ISSUED
24 April 2017

OFFSHORE PROFILE & FINANCIAL STRENGTH

REPORTS

Prudential International

AKG

Accessible - Comparative - Independent

Analysis by AKG Financial Analytics Ltd

Introduction

Background

AKG's Offshore Profile & Financial Strength Reports are designed to meet the information needs of advisers in assessing the relative strengths of Offshore long term Insurers. Two different styles of report are published by AKG - FULL reports and SHORT reports. A FULL report is produced for each of the leading provider companies in the market, which participate in the production of the reports, once sufficient information is received. For each remaining provider company which is covered, a SHORT report is produced.

This is a FULL report.

Each report collates relevant information from a range of sources such as a company's regulatory returns, its report & accounts and material provided by the companies themselves, and incorporates expert independent assessment. For FULL report companies the process is augmented by regular meetings and other communications with AKG.

PLEASE NOTE: This report should be read in conjunction with the supporting explanatory information which is available on-line at www.akg.co.uk.

About AKG

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 20 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services and in the delivery of key value added financial information to support the wider financial services sector and its customers.

Regular Reports

AKG publishes the following additional reports to assist Providers and Intermediaries:

AKG Company Profile & Financial Strength Reports - covering onshore UK life companies, friendly societies and similar providers.

AKG Platform Profile & Financial Strength Reports - covering platform operators.

AKG DFM Profile & Financial Strength Reports - covering discretionary fund managers.

AKG UK Life Office With Profits Reports - providing further depth in the assessment of with profits funds.

For further details, please contact AKG: Tel: +44 (0)1306 876439 or email akg@akg.co.uk

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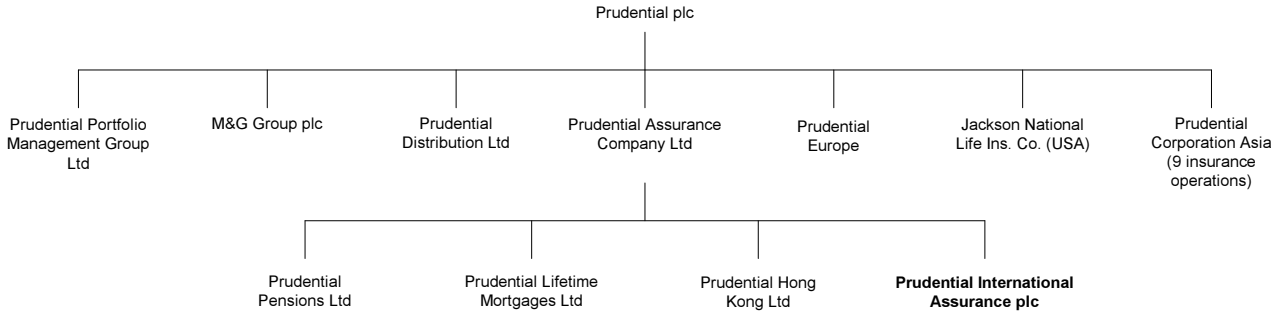
Group Overview

