material features*	*Determination of liabilities*
Variable annuities At 31 December 2020, variable annuities accounted for 80 per cent (31 December 2019: 78 per cent) of Jackson's policy and contract liabilities.	Variable annuities are deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement, and have certain tax advantages. The rate of return depends upon the performance of the selected fund portfolio. Policyholders may allocate their investment to either the fixed account or a selection of variable accounts. Most variable annuities are subject to early surrender charges for up to the first nine years of the contract. Jackson offers some fully liquid variable annuity products that have no surrender charges. Subject to benefit guarantees, investment risk on the variable account is borne by the policyholder, while investment risk on the fixed account is borne by Jackson through guaranteed minimum fixed rates of interest. At 31 December 2020, 5 per cent (31 December 2019: 4 per cent) of variable annuity funds were in fixed accounts, with an average guaranteed rate of 1.7 percent (31 December 2019: 2.2 per cent). Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which can be elected for additional fees. These guaranteed benefits might be expressed as the return of either: (a) total deposits made to the contract adjusted for any partial withdrawals, (b) total deposits made to the contract adjusted for any partial withdrawals, plus a minimum return, or (c) the highest contract value on a specified anniversary date adjusted for any withdrawals following that contract anniversary.	As explained in note A3.1, all of Jackson's insurance liabilities are based on US GAAP. Capitalised acquisition costs and deferred income for these contracts are amortised over the life of the book of contracts, are also explained in note A3.1. For the variable annuities business, the policyholder liabilities are based on the value of the separate account (which is directly reflective of the underlying asset value movements), the value of the fixed account and provision for benefit guarantees in the general account which are measured on a combination of fair value and other US GAAP derived principles. For the fixed account allocations, the principles for fixed annuity and fixed index annuity below also apply to variable annuities. The benefit guarantee types are further set out below: **Benefits that are payable in the event of death (guaranteed minimum death benefit (GMDB))** The liability for GMDBs is determined by estimating the expected value of benefits in excess of the projected account balance and recognising the excess rateably over the life of the contract based on total expected assessments. At 31 December 2020, these liabilities were valued using a series of stochastic investment performance scenarios, a mean investment return of 7.15 per cent (31 December 2019: 7.4 per cent) net of external fund management fees, and assumptions for policyholder behaviour, mortality and expense. **Benefits that are payable upon the depletion of funds (guaranteed minimum withdrawal benefit (GMWB))** The liability for the GMWB 'for life' portion is determined similarly to GMDB above. Provisions for benefits under GMWB 'not for life' features are recognised at fair value under US GAAP. Non-performance risk is incorporated into the fair value calculation through the use of discount rates that allow for estimates of Jackson's own credit risk based on observable market data. The value of future fees to offset payments made under the guarantees are established so that no gain arises on day one. **Benefits that are payable at annuitisation (guaranteed minimum income benefit (GMIB))** This feature is no longer offered and existing coverage is substantially reinsured, subject to deductibles and annual claim limits. **Benefits that are payable at the end of a specified period (guaranteed minimum accumulation benefit (GMAB))** This feature is no longer offered. Provisions for GMAB are recognised at fair value under US GAAP. Volatility and non-performance risk is considered as per GMWB above.

C3 Policyholder liabilities and unallocated surplus continued

C3.4 Products and determining contract liabilities continued

C3.4(b) US continued

Contract type	*Description and material features*	*Determination of liabilities*
Fixed interest rate and fixed index annuities At 31 December 2020, fixed interest rate and fixed index annuities accounted for 10 per cent (31 December 2019: 11 per cent) of Jackson's policy and contract liabilities. Following the reinsurance transaction with Athene Life Re Ltd in June 2020, these contracts are substantially fully reinsured as at 31 December 2020.	Fixed interest rate and fixed index annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. Under a fixed interest rate annuity contract, the policyholder's account is periodically credited with a certain interest rate, generally set at Jackson's discretion subject to a guaranteed minimum in line with state regulations. When the annuity matures, Jackson either pays the contract holder the account value or a series of payments in the form of an immediate annuity product. Fixed index annuities vary in structure and generally enable policyholders to obtain a portion of an equity-linked return (based on participation rates, caps and spreads), and provide a guaranteed minimum return. Jackson offers an optional lifetime income rider, which can be elected for an additional fee. Jackson also offers fixed interest accounts on some fixed index annuity products.	With minor exceptions, the following is applied to most of Jackson's contracts. Contracts are accounted for as investment contracts as defined for US GAAP purposes by applying a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by: — Any amounts that have been assessed to compensate the insurer for services to be performed over future periods (ie deferred income); — Any amounts previously assessed against policyholders that are refundable on termination of the contract; and — Any probable future loss on the contract (ie premium deficiency). The liability for policyholder benefits that represent the guaranteed minimum return is determined similarly to the general principles for the liabilities of the variable annuities above. The interest guarantees are not explicitly valued but are reflected as they are earned in the current account liability value. The equity-linked return option within the fixed index annuity contract is treated as an embedded derivative liability under US GAAP and therefore this element of the liability is recognised at fair value. The liability for the lifetime income rider on the fixed index annuity contract is determined each period end by estimating the expected value of benefits in excess of the projected account balance and recognising the excess on a prorated basis over the life of the contract, based on total expected assessments.
Group pay-out annuities At 31 December 2020, group pay-out annuities accounted for 2 per cent (31 December 2019: 2 per cent) of Jackson's policy and contract liabilities.	Group pay-out annuities consist of a block of defined benefit annuity plans assumed from John Hancock USA and John Hancock New York. A single premium payment from an employer (contract holder) funds the pension benefits for its employees (participants). The contracts provide annuity payments that meet the requirements of the specific pension plan being covered, including pre-retirement death and/or withdrawal benefits, pre-retirement surviving spouse benefits, and/or subsidised early retirement benefits in some cases. This is a closed block of business from two standpoints: (1) John Hancock USA and John Hancock New York are no longer selling new contracts, and (2) contract holders (companies) are no longer adding additional participants to these defined benefit pension plans.	The liability for future benefits is determined under US GAAP methodology for limited-payment contracts, using assumptions at the acquisition date for mortality and expense, plus provisions for adverse deviation.

Contract type	*Description and material features*	*Determination of liabilities*
Life insurance At 31 December 2020, life insurance products accounted for 6 per cent (31 December 2019: 7 per cent) of Jackson's policy and contract liabilities.	Jackson discontinued new sales of life insurance products in 2012. Life products include term life, traditional life and interest-sensitive life (universal life and variable universal life). — Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. — Traditional life provides protection for either a defined period or until a stated age and includes a predetermined cash value. — Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. — Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the policyholder to be invested in separate account funds. Excluding the business that is subject to the retrocession treaties at 31 December 2020, Jackson had interest-sensitive life business in force with total account value of $7.6 billion (31 December 2019: $7.9 billion), with a 4.7 per cent average guaranteed rate (31 December 2019: 4.7 per cent).	For term and traditional life insurance contracts, provisions for future policy benefits are determined under US GAAP using the net level premium method and assumptions at the issue or acquisition date for mortality, interest, policy lapses and expenses, plus provisions for adverse deviation. For universal life and variable universal life a retrospective deposit method is used to determine the liability for policyholder benefits. This is then augmented by additional liabilities to account for no-lapse guarantees, profits followed by losses, contract features such as persistency bonuses, and cost of interest rate guarantees.
Institutional products At 31 December 2020, institutional products accounted for 1 per cent (31 December 2019: 1 per cent) of Jackson's policy and contract liabilities.	Institutional products are: guaranteed investment contracts (GICs), funding agreements (including agreements issued in conjunction with Jackson's participation in the US Federal Home Loan Bank programme) and Medium Term Note funding agreements. GICs feature a lump sum policyholder deposit on which interest is paid at a rate fixed at inception. Market value adjustments are made to the value of any early withdrawals. Funding agreements feature either lump sum or periodic policyholder deposits. Interest is paid at a fixed or index linked rate. Funding agreements have a duration of between one and 30 years. In 2020 and 2019, there were no funding agreements terminable by the policyholder with less than 90 days' notice.	Institutional products are classified as investment contracts, and are accounted for as financial liabilities at amortised cost. The currency risk on contracts that represent currency obligations other than USD are hedged using cross-currency swaps.

C4 Intangible assets

C4.1 Goodwill

Business combination

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

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

Goodwill

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

Goodwill shown on the consolidated statement of financial position represents amounts attributable to shareholders and are allocated to businesses in Asia and Africa in respect of both acquired asset management and life businesses. There has been no impairment as at 31 December 2020 and 2019.

	2020 $m	**2019** $m
Carrying value at 1 Jan	969	2,365
Removal of discontinued UK and Europe operations	–	(1,731)
Additions in the year	–	299
Exchange differences	(8)	36
Carrying value at 31 Dec	961	969

Impairment testing

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash-generating units for the purposes of impairment testing. These cash-generating units (CGUs) are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis. Of the carrying value at 31 December 2020, $513 million relates to asset management business in Thailand. Other goodwill amounts are allocated across CGUs in Asia and Africa operations, which are not individually material.

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

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

The goodwill in respect of asset management businesses comprises mainly the goodwill arising from the acquisition of Thanachart Fund Management Co., Ltd (TFund) in 2019 and TMB Asset Management Co., Ltd (TMBAM) in Thailand in 2018. At 31 December 2020, the recoverable amount of these businesses has been determined by calculating the value in use of combined business given the business units are planned to be merged and future forecasts prepared by management assume the combination has been completed, and hence have been prepared as a single CGU. The value in use for Thailand asset management businesses has been calculated using a discounted cash flow valuation.

For the combined Thailand asset management business, the valuation is based on a number of key assumptions as follows:

- Cash flow projections based on the latest five-year business plan/forecast;
- A constant growth rate of 2.3 per cent on forecast cash flows beyond the terminal year of the cash flow projection period (31 December 2019: 2.3 per cent);
- The risk discount rate applied in accordance with the nature of the businesses. The pre-tax discount rate applied at 31 December 2020 is 9 per cent (31 December 2019: 9 per cent); and
- The continuation of asset management contracts on similar terms.

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

C4.2 Deferred acquisition costs and other intangible assets

Intangible assets acquired on the purchase of a subsidiary or portfolio of contracts are measured at fair value on acquisition. DAC are accounted for as described in note A3.1(c). Other intangible assets, such as distribution rights and software, are valued initially at the price paid to acquire them and are subsequently carried at cost less amortisation and any accumulated impairment losses. For intangibles other than DAC, amortisation follows the pattern in which the future economic benefits are expected to be consumed. If the pattern cannot be determined reliably, a straight-line method is applied. For software, the amortisation generally represents the licence period of the software acquired. Amortisation of intangible assets is charged to the 'acquisition costs and other expenditure' line in the consolidated income statement. Impairment testing is conducted when there is an indication of impairment.

	31 Dec 2020 $m	31 Dec 2019 $m
DAC and other intangible assets attributable to shareholders	20,275	17,409
Other intangible assets, including computer software, attributable to with-profits funds	70	67
Total of DAC and other intangible assets	20,345	17,476

(i) DAC and other intangible assets attributable to shareholders

The DAC and other intangible assets attributable to shareholders comprise:

	31 Dec 2020 $m	31 Dec 2019 $m
DAC related to insurance contracts as classified under IFRS 4	16,182	14,206
DAC related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	34	33
DAC related to insurance and investment contracts note (ii)	16,216	14,239
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	34	38
Distribution rights and other intangibles	4,025	3,132
Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders note (iii)	4,059	3,170
Total of DAC and other intangible assets note (a)	20,275	17,409

Notes

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

	2020 $m				2019 $m
	DAC		PVIF and other intangibles† note (iii)	Total	Total
	Asia	US* note (b)			
Balance at 1 Jan	1,999	12,240	3,170	17,409	15,008
Removal of discontinued UK and Europe operations	–	–	–	–	(143)
Additions‡	617	740	1,114	2,471	2,601
Amortisation to the income statement: note (c)					
Adjusted operating profit	(308)	(423)	(220)	(951)	(792)
Non-operating profit (loss)**	–	812	(5)	807	1,243
	(308)	389	(225)	(144)	451
Disposals and transfers	–	–	(12)	(12)	(11)
Exchange differences and other movements	45	–	12	57	134
Amortisation of DAC related to net unrealised valuation movements on the US insurance operation's available-for-sale securities recognised within other comprehensive income	–	494	–	494	(631)
Balance at 31 Dec	2,353	13,863	4,059	20,275	17,409

* Under the Group's application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of the US insurance operation's products are accounted for under Accounting Standard no. 97 of the Financial Accounting Standards Board (FAS 97) whereby DAC are amortised in line with the emergence of actual and expected gross profits which are determined using an assumption for long-term investment returns for the separate account of 7.15 per cent (2019: 7.4 per cent) gross of asset management fees and other charges to policyholders, but net of external fund management fees. The other assumptions impacting expected gross profits include mortality assumptions, lapses, assumed unit costs and future hedge costs. The amounts included in the income statement and other comprehensive income affect the pattern of profit emergence and thus the DAC amortisation attaching. DAC amortisation is allocated to the operating and short-term investment fluctuations in investment returns of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items. The gain of $389 million in 2020 in the US operations includes $(764) million for the write-off of the DAC in respect of the reinsured Jackson's in-force fixed and fixed index annuity liabilities to Athene Life Re Ltd. The US DAC amortisation charge within adjusted operating profit of $(423) million increased from the 2019 corresponding amount of $(297) million largely as a result of changes to the longer-term economic assumptions underpinning the amortisation calculation following an expectation of lower interest rates in the future, partially offset by the benefits of increases in DAC amortisation deceleration in the year described in note (c) below.

** 'Non-operating profit (loss)' is used to refer to items excluded from adjusted operating profit and includes short-term investment fluctuations in investment returns on shareholder-backed business, corporate transactions and amortisation of acquisition accounting adjustments.

† PVIF and other intangibles comprise present value of acquired in-force (PVIF), distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time. Software rights include additions of $54 million, amortisation of $(34) million, disposals of $(6) million, foreign exchange of $3 million and closing balance at 31 December 2020 of $102 million (31 December 2019: $85 million).

‡ On 19 March 2020, the Group signed a new bancassurance agreement with TMB Bank for a period of 15 years. This extended exclusive partnership agreement required the novation of TMB Bank's current bancassurance distribution agreement with another insurance group. The agreement cost Thai Baht 24.5 billion, which were paid in two instalments with Thai Baht 12.0 billion paid in April 2020 and the remainder in January 2021. The amount included in additions in the table above is $788 million.

C4 Intangible assets continued

C4.2 Deferred acquisition costs and other intangible assets continued

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

	31 Dec 2020 $m	31 Dec 2019 $m
Variable annuity and other business	14,064	12,935
Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income)*	(201)	(695)
Total DAC for US operations	13,863	12,240

* A net gain of $494 million (2019: a net loss of $(631) million) for shadow DAC amortisation is booked within other comprehensive income to reflect a reduction in shadow DAC of $535 million as a result of the reinsurance of substantially all of Jackson's fixed and fixed index annuity business to Athene Life offset by the impact from the positive unrealised valuation movement for 2020 of $2,717 million (2019: positive unrealised valuation movement of $4,023 million). These adjustments reflect the movement from year to year, in the changes to the pattern of reported gross profits that would have happened if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market.

(c) Sensitivity of US DAC amortisation charge

The amortisation charge to the income statement in respect of the US DAC asset is reflected in both adjusted operating profit and short-term fluctuations in investment returns.

The amortisation charge to adjusted operating profit in a reporting period generally comprises:

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

In periods where the cap and floor features of the mean reversion technique (which is used for moderating the effect of short-term volatility in investment returns) are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect. It is currently estimated that DAC amortisation will accelerate (decelerate) by $17 million for every 1 per cent under (over) the mean reversion rate (set using the calculation described below to give an average over an 8-year period of 7.15 per cent (2019: 7.4 per cent)) the actual separate account growth rate differs by.

