Investor presentation – HY2021 results 11 August 2021

Mike Wells

Slide 3 – Group CEO title page

Good morning. I'm Mike Wells, CEO of Prudential plc, and today we announced our 2021 half year results.

Slide 4 - A clear, purpose-led strategy to drive growth

Our purpose is to help people get the most out of life. And we do this by making healthcare affordable and accessible, by protecting people's wealth and by growing their assets.

We want to do this for as many people as possible, which is why we want to build the capacity to serve 50 million customers by 2025.

Our Asia-focused strategy is expected to support the long-term delivery of future shareholder returns, as we intend to grow new business profit substantially faster than our markets' GDP and achieve long-term double-digit growth in embedded value per share. And we want to achieve our growth trajectory in a sustainable and socially responsible manner by committing to become net carbon neutral by 2050.

We will achieve this in three ways:-

Firstly, through delivering profitable growth – particularly in the big markets of China, India, Indonesia and Thailand. We want to grow our Health & Protection business by making healthcare affordable and accessible, and we want to grow our customers' wealth in a sustainable way through Eastspring.

Secondly, through digitising our products and services. We are making it easier for customers to interact and stay with us in the way that they choose. The key here is we are doing all this at scale and complementing our existing multi-channel capability.

Thirdly, through humanising our company and advice channels – we are upskilling our people and networks and providing relevant products and broader advice - enabling a much more inclusive approach to the segments we serve.

Slide 5 - Building on track record of delivering sustainable shareholder value

Because of our focus on operational improvements and the disciplined execution of our strategy, we have delivered a long track record of strong growth in all our key metrics.

Our 2021 Interims results show this continuing.

We reported double digit growth in new business profit, embedded value, IFRS operating profit and operating free surplus.

Prudential has the capabilities, operational resilience and capital discipline, to continue to generate substantial value for shareholders.

Slide 6 - Competitive advantages

So why are we unique? Why are we succeeding?

In the markets with the largest economies of China, India, Indonesia and Thailand, we see the greatest growth opportunities. We believe we have some unique advantages and opportunities for growth.

In China, already the largest life market in Asia and the biggest market in term of expected growth, our footprint covers over 80 per cent of the wealth and life premiums written of the country.

In India, we are the major investor in a top 3 player in both the Life insurance and asset management sectors. We continue to see huge opportunities and potential in India, which is the second largest contributor to Asian GDP growth and an underpenetrated market. Not only do we have a fast-growing business, but we also have opportunities for growth there that other firms do not.

In Indonesia - we are the number one insurer in the world's fourth most populous nation with the largest economy in ASEAN. We are also number one in the fast-growing Sharia segment, where the size of the opportunity is huge, with Muslims making up over 85 per cent of the entire population.

In Thailand, we are delivering rapid growth supported by the enhanced TTB bancassurance deal, which was effective from the start of this year.

Our multi-channel distribution strategy means that we can serve our customers in multiple ways and in combinations of ways. So this is through digital in the form of Pulse, through our leading agency business in the region, with around 560 thousand licensed agents, and as well, we can reach our customers through 28 thousand bank branches.

This combination gives us flexibility and adaptability – all the more crucial in today's volatile conditions, and increasingly what our customers want from us.

And finally, in Eastspring - we have critical mass in terms of assets of 254 billion dollars of funds under management, with strong life flows and a top 10 position in 7 out of 11 markets.

Slide 7 - Enhancing capabilities to accelerate growth

So let me explain how we are developing the capabilities that will support future growth.

Firstly, we have broadened our distribution. It is multi-channel, flexible and value-driven. We have seen strong performances through both our agency and bancassurance channels in the first half of the year.

In agency, we have enhanced the quality of our agents and also improved their productivity - this can be seen in the 77 per cent increase in MDRTs and 19 per cent increase in APE generated per active agent.

In bancassurance, we continue to invest heavily in our leading positions and have expanded both the number of branches we have access to and the number of partners. We have recently expanded our bancassurance operations significantly in Thailand and Vietnam, driving growth in those markets.