Prudential plc is an international financial services group with significant operations in Asia, the US and the UK. It has around 24m customers and had £562bn of assets under management as at June 2016. The group has four main business units: Prudential Corporation Asia (now operating in 14 markets, comprising of its life insurance operations in Asia and its Asian asset management business, Eastspring Investments); Jackson National Life Insurance Company (a leading US life company, acquired in 1986); Prudential UK (life and pensions in the UK and across Europe) and M&G Investments (the group's UK and European fund manager, acquired in 1999). Prudential began its Asian operations in India in 1923, and it has focused significant attention on expansion in Asia in recent years, including a joint venture operation in China, now operating through 16 branches. Domestication of the Hong Kong branch of Prudential Assurance Company Ltd (PAC) occurred in January 2014. Having formed Prudential Europe in 1999 as the group expanded into France and Germany, 2003 saw the group sell its German operation to Canada Life and stop writing business in France. A Polish branch became operational in 2013 and in March 2014 the group entered the nascent African life market, acquiring Express Life in Ghana and it now also has operations in Kenya, Uganda and Zambia. The group sold its holdings in Mercantile and General Re-insurance to Swiss Re in 1996 and Egg, the internet bank, in 2007. The group now has over 23,000 staff worldwide, plus over 500,000 agents in Asia. Whilst the group has come under regular speculative pressure in the UK to consider a break-up, particularly given that the bulk of its new business is written overseas, the group has reiterated its commitment to the UK market - it produced 10% of new business profit, 23% of group IFRS operating profit in H1 2016 and substantially supports the overall credit rating of the group. In 2007 the group acquired Equitable Life's with profits annuity book and in 2008, Prudential UK outsourced a large proportion of its in-force and new business policy administration to Capita Group plc (Capita). In June 2010 the group abandoned its plans to acquire AIA from AIG after being unable to negotiate a lower price for the deal. November 2014 saw the group sell its remaining 25% share in PruHealth, a joint venture with Discovery Holdings of South Africa, launched in 2004. Group Solvency II surplus was estimated at £11.5bn (equivalent to a Solvency II coverage ratio of 189%) as at October 2016 [December 2015: £9.7bn and 193% respectively].

Offshore business is marketed through the Dublin subsidiary Prudential International Assurance plc (PIA) delivering niche proposition variants to specific markets, including the UK, based on the fundamental strength of the wider organisation and its PruFund capability and USP.

Corporate Structure (simplified)



Ratings

Company	Financial Strength Ratings				Supporting Ratings		
	Overall	With Profits	Non Profit	Unit Linked	Service	Image & Strategy	Annual Review
Prudential International Assurance plc	B+	★★★★★	▤	★★★★★	★★★★	★★★★★	★★★★★

Corporate Data

Company Type	Life Insurer (Republic of Ireland)
Ownership	Prudential plc
Open to New Business?	Yes
Year Established	1994
Head Office	Montague House Adelaide Road Dublin 2, Ireland
Tel:	+353 (0) 1 4830500
Website	www.prudential-international.com

Key Personnel

Chairman	P O'Faherty
Managing Director	M Leahy
Exec. Director of Distribution (UK)	J Warburton
Director of Financial Planning and Performance Management (UK)	E White
Chief Risk Officer	B Gunn
Head of Operations	Y Keaveney
International Sales Director	A Wallace
Head of Proposition, Development and Delivery	J Donachie
Head of Commercial	K Purtill
Head of Actuarial function	O Gaughan

Company Background

PIA is owned by the Non Profit Sub Fund of PAC. PIA was established in Dublin by J Rothschild in 1992 and renamed Scottish Amicable Life International plc (SALI) when Scottish Amicable acquired the management services company in 1994. SALI commenced writing business in the UK in 1994 and in Germany in 1995, becoming part of the Prudential group following the acquisition of Scottish Amicable in 1997. In 1999, Prudential rebranded its European operations as Prudential Europe but continued to market its products as Scottish Amicable European in the UK and SALI in Germany. The first French product, Prudential Europe Vie (a with profits product), was launched in 2001 via a branch of PAC (closed January 2004). In 2002, SALI was renamed PIA and the International Prudence Bond was launched in the UK. Having sold its German operation to Canada Life in 2003, PIA re-established a presence in the German market in 2007 as part of a wider European strategy and is currently selectively expanding its reach here. In 2004, PIA outsourced its administration, for both new and existing business, to Capita. PIA established a UK branch in 2014, allowing it to offer onshore UK products.

Overall Financial Strength (B+)

PIA sits within the wider, and very strong, Prudential proposition. It follows a clear, focused strategy, one that has seen steady UK new business levels build into significant growth in recent years. It is also seeing an increasing contribution from selected mainland European distribution. There has been a bias towards with profits and in effect the business operates like a 'feeder fund' into this central UK investment structure and others. In terms of both opportunity and profitability, this model, which positions PIA as a specialist insurer able to contribute capability into the group for specific opportunities, is proving to be effective and is ongoing. Solvency coverages reduced in 2015, impacted by the repayment of reinsurance financing. Coverage remained at a healthy level, however, and PIA remains very strong in terms of capital, operational support and brand strength.