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

In 2020, the DAC amortisation charge for adjusted operating profit was determined after including a credit for decelerated amortisation of $330 million (2019: credit for deceleration: $280 million). DAC amortisation for variable annuities is sensitive to separate account performance. The deceleration arising in 2020 reflected a mechanical decrease in the projected separate account return for the next five years under the mean-reversion technique. Under this technique, the projected level of return for each of the next five years is adjusted so that in combination with the actual rates of return for the preceding three years (including the current year) the assumed long-term annual separate account return of 7.15 per cent is realised on average over the entire eight-year period.

The application of the mean reversion formula (described in note A3.1) has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. At 31 December 2020, it would take approximate movements in separate account values of more than either negative 40 per cent or positive 19 per cent for mean reversion assumption to move outside the corridor.

Changes to the assumed long-term separate account return will also impact the calculation of the DAC balance and could increase or decrease the DAC amortisation charge in a given period. If the assumption for the long-term separate account investment returns (net of external fund management fees) was reduced by 0.5 per cent from 7.15 per cent to 6.65 per cent at 31 December 2020, the 2020 amortisation charge for adjusted operating profit would have increased by around $70 million with a corresponding reduction in the DAC balance at 31 December 2020. In addition, pre-tax short-term fluctuations in investment returns would reduce by circa $64 million following changes to the policyholder liabilities valued using longer-term equity assumptions under SOP03-1, resulting in a total impact on profit before tax of $134 million.

(ii) DAC related to insurance and investment contracts

The movements in DAC relating to insurance and investment contracts are as follows:

	2020 $m		2019 $m	
	Insurance contracts	Investment contracts	Insurance contracts	Investment contracts
Balance at 1 Jan	14,206	33	12,758	99
Removal of discontinued UK and Europe operations	–	–	(62)	(72)
Additions	1,354	3	1,411	11
Amortisation	85	(4)	699	(5)
Exchange differences	43	2	31	–
Change in shadow DAC related to movement in unrealised appreciation of debt securities classified as available-for-sale	494	–	(631)	–
Balance at 31 Dec	16,182	34	14,206	33

Note

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

	31 Dec 2020 $m	31 Dec 2019 $m
Gross amount	39	34
Accumulated amortisation	(5)	(1)
Carrying amount	34	33

(iii) PVIF and other intangibles attributable to shareholders

	2020 $m				2019 $m			
	PVIF note (a)	Distribution rights note (b)	Other intangibles (including software)	Total	PVIF note (a)	Distribution rights note (b)	Other intangibles (including software)	Total
Balance at 1 Jan								
Cost	175	3,783	379	4,337	295	2,546	399	3,240
Accumulated amortisation	(137)	(812)	(218)	(1,167)	(252)	(587)	(250)	(1,089)
	38	2,971	161	3,170	43	1,959	149	2,151
Removal of discontinued UK and Europe operations	–	–	–	–	(1)	–	(8)	(9)
Additions	–	1,047	67	1,114	–	1,110	69	1,179
Amortisation charge	(5)	(180)	(45)	(230)	(5)	(196)	(42)	(243)
Disposals and transfers	–	–	(12)	(12)	–	–	(11)	(11)
Exchange differences and other movements	1	13	3	17	1	98	4	103
Balance at 31 Dec	34	3,851	174	4,059	38	2,971	161	3,170
Comprising:								
Cost	177	4,845	424	5,446	175	3,783	379	4,337
Accumulated amortisation	(143)	(994)	(250)	(1,387)	(137)	(812)	(218)	(1,167)
	34	3,851	174	4,059	38	2,971	161	3,170

Notes

(a) All of the net PVIF balances relate to insurance contracts. The PVIF attaching to investment contracts have been fully amortised.

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

C5 Borrowings

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

C5.1 Core structural borrowings of shareholder-financed businesses

	31 Dec 2020 $m	31 Dec 2019 $m
Central operations:		
Subordinated debt:		
US$250m 6.75% Notes note (i)	250	250
US$300m 6.5% Notes note (i)	300	300
US$700m 5.25% Notes	700	700
US$1,000m 5.25% Notes	999	996
US$725m 4.375% Notes	723	721
US$750m 4.875% Notes	746	744
€20m Medium Term Notes 2023	24	22
£435m 6.125% Notes 2031	590	571
Senior debt: note (ii)		
£300m 6.875% Notes 2023	406	392
£250m 5.875% Notes 2029	312	298
$1,000m 3.125% Notes 2030 note (iii)	983	–
$350m Loan 2024 note (iv)	350	350
Total central operations	6,383	5,344
Jackson US$250m 8.15% Surplus Notes 2027 note (v)	250	250
Total core structural borrowings of shareholder-financed businesses	6,633	5,594

Notes

(i) These borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date, into one or more series of Prudential preference shares.
(ii) The senior debt ranks above subordinated debt in the event of liquidation.
(iii) In April 2020, the Company issued $1,000 million 3.125 per cent senior debt maturing on 14 April 2030 with proceeds, net of costs of $983 million.
(iv) In November 2020, the $350 million term loan was settled, and the Group entered into a replacement $350 million term loan facility at a cost of daily compounded Secured Overnight Financing Rate (SOFR) plus 59 basis points. The new term loan matures in 2024.
(v) Jackson's borrowings are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

C5.2 Operational borrowings

	31 Dec 2020 $m	31 Dec 2019 $m
Borrowings in respect of short-term fixed income securities programmes – commercial paper	501	520
Lease liabilities under IFRS 16	302	371
Non-recourse borrowings of consolidated investment funds note (a)	994	1,045
Bank loans and overdrafts	–	29
Other borrowings note (b)	453	377
Operational borrowings attributable to shareholder-financed businesses	2,250	2,342
Lease liabilities under IFRS 16	194	259
Other borrowings	–	44
Operational borrowings attributable to with-profits businesses	194	303
Total operational borrowings	2,444	2,645

Notes

(a) In all instances, the holders of the debt instruments issued by consolidated investment funds do not have recourse beyond the assets of those funds.
(b) Other borrowings attributable to shareholder-financed business mainly represent senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

C6 Risk and sensitivity analysis

C6.1 Group overview

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

The financial and insurance assets and liabilities on the Group's statement of financial position are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity. The market and insurance risks and also ESG-related risks, including how they affect Group's operations and how these are managed are discussed in the Risk report referred to above. The ESG-related risks discussed in the Risk report include in particular the potential long-term impact of environmental risks associated with climate change (including physical and transition risks) on the Group's investments.

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

Type of business	*Market and credit risk*	*Insurance and lapse risk*
Asia insurance operations		
All business		Mortality and/or morbidity risk Persistency risk
With-profits business	Net neutral direct exposure (indirect exposure to investment performance, which is subject to smoothing through declared bonuses)	
Unit-linked business	Net neutral direct exposure (indirect exposure to investment performance, through asset management fees)	
Non-participating business	Asset/liability mismatch risk which results in sensitivity to interest rates and credit spreads, particularly for operations where the insurance liability basis is sensitive to current market movements Indirect exposure to investment performance through policyholder charges and guarantees in some cases	
US insurance operations		
All business	Asset/liability mismatch risk Adjusted operating profit is sensitive to market conditions, both with respect to income earned on spread-based products and indirectly with respect to income earned on variable annuity asset management fees	Mortality risk
Variable annuity business	Net effect of market risk (equity and interest rates) arising from incidence of guarantee features and variability of asset management fees, offset by derivative hedging programme*	Persistency and utilisation risk (risk that utilisation of withdrawal benefits or lapse levels differ from those assumed)
General account business	Credit risk and market risk (equity and interest rate) in meeting guaranteed rates of accumulation on general account annuity and interest sensitive life products which may lead to smaller spread profits, being the difference between the earned rate and the policyholder crediting rate. As at 1 June 2020, the risk has been substantially transferred for the fixed and fixed index annuity products as part of the reinsurance transaction with Athene described in note D1.1 Shareholders' equity is impacted by interest rate and credit risk via impairments and unrealised gains/losses on fixed income securities. For those instruments classified as available-for-sale under IAS 39, unrealised gains/losses do not directly impact profit, unless they are considered permanent reductions in value	Persistency risk, mitigated in some cases by the application of market value adjustments

* Jackson's derivative programme, which is described in note C2.3(ii), is used to manage the economic interest rate risk associated with a broad range of products and equity market risk attaching to its equity-based products. Movements in equity markets, equity volatility, interest rates and credit spreads materially affect the carrying value of derivatives that are used to manage the liabilities to policyholders and backing investment assets. Movements in the carrying value of derivatives combined with the use of US GAAP measurement (as 'grandfathered' under IFRS 4) for the insurance contracts assets and liabilities, which is largely insensitive to current year market movements, mean that the Jackson total profit (ie including short-term fluctuations in investment returns) is sensitive to market movements.

C6 Risk and sensitivity analysis continued

C6.1 Group overview continued

The profit for the year of asset management operations is sensitive to the level of assets under management, as this significantly affects the value of management fees earned by the business in the current and future periods. Assets under management will rise and fall as market conditions change, with a consequential impact on profitability. Other than this, there is limited sensitivity to market risks since the Group's asset management and other operations do not hold significant financial investments. At 31 December 2020, the financial investments of the other operations are principally short-term investments held by the Group's treasury function for liquidity purposes and so there is limited sensitivity to interest rate movements.

Sensitivity analyses of IFRS shareholders' equity to key market and other risks by business unit are provided below. The sensitivity analyses provided show the effect on shareholders' equity to changes in the relevant risk variables, all of which are considered to be reasonably possible at the relevant balance sheet date.

The sensitivities reflect all consequential impacts from market movements at the valuation date. The sensitivities below only allow for limited management actions such as changes to policyholder bonuses, where applicable. If the economic conditions set out in the sensitivities persisted, the financial impacts may differ to the instantaneous impacts. Given the continuous risk management processes in place, management could take additional actions to help mitigate the impact of these stresses, including (but not limited to) rebalancing investment portfolios, further market risk hedging, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

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

The Group benefits from diversification benefits achieved through the geographical spread of the Group's operations and, within those operations, through a broad mix of product types. These benefits are not reflected in the simplified sensitivities below. Relevant correlation factors include:

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

The geographical diversity of the Group's business means that it has some exposure to the risk of foreign exchange rate fluctuations. The Group has no exposure to currency fluctuation from business units that operate in USD, or currencies pegged to the USD (such as HKD), and reduced exposure to currencies partially managed to the USD within a basket of currencies (such as SGD). Sensitivities to exchange rate movements in the Group's key markets are therefore expected to be limited.

C6.2 Sensitivity to interest rate risk

The sensitivities shown below are for movements in risk-free rates (based on local government bond yields at the valuation date) in isolation and are subject to a floor of zero. They do not include movements in credit risk that may affect credit spreads and hence the valuation of debt securities and policyholder liabilities. A one-letter credit downgrade in isolation (ie ignoring any consequential change in valuation) would not have a material impact on IFRS profit or shareholders' equity.

To reflect the substantial fall and current level of low interest rates in 2020, the estimated sensitivity to a decrease in interest rates at 31 December 2020 has been updated to a decrease of 0.5 per cent. This compares to a 1 per cent change at 31 December 2019. The estimated sensitivity to a decrease and increase in interest rates at 31 December 2020 is as follows:

	Asia insurance $m		US insurance $m	
31 December 2020	**Decrease of 0.5%**	**Increase of 1%**	**Decrease of 0.5%**	**Increase of 1%**
Net effect on shareholders' equity*	(1,274)	(318)	(594)	(68)

* The effect from the instantaneous changes in interest rates above, if they arose, would impact profit after tax for Asia insurance operations and would mostly be recorded within short-term fluctuations in investment returns. The impact on profit after tax would be the same as the net effect on shareholders' equity. For US insurance operations, the instantaneous changes in interest rates above, if they arose, would cause the net effect on equity shown above through two constituent movements. Firstly, profit after tax, net of related changes in the amortisation of DAC, would be impacted (decrease of 0.5 per cent: $(1,319) million; increase of 1 per cent: $1,976 million), and would mostly be recorded within short-term fluctuations in investment returns. Secondly, the effect would also impact other comprehensive income (decrease of 0.5 per cent: $725 million; increase of 1 per cent: $(2,044) million) in respect of the direct effect on the carrying value of the available-for-sale debt securities, net of related changes in the amortisation of DAC and related tax effects.

The estimated sensitivity to a decrease and increase in interest rates at 31 December 2019 was as follows:

	Asia insurance $m		US insurance $m	
31 December 2019	**Decrease of 1%**	**Increase of 1%**	**Decrease of 1%**	**Increase of 1%**
Net effect on shareholders' equity*	(702)	(718)	20	(553)

* The effect from the instantaneous changes in interest rates above, if they arose, would impact profit after tax for Asia insurance operations and would mostly be recorded within short-term fluctuations in investment returns. The impact on profit after tax would be the same as the net effect on shareholders' equity. For US insurance operations, the instantaneous changes in interest rates above, if they arose, would cause the net effect on equity shown above through two constituent movements. Firstly, profit after tax, net of related changes in the amortisation of DAC, would be impacted (decrease of 1 per cent: $(2,224) million; increase of 1 per cent: $1,691 million), and would mostly be recorded within short-term fluctuations in investment returns. Secondly, the effect would also impact other comprehensive income (decrease of 1 per cent: $2,244 million; increase of 1 per cent: $(2,244) million) in respect of the direct effect on the carrying value of the available-for-sale debt securities, net of related changes in the amortisation of DAC and related tax effects.

Asia insurance operations

The degree of sensitivity of the results of the non-linked shareholder-backed business of the Asia operations to movements in interest rates depends upon the degree to which the liabilities under the 'grandfathered' IFRS 4 measurement basis reflects market interest rates from year to year. This varies by local business unit. For example:

- Certain Asia businesses apply US GAAP, for which the results can be more sensitive as the effect of interest rate movements on the backing investments may not be offset by liability movements;
- The level of options and guarantees in the products written in the particular business unit will also affect the degree of sensitivity to interest rate movements; and
- The degree of sensitivity of the results is dependent on the interest rate level at that point of time.

The sensitivity of the Asia operations presented as a whole at a given point in time will also be affected by a change in the relative size of the individual businesses.

For many operations the sensitivities are dominated by the impact of interest rate movements on the value of government and corporate bond investments, which are expected to increase in value as interest rates fall to a greater extent than the offsetting increase in liabilities (and vice versa if rates rise). This arises because the discount rate in some operations does not fluctuate in line with interest rate movements. At higher levels of interest rates the liabilities become less sensitive to interest rate movements and the effects on assets becomes more dominant. This pattern is evident in the 'increase of 1 per cent' sensitivity at 31 December 2020.

The 'decrease of 0.5%' sensitivities reflects that some local business units' liabilities become more sensitive at lower interest rates and the fluctuations in liabilities begin to exceed asset gains. The liability movements also reflect the prudent nature of some of the regulatory regimes which leads to duration of liabilities that are longer than would be expected on a more economic basis and hence results in a mismatch with the assets that are managed on a more realistic basis. Following the substantial fall in interest rates over 2020, at 31 December 2020, the 'decrease of 0.5 per cent' sensitivity is dominated by the impact of interest rate movements on some local business units' policyholder liabilities, which are expected to increase more than the offsetting increase in the value of government and corporate bond investments, if interest rates were to fall further from the historically low levels seen at 31 December 2020. As noted above, the results only allow for limited management actions, and if such economic conditions persisted management could take additional actions to help mitigate the impact of these stresses, including (but not limited to) rebalancing investment portfolios, increased use of reinsurance, changes to new business pricing and the mix of new business being sold.