Then secondly, we have been deepening our presence in China - accessing the largest provinces, growing our multi-partner bancassurance distribution and then building our agency capability.

The outcome of our consistent and long-term strategy in China has been strong new business profit growth in bancassurance, as well as agency margins that are up there with the best in the industry. We have outperformed the industry in respect of gross written premiums growth both in 2020 and in the first half of this year.

We have created critical mass and operating leverage through the combination of bancassurance partnerships and the transfer of our agency management skills from elsewhere in the group.

And then finally in the digital space, we have established our Pulse ecosystem across the business - seeking to enhance how we reach new customer groups in large numbers and how we run the business. The take-up of Pulse has been excellent and it has been downloaded around 30 million times since its launch in 2019. We generated 158 million dollars of APE in this half year, representing around 10 per cent of total sales from markets where Pulse is available. We did not have this capability two years ago.

Slide 8 - Strong broad-based delivery despite challenging operating backdrop

We have delivered a resilient performance in the first half of 2021, against a backdrop of continuing economic and social challenges due to Covid-19 and the resulting volatility in consumer activity.

Despite the constraints of the environment, our hard-working and dedicated staff and agents have continued to serve our customers and build value for our shareholders, while moving forward with substantial operational and strategic progress.

The business is evolving and innovating at pace with new products to cater for the full spectrum of household incomes and customer segments. And we continue to strengthen our core capabilities. All of this done from a position of strength.

Across the Group our people have done a great job of adapting rapidly to new ways of working and to the challenges.

At the same time, we have been active in supporting our staff, customers and communities.

These are testing times for the Group. This chart shows the waves of infections in our operating markets over the last 18 months or so, and these have been accompanied by social restrictions and disruption to economic activities in almost all of our markets. The Group has responded positively to the challenges. I believe that we have adapted, evolved and accelerated years of development into a very short space of time. We have the talent, tools, and capabilities which position us well to capture the significant opportunities ahead of us.

So lots of action, innovation and progress – executed in the face of Covid-related disruption.

In terms of financial performance, we have delivered double-digit growth in APE and NBP in nine markets and have grown H&P by double digits in eight markets. Our first-half APE and NBP saw double-digit growth over pre-Covid levels of 2019 in seven markets.

Clearly this is a strong position from which we can face into the ongoing volatile and uncertain operating environment with confidence.

Slide 9 - Market highlights

And now let's drill down into this period's performance in each of our key segments

China - our second-largest market for new business profit - had a particularly strong Q1, supported by a unique set of circumstances – Covid-related disruption was particularly meaningful in the first quarter of the prior year. In addition, we benefited from seasonal sales and product campaigns in the first quarter of this year. Industry-wide conditions were tougher in Q2, but we still outperformed. The comparatives, however, will get more challenging as the year progresses.

In Hong Kong, despite very low levels of mainland Chinese visitors, headline NBP was only down 13 per cent, as the comparative period included roughly six weeks of Mainland Chinese visitor sales. Within this, domestic market new business profit was in fact 16 per cent higher, as we showed continued focus on high-quality regular-premium and protection business. Customer retention rate remained strong at 99 per cent, and we continue to provide agents with training and development workshops to refresh their skillsets ready for the re-opening of the border, which we now expect will remain closed for at least the rest of the year.

In Indonesia, overall APE sales fell by 6 per cent, reflecting the continuing Covid-related disruption. Despite the fall in absolute sales, we have seen a higher number of our more simple standalone protection policies being sold in the period. This is evidence of a crucial building block for the broadening of our customer base and sources of growth in the future . We see scope for adding further forms of distribution. Despite the difficult market conditions in Indonesia and rising infection rates, we are continuing to execute our strategy through customer segmentation and product innovation. We also seek to increase our digital capability to mitigate the restrictions of Covid on face-to-face agency sales. The improvement in the capabilities of the Indonesian business over the last year has been excellent. When the operating environment normalises, we will be well placed to benefit from the recovering demand for our upgraded products, and in more customer segments than before.