Reinsurance

Approach

PIA had seven reinsurance treaties in force as at 31 December 2015. The treaties are with Swiss Reinsurance Company (UK) plc, Cologne Re (Dublin) Ltd, PAC and Munich Re Company Ltd. There are no deposit back arrangements. Premiums totalling €929m [2014: €704m] were paid under these treaties in 2015.

The investment element of all with profits business is fully reinsured to the parent company, PAC. The impact of this can be seen in the table below. A significant amount of new business written in 2015 was reinsured, being with profits. As in previous years, this had the effect of suppressing the company's "net" growth.

In terms of premiums paid, the with profits reinsurance is the most significant with €902.1m paid in 2015 [2014: €675.4m]. Total premiums of €27.1m were paid to Swiss Re (in respect of various UK risk coverages) and €228k to General & Cologne (in respect of non UK risk coverages) respectively [2014: €28.0m and €178k]. Both the Swiss Re and General Re treaties provide reinsurance financing for regular premium policies.

2013 saw the company effect a funded reinsurance finance treaty, for £60m, with Munich Re, replacing a previous treaty with Dublin based Vartry Reinsurance Ltd. This treaty, which was not considered to be efficient in the Solvency II regime, was terminated and repaid in December 2015, with the company making a repayment of £42m in full settlement of the liability. A payment from PAC of £42m was also received in relation to the intercompany loan outstanding.

Analysis of Reserves	**2013 €000's**	**2014 €000's**	**2015 €000's**
Gross reserves	4,096,724	4,854,524	5,871,151
Reinsurance ceded - external	0	0	0
Reinsurance ceded - internal	2,443,107	3,041,167	3,870,388
Net mathematical reserves	1,657,878	1,813,357	2,000,763

Non Profit Business

The company does not have any Non Profit business, so this section does not apply.

Unit Linked Business

Approach

PruSelect offers a guided architecture range of around 60 unit linked funds that Prudential has selected in conjunction with Morningstar and which are available across multiple product wrappers, including offshore bonds.

Within the in-house range Prudential offers a variety of multi-asset funds including Dynamic Portfolios, Total Return, PruFund and With Profits, managed by the in-house fund manager M&G Investments.

The range also includes a selection of international and specialist equity funds from various external fund managers, including Baring, Fidelity, HSBC, Invesco Perpetual, Morgan Stanley and Newton. Where appropriate, there is a choice of currency, Sterling, Euro and US Dollar.

The range of funds offered is designed to suit a range of different risk profiles. Late 2009 saw the company launch offshore versions of the PruFund, including the PruFund Cautious Fund and PruFund Growth Fund (Sterling, Euro and US Dollar versions). In 2011 the company expanded its PruFund proposition by offering a choice of guaranteed terms (e.g. 6 - 10 years on PruFund Protected Cautious and PruFund Protected Growth) at varying guarantee charges. The company also expanded its offering to Spain in November 2010 and France in May 2011, targeting the expatriate market.

The company has been selectively developing its Discretionary Asset Management capability. The list now includes Brewin Dolphin, Brooks MacDonald, Investec Wealth & Investment, Quilter Cheviot and Tilney.

February 2010 saw the launch of five new 'fund of funds', the PruDynamic range utilising input from Morningstar and the Prudential Portfolio Management Group Ltd (PPMG).

The Prudential International Investment Portfolio features an open architecture bond with over 1,000 funds.

In 2015 Prudential International continued the roll out of an onshore portfolio bond for Platforms, using the branch structure it had established in the UK and demonstrating its ability and role as a specialist insurer in the wider Prudential Group.