US insurance operations

The GMWB features attached to variable annuity business (other than 'for life' components) are accounted for under US GAAP at fair value and, therefore, will be sensitive to changes in interest rates. Debt securities and related derivatives are marked to fair value. Value movements on derivatives, net of related changes to amortisation of DAC and deferred tax, are recorded within the income statement. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income.

As at 1 June 2020, the interest rate risks relating to Jackson's fixed and fixed index annuity products have been substantially transferred as part of the reinsurance transaction with Athene described in note D1.1, leaving only a limited exposure from residual policies and new policies written post 1 June 2020. Jackson is exposed primarily to the following interest rate risks:

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

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

The sensitivity movements provided in the table above are at a point in time and reflect the hedging programme in place on the balance sheet date, while the actual impact on financial results would vary contingent upon a number of factors. Jackson's hedging programme is primarily focused on managing the economic risks in the business and protecting statutory solvency under larger market movements, and does not explicitly aim to hedge the IFRS accounting results. The magnitude of the impact of the sensitivities on profit after tax at 31 December 2020 is larger than the impact at 31 December 2019, reflecting the liabilities being more sensitive to further interest rate movements at the current low interest rate levels (after taking into account the impact of interest rate movements on derivatives). In determining the value of liabilities, assumed future separate account return is based on risk-free rates under 'grandfathered' US GAAP. The reduction in the magnitude of the impact of the sensitivities on other comprehensive income, and hence shareholders' equity, reflects the impact of the Athene reinsurance transaction described in note D1.1 on the profile of Jackson's general account liabilities and the consequential reduction in available-for-sale debt securities.

C6 Risk and sensitivity analysis continued

C6.3 Sensitivity to equity and property price risk

In the equity risk sensitivity analysis shown, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a longer period of time, during which the hedge positions within Jackson, where the underlying equity risk is greatest, would be rebalanced. The equity risk sensitivity analysis provided assumes that all equity indices fall by the same percentage.

Asia insurance operations

The estimated sensitivity to a 10 per cent increase and 20 per cent decrease in equity and property prices is as follows:

	31 Dec 2020 $m		31 Dec 2019 $m	
	Decrease of 20%	Increase of 10%	Decrease of 20%	Increase of 10%
Net effect on shareholders' equity*	(848)	410	(816)	408

* The effect from the instantaneous changes in equity and property prices above, if they arose, would impact profit after tax for Asia insurance operations, which would mostly be recorded within short-term fluctuations in investment returns.

Generally, changes in equity and property investment values are not directly offset by movements in non-linked policyholder liabilities. Movements in equities backing with-profits and unit-linked business have been excluded as they are generally matched by an equal movement in insurance liabilities (including unallocated surplus of with-profits funds). The impact on changes to future profitability as a result of changes to the asset values within unit-linked or with-profits funds have not been included in the instantaneous sensitivity above. The estimated sensitivities shown above include equity and property investments held by the Group's joint venture and associate businesses.

US insurance operations

At December 31, 2020 and 2019, the Company provided variable annuity contracts with guarantees, for which the net amount at risk ('NAR') is defined as the amount of guaranteed benefit in excess of current account value, as follows (dollars in millions):

	31 Dec 2020 $m		31 Dec 2019 $m	
	Account value	Net amount at risk	Account value	Net amount at risk
Return of net deposits plus a minimum return				
GMDB	170,510	2,340	150,576	2,477
GMWB – premium only	2,858	12	2,753	16
GMWB	248	11	257	14
GMAB – premium only	39	–	37	–
Highest specified anniversary account value minus withdrawals post-anniversary			–	–
GMDB	13,512	86	12,547	69
GMWB – highest anniversary only	3,459	41	3,232	51
GMWB	646	55	698	52
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary			–	–
GMDB	8,891	615	8,159	687
GMIB	1,675	556	1,688	616
GMWB	159,857	5,656	140,529	7,160

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

Due to the nature of valuation under IFRS of the free-standing derivatives and certain of the variable annuity guarantee features, this hedge, while effective on an economic basis, would not automatically offset within the financial statements as the impact of equity market movements resets the free-standing derivatives immediately while the hedged liabilities reset more slowly and fees are recognised prospectively in the year in which they are earned. Jackson's hedging programme is focused on managing the economic risks in the business and protecting statutory solvency in the circumstances of large market movements. The hedging programme does not aim to hedge IFRS accounting results, which can lead to volatility in the IFRS results in a period of significant market movements, as was seen in 2020.

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

The estimated sensitivity to a 10 per cent increase and 20 per cent decrease in equity and property prices is shown below.

	31 Dec 2020 $m		31 Dec 2019 $m	
	Decrease of 20%	Increase of 10%	Decrease of 20%	Increase of 10%
Net effect on shareholders' equity*	744	299	762	608

* The effect from the instantaneous changes in equity and property prices above, if they arose, would impact profit after tax for US insurance operations, which would mostly be recorded within short-term fluctuations in investment returns.

The table above excludes the impact of instantaneous equity movements on future separate account fee income.

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

The directional movements in the sensitivities reflect the hedging programme in place at 31 December 2020 and 2019 respectively. The nature of Jackson's dynamic hedging programme means that the portfolio, and hence the results of these sensitivities, will change on an ongoing basis. The impacts shown under an increase or a decrease in equity markets reflect the factors discussed above.

Jackson had variable annuity contracts with guarantees. Account balances of contracts with guarantees were invested in variable separate accounts as follows:

	31 Dec 2020 $m	31 Dec 2019 $m
Mutual fund type:		
Equity	132,213	121,520
Bond	20,203	19,341
Balanced	39,626	30,308
Money market	1,862	956
Total	193,904	172,125

C6 Risk and sensitivity analysis continued

C6.4 Sensitivity to insurance risk

Asia insurance operations

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

Many of the business units in Asia are exposed to mortality and morbidity risk and a provision is made within policyholder liabilities to cover the potential exposure. If all these assumptions were strengthened by 5 per cent then it is estimated that post-tax profit and shareholders' equity would decrease by approximately $77 million (2019: $77 million). Weakening these assumptions by 5 per cent would have a similar opposite impact.

US insurance operations

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

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

Note A3.1 describes the methodology applied by Jackson to amortise DAC. The amount of amortisation charged in any one period is sensitive to separate account investment returns. The sensitivity of DAC amortisation charge is discussed in note C4.2.

C7 Tax assets and liabilities

Accounting policies on deferred tax are included in note B3.

C7.1 Current tax

At 31 December 2020, of the $444 million (31 December 2019: $492 million) current tax recoverable, the majority is expected to be recovered more than 12 months after the reporting period.

At 31 December 2020, the current tax liability of $280 million (31 December 2019: $396 million) includes $113 million (31 December 2019: $198 million) of provisions for uncertain tax matters. Further detail is provided in note B3.2.

C7.2 Deferred tax

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

	2020 $m				
	Balance at 1 Jan	Movement in income statement	Movement through other comprehensive income and equity	Other movements including foreign currency movements	Balance at 31 Dec
Deferred tax assets					
Unrealised losses or gains on investments	–	–	–	–	–
Balances relating to investment and insurance contracts	32	55	–	–	87
Short-term temporary differences	3,889	765	–	8	4,662
Unused tax losses	154	(50)	–	5	109
Total	4,075	770	–	13	4,858
Deferred tax liabilities					
Unrealised losses or gains on investments	(877)	(78)	(102)	(6)	(1,063)
Balances relating to investment and insurance contracts	(1,507)	(235)	–	(23)	(1,765)
Short-term temporary differences	(2,853)	(377)	–	(17)	(3,247)
Total	(5,237)	(690)	(102)	(46)	(6,075)

	2019 $m					
	Balance at 1 Jan	Demerger of UK and Europe operations	Movement in income statement	Movement through other comprehensive income and equity	Other movements including foreign currency movements	Balance at 31 Dec
Deferred tax assets						
Unrealised losses or gains on investments	144	–	(16)	–	(128)	–
Balances relating to investment and insurance contracts	1	–	60	–	(29)	32
Short-term temporary differences	2,998	(160)	1,066	(15)	–	3,889
Unused tax losses	162	–	8	–	(16)	154
Total	3,305	(160)	1,118	(15)	(173)	4,075
Deferred tax liabilities						
Unrealised losses or gains on investments	(1,104)	1,053	(231)	(713)	118	(877)
Balances relating to investment and insurance contracts	(1,276)	–	(246)	–	15	(1,507)
Short-term temporary differences	(2,742)	298	(414)	19	(14)	(2,853)
Total	(5,122)	1,351	(891)	(694)	119	(5,237)

Of the short-term temporary differences of $4,662 million relating to deferred tax assets, $3,274 million for US insurance operations is expected to be recovered in line with the run off of the in-force book, and the majority of the remaining balances are expected to be recovered within five years.

The deferred tax balances are further analysed as follows:

	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2020 $m	31 Dec 2019 $m	31 Dec 2020 $m	31 Dec 2019 $m
Asia operations	**316**	270	**(2,552)**	(2,146)
US operations	**4,542**	3,804	**(3,523)**	(3,091)
Other operations	**–**	1	**–**	–
Total Group	**4,858**	4,075	**(6,075)**	(5,237)

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. The following tax benefits and losses have not been recognised for the years shown:

	31 Dec 2020 $m		31 Dec 2019 $m	
	Tax benefits	Losses	Tax benefits	Losses
Trading losses	**191**	**991**	36	175
Capital losses	**2**	**7**	1	5

Of the benefit from unrecognised trading losses, $26 million will expire within the next 10 years and the rest have no expiry date.

Some of the Group's businesses are located in jurisdictions in which a withholding tax charge is incurred upon the distribution of earnings. At 31 December 2020, deferred tax liabilities of $323 million (31 December 2019: $247 million) have not been recognised in respect of such withholding taxes as the Group is able to control the timing of the distributions and it is probable that the timing differences will not reverse in the foreseeable future.

C8 Share capital, share premium and own shares

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

	2020			2019		
Issued shares of 5p each fully paid	**Number of ordinary shares**	**Share capital** $m	**Share premium** $m	**Number of ordinary shares**	**Share capital** $m	**Share premium** $m
Balance at 1 Jan	2,601,159,949	172	2,625	2,593,044,409	166	2,502
Shares issued under share-based schemes	8,329,753	1	12	8,115,540	–	22
Impact of change in presentation currency	–	–	–	–	6	101
Balance at 31 Dec	2,609,489,702	173	2,637	2,601,159,949	172	2,625

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

	Number of shares to subscribe for	Share price range from	Share price range to	Exercisable by year
31 Dec 2020	2,320,320	964p	1,455p	2026
31 Dec 2019	3,805,447	1,104p	1,455p	2025

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc shares ('own shares') either in relation to its employee share schemes or, up until the demerger of its UK and Europe operations (M&G plc) in October 2019, via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of $243 million at 31 December 2020 (31 December 2019: $183 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2020, 11.2 million (31 December 2019: 8.4 million) Prudential plc shares with a market value of $205 million (31 December 2019: $161 million) were held in such trusts, all of which are for employee incentive plans. The maximum number of shares held during the year was 11.5 million which was in June 2020.

Within the trusts, shares are notionally allocated by business unit reflecting the employees to which the awards were made.

The Company purchased the following number of shares in respect of employee incentive plans:

	2020				2019			
	Number of shares	**Share price Low** £	**Share price High** £	**Cost*** $	**Number of shares**	**Share price Low** £	**Share price High** £	**Cost*** $
January	62,395	14.42	14.68	1,195,275	75,165	14.25	14.29	1,384,926
February	62,680	14.57	14.60	1,183,717	71,044	15.00	15.18	1,390,865
March	79,057	11.18	11.40	1,110,374	68,497	15.20	16.32	1,385,182
April	5,363,563	10.21	10.48	68,010,967	2,638,429	15.65	16.73	54,052,710
May	81,377	11.16	11.30	1,117,783	73,417	16.35	16.45	1,550,109
June	167,724	11.86	12.67	2,540,749	217,800	16.20	16.36	4,484,773
July	87,239	12.30	12.51	1,365,109	60,514	17.47	17.71	1,321,427
August	72,287	12.21	12.33	1,167,008	72,671	14.86	15.21	1,318,593
September	75,368	11.61	11.68	1,138,447	73,284	14.14	14.76	1,318,767
October	116,802	11.49	11.71	1,764,694	178,359	13.78	14.24	3,148,811
November	74,178	10.62	12.76	1,233,127	75,904	13.38	13.85	1,309,146
December	70,814	12.78	12.83	1,217,842	68,573	13.07	13.13	1,178,206
Total	6,313,484			83,045,092	3,673,657			73,843,515

* The cost in USD shown has been calculated from the share prices in GBP using the monthly average exchange rate for the month in which those shares were purchased.

Up until the demerger of M&G plc in October 2019, the Group consolidated a number of authorised investment funds managed by M&G plc that held shares in Prudential plc. The cost of acquiring these shares was included in the cost of own shares in 2019.

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

Other than set out above, the Group did not purchase, sell or redeem any Prudential plc listed securities during 2020 or 2019.

C9 Provisions

	31 Dec 2020 $m	31 Dec 2019 $m
Staff benefits provisions note (i)	328	408
Other provisions	22	58
Total provisions note (ii)	350	466

Notes

(i) Provisions for staff benefits are generally expected to be paid out within the next three years.

(ii) Analysis of movement in total provisions is shown below:

	2020 $m	2019 $m
Balance at 1 Jan	466	1,373
Removal of discontinued UK and Europe operations	–	(946)
Charged (credited) to income statement:		
Additional provisions	128	188
Unused amounts released	(13)	(7)
Utilisation during the year	(241)	(154)
Exchange differences	10	12
Balance at 31 Dec	350	466

C10 Capital

C10.1 Group objectives, policies and processes for managing capital

(i) Capital measure

The Group manages its Group LCSM capital resources as its measure of capital. At 31 December 2020, estimated Group shareholder LCSM capital resources is $15.8 billion (31 December 2019: $14.0 billion).

(ii) External capital requirements

The Hong Kong Insurance Authority (IA) assumed the role of the group-wide supervisor for the Prudential Group following the demerger of M&G plc in October 2019. Ultimately, Prudential plc will become subject to the Group-wide Supervision (GWS) Framework. The primary legislation was enacted in July 2020 and will come into operation on 29 March 2021. The relevant subsidiary legislation, including the Insurance (Group Capital) Rules, were 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.

Until Hong Kong's GWS Framework comes into force, Prudential applies the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine Group regulatory capital requirements (both minimum and prescribed levels). The GWS Framework is expected to be largely consistent with that applied under LCSM with the exception of the treatment of debt instruments which will be subject to transitional arrangements under the GWS Framework. Prudential's initial analysis indicates that all debt instruments (senior and subordinated) issued by Prudential will meet the transitional conditions set by the Hong Kong IA and will be included as eligible Group capital resources, although this will be subject to approval by the Hong Kong IA. The LCSM surplus represents the summation of capital resources across local solvency regimes for regulated entities of the Group and IFRS net assets (with some adjustments) for non-regulated entities less the summation of local statutory capital requirements across the Group, with no allowance for diversification between business operations.

(iii) Meeting of capital management objectives

The Group minimum capital requirement has been met during 2020.

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

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

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

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

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

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

C10 Capital continued

C10.2 Local capital regulations

(i) Asia insurance operations

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

China JV

A risk-based capital, risk management and governance framework, known as the China Risk Oriented Solvency System (C-ROSS), applies in China. Under C-ROSS, insurers are required to maintain a core solvency ratio (core capital over minimum capital) and a comprehensive solvency ratio (capital resources over minimum capital) of not lower than 50 per cent and 100 per cent, respectively. The review of C-ROSS by the China Banking Insurance Regulatory Commission (CBIRC) has resulted in elevating the relevant principles of C-ROSS into regulatory requirements.

