Prudential Investor Day
Mark FitzPatrick, Group CFO and COO, Prudential plc
Translating strategy into value

Introduction

Slide 2: Hello

Hi, I am Mark FitzPatrick, Group CFO and COO of Prudential, and I am delighted to be talking with you today. You have heard Mike describe how we have transformed the business in recent years, and highlight the exciting growth opportunities ahead.

My presentation will focus on how our strategy and delivery translates into growing shareholder value.

Slide 3: Today's success is built on a strong financial track record

Any truly-sustainable growth-business needs to be managed through a dashboard of metrics that balances value, cash, new business and profitability.

This slide shows how those core metrics translate into a 10-year score card. As Mike said earlier, it's rare in our sector for a company to be able deliver such consistent, broad-based growth over such a long period.

And this of course has been a period characterised by volatile markets and the effects of the pandemic.

Today I want to explain how we drive long-term growth that creates value for shareholders, and I will touch on each of these financial metrics as I do so.

Slide 4: Distinctive shareholder proposition and strong track record

In common with our peers, the core metric we use to measure value creation is Embedded Value. This represents our net assets plus the present value of the expected future cashflows to shareholders from business we have already written.

As a proxy for shareholder value, Embedded Value is a key metric, in the day-to-day management and decision making, in our life insurance businesses, and it's a significant component of our long-term incentive plans. Our focus is to deliver double-digit growth in embedded value per share over time.

We use the internationally recognised European Embedded Value basis, which is a granular and transparent methodology, with economic assumptions set actively to reflect observed market conditions, and with appropriate risk-adjustments for the products we write. We have provided a video and more detailed slide pack on embedded value, which you can access in the library of additional materials that accompanies this Investor Conference.

As shown on the right of this slide, our Asia Embedded Value has more than doubled since 2015, to 44.2 billion dollars at the end of 2020, reflecting the profitable growth in our portfolio.

Since Embedded Value does not apply to asset management, Eastspring is only included in this chart at its net asset value, which was 1.1 billion dollars at full year 2020. However, asset management earnings have grown on average at 10 per cent per annum since 2015, reaching 283 million dollars in 2020.

Key to delivering growth in embedded value is the way in which we actively manage our product portfolio and the way in which we allocate with discipline your capital as shareholders. I will explain more about both these two themes in a moment.

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Slide 5: High quality embedded value creates predictable surplus emergence

The cashflows we expect to generate from our existing $42.8 billion of Asia EV are highly predictable. This predictability is explained in part by the pie-chart on the left which shows that almost two thirds of our in-force value comes from health and protection – or "H&P".

This is business which is highly-valued by consumers-seeking to reduce their out-of-pocket health expenditure as well as the very real financial jeopardy associated with a family breadwinner's ill-health or death. Shareholders benefit too, because H&P is also generally regular premium, making for high-quality income, and it also reduces our sensitivity to market risk.

The next chart shows the key elements of our Asia Life embedded value which comprises $5.3 billion of free surplus, which is the net assets in excess of the capital required to support existing business, and $37.5 billion of in-force value and locked-in capital which will monetise and be released over the life of the business. On the right you can see how the $37.5bn of discounted value is expected to emerge over time into $59.1bn of undiscounted cash flows over the next 40 years. Even in the second half of the 2050s, our existing business would still generate around 1 billion dollars of annual surplus before any contribution from new business.

Our confidence in delivering these cashflows is also founded in our cautious approach to assumptions setting. Historically we have outperformed our EV assumptions, with positive operating experience variances of around $3bn and positive investment variances of around $2.5bn over the past five years. As we have done historically, we will continue to publish our EV monetisation profiles every year so you can track our delivery against them over time.

Slide 6: Capital is allocated to write high quality new business

This slide demonstrates how our powerful new business engine has attributes that few businesses in any sector can replicate.

Our disciplined approach to allocating capital generates a virtuous circle. At the top of the circle, we invest capital to write products with high rates of return and short payback periods. At the bottom of the circle, we manage our operations and balance sheet efficiently, so that the shareholder value created from our products monetises as expected. This monetisation creates new capital on the left of the circle, which can be reinvested into writing more new business.

You can see on the right hand side of the slide why we have increased our focus on writing a large proportion of Health & Protection products in recent years. These products meet growing customer needs while generating earnings that are relatively insensitive to markets.

H&P margins are on average almost 20 per cent of premiums, four times higher than for savings products. This reflects the higher underwriting risk that we take on behalf of consumers and the higher capital we commit, and plays to our strengths of careful risk selection, claims efficiency and underwriting skill.

Another example of our differentiated product mix is our UK-style with-profits savings product, which provides smoothed investment returns for customers supported by a with-profits "estate" which provides the capital, thereby making this product challenging for competitors to replicate.