Unit Linked Financial Strength ★★★★★

Unit linked business, which is all retained in the company, represents around 34% of total gross liabilities (effectively 100% of net reserves) and is clearly an important business line, which remains significant and growing despite a renewed focus on with profits business. This business enjoys the support of the company and the group as a whole.

With Profits Business

Approach

The investment element of with profits business written by PIA is wholly reinsured to its parent, Prudential Assurance Company Ltd (PAC). More specifically it is reinsured into the Defined Charge Participating Sub-Fund (DCPSF), one of three with profits subfunds within PAC. At 31 December 2015 the DCPSF had total assets of £4.2bn [2014: £3.9bn], whilst with profits assets in PAC totalled some £90.6bn [2014: £88.2bn].

With profits business written through PIA is available in three currencies: Sterling, Euro and US Dollar.

Profit Sharing Philosophy

Profit in the DCPSF arises solely from investment performance and is entirely attributable to DCPSF policyholders. Shareholders receive any profits or losses arising from the difference between the charges and expenses on this business.

Asset Allocation

For the DCPSF, there are three asset pools relating to investments in Sterling, Euros and US Dollars. The Sterling asset pool follows the same asset allocation as the Main PAC With-Profits Sub-Fund (WPSF), which at 31 December 2016 had an EBR of 62.6%. The Euro and US Dollar assets pools had EBRs of 63.9% and 64.8% respectively. The investments are also generally weighted towards the respective currencies. The company now also offers offshore versions, available in Sterling, Euro and US Dollars, of the PruFund Cautious, Protected Cautious and Growth Funds.

With Profits Financial Strength ★★★★★

PIA, like its parent PAC in the UK, continues to buck the general trend and write significant volumes of with profits new business. Thus with profits clearly remains strategically important to the company.

At the parental level, and particularly in the UK, an excellent level of financial strength is maintained and Prudential retains its acknowledged position as one of the leaders in the with profits arena.

On a standalone basis, the DCPSF maintains no free assets on a realistic basis. However, support is provided to the DCPSF by the very strong With-Profits Sub-Fund in return for a yearly charge. For PIA's PAC Sterling With-Profits Fund business the charge was at the rate of 0.2% p.a. of asset share in 2006 - 2010 and nil since then.

The fund is also strengthened by the presence of a legally enforceable capital support arrangement between Prudential plc and PAC under which Prudential plc has an obligation to provide PAC with capital support up to an agreed maximum aggregate level in the event of PAC's solvency falling below specified levels. This support is available until 2028.

Key Financial Data (for y/e: 31/12/15)

Long Term Business Admissible Assets	2013 €000's	2014 €000's	2015 €000's
Fixed Interest	52,413	58,212	59,110
Equities	0	0	0
Property	0	0	0
Linked	1,639,121	1,803,245	1,984,322
Other	106,596	138,485	173,529
Total Assets	1,798,130	1,999,942	2,216,961
Free Assets	115,611	117,028	67,036
FAR	6.4%	5.9%	3.0%

Total retained long term assets, predominantly unit linked, again increased, up 11% in 2015.

Capital	2013 €000's	2014 €000's	2015 €000's
Paid up Shares etc	32,182	32,182	32,182
Unpaid Capital etc	12,130	12,983	30,809
Sub. Loan Capital	0	0	0
Balance of Net Assets	56,973	44,645	-23,050
Total	101,285	89,810	39,941

Available capital reduced by 56% in 2015, impacted by the repayment of the reinsurance financing.

Long Term Business Liabilities & Margins	2013 €000's	2014 €000's	2015 €000's
Gross	4,241,237	5,041,108	6,087,349
Net	1,798,130	1,999,941	2,216,961
Required Min Solv Margin	46,141	37,245	42,462
RMSM Coverage Ratio	350.6%	414.2%	257.9%

The proportion of net to gross liabilities continues to reflect the substantial amount of reinsured with profits business. The lower level of capital resources, together with an increased solvency margin requirement, led to reduced solvency coverages. These remained at a healthy level, however.