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

Hong Kong

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

Mathematical reserves are based on a net premium valuation method using assumptions which include a suitable margin for prudence. The valuation interest rate used to value long-term liabilities reflects a blend between the prudent assessment of the portfolio yield and the reinvestment yield subject to a maximum of the prudent portfolio yield. The approach used to determine the reinvestment yield for reserving allows for average yields thus the impact of movements in interest rates are reflected in the valuation interest rate over time. The basis of calculation was updated in 2020 in line with a circular issued by the Hong Kong IA. The capital resources are based on assets that are marked-to-market. The nature of the current regulatory regime means that the duration of statutory liabilities is longer than would be expected on an economic basis and hence there is an inherent mismatch with the assets that are managed on a more realistic basis. The Hong Kong IA is in the process of developing a risk-based capital framework with several quantitative impact studies performed over the past few years, implementation of this framework is targeted by 2024 but the exact timing is uncertain.

Indonesia

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

Malaysia

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

The capital resources are based on assets that are marked-to-market, with policyholder liabilities based on a gross premium valuation method using best estimate assumptions with a suitable margin for prudence. Liabilities are zeroised at a fund level (ie negative liabilities are not permitted at a fund level). The BNM has initiated a review of its RBC framework. An exposure draft on Valuation of Insurance and Takaful Liabilities was issued on 24 December 2019 to gather industry feedback by 15 April 2020. The exact timing of implementation of potential revisions remains uncertain.

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

Singapore

A risk-based capital framework applies in Singapore. The regulator also has the authority to direct that the insurer satisfies additional capital adequacy requirements in addition to those set forth under the Singapore Insurance Act if it considers such additional requirements appropriate. The capital resources are based on assets that are marked-to-market, with policyholder liabilities based on a gross premium valuation method using best estimate assumptions with a suitable margin for prudence. The updated risk-based capital framework (RBC2) came into effect on 31 March 2020 and this permits the recognition of a prudent allowance for negative reserves in the capital resources.

(ii) US insurance operations

The regulatory framework for Jackson is governed by the requirements of the US NAIC-approved Risk-Based Capital standards. Under these requirements life insurance companies report using a formula-based capital standard, which includes components calculated by applying after-tax factors to various asset, premium and reserve items and a separate model-based component for market risk and interest rate risk associated primarily with variable annuity products.

(iii) Asset management operations – regulatory and other surplus

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

	2020 $m			2019 $m
Regulatory and other surplus	**Eastspring**	**US**	**Total asset management**	**Total asset management**
Balance at 1 Jan	376	6	382	1,271
Removal of discontinued UK and Europe operations	–	–	–	(846)
Gains (losses) during the year	223	(1)	222	238
Movement in capital requirement	48	–	48	(32)
Capital injection	65	–	65	(10)
Distributions made to the parent company	(204)	–	(204)	(213)
Exchange and other movements	(49)	–	(49)	(26)
Balance at 31 Dec	459	5	464	382

C10.3 Transferability of capital resources

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

Jackson can pay dividends on its capital stock only out of earned surplus unless prior regulatory approval is obtained. Furthermore, dividends that exceed the greater of statutory net gain from operations less net realised investments losses for the prior year or 10 per cent of Jackson's prior year end statutory surplus, excluding any increase arising from the application of permitted practices, require prior regulatory approval.

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

C11 Property, plant and equipment

Property, plant and equipment comprise Group occupied properties and tangible assets. Property, plant and equipment also includes right-of-use assets for operating leases of properties occupied by the Group and leases of equipment and other tangible assets. All property, plant and equipment, including the right-of-use assets under operating leases, are held at cost less cumulative depreciation, calculated using the straight-line method, and impairment charge.

The Group does not have any right-of-use assets that would meet the definition of investment property. As at 31 December 2020, total right-of-use assets comprised $429 million (31 December 2019: $569 million) of property and $13 million (31 December 2019: $24 million) of non-property assets. Of the $442 million (31 December 2019: $593 million) total right-of-use assets, $182 million (31 December 2019: $253 million) were held by the Group's with-profits businesses.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. The Group assesses at lease commencement whether it is reasonably certain to exercise the option. This assertion is revisited if there is a material change in circumstances. As at 31 December 2020, the undiscounted value of lease payments beyond the break period not recognised in the lease liabilities is $179 million (31 December 2019: $185 million).

A reconciliation of the carrying amount of the Group's property, plant and equipment from the beginning to the end of the years shown is as follows:

	2020 $m				2019 $m			
	Group occupied property	Tangible assets	Right-of-use assets	Total	Group occupied property	Tangible assets	Right-of-use assets	Total
Balance at 1 Jan								
Cost	351	687	734	1,772	525	2,089	–	2,614
Accumulated depreciation	(76)	(490)	(141)	(707)	(105)	(714)	–	(819)
Opening net book amount	275	197	593	1,065	420	1,375	–	1,795
Removal of discontinued UK and Europe operations	–	–	–	–	(143)	(1,170)	–	(1,313)
Recognition of right-of-use asset on initial application of IFRS 16	–	–	–	–	–	–	527	527
Arising on acquisitions of subsidiaries	–	–	–	–	6	13	1	20
Additions	3	56	21	80	1	63	196	260
Depreciation and impairment charge	(9)	(64)	(145)	(218)	(9)	(77)	(141)	(227)
Disposals and transfers	(3)	(13)	(25)	(41)	–	(11)	1	(10)
Effect of movements in exchange rates	1	8	(2)	7	–	4	9	13
Balance at 31 Dec	267	184	442	893	275	197	593	1,065
Representing:								
Cost	355	707	710	1,772	351	687	734	1,772
Accumulated depreciation	(88)	(523)	(268)	(879)	(76)	(490)	(141)	(707)
Closing net book amount	267	184	442	893	275	197	593	1,065

The Group has non-cancellable property subleases which have been classified as operating leases under IFRS 16. The sublease rental income received in 2020 for the leases is $10.8 million (2019: $11 million from continuing operations).

Tangible assets

At 31 December 2020, of the $184 million (31 December 2019: $197 million) tangible assets, $72 million (31 December 2019: $83 million) were held by the Group's with-profits businesses.

Capital expenditure: property, plant and equipment by segment

The capital expenditure in 2020 of $59 million (2019: $64 million) arose as follows: $30 million (2019: $44 million) in Asia and $2 million (2019: $5 million) in the US, with the remaining balance of $27 million (2019: $15 million) arising from corporate expenditure unallocated to a segment.

D Other information

D1 Corporate transactions

D1.1 Gain (loss) attaching to corporate transactions

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

	2020 $m	**2019** $m
Gain on disposals note (i)	–	265
Other transactions note (ii)	(48)	(407)
Total gain (loss) attaching to corporate transactions as shown separately on the consolidated income statement	(48)	(142)
Gain arising on reinsurance of Jackson's in-force fixed and fixed index annuity business note (iii)	804	–
Gain arising on reinsurance transaction undertaken by the Hong Kong business note (iv)	765	–
Total gain (loss) attaching to corporate transactions	1,521	(142)

Notes

(i) In 2019, the gain on disposals principally related to profits arising from a 4 per cent reduction in the Group's stake in its associate in India, ICICI Prudential Life Insurance Company, and the disposal of Prudential Vietnam Finance Company Limited, a wholly-owned subsidiary that provides consumer finance.

(ii) In 2020, other transactions include $(38) million of costs associated with the work to plan for the separation of Jackson. In 2019, other transactions primarily reflected costs related to the demerger of the Group's UK and Europe operations (M&G plc).

(iii) With effect from 1 June 2020, Jackson reinsured substantially all of its in-force portfolio of US fixed and fixed index annuities with Athene Life Re Ltd, which resulted in a pre-tax gain of $804 million, after allowing for the write-off of DAC associated with the business reinsured and after reflecting post-closing adjustments made in the second half of 2020. The transaction excluded Jackson's legacy life and institutional business as well as the REALIC portfolio and group pay-out annuity business reinsured from John Hancock and was collateralised to reduce the exposure to counterparty risk. Under the reinsurance arrangement, Jackson reinsured $27.6 billion liabilities (valued at 1 June 2020) in return for a premium of $28.9 billion net of ceding commission, comprising principally of bonds. The pre-tax gain also includes the realised gains arising on the bonds net of the DAC written off as a result of the transaction of $2.1 billion. After allowing for tax of $(0.2) billion and the reduction in unrealised gains recorded directly in other comprehensive income of $(1.8) billion, the impact of the reinsurance transaction on IFRS shareholders' equity is a reduction of $(1.2) billion.

(iv) The benefit arises from a co-reinsurance quota share transaction undertaken by the Hong Kong business in December 2020 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. 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.

D1.2 Equity investment by Athene into the US business

In 2020, all of the $1,014 million effect of transactions relating to non-controlling interests recognised in the consolidated statement of changes in equity relates to the equity investment by Athene Life Re Ltd ('Athene') into the US business completed on 17 July 2020. Under the transaction, Athene 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. Athene's investment is in the form of a cash subscription for the issuance of new common equity in the holding company containing Prudential's US businesses, including Jackson National Life Insurance Company and PPM America.

The following is summarised financial information for non-controlling interest in Prudential's US operations currently held by Athene since July 2020:

- The profit after tax generated by the US operations and attributable to Athene is $57 million;
- The comprehensive loss generated by the US operations and attributable to Athene is $(8) million; and
- Of the US operations' total equity, the amount attributable to Athene is $1,063 million.

Analysis of assets and liabilities of the US operations is included in note C1 segmental balance sheet. Profit or loss of the US operations is included in note B1.4 segmental income statement. Total net decrease in cash and cash equivalents for the US operations during the year is shown below:

	2020 $m
Cash flows from operating activities	(807)
Cash flows from investing activities	(2)
Cash flows from financing activities	470
Net cash flows in the year	(339)

No dividends were paid to Athene during the year.

D1 Corporate transactions continued

D1.3 Discontinued UK and Europe operations

On 21 October 2019, the Group completed the demerger of its UK and Europe operations (M&G plc), which were classified as discontinued operations in the comparatives included within these consolidated financial statements in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'.

The results and cash flows for the discontinued UK and Europe operations presented in the consolidated financial statements for the period of ownership up to the demerger are analysed below. The profit and other comprehensive income for the period from the discontinued UK and Europe operations were wholly attributable to the equity holders of the Company.

Total comprehensive income

	2019 $m
Total revenue, net of reinsurance	33,212
Total charges, net of reinsurance	(31,118)
Profit before tax	2,094
Re-measurement on demerger	188
Cumulative exchange loss recycled from other comprehensive income	(2,668)
Total (loss) profit before tax	(386)
Tax (charge) credit	(775)
(Loss) profit for the year	(1,161)
Other comprehensive income:	
Cumulative exchange loss recycled through profit or loss	2,668
Other items, net of related tax	203
Other comprehensive income (loss) for the year, net of related tax	2,871
Total comprehensive income for the year	1,710

Cash flows

	2019 $m
Cash flows from operating activities	2,375
Cash flows from investing activities	(454)
Cash and cash equivalents divested on demerger	(7,611)
Net cash flows in the year	(5,690)
Net cash flows between discontinued and continuing operations*	(436)
Cash and cash equivalents at beginning of year	6,048
Effect of exchange rate changes on cash and cash equivalents	78
Cash and cash equivalents at end of year	–

*The net cash flows between discontinued and continuing operations of $(436) million primarily represented dividends of $(4,525) million, offset by payment for the transfer of debt to M&G plc from Prudential plc prior to the demerger of $4,161 million.

D2 Contingencies and related obligations

Litigation and regulatory matters

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

Guarantees

Guarantee funds in the US and certain markets in Asia provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and type of business. The estimated reserve for future guarantee fund assessments is not significant. For the majority of the markets in Asia, the insurance company's obligation is limited to the amount paid based on a fixed percentage of premiums. The Directors believe that sufficient provision has been made on the balance sheet for all anticipated payments.

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

Intra-group capital support arrangements

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

D3 Post balance sheet events

Dividends

The 2020 second interim ordinary dividend approved by the Board of Directors after 31 December 2020 is as described in note B5.

Intention to demerge the Group's US operations in the second quarter of 2021

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

Subject to shareholder and regulatory approvals, the planned demerger is expected to complete in the second quarter of 2021 and would lead to a significantly earlier separation of Jackson from the Group than would have been possible through a minority IPO and future sell-downs, which from market precedent may have lasted until 2023. At the point of demerger, Prudential is planning to retain a 19.9 per cent non-controlling interest in Jackson, which will be reported within the consolidated financial position as a financial investment at fair value. Subject to market conditions, the Group intends to monetise a portion of this investment to support investment in Asia within 12 months of the planned demerger, such that the Group will own less than 10 per cent at the end of such period.

Following this decision in January 2021, the US operations (equivalent to the US segment disclosed in these financial statements) are considered to meet the held for distribution criteria in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'. It is not practicable to quantify the potential financial effect of the planned demerger and the retained non-controlling interest at this stage.

D4 Related party transactions

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

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

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

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

In 2020 and 2019, other transactions with key management personnel were not deemed to be significant both by virtue of their size and in the context of the individuals' financial positions. All of these transactions were on terms broadly equivalent to those that prevailed in arm's-length transactions.

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

D5 Commitments

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

At 31 December 2020, Asia operations had $1,913 million unfunded commitments (31 December 2019: $2,013 million) primarily related to investments in infrastructure funds and alternative investment funds. At 31 December 2020, Jackson had unfunded commitments of $831 million (31 December 2019: $889 million) related to investments in limited partnerships and $185 million (31 December 2019: $796 million) related to commercial mortgage loans and other fixed income securities. These commitments were entered into in the normal course of business and a material adverse impact on the operations is not expected to arise from them.

D6 Investments in subsidiary undertakings, joint ventures and associates

D6.1 Basis of consolidation

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

(i) Subsidiaries

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

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

(ii) Joint ventures and associates

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

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

(iii) Structured entities

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

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

Collective investment schemes

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

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

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

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

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

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

Jackson's separate account assets

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

Limited partnerships

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

Other structured entities

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

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

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

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

	31 Dec 2020 $m			31 Dec 2019 $m		
Statement of financial position line items	**Investment funds**	**Separate account assets**	**Other structured entities**	**Investment funds**	**Separate account assets**	**Other structured entities**
Equity securities and holdings in collective investment schemes	27,192	219,062	–	23,622	195,070	–
Debt securities	–	–	3,414	–	–	6,573
Total	27,192	219,062	3,414	23,622	195,070	6,573

As at 31 December 2020 and 2019, the Group does not have an agreement, contractual or otherwise, or intention to provide financial support to structured entities that could expose the Group to a loss.

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.2 Dividend restrictions and minimum capital requirements

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

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

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

The Group's subsidiaries, joint ventures and associates in Asia may remit dividends to the Group, in general, provided the statutory insurance fund meets the capital adequacy standard required under local statutory regulations and has sufficient distributable reserves. For further details on local capital regulations in Asia please refer to note C10.2.

D6.3 Investments in joint ventures and associates

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

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

The Group's associates, which are also accounted for under the equity method, include the Indian insurance entity (with the majority shareholder being ICICI Bank). In addition, the Group has investments in collective investment schemes, funds holding collateralised debt obligations, property funds where the Group has significant influence. As allowed under IAS 28, these investments are accounted for on a fair value through profit or loss basis. The aggregate fair value of associates accounted for at fair value through profit or loss, where there are published price quotations, is approximately $0.7 billion at 31 December 2020 (31 December 2019: $0.7 billion).

For joint ventures and associates accounted for using the equity method, the 12 months financial information of these investments for the years ended 31 December 2020 and 2019 (covering the same period as that of the Group) has been used in these consolidated financial statements.