Our expertise in product design and pricing, as well as in distribution, is a critical competitive advantage. We created and refreshed 175 new products in 2020, ensuring our products are evolving to meet customer needs, and achieved a higher health and protection product mix in 2020 in seven of our markets. In Singapore, for example, we launched PRUActive Protect, a customisable critical illness plan that provides a lump sum payout on diagnosis of 37 critical illnesses and is flexible so coverage can be added when the customer's needs, priorities and budget grows.

And in Thailand, our flexible PRUHealth Super Strong product allows customers to select coverage based on their insurance needs and provides access to round the clock emergency medical services, playing a critical role in providing our Thai customers with protection and peace of mind.

This continued innovation and refinement to our product set helps to contribute to high, risk-adjusted returns for shareholders.

The portfolio of new business sold across Asia and Africa generates IRRs of more than 35 per cent, and returns the invested shareholder capital within three years, for reinvestment into further new business.

While organic investment in new business is our first priority, focussed investment in inorganic opportunities allows us to further enhance value.

Since 2013 we have committed almost $10 billion of capital to support growth in Asia, including around $5 billion of inorganic investment to grow our distribution reach and build digital capability. You'll have seen examples of this enhanced capability in our markets through the Investor Day videos, including for example our enhanced opportunities in Thailand as a result of recent inorganic investment.

<u>Slide 7: New business profit drives embedded value growth</u>

It's this continual-cycle of profitable investment in new business which allows us to achieve a high growth in Embedded Value. Here too, we have a strong track record, with NBP growth having averaged eight per cent over the last 10 years.

On the left of the slide, you can see how New Business Profit is supported by our high concentration of regular premium business, our weighting towards H&P and high levels of customer retention. When you look at the transformation that's going on in Prudential, including for example new value added services via Pulse, moving to straight-through claims processing and agent training,,, these developments all build customer-engagement, loyalty, retention, and – in turn – NBP and embedded value.

As you can see on the chart, over the five years since 2015, two thirds of our increase in EV, or $15 billion has been created from new business over that period. This is in addition to the expected return, which is the natural growth in EV created as the back-book monetises and the discounting unwinds, and then the impact of positive experience variances I mentioned earlier.

<u>Slide 8: Reinvestment creates compounding growth in value</u>

This slide shows how our strategy and disciplined execution drives growth. Put simply, our high quality in-force life portfolio delivers highly-predictable cash flows. We then reinvest these cash flows, at attractive returns. Over time, these new business profits monetise, driving growth in our free surplus and increasing our capacity to further reinvest. This is our growth engine.

To put some numbers on this: we expected $8.1 billion of free surplus to emerge over the six years to 2020, based on our published EV monetisation profile. This is the sum of the blue parts of the columns in the chart on the left. When added to the cashflows expected to emerge from each tranche of new business since 2015, (i.e. the light and lighter shades of pink) in total we expected $11.6 billion of free surplus to emerge over the period. Adding asset management earnings and positive operating experience variances, $14 billion of free surplus was actually generated over the period. The $1.0 billion of positive operating experience variances therefore increased our surplus generation by around nine per cent compared to our expectations.

From this $14 billion of free surplus generated, we reinvested $3.7bn to write organic new business, which created the $15bn of NBP I highlighted earlier. In other words, for every dollar reinvested in new business we added $4 of value. The balance of free surplus generated was used for inorganic investment, to cover central costs and for dividend payments, and retained in our businesses to provide additional resilience.

This really demonstrates our capital management framework in action. It shows the benefit of writing business that is low strain, with high risk-adjusted returns and rapid payback. Every year we invest in new business to grow embedded value, which ultimately monetises into free surplus which can be reinvested to create compounding growth.

Slide 9: High quality in-force book generates strong IFRS earnings growth

IFRS operating profit provides a measure of how our shareholder value creation converts over time into earnings, and is therefore another important metric. Our Asia IFRS operating profit has grown by 13 per cent on average since 2015.

As with Embedded Value, the benefit of our product mix is to create resilient IFRS earnings, which are relatively insensitive to market conditions. 79 per cent of our 2020 Asia insurance operating earnings were generated from margins we make from underwriting insurance risks, primarily mortality and morbidity. Growth in these profits will mainly be driven by growth in our Health and Protection portfolio.

Overall, for a growth business such as Prudential, IFRS earnings are a lagging indicator of the value we are generating from writing new business. As an example, while our with-profits business makes a significant contribution to our total Embedded Value, the corresponding IFRS earnings are a very small proportion of our total earnings. This is because, for our with-profits business, most of the shareholder profit is realised at the end of the policy term when policyholders receive their terminal bonuses, which creates a very long-dated IFRS profit profile.

This is why we continue to focus on EV as the key measure of value creation, while also producing growing earnings.