Key Revenue Items	2013 €000's	2014 €000's	2015 €000's
INCOME			
Premiums	135,078	145,019	222,129
Investment Income	23,255	25,169	21,588
Investment Increase	146,833	75,216	32,166
EXPENDITURE			
Commissions	14,505	13,989	15,715
Policy claims	123,794	148,552	136,028
Expenses	39,015	40,687	46,948
Transfer to P&L	-28,342	3,608	-347
Increase in fund	122,595	159,475	192,499

The accounts are prepared in £ Sterling, which produces some comparative distortions, as can the high level of reinsurance. In 2015 the fund increased by €192.5m [2014: €159.5m], including positive exchange differences of €115.0m [2014: €120.9m]. Commissions increased by 12%, but by less than the increase in new business (up 38%). Expenses increased by 15%, primarily due to a 30% increase in non-acquisition costs. With increased premiums exceeding reduced claims, PIA saw a net inflow of €86.1m [2014: €3.5m outflow].

New Business Data (for y/e: 31/12/15)

New Single Premiums	2013 €000's	2014 €000's	2015 €000's
UK Investment	387,672	636,970	898,447
UK Protection	0	0	0
UK Pensions	0	0	0
UK Other	0	0	0
Other Investment	134,020	163,955	202,703
Other Protection	0	0	0
Other Pensions	0	0	0
Other Other	0	0	0
Total	521,692	800,925	1,101,150
Growth Rate	36.1%	53.5%	37.5%

New Regular Premiums	2013 €000's	2014 €000's	2015 €000's
UK Investment	0	0	0
UK Protection	0	0	0
UK Pensions	0	0	0
UK Other	0	0	0
Other Investment	0	0	0
Other Protection	0	0	0
Other Pensions	0	0	0
Other Other	0	0	0
Total	0	0	0
Growth Rate			

New business levels again increased in 2015, with premiums up by 38%, as the company increased its market share. The company reported a market share of over 25% for Q2 2016, a significant increase from 4% in late 2010 and demonstrating real progress.

UK single premium business increased by 41%, with non UK new business also up, increasing by 24%. The company wrote €75m through its UK branch [2014: €7m]. The proportion of non UK business fell further, from 20% in 2014 to 18% in 2015. The main non UK single premium markets in 2015 were: Jersey - €72m [2014: €55m]; Spain - €45m [€37m]; Isle of Man - €36m [€23m]; Cyprus - €15m [€7m], Malta - €14m [€12m] & Gibraltar €1 lm [€7m].

The company continued to write a significant proportion of its business as with profits.

Distribution

Method

Prudential International is now focused on distribution into the UK and in serving the wider UK expatriate market in key mainland European countries and Mediterranean islands, with locally compliant product variants. In the UK, the Isle of Man and the Channel Islands products are distributed through intermediaries. The relationship between the intermediary and Prudential International is managed through the Prudential Intermediaries channel, which also distributes onshore products and thus presents a common basis for advisers. This channel being segmented and matched with support areas including key accounts and telephony. To further support this distribution structure the company maintains a small team of associated specialists. Post the RDR, together with other market changes and growth in the use of platforms, PIA is also increasing the availability of its offering via this route to market. This is an area which has significant potential for the business, leveraging a number of USPs to meet a recognised market demand. Alongside this there is also potential in the discretionary asset management arena and PIA is building on initial work with selected managers in this distribution channel.

Following some years where a very cautious approach to expansion was taken, the company has recently looked to exploit opportunities in 'new market segments', selectively developing sales in suitable parts of UK international markets. This potential growth is consistent with the company's specialist solutions role and ability to profitably serve niche market segments, as a route into the wider Prudential offering.

Distribution Split	Regular Premium %	Single Premium %
UK	0.0	79.5
Europe	0.0	20.5
Other	0.0	0.0

Image and Strategy ★★★★★

Prudential International is a relatively well established and mature business and one which has over recent years developed a firm fit with the parental operation. This includes an increasing group benefit from a shared IT platform and leverage of group scale to cost-effectively enter other markets which are smaller in their own right.