The Group's share of the profits for shareholder-backed business (including short-term fluctuations in investment returns), net of related tax, in joint ventures and associates, which are equity accounted as shown in the consolidated income statement at 31 December 2020, comprises the following:

Share of profits from joint ventures and associates, net of related tax	2020 $m	2019 $m
Asia insurance operations	400	291
Asia asset management operations	117	106
Total segment and Group total	517	397

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

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

Key to share classes:

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

D6.4 Related undertakings

In accordance with Section 409 of the Companies Act 2006, a list of Prudential Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20 per cent) is disclosed below, along with the classes of shares held, the registered office address and the effective percentage of equity owned at 31 December 2020.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS Standards. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. The Group's consolidation policy is described in note D6.1. The Group also operates through branches. At 31 December 2020, there was no significant branch outside the UK.

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

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

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

The table below represents the list of entities within the Group excluding the entities within the US business, which are shown in a separate table below.

Name of entity	Classes of shares held	Proportion held	Registered office address
Aberdeen Standard Cash Creation Fund	U	31.40%	28th Floor Bangkok City Tower, 179 South Sathorn Road, Thungmahamek, Sathorn, Bangkok 10120, Thailand
Aberdeen Standard Global Opportunities Fund	U	32.24%	20 Collyer Quay, #01-01, Singapore 049319
Aberdeen Standard Singapore Equity – SGD class	U	57.89%	
Aberdeen Standard Singapore Equity Fund – USD class	U	42.67%	21 Church Street, #01-01, Capital Square Two, Singapore 049480
Allianz Global Investors Greater China Fund	U	43.06%	5F, No.378, Fu Xing N. Rd. Taipei, Taiwan
Alternatives North America Ltd.	U	100.00%	c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, Cayman Islands KY1-1102
AMUNDI FTSE China A50 Index ETF	U	58.20%	90, boulevard Pasteur, 75015 Paris – France
BOCHK Aggressive Growth Fund	U	44.20%	27th Floor, Bank of China Tower, 1 Garden Road, Hong Kong
BOCHK Balanced Growth Fund	U	38.00%	
BOCHK China Equity Fund	U	61.53%	
BOCHK Conservative Growth Fund	U	38.26%	
BOCHK US Dollar Money Market Fund	U	24.23%	
BOCI-Prudential Asset Management Limited	OS	36.00%	
BOCI-Prudential Trustee Limited	OS	36.00%	12th Floor and 25th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong
Capital Asian Bond Fund	U	40.72%	15F., No.69, Sec. 2, Dunhua South. Rd. Da-an District, Taiwan
CBRE European Industrial Fund	U	23.40%	2100 McKinney Avenue, 12th Floor, Dallas, TX 75201, USA
CITIC-CP Asset Management Co., Ltd.	MI	26.95%	Room 101-2, No.128 North Zhangjiabang Road, Pudong District, Shanghai, China
CITIC-Prudential Fund Management Company Limited	MI	49.00%	Level 9, HSBC Building, Shanghai IFC, 8 Century Avenue, Pudong, Shanghai, China
CITIC-Prudential Life Insurance Company Limited	MI	50.00%	0507-0510, 1601-1616, East Tower, World Financial Centre, No.1 East Third Ring Middle Road, Chaoyang District, Beijing, 100020, China
Eastspring Al-Wara' Investments Berhad	OS	100.00%	Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia
Eastspring Asset Management Korea Co. Ltd.	OS	100.00%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Global Smart Beta Baby Investment Trust H	U	60.00%	Goodmorning Shinhan Tower 15F Yeoido Dong 23-2, Youngdungpo-gu, Seoul 150-010, Korea
Eastspring Global Smart Beta Baby Investment Trust USD	U	100.00%	

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.4 Related undertakings continued

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

Name of entity	Classes of shares held	Proportion held	Registered office address
Eastspring Infrastructure Debt Fund L.P.	PI	90.68%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Investment Asia Real Estate Multi Asset Income Fund	U	80.65%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investment Asia Sustainable Bond Fund	U	99.99%	
Eastspring Investment K-Short Term Bond Alpha Securities Investment Trust (Bond Balanced)	U	20.41%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Investment Management (Shanghai) Company Limited	MI	100.00%	Unit 306-308, 3rd Floor, Azia Center, 1233 Lujiazui Ring Road, China (Shanghai) Pilot Free Trade Zone, China
Eastspring Investments – Global Growth Equity Fund	U	73.87%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments – Global Low Volatility Equity Fund	U	99.48%	
Eastspring Investments – Global Technology Fund	U	81.38%	
Eastspring Investments – Pan European Fund	U	64.88%	
Eastspring Investments – US High Yield Bond Fund	U	41.33%	
Eastspring Investments (Hong Kong) Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Eastspring Investments (Luxembourg) S.A.	OS	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments (Singapore) Limited	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
Eastspring Investments Asia Oceania High Dividend Equity Fund	U	100.00%	Eastspring Investments Limited, Marunouchi Park Bldg., 2-6-1 Marunochi, Chiyoda-ku, Tokyo, Japan 100-6905
Eastspring Investments Asia Oceania U&I Bond Fund	U	99.92%	
Eastspring Investments Asia Pacific Equity Fund	U	99.97%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	U	39.08%	
Eastspring Investments Asian Dynamic Fund	U	90.00%	
Eastspring Investments Asian Equity Fund	U	99.17%	
Eastspring Investments Asian Equity Income Fund	U	80.97%	
Eastspring Investments Asian High Yield Bond Fund	U	29.28%	
Eastspring Investments Asian High Yield Bond MY Fund	U	67.90%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments Asian Infrastructure Equity Fund	U	71.48%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Investment Grade Bond Fund	U	92.65%	
Eastspring Investments Asian Low Volatility Equity Fund	U	99.11%	
Eastspring Investments Asian Multi Factor Equity Fund	U	100.00%	
Eastspring Investments Asian Property Securities Fund	U	97.70%	
Eastspring Investments Berhad	OS	100.00%	Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia
Eastspring Investments China A Shares Growth Fund	U	91.25%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Dragon Peacock Fund	U	90.95%	

Key to share classes:

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

Name of entity	Classes of shares held	Proportion held	Registered office address
Eastspring Investments Emerging Markets Star Players	U	41.15%	Eastspring Investments Limited, Marunouchi Park Bldg., 2-6-1 Marunochi, Chiyoda-ku, Tokyo, Japan 100-6905
Eastspring Investments Equity Income Fund	U	29.20%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments European Inv Grade Bond Fund	U	99.73%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Fund Management Limited Liability Company	MI	100.00%	23rd Floor, Saigon Trade Center, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Eastspring Investments Global Emerging Markets Bond Fund	U	99.96%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Global Equity Navigator Fund	U	98.43%	
Eastspring Investments Global Market Navigator Fund	U	99.63%	
Eastspring Investments Global Multi Asset Income Plus Growth Fund	U	99.99%	
Eastspring Investments Greater China Equity Fund	U	94.66%	
Eastspring Investments Group Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
Eastspring Investments Incorporated	OS	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
Eastspring Investments India Consumer Equity Open Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene, 72201, Mauritius
Eastspring Investments India Equity Fund	U	77.64%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments India Equity Open Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene, 72201, Mauritius
Eastspring Investments India Infrastructure Equity Open Limited	OS	100.00%	
Eastspring Investments Japan Dynamic MY Fund	U	37.02%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments Limited	OS	100.00%	Marunouchi Park Building, 6-1 Marunouchi 2-chome, Chiyoda-Ku, Tokyo, Japan
Eastspring Investments MY Focus Fund	U	26.11%	Eastspring Investments Berhad, Level 22, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Eastspring Investments Services Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
Eastspring Investments SICAV-FIS – Alternative Investments Fund	U	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS – Asia Pacific Loan Fund	U	90.92%	
Eastspring Investments Unit Trust – Dragon Peacock Fund	U	97.74%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments US Corporate Bond Fund	U	60.63%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments US High Inv Grade Bond Fund	U	90.09%	
Eastspring Investments US Investment Grade Bond Fund	U	40.83%	
Eastspring Investments UT Singapore ASEAN Equity Fund	U	98.74%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments UT Singapore Select Bond Fund	U	75.14%	
Eastspring Investments Vietnam Navigator Fund	U	76.45%	23rd Floor, Saigon Trade Center, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Eastspring Investments World Value Equity Fund	U	95.42%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Overseas Investment Fund Management (Shanghai) Company Limited	MI	100.00%	Unit 306-308, 3rd Floor, 1233 Lujiazui Ring Road, China (Shanghai) Pilot Free Trade Zone, China
Eastspring Real Assets Partners	OS	100.00%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Securities Investment Trust Co., Ltd.	OS	99.54%	4th Floor, No.1 Songzhi Road, Taipei 110, Taiwan

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.4 Related undertakings continued

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

Name of entity	Classes of shares held	Proportion held	Registered office address
First Sentier Global Property Securities Fund	U	56.08%	38 Beach Road, #06-11 South Beach Tower, Singapore 189767
First State China Focus Fund	U	71.78%	70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland
FRANK TP ASIA GR-A-ACC-SGD	U	28.03%	8A, rue Albert Borschette, L-1246 Luxembourg
Fubon China Bond Umbrella Fund	U	37.09%	8F., No.108, Sec.1, Dunhua South. Rd. Taipei, Taiwan
Fubon Global Investment Grade Bond Fund	U	41.28%	
Fuh Hwa Emerging Market RMB Fixed Income Fund	U	24.51%	8F & 9F., No.308, Sec. 2, Bade Rd., Da-an District
Furnival Insurance Company PCC Limited	OS	100.00%	PO Box 155, Mill Court, La Charroterie, St Peter Port, GY1 4ET, Guernsey
GS Twenty Two Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Hyde Holdco 1 Limited (In Liquidation)	OS	100.00%	c/o Mazars LLP, 45 Church Street, Birmingham, B3 2RT, United Kingdom
ICICI Prudential Asset Management Company Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
ICICI Prudential Life Insurance Company Limited	OS	22.11%	ICICI PruLife Towers, 1089 Appasaheb Marathe Marg, Prabhadevi, Mumbai 400025, India
ICICI Prudential Pension Funds Management Company Limited	OS	22.11%	
ICICI Prudential Trust Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
Invesco Fixed Maturity Selective Emerging Market Bonds 2024	U	100.00%	8F, No 122, Tung Hua N. Rd. Taipei, Taiwan
Invesco Select 6 Year Maturity Global Bond Fund	U	100.00%	
iShares Core MSCI Asia	U	72.07%	16/F Champion Tower, 3 Garden Road, Central, Hong Kong
iShares Edge MSCI USA Minimum Volatility ESG UCITS Fund	U	78.95%	J.P. Morgan, 200 Capital, 79 Sir John Rogerson's Quay, Dublin 2, D02 RK57, Ireland
iShares Edge MSCI USA Momentum Factor UCITS Fund	U	37.14%	
iShares Fallen Angels High Yield Corporate Bond UCITS ETF Wing	U	38.11%	79 Sir John Rogerson's Quay, Dublin 2, D02 RK 57, Ireland
JPMorgan Investment Funds – Global Select Equity Fund	U	28.59%	JPMorgan Asset Management (Europe) S.à r.l., 6, route de Trèves, L-2633 Senningerberg, Luxembourg
JPMorgan Liquidity Funds – SGD Liquidity LVNAV Fund	U	21.21%	
KKP Active Equity Fund	U	22.04%	19/F Muang Thai-Phatra Complex, Building Tower, A, 252/25 Ratchadapisek Road, Huaykwang, Bangkok 10310, Thailand
Krungsri Greater China Equity Hedged Dividend Fund	U	25.64%	12th, 18th Zone B Floor, Ploenchit Tower 898 Ploenchit Road, Lumpini Pathumwan, Bangkok 10330, Thailand
Lasalle Property Securities SICAV-FIS	U	100.00%	11-13 Boulevard de la Foire, L-1528 Luxembourg
M&G Asia Property Trust	U	100.00%	8 Marina Boulevard, 05-02 Marina Bay, Financial Centre Tower 1, Singapore, 018981
M&G Luxembourg European Strategic Value Fund	U	78.60%	49 Avenue J.F. Kennedy, L-1855, Luxembourg
M&G Real Estate Asia Holding Company Pte. Ltd.	OS	33.00%	10 Marina Boulevard, #31-03, Marina Bay, Financial Centre Tower 2, Singapore, 018983
Manulife Asia Pacific Bond Fund	U	50.85%	9/F, No 89 Son Ren Road, Taipei, Taiwan
Manulife China Dim Sum High Yield Bond Fund	U	65.43%	
Manulife China Offshore Bond Fund	U	66.01%	
Manulife USD High Yield Bond Fund	U	26.54%	

Key to share classes:

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

Name of entity	Classes of shares held	Proportion held	Registered office address
Neuralbay Pte. Ltd.	OS	100.00%	10 Central Exchange Green, Pixel, Singapore 138649
Nomura Six Years Fixed Maturity Asia Pacific Emerging Market Bond Fund	U	100.00%	101 Tower, 30F, No. 7 Sec. 5, Xinyi Rd., Xinyi Dist., Taipei, Taiwan
Nomura Six Years Fixed Maturity Emerging Market Bond Fund	U	43.03%	
Nomura Six Years Ladder Maturity Asia Pacific Emerging Market Bond Fund	U	100.00%	
North Sathorn Holdings Company Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
PCA IP Services Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PCA Life Assurance Co. Ltd.	OS	99.79%	8th Floor, No.1 Songzhi Road, Taipei City, 11047, Taiwan
PCA Reinsurance Co. Ltd.	OS	100.00%	Unit Level 13(A), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia
Prenetics Limited	PS	12.65%	7th Floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong
Pru Life Insurance Corporation of U.K.	OS	100.00%	9th Floor, Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, 1634 Taguig City, Metro Manila, Philippines
Pru Life UK Asset Management and Trust Corporation	OS	100.00%	2nd Floor, Uptown Parade 2, 36th Street, Uptown Bonifacio, 1634 Taguig City, Metro Manila, Philippines
Prudence Foundation	LBG	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential (Cambodia) Life Assurance Plc	OS	100.00%	20th Floor, #445, Monivong Blvd, Boeung Prolit, 7 Makara, Phnom Penh Tower, Phnom Penh, Cambodia
Prudential (US Holdco 1) Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Africa Holdings Limited	OS	100.00%	
Prudential Africa Services Limited	OS	100.00%	Vienna Court, Ground Floor, State House Crescent, Off State House Avenue, Nairobi, P.O Box 25093, Kenya
Prudential Assurance Company Singapore (Pte) Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Assurance Malaysia Berhad*	OS	51.00%	Level 20, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia
Prudential Assurance Uganda Limited	OS	100.00%	Zebra Plaza, Plot 23, Kampala Road, P.O. Box 2660, Kampala, Uganda
Prudential BeGeneral Insurance S.A.	OS	51.00%	Immeuble WOODIN Center 1st Floor, Avenue Nogues, Plateaux, Abidjan, Cote d'Ivoire
Prudential BeLife Insurance S.A.	OS	50.93%	
Prudential Beneficial General Insurance Cameroon S.A.	OS	50.04%	1944 Blvd de la République, BP 2328, Douala, Cameroon
Prudential Beneficial Life Insurance Cameroon S.A.	OS	51.00%	
Prudential Beneficial Life Insurance Togo S.A.	OS	50.99%	2963 Rue De La Chance Agbalepedogan, P.B. 1115, Lome, Togo
Prudential BSN Takaful Berhad†	OS	49.00%	Level 8A, Menara Prudential, 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Corporation Australasia Holdings Pty Limited (in liquidation)	OS	100.00%	31 Highgate Circuit, Kellyville, NSW, 2155, Australia
Prudential Corporation Holdings Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential General Insurance Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential Group Secretarial Services HK Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential Group Secretarial Services Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Holdings Limited	OS	100.00%	4th Floor, Saltire Court, 20, Castle Terrace, Edinburgh, EH1 2EN, United Kingdom

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.4 Related undertakings continued