Slide 10: Diversified Pan-Asia portfolio

This slide demonstrates the diversification in our Pan-Asia franchise. As you can see, our sales are broad-based across the six segments shown in the charts, which represent our 13 Asia life markets as well as our nascent Africa markets. Our existing in-force portfolio is also well diversified, both on an IFRS earnings basis and on an Embedded Value basis. This diversification helps us to deliver consistent shareholder returns through market cycles.

Slide 11: Resilient balance sheet supports growth

As I mentioned earlier, rigorous capital and balance sheet management is a key component of our capital management framework. The Hong Kong Insurance Authority is our Group regulator and officially designated Prudential as being subject to its new Group-Wide Supervision framework, or "GWS framework", on 14 May.

Our balance sheet is well-positioned as we move onto the new GWS framework. Under our Local Capital Summation Method, or LCSM capital we ended the first quarter with a shareholder cover ratio excluding the US of 331 per cent. We anticipate this would increase by around 50 percentage points to 381 per cent, once our senior debt is grandfathered under the GWS regime, subject to confirmation by the HKIA.

Our updated LCSM sensitivities are illustrated on the right-hand chart. These are shown on a proforma basis excluding the US and show the resilience of our Asia balance sheet to severe market stresses.

Slide 12: Resilient balance sheet supports growth

We want to ensure we are well positioned to take advantage of the Asia growth opportunities ahead of us, and as we have previously announced we are considering a potential equity raise of $2.5-$3 billion following the completion of the Jackson demerger, in order to increase our financial flexibility.

We are targeting a 20 to 25 per cent Moody's total leverage ratio over the medium term and we have $2.25 billion of relatively high-coupon debt which will be past first call dates by the end of July. If we were to redeem this debt towards the end of this year or early next year, annual interest costs would reduce by around $125 million per annum from that time.

In addition to reducing debt servicing costs, as I highlighted at the prelims, we have reduced central costs by $180m since 2018 and expect to reduce them by a further $70m by 2023. We will continue to review the timing of these further cost savings following the completion of the US demerger. However, temporary restructuring costs remain elevated, mainly due to IFRS17 implementation and the costs of aligning our core functions and processes to support growth.

Slide 13: Q1 trading update

The positive long-term trends I have described are all evident in our results for the first quarter of 2021, which we reported on May 13.

Asia and Africa new business APE sales were up 14 per cent while new business profits were up 21 per cent compared with the first quarter of 2020, reflecting our continued focus on the quality of sales. This growth was despite lower sales in Hong Kong, where ongoing border restrictions continue to limit severely cross-border business from China. Excluding Hong Kong, APE sales were up 35 per cent and new business profit up 64 per cent.

I am pleased that we continued to build on the momentum established over the third and fourth quarters of 2020, with 2021 Q1 sales four per cent above those in the fourth quarter of 2020, despite a number of our markets continuing to experience significant Covid-related disruption. In the first quarter of 2021 our China joint venture was our largest business in terms of APE sales and new business profit.

Our multi-channel model continues to perform well with all channels delivering growth. APE sales through our bank partners were 18 per cent higher. Agency sales also grew at a high single digit rate, with eight markets reporting year on year growth. We have continued the build-out of our digital capabilities, led by Pulse, our health and wellness platform. APE sales generated through Pulse represented around nine per cent of our first quarter 2021 APE in the markets where Pulse is available.

Our focus on quality is evident by the fact that:

- Regular premium sales were up double digit;
- Health and protection sales were also up double digit – beating the sales levels achieved in every quarter last year; and
- Customer retention held at 97 per cent in the first quarter.

Slide 14: Well placed to deliver growth for our investors

Mike spoke earlier about the structural, operational and cultural transformation of Prudential over the past few years. All of this has supported our financial track record, with strong growth across our sales, earnings, cash and value metrics.

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The capital dynamics of the group remain distinctive to Prudential - we are allocating capital and reinvesting for growth. We are focused on the quality of the new business that we are adding year after year, which results in strong compounding capital generation, supported by our strong balance sheet.

As we look to the future, we see large scale new opportunities emerging. We will help customers get the most out of life, while, at the same time, aiming to deliver high risk-adjusted returns for shareholders.

In China, we have multiple ways of developing our large and growing Hong Kong and Mainland businesses which collectively deliver annual profits of over one billion dollars.

In India, there are opportunities to deepen participation in a market where there is a $16.5 tn protection gap, and to play a leading role in the expansion of the mutual fund investor base which is expected to more than triple by 2030.

In health, there are multiple ways in which we can broaden our offerings to meet the needs of customers who represent a health and protection gap of $1.8 trillion while maintaining our rigorous approach to capital allocation.

In wealth: With judicious investment, Prudential and Eastspring brands have the right to win in the Asian savings market which is forecast to grow at a CAGR of almost 12 per cent between 2020 and 2025.

Today, we have 17m customers, but that means there are still over 4 billion people in our Asia and African markets who have yet to become our customers. Each of these people have health, wealth and protection needs that we can serve, while delivering value to shareholders.

Thank you very much for watching