As a result, the company now has a selective agenda satisfying demand for specific products from the UK (including offshore advantaged offerings) in selected international markets. Across all of these the aim is to leverage the strength and capability of the broader Prudential group to deliver better return on capital and balanced growth.

With profits remains a key USP, with the company now framing its operational rationale more in terms of its asset management capability than as a life company.

Further, but significant, IT improvements are also important strategic components for future growth and in enabling further potential for delivering a wider product set.

The tight integration with the UK parent with the ability to utilise a range of balance sheet options and leverage overall group balance sheet strength to deliver the most efficient (in capital terms) 'Prudential' offering remains key to the strategy for PIA. This, together with wider market changes, continues to afford the operation increased potential for scale growth.

Products/Proposition

Overall Product Philosophy

The philosophy and focus of the current strategy, where products are tailored to local markets, has been refined to target the significant single premium investment segment of both the UK offshore market and selected European markets with product offerings which aim to demonstrate and utilise PIA's competencies. This strategy aims to provide competitive products and utilise the distribution access of both Prudential UK Intermediaries and local distribution partners elsewhere in Europe.

Protection, which had previously been marketed, is now closed to new business, and whilst still tangible, is a reducing part of the company's book.

May 2011 saw the company refresh its International Prudence Bond. In 2012, the company reviewed its product range in the light of the RDR, relaunching the product range in 2013. This saw it close its Flexible Life Plan and Flexible Protection Bond. 2014 saw the launch of the Prudential Onshore Bond on platforms, with further development of this in 2015 and the piloting of an off-platform variant.

The business has both the operational capability and strategic rationale for further product development.

Products Currently Marketed

Investment Products

Single Premium Unit Linked Bonds
With Profits Bonds
Portfolio Bonds
Capital Redemption Bonds

Product Awards and Benchmarks

Prudential was awarded Best Investment Service and Best Investment Bond Provider at the Investment Life & Pensions Moneyfacts Awards 2014 and 2015.

It has also been awarded Defaqto 5 Star Ratings for all of its products.

Service

Approach
PIA's philosophy is 'to provide high quality customer service that consistently achieves predetermined turnaround and quality standards, in order to satisfy the requirements of chosen markets'. Also, where appropriate, it will deliver bespoke service arrangements with key distribution structures.

Various supporting functions are carried out elsewhere in the group, notably Craigforth for application vetting, commission payment and UK adviser call handling.

However, the majority of servicing is carried out through an outsourcing arrangement with Capita (see below). This very close relationship between the company and outsource partner has been designed to put emphasis on high quality service with continued enhancement. A major system development in 2007 was the successful migration to the ICON investment administration system. Since then a number of incremental enhancements have been implemented, with a further refresh (representing an update in best practice to the relatively pioneering 2004 agreement), implemented through the 2013 agreement.

Currently, and as part of a wider group development, the company is investing heavily in new administrative technology, including Bravura Solutions' 'Sonata' system, which is positioned as a next generation, open and scalable admin system, which it will gain as part of the group's investment. This IT transformation programme has the intention of making the business more resilient at scale and empowering further development potential in line with the approach of capital efficient and expense controlled growth.

e-Business
For UK products there is a link into the Prudential International Extranet. This is used by advisers to produce illustrations and for on-line tracking of new business. It is also used for obtaining pre-sales and marketing literature.

Service Standards & Awards
In 2008 a service charter was introduced as part of its interaction with intermediaries. This now frames the company's deliverables all within a set structure, committing PIA to standards in areas such as illustration requests, policy issue, switches, surrenders and commission payment. Performance against the charter appears good and the company reports positive feedback to it. In the UK, Prudential was awarded a 5 star service award by Financial Adviser in 2016.

Outsourcing
Administration both for new and existing business has been outsourced to Capita Life and Pensions Services (Ireland) Ltd since 2004 (renewed in February 2013 for ten years). Functions outsourced include underwriting, new business, premium billing, claims, compliance, commissions and agency, and general administration, as well as product development and ancillary support services such as IT, finance and actuarial.