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

Name of entity	Classes of shares held	Proportion held	Registered office address
Prudential Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential International Treasury Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential IP Services Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Life Assurance (Lao) Company Limited	OS	100.00%	5th Floor, Lao international Business and Tourist Center Project (Vientiane Center), Khouvieng Road, Nongchan Village, Sisattanak District, Vientiane Capital, Lao PDR
Prudential Life Assurance (Thailand) Public Company Limited	OS	99.93%	9/9 @Sathorn Building, 20th–27th Floor, South Sathorn Road, Yannawa, Sahtorn, Bangkok 10120, Thailand
Prudential Life Assurance Kenya Limited	OS	100.00%	Vienna Court, Ground Floor, State House Crescent, Off State House Avenue, Nairobi, P.O Box 25093, Kenya
Prudential Life Assurance Zambia Limited	OS	100.00%	Prudential House, Plot No.32256, Thabo Mbeki Road, P.O. Box 31357, Lusaka, Zambia
Prudential Life Insurance Ghana Limited	OS	100.00%	35 North Street, Tesano, Accra, Accra-North, PO Box AN11549, Ghana
Prudential Life Vault Limited	OS	100.00%	98 Awolowo Road, South-West Ikoyi, Lagos, Nigeria
Prudential Mauritius Holdings Limited	OS	100.00%	3rd Floor, 355 NEX, Rue du Savoir, Cybercity Ebene, 72201, Mauritius
Prudential Myanmar Life Insurance Limited	OS	100.00%	#15-01, 15th Floor, Sule Square, 221 Sule Pagoda Road, Kyauktada Township, Yangon, Myanmar
Prudential Pensions Management Zambia Limited	OS	49.00%	Prudential House, Plot No.32256, Thabo Mbeki Road, P.O. Box 31357, Lusaka, Zambia
Prudential Services Asia Sdn. Bhd.	OS PS	100.00% 100.00%	Suite 1005, 10th Floor, Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Prudential Services Limited	OS	100.00%	1 Angel Court, London, EC2R 7AG, United Kingdom
Prudential Services Singapore Pte. Ltd.	OS	100.00%	1 Wallich Street, #19-01 Guoco Tower, Singapore 078881
Prudential Singapore Holdings Pte. Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Technology and Services India Private Limited	OS	100.00%	EPIP Industrial Area, Whitefield Road, K.R Puram, Near SAP Labs, Hubli, Bangalore, Karnataka, 560066, India
Prudential Vietnam Assurance Private Limited	OS	100.00%	25th Floor, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Prudential Zenith Life Insurance Limited	OS	51.00%	13th Floor, Civic Towers, Ozumba Mbadiwe Avenue, Victoria Island, Lagos, Nigeria
PT. Eastspring Investments Indonesia	OS	100.00%	Prudential Tower, 23rd Floor, Jl. Jend. Sudirman Kav.79, Jakarta 12910, Indonesia
PT. Prudential Life Assurance	OS	94.62%	Prudential Tower, Jl. Jend. Sudirman Kav. 79, Jakarta 12910, Indonesia
Pulse EcoSystems Pte. Ltd.	OS	100.00%	1 Wallich Street, #19-01 Guoco Tower, Singapore 078881
PVFC Financial Limited	OS	100.00%	Suite 509, 5th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

Key to share classes:

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

Name of entity	Classes of shares held	Proportion held	Registered office address
Reksa Dana Eastspring IDR Fixed Income Fund (NDEIFF)	U	99.64%	Prudential Tower, 23rd Floor, Jl. Jend. Sudirman Kav.79, Jakarta 12910, Indonesia
Reksa Dana Eastspring Investments Alpha Navigator Fund	U	85.85%	
Reksa Dana Eastspring Investments Cash Reserve	U	99.16%	
Reksa Dana Eastspring Investments IDR High Grade	U	21.46%	
Reksa Dana Eastspring Investments Value Discovery	U	88.20%	
Reksa Dana Syariah Eastspring Syariah Equity Islamic Asia Pacific USD	U	86.66%	
Reksa Dana Syariah Eastspring Syariah Fixed Income Amanah	U	59.79%	
Reksa Dana Syariah Eastspring Syariah Money Market Khazanah	U	98.30%	
Reksa Dana Syariah Penyertaan Terbatas Bahana Syariah BUMN Fund	U	99.01%	Graha CIMB Niaga 21st Floor. Jl Jend Sudirman Kav 58, Jakarta-12190, Indonesia
Rhodium Investment Fund	U	99.82%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre Tower 2, Singapore 018983
SCB Global Income Fund	U	26.65%	7-8th Floor, SCB Park Plaza 1, 18 Ratchadapisek Road, Chatuchak, Bangkok 10900, Thailand
Schroder Asian Investment Grade Credit	U	35.52%	138 Market Street, #23-01 CapitaGreen, Singapore 048946
Schroder Emerging Markets Fund	U	63.91%	
Schroder Multi-Asset Revolution	U	59.60%	
Schroder US Dollar Money Fund	U	37.08%	HSBC Institutional Trust Service (Asia) Limited, 1 Queen's Road Central, Hong Kong
Scotts Spazio Pte. Ltd.	OS	45.00%	30 Cecil Street #23-02 Prudential Tower, Singapore, 049712
Shenzhen Prudential Technology Limited	MI	100.00%	Unit 5, 8th Floor, China Resources Tower, No.2666 Keyuan South Road, Yuehai Street, Nanshan District, Shenzhen, 518054, China
Sri Han Suria Sdn. Bhd.	OS	51.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Staple Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Thanachart Fund Management Co., Ltd.	OS	50.10%	Units 902-908, 9th Floor, Mitrtown Office Tower 944 ,Rama 4 Road, Wangmai, Patumwan, Bangkok, 10330, Thailand
TMB Asset Management Co., Ltd.	OS	65.00%	32nd Floor, Abdulrahim Building, 990 Rama IV Road, Silom, Bangrak, Bangkok 10500, Thailand
UOB Smart Global Healthcare	U	36.67%	23A, 25th Floor, Asia Centre Building, 173/27-30, 32-33 South Sathorn Road, Thungmahamek, Sathorn, Bangkok 10120, Thailand
UOB Smart Millennium Growth Fund	U	34.24%	

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

D6 Investments in subsidiary undertakings, joint ventures and associates continued

D6.4 Related undertakings continued

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

The table below represents the list of entities within the Group's US business. On 17 July 2020, the Group completed the equity investment transaction by Athene, under which Athene invested $500 million in the Group's US business in return for an 11.1 per cent economic interest for which the voting interest is 9.9 per cent. The proportion held shown in the table below represents the Prudential's effective percentage of voting interest owned.

Name of entity	Classes of shares held	Proportion held	Registered office address
95th Avenue Retail Building, LLC	MI	90.10%	901 S., Ste. 201, Second St., Springfield, IL, 62704-7909, USA
Allied Life Brokerage Agency, Inc	LPI	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Brier Capital LLC	OS	90.10%	
Brooke Life Insurance Company	OS	90.10%	
Centre Capital Non-Qualified Investors IV AIV-RA, LP	LPI	39.74%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors V AIV-ELS LP	LPI	32.96%	
Centre Capital Non-Qualified Investors V LP	LPI	33.98%	
CEP IV-A CWV AIV LP	LPI	21.60%	615 South Dupont Highway, Dover, DE 19901, USA
CEP IV-A Davenport AIV LP	LPI	21.57%	22 St. Clair Avenue East, Suite 1700, Toronto CA M4T 2S3
CEP IV-A INDY AIV Limited Partnership Canada	LPI	21.57%	
CEP IV-A Indy AIV LP	LPI	21.57%	
CEP IV-A NMR AIV LP	LPI	21.57%	
Hermitage Management LLC	OS	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Jackson Charitable Foundation Inc	NSB	90.10%	
Jackson Finance LLC	OS	90.10%	
Jackson Financial Inc	OS	90.10%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Jackson Holdings LLC	OS	90.10%	
Jackson National Asset Management LLC	OS	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life (Bermuda) Limited	OS	90.10%	Cedar House, Hamilton, Bermuda
Jackson National Life Distributors LLC	OS	90.10%	1209 Orange Street, Wilmington, DE 19801, USA
Jackson National Life Insurance Agency, LLC	OS	90.10%	
Jackson National Life Insurance Company	OS	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life Insurance Company of New York	OS	90.10%	2900 Westchester Avenue, Suite 305, Purchase, NY 10577, USA
Mission Plans of America, Inc	OS	90.10%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
National Planning Holdings, LLC	OS	90.10%	1209 Orange Street, Wilmington, DE 19801, USA
Old Hickory Fund I, LLC	MI	90.10%	874 Walker Road, Suite C, Dover, DE 19904, USA
PGDS (US One) LLC	OS	90.10%	1209 Orange Street, Wilmington, DE 19801, USA
PPM America Capital Partners III, LLC	MI	54.51%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM America Capital Partners IV, LLC	MI	31.08%	
PPM America Capital Partners V, LLC	MI	30.63%	
PPM America Capital Partners VI, LLC	MI	28.83%	
PPM America Private Equity Fund III LP	LPI	45.10%	
PPM America Private Equity Fund IV LP	LPI	45.01%	
PPM America Private Equity Fund V LP	LPI	45.01%	
PPM America Private Equity Fund VI LP	LPI	43.22%	
PPM America Private Equity Fund VII LP	LPI	48.03%	
PPM America, Inc	OS	90.10%	
PPM CLO 2018-1 Ltd.	PS	74.78%	Queensgate House, South Church Street, George Town, Grand Cayman KY1-1102, Cayman Islands
PPM CLO 3 Ltd.	OS	90.10%	PO Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands

Key to share classes:

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

Name of entity	Classes of shares held	Proportion held	Registered office address
PPM CLO 4 Ltd.	PS	71.18%	PO Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands
PPM Funds – PPM Core plus Fixed Income Fund	MFS	89.96%	84 State Street, 6th Floor, Boston, MA 02109, USA
PPM Funds – PPM High Yield Core Fund	MFS	90.08%	
PPM Funds – PPM Small Cap Value Fund	MFS	53.84%	
PPM Holdings, Inc	OS	90.10%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM Loan Management Company LLC	MI	90.10%	
PPM Loan Management Holding Company LLC	MI	90.10%	
REALIC of Jacksonville Plans, Inc	OS	90.10%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
ROP, Inc	OS	90.10%	1209 Orange Street, Wilmington, DE 19801, USA
Squire Capital I LLC	MI	90.10%	1 Corporate Way, Lansing, MI 48951, USA
Squire Capital II LLC	OS	90.10%	
Squire Reassurance Company II, Inc	OS	90.10%	40600 Ann Arbor Road, East Suite 201, Plymouth, MI 48170, USA
Squire Reassurance Company LLC	OS	90.10%	1 Corporate Way, Lansing, MI 48951, USA
VFL International Life Company SPC, Ltd.	OS	90.10%	171 Elgin Avenue, Grand Cayman, Cayman Islands
Wynnefield Private Equity Partners I, L.P.	LPI	89.09%	1313 North Market Street Ste 5100, Wilmington, DE 19801, USA

Statement of financial position of the parent company

	Note	31 Dec 2020 $m	31 Dec 2019 $m
Non-current assets			
Investments in subsidiary undertakings	5	12,682	10,444
Amounts owed by subsidiary undertakings		–	2,000
		12,682	12,444
Current assets			
Amounts owed by subsidiary undertakings		6,722	6,352
Tax recoverable		–	66
Other debtors		5	4
Cash at bank and in hand		5	54
		6,732	6,476
Liabilities: amounts falling due within one year			
Commercial paper	6	(501)	(520)
Amounts owed to subsidiary undertakings		(149)	(141)
Tax payable		(16)	(14)
Accruals and deferred income		(79)	(78)
		(745)	(753)
Net current assets		5,987	5,723
Total assets less current liabilities		18,669	18,167
Liabilities: amounts falling due after more than one year			
Subordinated liabilities	6	(4,332)	(4,304)
Debenture loans	6	(1,701)	(690)
Other borrowings	6	(350)	–
		(6,383)	(4,994)
Total net assets		12,286	13,173
Capital and reserves			
Share capital	7	173	172
Share premium	7	2,637	2,625
Profit and loss account	8	9,476	10,376
Shareholders' funds		12,286	13,173

	2020 $m	2019 $m
(Loss) profit for the year	(85)	12,255

The financial statements of the parent company on pages 302 to 308 were approved by the Board of Directors on 2 March 2021 and signed on its behalf.

Shriti Vadera
Chair

Mike Wells
Group Chief Executive

Mark FitzPatrick
Group Chief Financial Officer and Chief Operating Officer

Statement of changes in equity of the parent company

	Share capital $m	Share premium $m	Profit and loss account $m	Total shareholders' funds $m
Balance at 1 Jan 2019	166	2,502	6,820	9,488
Total comprehensive income for the year				
Profit for the year	–	–	12,255	12,255
Actuarial loss recognised in respect of the defined benefit pension scheme	–	–	(75)	(75)
Foreign exchange translation differences due to change in presentation currency at 31 Dec 2019	–	–	393	393
Total comprehensive income for the year	–	–	12,573	12,573
Transactions with owners, recorded directly in equity				
New share capital subscribed	–	22	–	22
Share based payment transactions	–	–	(4)	(4)
Dividend in specie of M&G plc	–	–	(7,379)	(7,379)
Other dividends	–	–	(1,634)	(1,634)
Foreign exchange translation differences due to change in presentation currency at 31 Dec 2019	6	101	–	107
Total contributions by and distributions to owners	6	123	(9,017)	(8,888)
Balance at 31 Dec 2019	172	2,625	10,376	13,173
Balance at 1 Jan 2020	172	2,625	10,376	13,173
Total comprehensive loss for the year	–	–	(85)	(85)
Transactions with owners, recorded directly in equity				
New share capital subscribed	1	12	–	13
Share based payment transactions	–	–	(1)	(1)
Dividends	–	–	(814)	(814)
Total contributions by and distributions to owners	1	12	(815)	(802)
Balance at 31 Dec 2020	173	2,637	9,476	12,286

Notes to the parent company financial statements

1 Nature of operations

Prudential plc ('the Company') together with its subsidiaries (collectively, 'the Group' or 'Prudential') is an international financial services group. The Group currently has operations in Asia, Africa, the US and the UK. The Group helps individuals to get the most out of life by making healthcare accessible and affordable, helping people accumulate wealth through growing their assets and empowering its customers to save for their goals.

2 Basis of preparation

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in accordance with IFRS Standards as issued by the IASB and the international accounting standards in conformity with the requirements of the Companies Act 2006 but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The Company has also taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account.

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

- A cash flow statement and related notes;
- Disclosures in respect of transactions with wholly-owned subsidiaries within the Prudential Group;
- Disclosure in respect of capital management; and
- The effects of new but not yet effective IFRS.

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

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

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

The Company and Group manages its cash resources, remittances and financing primarily in US dollars. Accordingly, the functional currency of the Company is US dollars.

3 Significant accounting policies

Investments in subsidiary undertakings

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

Amounts owed by subsidiary undertakings

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

Financial Instruments

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

Borrowings

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

Dividends

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

Share premium

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

Foreign currency translation

Transactions not denominated in the Company's functional currency, US dollars, are initially recorded at the functional rate of currency prevailing on the date of the transaction. Monetary assets and liabilities not denominated in the Company's functional currency are translated to the Company's functional currency at year end spot rates. The impact of these currency translations is recorded within the profit and loss account for the year.

Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year. To the extent that losses of an individual UK company are not offset, they can be carried back for one year or carried forward indefinitely to be offset, subject to restrictions based on future taxable profits, against profits arising from the same company or other companies in the same UK tax group.

Deferred tax assets and liabilities are recognised in accordance with the provisions of IAS 12 'Income Taxes'. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that future taxable profits will be available against which these losses can be utilised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Following the demerger of M&G plc, it is unlikely that the UK tax group will have future taxable income which would enable a current tax credit or deferred tax asset to be recognised.

Share-based payments

The Group offers share award and option plans for certain key employees and a Save As You Earn ('SAYE') plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled.

Under IFRS 2 'Share-based payment', where the Company, as the parent company, has the obligation to settle the options or awards of its equity instruments to employees of its subsidiary undertakings, and such share-based payments are accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognised directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions. Cash receipts from business units in respect of newly issued share schemes are treated as returns of capital within investments in subsidiaries.

4 Reconciliation from the FRS 101 parent company results to the IFRS Group results

The parent company financial statements are prepared in accordance with FRS 101 and the Group financial statements are prepared in accordance with IFRS Standards as issued by the IASB, the international accounting standards as required by the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The tables below provide a reconciliation between the FRS 101 parent company results and the IFRS Group results.

	2020 $m	2019 $m
Profit after tax		
(Loss)/profit for the financial year of the Company in accordance with FRS 101 note (i)	(85)	12,255
Accounting policy difference note (ii)	(18)	15
Share in the IFRS result of the Group, net of distributions to the Company note (iii)	2,221	(11,487)
Profit after tax of the Group attributable to equity holders in accordance with IFRS	2,118	783

	31 Dec 2020 $m	31 Dec 2019 $m
Shareholders' equity		
Shareholders' funds of the Company in accordance with FRS 101	12,286	13,173
Accounting policy difference note (ii)	15	33
Share in the IFRS net equity of the Group note (iii)	8,577	6,271
Shareholders' equity of the Group in accordance with IFRS	20,878	19,477

Notes

(i) The Company's (loss) profit for the financial year includes distributions to the Company from subsidiaries.

(ii) Accounting policy difference represents difference in accounting policy for expected credit losses on loan assets, the Company has adopted IFRS 9 while the Group applies IAS 39.

(iii) The 'share in the IFRS result and net equity of the Group' lines represent the parent company's equity in the earnings and net assets of its subsidiaries and associates.

The (loss) profit for the year of the Company in accordance with IFRS includes dividends received from subsidiary undertakings of $406 million for the year ended 31 December 2020 (2019: $9,599 million). Dividends received in 2019 included dividends from M&G plc prior to demerger of $5,566 million and dividends from US subsidiaries of $2,000 million in the form of non-current debt instruments. This debt instrument was settled in June 2020, in exchange for an issue of equity shares from an immediate subsidiary of the Company.

5 Investments in subsidiary undertakings

	2020 $m	2019 $m
At 1 Jan	10,444	13,787
Capital injections and acquisitions	–	72
Exchange of non-current debt instruments for equity shares note (i)	2,000	–
Equity shares issued in exchange for assuming bank loan liability note (ii)	350	–
Distribution of M&G plc – cost of investment note (iii)	–	(3,730)
Other disposals	–	(13)
Amounts in respect of share based payments note (iv)	(112)	(123)
Other note (v)	–	451
At 31 Dec	12,682	10,444

Notes

(i) On 16 June 2020, the non-current debt instrument of $2,000 million received by the Company in 2019 as a dividend in specie was settled in exchange for the issue of equity instruments from Prudential Corporation Asia Limited, an immediate subsidiary of the Company.

(ii) On 20 June 2020, Prudential Corporation Asia Limited issued equity shares to Company, in exchange for the Company assuming a bank loan liability of $350 million (see note 6).

(iii) On 21 October 2019, the Company distributed its equity shareholding in its subsidiary M&G plc as a dividend in-specie.

(iv) Amounts in respect of share-based payments of $(112) million (2019: $(123) million) comprise of $2 million (2019: $5 million) in respect of share-based payments reflecting the value of payments settled by the Company for employees of its subsidiary undertakings, less $(114) million (2019: $(128) million) relating to cash received from subsidiaries in respect of share awards.

(v) The 2019 comparative included amounts relating to foreign translation differences arising on the retranslation of reserves due to the change in the Company's presentation currency on 31 December 2019.

Investments in subsidiaries held at 31 December 2020 have been assessed for impairment and no impairment was identified. Subsidiary undertakings of the Company at 31 December 2020 are listed in note D6 of the Group IFRS financial statements.

6 Borrowings

	Core structural borrowings		Other borrowings		Total	
	31 Dec 2020 $m	31 Dec 2019 $m	31 Dec 2020 $m	31 Dec 2019 $m	31 Dec 2020 $m	31 Dec 2019 $m
Core structural borrowings note (i)						
Subordinated liabilities note (ii)	4,332	4,304	–	–	4,332	4,304
Debenture loans	1,701	690	–	–	1,701	690
Bank loan note (iii)	350	–	–	–	350	–
	6,383	4,994	–	–	6,383	4,994
Commercial paper note (iv)	–	–	501	520	501	520
Total borrowings	6,383	4,994	501	520	6,884	5,514
Borrowings are repayable as follows:						
Within 1 year	–	–	501	520	501	520
Between 1 and 5 years	780	414	–	–	780	414
After 5 years	5,603	4,580	–	–	5,603	4,580
	6,383	4,994	501	520	6,884	5,514

Notes

(i) Further details on the core structural borrowings of the Company are provided in note C5.1 of the Group IFRS financial statements.

(ii) The interests of the holders of the subordinated liabilities are subordinate to the entitlements of other creditors of the Company.

(iii) On 20 June 2020, the Company assumed a $350 million bank loan from a subsidiary entity. In November 2020, the $350 million loan was settled, and the Company entered into a replacement $350 million term loan facility at a cost of daily compounded Secured Overnight Financing Rate (SOFR) plus 59 basis points. The new term loan matures in 2024.

(iv) These borrowings support a short-term fixed income securities programme.

7 Share capital and share premium

A summary of the ordinary shares in issue and the options outstanding to subscribe for the Company's shares at 31 December 2020 is set out in note C8 of the Group IFRS financial statements.

8 Retained profit of the Company

Retained profit at 31 December 2020 amounted to $9,476 million (31 December 2019: $10,376 million). The retained profit includes distributable reserves of $3,838 million (31 December 2019: $4,735 million) and non-distributable reserves of $5,638 million (31 December 2019: $5,641 million). The non-distributable reserves of the Company relate to gains on intra-group transactions, in which qualifying consideration was not received, and share-based payment reserves.

Under UK company law, Prudential may pay dividends only if sufficient distributable reserves of the Company are available for the purpose and if the amount of its net assets is greater than the aggregate of its called up share capital and non-distributable reserves (such as the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate.

The retained profit of the Company is substantially generated from dividend income received from subsidiaries. The Group segmental analysis illustrates the generation of profit across the Group (see note B1 of the Group IFRS financial statements). The Group and its subsidiaries are subject to local regulatory minimum capital requirements, as set out in note C10 of the Group IFRS financial statements. A number of the principal risks set out in the 'Group Chief Risk and Compliance Officer's report on the risks facing our business and how these are managed' could impact the generation of profit in the Group's subsidiaries in the future and hence impact their ability to pay dividends in the future.

In determining the dividend payment in any year, the directors follow the Group dividend policy described in the Group Chief Financial Officer and Chief Operating Officer's report section of this Annual Report. The directors consider the Company's ability to pay current and future dividends twice a year by reference to the Company's business plan and certain stressed scenarios.

9 Other information

a Information on key management remuneration is given in note B2.3 of the Group IFRS financial statements. Additional information on directors' remuneration is given in the directors' remuneration report section of this Annual Report.
b Information on transactions of the directors with the Group is given in note D4 of the Group IFRS financial statements.
c The Company employs no staff.
d Fees payable to the Company's auditor for the audit of the Company's annual accounts were \$0.1 million (2019: \$0.1 million) and for other services were \$0.1 million (2019: \$0.1 million).
e In certain instances, the Company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

10 Post balance sheet events

Dividends

The second interim ordinary dividend for the year ended 31 December 2020, which was approved by the Board of Directors after 31 December 2020, is described in note B5 of the Group IFRS financial statements.

Intention to demerge the Group's US operations in the second quarter of 2021

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

Subject to shareholder and regulatory approvals, the planned demerger is expected to complete in the second quarter of 2021 and would lead to a significantly earlier separation of Jackson from the Group than would have been possible through a minority IPO and future sell-downs, which from market precedent may have lasted until 2023. At the point of demerger, Prudential is planning to retain a 19.9 per cent non-controlling interest in Jackson, which will be reported within the consolidated financial position as a financial investment at fair value. Subject to market conditions, the Group intends to monetise a portion of this investment to support investment in Asia within 12 months of the planned demerger, such that the Group will own less than 10 per cent at the end of such period.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework. In addition, the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgements and estimates that are reasonable, relevant, reliable and prudent;

— for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;

— for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;

— assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

— use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

The directors of Prudential plc, whose names and positions are set out on pages 122 to 127 confirm that to the best of their knowledge:

— the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

— the strategic report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

— the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Independent auditor's report to the members of Prudential plc

1. Our opinion is unmodified

We have audited the financial statements of Prudential plc ("the Company") for the year ended 31 December 2020 which comprise;

— the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position and consolidated statement of cash flows, and the related notes, including accounting policies in note A3.1; and

— the parent company statements of financial position and of changes in equity, and the related notes, including the significant accounting policies in note 3.

In our opinion:

— The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;

— The Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;

— The parent company financial statements have been properly prepared in accordance with UK Accounting Standards including FRS 101 Reduced Disclosure Framework; and

— The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders in October 1999. The period of total uninterrupted engagement is for the 22 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the Financial Reporting Council ('FRC') Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2019) in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of insurance contract liabilities and investment contract liabilities with discretionary participation features (2020: $437,266 million, 2019: $380,776 million).

The risk compared to the prior year has increased.

Refer to page 150 (Audit Committee report), page 216 (accounting policy) and pages 259 to 269 (financial disclosures)

The risk	Our response
The Group has significant insurance contract liabilities and investment contract liabilities with discretionary participation features (policyholder liabilities) representing 88 per cent (2019: 88 per cent) of the Group's total liabilities. **Subjective valuation** This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of these long term policyholder liabilities, and we consider the risk to have increased in the current year in light of the business and economic disruption caused by the Coronavirus pandemic's (COVID-19) potential impact on policyholder behaviour in respect of decisions such as lapses and guarantee utilisation, making historical experience less reliable in setting operating assumptions. Auditor judgement is required to assess whether the directors' overall estimate, taking into account key economic assumptions, including investment return and associated discount rates, and operating assumptions including mortality, morbidity, expenses, utilisation of guarantees and persistency (including consideration of policyholder behaviour), which are the key inputs used to estimate these long term liabilities, falls within an acceptable range, in addition to the appropriate design and calibration of complex reserving models. The specific application of these judgements to individual segments is explained below. For the US insurance segment, the valuation of the guarantees in the variable annuity ('VA') business is complex as it involves exercising significant judgement related to inputs such as expected market rates of return, fund performance, and discount rates, as well as assumptions such as mortality, benefit utilisation, and persistency. For the Asia insurance segment, the valuation of the policyholder liabilities requires significant judgement over the setting of mortality, morbidity, persistency and expense assumptions. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of policyholder liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements note C6 disclose the sensitivities estimated by the Group.	We used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: **Methodology choice** We assessed the methodology for selecting assumptions and calculating the policyholder liabilities. This included: — Assessing the methodology adopted for selecting assumptions by applying our industry knowledge and experience and comparing the methodology used against industry standard actuarial practice; — Assessing the methodology adopted for calculating the policyholder liabilities by reference to the requirements of the accounting standard and actuarial market practice, and assessing the impact of current year changes in methodology on the calculation of policyholder liabilities, including the discount rate applied to the valuation of insurance contract liabilities with certain guaranteed withdrawal benefits in the US; — Comparing changes in methodology to our expectations derived from market experience, taking into account the impact of COVID-19 on the observed policyholder experience and the extent to which such impacts are likely to persist; and — Evaluating the analysis of the movements in policyholder liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted. **Control operation** We used our own IT specialists to assist us in performing our procedures in this area which included testing of the design, implementation and operating effectiveness of key controls over the valuation process. Controls testing in respect of the valuation process included assessment and approval of the methods and assumptions adopted over the calculation of policyholder liabilities as well as appropriate access and change management controls over the actuarial models.

Valuation of insurance contract liabilities and investment contract liabilities with discretionary participation features (2020: $437,266 million, 2019: $380,776 million).

The risk compared to the prior year has increased.

Refer to page 150 (Audit Committee report), page 216 (accounting policy) and pages 259 to 269 (financial disclosures)

The risk	Our response
	Our procedures for the US insurance segment also included: **Historical comparison** — Assessing the assumptions relating to benefit utilisation, persistency, and mortality by comparing to relevant company and industry historical experience data in order to assess whether this supported the year-end assumptions adopted, taking into account the impact of COVID-19 on the observed policyholder experience. **Benchmarking assumptions and sector experience** — Assessing the assumptions for expected market rates of returns and fund performance by comparing to company specific and industry data and for future growth rates by comparing to market trends and market volatility. — Utilising the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of assumptions in relation to policyholder behaviour. **Model evaluation** — Assessing the cash flow projections in the reserving models by reference to the inclusion of relevant product features. We have also assessed the impact of modelling and assumption changes by inspecting pre and post change model runs and comparing the outcomes of the changes to our expectations. — Independently recalculating the liabilities for a selection of individual policies to assess whether the selected model calibration had been appropriately implemented. ***Our procedures for the Asia insurance segment also included:*** **Historical comparison** — Evaluating the experience analysis in respect of the mortality, morbidity, persistency, and expense assumptions by reference to actual experience, taking into account the impact of COVID-19 on the observed experience in order to assess whether this supported the year-end assumptions adopted. **Benchmarking assumptions and sector experience** — Using our sector experience and market knowledge to inform our challenge of the assumptions in the areas noted above. **Model evaluation** — Assessing the reserving models by considering the accuracy of the cash flow projections including by reference to the inclusion of relevant product features. We have also assessed the impact of modelling and assumption changes by inspecting pre and post change model runs and comparing the outcomes of the changes to our expectations. **Assessing transparency** We assessed whether the disclosures in relation to the assumptions used in the valuation of policyholder liabilities are compliant with the relevant accounting requirements. **Our result** We found the valuation of policyholder liabilities to be acceptable (2019: acceptable).

Valuation of certain level 2 and level 3 investments held at fair value (2020: $63,823 million, 2019: $77,203 million).

The risk compared to the prior year has increased.

Refer to page 150 (Audit Committee report), page 220 (accounting policy) and pages 250 to 258 (financial disclosures)

The risk	Our response
The Group's investments portfolio represents 83 per cent (2019: 89 per cent) of the Group's total assets. **Subjective valuation** The area that involved significant audit effort and judgement in 2020 was the valuation of certain level 2 and level 3 positions within the portfolio of financial investments held at fair value. These included unlisted debt securities and unlisted funds that are valued by reference to their Net Asset Value ('NAV funds'). For these positions a reliable third-party price was not readily available and therefore involved the application of expert judgement in the valuations adopted. Auditor judgement is required to assess whether the directors' overall estimate, based on their judgement depending on the observability and significance of the inputs into the valuation and the consequent impact on the classification of those investments, falls within an acceptable range, and further judgement is required in determining the appropriate valuation methodology where external pricing sources are either not readily available or are unreliable. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of certain level 2 and 3 investments held at fair value has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements note C6 disclose the sensitivities estimated by the Group.	We used our own valuation specialists in order to assist us in performing our procedures in this area. Our procedures included: **Methodology choice** We assessed the appropriateness of the pricing methodologies with reference to relevant accounting standards as well as industry practice. **Control operation** We tested the design, implementation and operating effectiveness of key controls over the valuation process, including the Group's review and approval of the estimates and assumptions used for the valuation including key authorisation and data input controls. **Tests of details** For a sample of securities, we used our valuation specialists to assess the Group's classification of assets within Level 2 or Level 3 by evaluating the observability of the inputs used in valuing these securities. For a sample of unlisted debt securities we compared the price adopted to our independently derived price, using our valuation specialists. For a sample of unlisted equity securities, we agreed the valuations for the NAV funds to the most recent NAV statements. To assess reliability of these statements we compared to audited financial statements of the funds, where available, or performed a retrospective test over the NAV valuations for each fund to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time. **Assessing transparency** We assessed whether the disclosures in relation to the valuation of level 2 and 3 investments held at fair value are compliant with the relevant accounting requirements. **Our result** We found the valuation of level 2 and 3 investments held at fair value to be acceptable (2019: acceptable).