There is a joint management committee and a number of other specific joint committees dealing with aspects of risk, compliance governance and other key functions. Processes supporting the outsource arrangement appear to be very strong. The company regards the decision to outsource administration, and its performance since, as very successful, both in terms of the ongoing relationship and levels of service.

Investment

Overall Approach
M&G Investments, Prudential's wholly owned investment management subsidiary, follows a conviction-led and long-term approach to investment, with no single style of investment and no 'house view', preferring to give fund managers the freedom to pursue their own approach. It aims to identify stocks and markets which offer value, using a clear framework and strong analytical resource to challenge consensus views.

Asset allocation is managed in-house through PPMG, which was established as a separate business unit and legal entity in July 2014, so transitioning from being a department. Its principal role is to be the investment strategist and portfolio manager of the insurance assets of Prudential UK and Europe. PPMG provides multi-asset class solutions across a wide range of products by leveraging group-wide investment management and risk management expertise. PPMG's core services include strategic asset allocation recommendations between asset classes, tactical overlay and acting as a "manager of managers". PPMG managed around £173bn of Prudential's Investments at 30 September 2016.

Funds Under Management
PIA had gross funds under management of around £4.5bn as at 31 December 2015 [2014: £4.0bn]. Worldwide, Prudential had insurance and investment funds under management of £562bn at 30 June 2016. M&G was responsible for managing £255bn of funds worldwide, a figure which includes £130bn of external funds, accounting for 51% of total funds under management. Eastspring Investments, the group's Asian asset manager since 2011, had £105bn funds under management.

Annual Review

New business levels increased by 38% in 2015, as the company continued to increase its market share, whilst also looking to maintain margins rather than look to write volumes of business. There remained a heavy bias towards with profits business, very much a lone, albeit successful, strategy amongst offshore providers, aided by the use of PruFunds and potentially higher profit margins.

Solvency coverages reduced, with the termination of the reinsurance financing treaty in December 2015 being the major factor.

The company reported a pre-tax profit of £9.9m [2014: £12.0m], as the company improved profit margins due to higher new business volumes. The 2014 result had benefitted positively from a one off change to the expense reserving methodology. No dividend was paid [2014: £nil].

APE sales for the group increased by 17% in 2015 to £5.6bn and as at 31 December 2015 the group estimated its Solvency II surplus as £9.7bn [2014: IGD Surplus: £4.7bn], giving an SCR coverage ratio of 193%. At the end of October 2016, estimated group Solvency II surplus had increased to £11.5bn, with an SCR coverage ratio of 189%. Overall group IFRS operating profits increased by 22% in 2015 to £4.0bn. Cash remitted to the group increased by 10% to £1.6bn, made up as follows: Asia £467m, US £470m, UK £331m and M&G £302m. Mike Wells, previously CEO of Jackson National, was appointed Group CEO in June 2015. October 2015 saw Jackie Hunt depart as Chief Executive, Prudential UK and Europe, with Group Investment Director John Foley taking the role.

Financial Strength Ratings - Introduction

The aim of AKG's financial strength ratings is to assist advisers and others to assess the relative strengths of individual provider companies. AKG's concept of 'financial strength' starts with the fundamental issue of a company's ability to meet all of its guaranteed payments to policyholders, but extends beyond this by aiming to factor in the degree to which a policyholder's expectations are likely to be met - or even exceeded - in the long-term. For performance-related products, where the eventual return generally depends largely upon a company's success in consistently delivering superior investment performance, and in containing expense charges, a company's ability to meet expectations is likely to be heavily dependent upon whether or not it is able to sustain its operations in the relevant market, and whether or not it can maintain, or improve, its competitive position.

As a result, AKG believes that, ideally, the evaluation of 'financial strength' should depend upon the type of product under consideration. A particular company may be judged as very strong in the context of one particular product line, but it may be weaker in another context. An illustration of this concept is a company that currently only markets unit linked business, but which has a very small closed block of with profits business, written many years ago. Such a company may be judged as 'good' for unit linked business, whilst considered 'poor' in respect of with profits business.