Amortisation of US deferred acquisition costs ('DAC') (2020: $13,863 million, 2019: $12,240 million).

The risk compared to the prior year has increased

Refer to page 150 (Audit Committee report), page 219 (accounting policy) and pages 271 to 273 (financial disclosures)

The risk	Our response
DAC represents 3 per cent (2019: 3 per cent) of the Group's total assets. The DAC associated with the US component, which represents 85 per cent (2019: 86 per cent) of the total DAC, involves the greatest judgement in terms of measurement. **Subjective valuation** US DAC related to annuities is amortised in proportion to estimated gross profits. Auditor judgement is required to assess whether the directors' overall estimate, taking into account key assumptions impacting estimated gross profits, which include assumptions such as benefit utilisation, mortality and persistency as well as the assumptions around long-term investment return and future hedge costs, falls within an acceptable range. We consider the risk to have increased in the current year due to the business and economic disruption caused by the Coronavirus pandemic and its impact on policyholder experience, and the prolonged low interest rate environment. The effect of these matters is that, as part of our risk assessment, we determined that the amortisation of US DAC has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements note C6 discloses the sensitivities estimated by the Group.	We used our own actuarial specialists to assist us in performing our audit procedures in this area. Our procedures included: **Historical comparison** Assumptions relating to benefit utilisation, persistency and mortality are also relevant to the calculation of the insurance contract liabilities. See further detail in our response to that risk. We have also assessed the appropriateness of the assumptions used in determining the estimated future profit profile and the extent of the associated adjustment necessary to the amortisation of the US DAC asset. Our work included critically assessing the judgements that determine the future profit profiles in the context of actual historical experience as well as by reference to market trends. **Our sector experience** We challenged the reasonableness of the selected assumptions relating to projected investment return and future hedge costs based on our understanding of developments in the business and the impact of COVID-19 related uncertainty on market performance and volatility. Our work included comparing the projected investment returns against the investment portfolio mix and market return data. Additionally, we evaluated management's modelling approach for deriving the assumption for future hedge costs by reference to actuarial market practice, trends in the historical profile of hedge costs, and our expectations regarding the likely development of interest rates and the associated impact on the hedge costs. **Tests of details** We assessed the appropriateness of the extent of amortisation adjustment in the current period by recalculating the estimated gross profits for a selection of individual policies by reference to the future profiles. **Assessing transparency** We assessed whether the disclosures in relation to the amortisation of US DAC are compliant with the relevant accounting requirements. **Our result** We found the amortisation of US DAC to be acceptable (2019: acceptable).

Recoverability of parent company's investment in subsidiaries – (2020: $12,682 million, 2019: $10,444 million)

The risk compared to the prior year is unchanged. The risk relates to the parent company financial statements.

Refer to page 150 (Audit Committee report), Refer to page 304 (accounting policy) and page 306 (financial disclosures)

The risk	Our response
Low risk, high value The carrying amount of the parent company's investments in subsidiaries represents 65 percent (2019: 55 percent) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: **Tests of details** Comparing the carrying amount of 100% of the investments in subsidiaries with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. **Assessing subsidiary audits** Assessing the work performed by the subsidiary audit teams on all of those subsidiaries and considering the results of that work on those subsidiaries' profits and net assets. **Our result** We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable (2019: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at $250 million (2019: $298 million) determined with reference to a benchmark of IFRS shareholders' equity (of which it represents 1.2 per cent (2019: 1.5 per cent)). We consider IFRS shareholders' equity to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after policyholder assets and corresponding liabilities have been accounted for; we consider that this is the most appropriate measure for the size of the business and that it provides a stable measure year on year. We compared our materiality against other relevant benchmarks (total assets, total revenue and profit before tax) to ensure the materiality selected was appropriate for our audit. We set out below the materiality thresholds that are key to the audit.

Materiality for the parent company financial statements as a whole was set at $60 million (2019: $40 million), determined with reference to a benchmark of parent company's net assets, of which it represents 0.5 per cent (2019: 0.3 per cent). The component materiality, as determined by the Group audit team, applied to the audit of the parent company financial statements as a whole is lower than the materiality we would otherwise have determined by reference to its net assets.

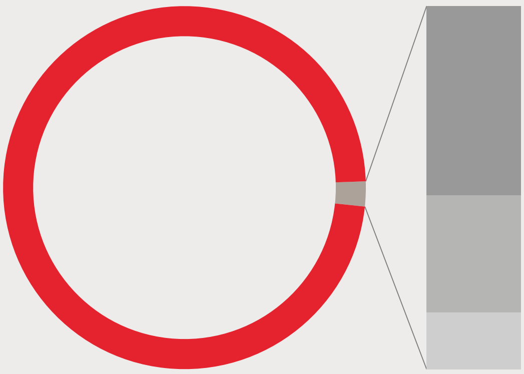
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that detected and undetected immaterial misstatements in individual account balances aggregate up to a material amount across the financial statements as a whole.

Performance materiality for both the group and parent company was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to $187 million (2019: $223 million) and $45 million (2019: $30 million), respectively. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk across the financial statements as a whole.

We agreed to report to the Group audit committee any corrected or uncorrected identified misstatements exceeding $12.5 million (2019: $15 million) in addition to other identified misstatements that warrant reporting on qualitative grounds.

IFRS Shareholders' Equity
$20.88bn (2019: $19.48bn)

Group Materiality
$250m (2019: $298m)



$250m
Whole financial statements materiality
(2019: $298m)

$187m
Whole financial statements performance materiality
(2019: $223m)

$120m
Range of materiality at 13 components ($13m–$120m)
(2019: $55m to $115m)

$12.5m
Misstatements reported to the audit committee
(2019: $15m)

Shareholders' Equity Group materiality

We subjected the Group's operations to audits for group reporting purposes as follows:

Of the 14 (2019:14) reporting components scoped in for the Group audit, we subjected 8 (2019: 10) to full scope audits for group reporting purposes, 4 (2019: 4) to an audit of account balances, 1 (2019: nil) to specified risk-focused audit procedures over cash and debt securities and 1 (2019: nil) to specified risk-focused audit procedures over operational and other borrowings. The components for which we performed work other than full scope audits for group reporting purposes were not individually significant but were included in the scope of our group reporting work as they did present specific individual audit risks that needed to be addressed or in order to provide further coverage over the Group's results.

The components subjected to full scope audits consisted of the parent company and the insurance operations in the US, Hong Kong, Indonesia, Singapore, Malaysia, Vietnam, and mainland China.

The components subjected to an audit of account balances included the insurance operations in Thailand, Taiwan and the Philippines, and the fund management operations of Eastspring Singapore. The account balances audited for Thailand were policyholder liabilities, investments, deferred acquisition costs, intangible assets, premiums and claims; the account balances audited for Taiwan were policyholder liabilities, investments, and deferred acquisition costs, premiums and claims; the account balances audited for Eastspring Singapore were other income and expenses the account balances audited for the Philippines were policyholder liabilities and investments. The components for which we performed specified audit risk-focused procedures over cash and debt securities as well as operational and other borrowings were the Group's treasury operations as well as the US collateralised loan obligation operations, respectively.

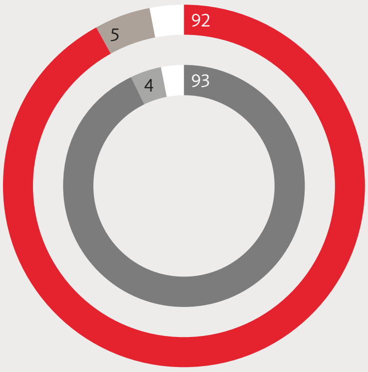
For the remaining operations, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these operations.

These components accounted for the following percentages of the Group's results:

Group revenue

97%

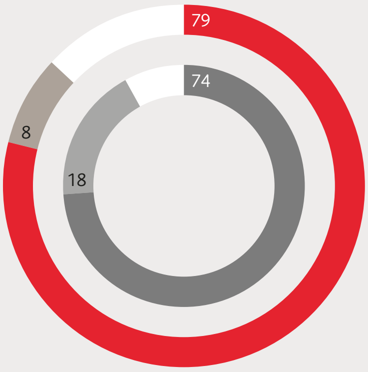
(2019: 97%)



Group profit before tax[1]

87%

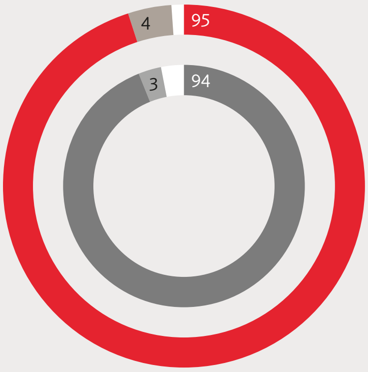
(2019: 92%)



Group total assets

99%

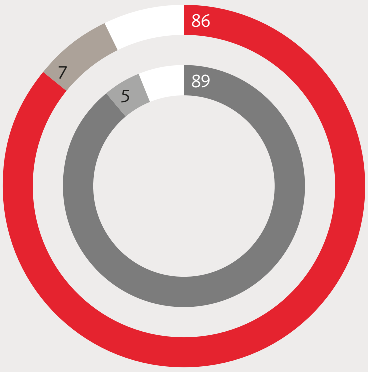
(2019: 97%)



Group shareholders' equity

93%

(2019: 94%)



- Full scope for Group audit purposes 2020
- Audit of account balances and specified risk focused audit procedures 2020
- Full scope for Group audit purposes 2019
- Audit of account balances and specified risk focused audit procedures 2019
- Residual components

Note

1 These percentages represent the total profits and losses that made up group profit before tax

The Group audit team held a global planning conference with component auditors to identify audit risks and decide how each component team should address the identified audit risks. The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported. The Group audit team approved the component materialities, which ranged from $13 million to $120 million (2019: $40 million to $238 million) across the components, having regard to the size and risk profile of the Group across the components. The work on 12 components (2019: 13 components) was performed by component auditors and work on the remaining two components, which included the parent company, was performed by the Group audit team.

Whilst it would be conventional practice to visit component teams, the impact of the Coronavirus restrictions on travel has required an alternative approach this year, which required more extensive use of video and telephone conference meetings with all component auditors. During these video and telephone conference meetings, an assessment was made of audit risk and strategy, the findings reported to the Group audit team were discussed in more detail, key working papers were inspected and any further work required by the Group audit team was then performed by the component auditor.

The Group team also routinely reviews the audit documentation of all component audits. This year for one component in mainland China, a joint venture of the Group, we were unable to perform a file review. As the Coronavirus prevented entry to the country throughout the audit period, and remote access to audit documentation is prohibited, we instead extended our oversight of that component team through extended telephone and video discussions and expanded reporting.

The Senior Statutory Auditor, in conjunction with other senior staff in the Group and component audit teams, also regularly attended Business Unit audit committee meetings and participated in meetings with local components to obtain additional understanding, first hand, of the key risks and audit issues at a component level which may affect the Group financial statements.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group and Company, its industry, and the general economic environment in which it operates to identify the inherent risks to its business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. The risks that were considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

— Adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Group's investments, wider credit spreads and defaults and valuation of policyholder liabilities due to the impact of these market movements;

— The impact on regulatory capital solvency margins from movements in interest rates; and

— Severely adverse policyholder lapse or claims experience.

We also considered less predictable but realistic second order impacts, such as failure of some of the Group's counterparties (such as banks and reinsurers) to meet commitments, which could give rise to a negative impact on the Group's financial position and liquidity, and wider economic factors such as the Coronavirus pandemic's impact on economic volatility and market uncertainty in the period, and other such macroeconomic events.

We considered whether these risks could plausibly affect the liquidity or solvency in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Group's and Company's cash flow forecasts taking account of severe but plausible adverse effects that could arise from these risks individually and collectively.

We considered whether the going concern disclosure in note A1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group and Company's ability to continue as a going concern for the going concern period;

— we have nothing material to add or draw attention to in relation to the Directors' statement in note A1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note A1 to be acceptable; and

— the related statement under the Listing Rules set out on page 168 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group and the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

— Enquiring of directors, the audit committee, internal audit, group security, and inspecting key papers provided to those charged with governance as to the high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing" and process for engaging local management to identify fraud risks specific to their business units, as well as whether they have knowledge of any actual, suspected, or alleged fraud.

— Reading board and audit committee minutes.

— Considering remuneration incentive schemes and performance targets for directors.

— Consulted with professionals with forensic knowledge to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group team to all component audit teams in scope of relevant fraud risks identified at the Group level and requests to these audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risks of management override of controls, in particular the risk that group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. Accordingly, we identified fraud risks related to both the valuation of insurance contract liabilities and US DAC amortisation. This reflects their direct impact on the Group's profit, the opportunity for management to manipulate assumptions due to the subjectivity involved and given the long-term nature of these assumptions which are more difficult to corroborate, and potential incentives for the group to manipulate the profitability of both the US and Asia businesses given the planned separation of the US business taking into account the potential for any management bias in determining the results for the US business.

On this audit we do not consider there is a fraud risk related to revenue recognition as there is limited management judgement involved in the determination of all material revenue streams as the amounts are contractually derived.

In determining the audit procedures to address the identified fraud risks, we took into account the results of our evaluation and testing of the operating effectiveness of the group-wide anti-fraud risk controls. In order to address the risk of fraud specifically as it relates to the valuation of insurance contract liabilities and amortisation of US DAC, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the appropriateness of the rationale for any changes, the consistency of the selected assumptions across different aspects of the financial reporting process and comparison to our understanding of the product portfolio, trends in experience, policyholder behaviour and economic conditions and also by reference to market practice. Further detail in respect of these is set out in the audit response to the risks associated with these two key audit matters in section 2 of this report.

To address the pervasive risk as it relates to management override, we also performed procedures including:

— Identifying journal entries to test for all in-scope components, other than those only in scope for specified risk-based audit procedures, based on risk criteria and comparing the identified entries to supporting documentation. These include unusual journal entries posted to either cash or borrowings.

— Evaluating the business purpose of non-recurring transactions.

— Assessing significant accounting estimates for bias.

We discussed with the audit committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors, and from inspection of the Group's regulatory and legal correspondence. We discussed with the directors and other management the policies and procedures regarding compliance with laws and regulation.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to all in-scope component audit teams, with the exception of those scoped in only for specified risk-based audit procedures, of relevant laws and regulations identified at the group level, and a request for these teams to report to the group any instances of non-compliance with said laws and regulations, or any identified local laws and regulations, that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the area of regulatory capital as that most likely to have such an effect recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected to breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report
Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability
We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge. Based on those procedures, we have nothing material to add or draw attention to in relation to:

— The directors' confirmation within the viability statement on page 68, that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

- The emerging and principal risks disclosures on pages 45 to 69 describing these risks and explaining how they are being managed and mitigated; and

- The directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 68, under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;

- the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how those issues were addressed; and

- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- Certain disclosures of directors' remuneration specified by law are not made; or

- We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 309, the directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Philip Smart

Philip Smart (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

Public Interest Entity Auditor recognised in accordance with the Hong Kong Financial Reporting Council Ordinance

Chartered Accountants
London

2 March 2021