Since the inception of AKG's Company Profiles and Financial Strength Reports, AKG has consistently promoted and developed the concept of providing financial strength ratings separately for each of the three major product categories - With Profits, Non Profit and Unit Linked.

All AKG's financial strength ratings should be used with care, since even the more detailed approach described above represents something of a simplification. To illustrate this point, for example, the 'Non Profit' category covers a multiplicity of different products. It is clear that slightly different criteria should be used for, say, short-term policies with fully guaranteed terms (e.g. Guaranteed Bonds), than for longer-term policies with terms that can be varied at the company's discretion (e.g. Renewable or Reviewable Term).

AKG assesses financial strength using consistent methodology and objective measures wherever possible, and based on the detailed analysis of the company's particular strengths and weaknesses. The objectives and criteria for each of the financial strength ratings are summarised below:

With Profits Financial Strength Rating

The objective is to assess the overall strength of the company's with profits funds. The initial concern is the company's ability to meet its ongoing guaranteed, or promised, commitments, i.e. existing sum assured and bonuses. However, the company's ability to continue to compete successfully in the with profits market is also particularly relevant, given that closed funds are generally very bad news for policyholders. In such situations, overall expenses tend to increase as a proportion of the fund and investment performance may well deteriorate. These, together with other factors, may make it difficult for companies in such situations to maintain competitive bonus rates at future declarations, although existing declared bonuses are not affected (other than possibly by MVRs).

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
▤	Not rated

The main criteria taken into account are: capital base and free asset position, with profits realistic balance sheet position, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy. Where the company's with profits business is largely reinsured to another company, its strength and the nature of the relationship between the companies are also taken into account.

NOTE: More detailed analysis of with profits bond companies is included in AKG's Offshore Life Office With Profits Bond Report.

Non Profit Financial Strength Rating

The objective is to assess the company's ability to meet all guaranteed payments arising from such contracts as term plans, annuities etc.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
▤	Not rated

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), and image and strategy.

Unit Linked Financial Strength Rating

Whilst this is essentially a non profit line, and the primary objective is to assess the company's ability to meet all guaranteed payments arising, AKG also seeks to take into account the extent to which the company is likely to be able to sustain its unit linked operations, and whether or not it is likely to be able to maintain, or improve, its competitive position. Thus strategic issues are also relevant, because of their bearing on the quality of investment management offered, and because of companies' rights to increase charges etc.

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
▤	Not rated

Overall Financial Strength Rating

The objective is to provide a simple broad-brush indication of the general financial strength of a company. In addition to an assessment of the company's ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders' expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company's ability to survive in its current form for the long term. The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company's particular strengths and weaknesses in respect of its key product areas.

The rating takes into account all the relevant criteria detailed in the evaluation of financial strength separately for with profits business, non profit business and unit linked business, (as detailed above), weighted according to the relative volumes of such business in-force.

A	Superior
B+	Very strong
B	Strong
B-	Satisfactory
C	Weak
D	Very Weak

Supporting Ratings - Introduction

Supporting ratings are provided only in full reports, and are assessed at the brand level. AKG assesses three key supporting areas, using consistent methodology and objective measures wherever possible. The aim is to assist advisers and others to consider the relative merits of the brands that they deal with. AKG's objectives and criteria for each of these ratings are summarised below:

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
▤	Not rated

Image and Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
▤	Not rated

Annual Review Rating

This is an end of year view for the last year for which Report and Accounts, regulatory returns, etc., are available, together with comment on any significant post-balance sheet events. It is an assessment of how the brand has fared against its peers, and how it is perceived externally.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity - good or bad, press or market commentary, regulatory fines, and competitive position.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
▤	Not rated

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AKG is an independent organisation specialising in the provision of assessment, ratings, information and consultancy to the financial services industry