In Singapore and Malaysia, we had a strong half, and there was a bounce back especially in the second quarter, given the meaningful Covid impacts in Q2 last year.

In Malaysia, the key highlights were the strong performance in the agency channel and also in the Takaful market, where APE more than doubled. In Singapore, both bancassurance and agency channels have performed very well in driving both APE and NBP growth. We are launching Pulse Wealth in this market, aimed at the rapidly rising high net worth opportunity.

In our Growth markets segment, Thailand delivered material margin improvement in our bancassurance channel – driven by our enhanced distribution agreement with TTB from the start of the year. Elsewhere in the segment, India showed a strong recovery through both Q1 and Q2 despite Covid, with the benefits coming through in new business profits due to margin expansion in our health and protection products and a shift in mix to retirement products. And Africa continued to grow. We recently expanded our Kenya hub and East African financial services development initiatives.

Slide 10 - APE reflects the timing & scale of Covid-related restrictions

The ability of our franchise to grow as Covid-related restrictions were lifted is evident from the continued momentum in new business sales from the second half of last year into the first half of this year in many of our markets.

China was the largest swing factor - recovering first in Q1, given that it was the first market to enter lockdown restrictions in January last year.

But more recently, our most Covid-affected markets include Indonesia, Malaysia, the Philippines and most recently Thailand and Vietnam. I expect a volatile pattern of sales to continue there. In a number of our markets, the comparatives were less affected by Covid and you can see a tougher operating environment coming through into the Q2 growth rates and into July.

Vaccination rates continue to be low in several markets, but progress has been made in Singapore. Hong Kong vaccination rates need to increase materially before cross-border travel with Mainland China can resume, and it is good to see the weekly rates moving up. The outcome of low vaccination rates is sadly higher mortality, and in India and Indonesia we are seeing increased levels of Covid-related claims.

However, looking further ahead we are confident that the demand for our products will continue to grow, given the structural growth in our chosen markets, and that our expanded offering and increasingly digitalised distribution platforms mean that we are extremely well placed to meet this demand.

Slide 11 - Intended separation of the US business

Now, turning to the US.

The demerger timetable has now been announced with the Form 10 effective. Our shareholder vote is being called for 27th August. A simple majority of more than 50 per cent is needed to pass the resolution and, subject to this shareholder approval, completion is due on 13th September. The plc stock will start trading ex Jackson on 1 September.

After Jackson has drawn down on its now extended term loan, this will give Jackson a pro forma RBC at or close to its target range of 500 – 525 per cent as a listed and independent business.

Jackson's marketing period starts immediately, with management meeting investors, and a sell side teach-in is planned for 17th August. We expect the debt refinancing will be launched after the demerger completes, subject to market conditions.

Jackson is ready for its independence and listing after extensive preparations, and it has all the capabilities required to operate as a standalone company.

From a plc perspective, the proposed demerger will complete our strategic transformation to focus exclusively on our higher growth and higher risk-adjusted return businesses in Asia and Africa.

Slide 12 – Key messages

And so to conclude,

My key messages for this successful half year, are:

- We had a resilient performance. The pandemic is expected to accelerate digital and health trends, further highlighting the need for increased provision of financial protection and health. Importantly, Covid has also reinforced the alignment of our business and social purpose with our communities, staff and stakeholders.
- We are enhancing capabilities to build on our substantial competitive advantages – strengthening our distribution and to build our digital capability.
- We are on track for proposed demerger of Jackson in September later this year.
- Our potential equity raise is intended to enhance our financial flexibility, and allows the redemption of existing high-coupon debt.
- In summary, we are set to be a standalone Asia and Africa business which is well positioned to capture the long-term growth opportunities ahead of us.

Mark FitzPatrick

Hello, I am Mark FitzPatrick – the Group CFO and COO of Prudential. In this presentation I will focus on three key components of our continuing Asia and Africa business;

Growing Value
Growing Capital
And growing earnings.

As the proposed Jackson demerger is expected to complete in September, Jackson has been classified as held for distribution and presented as discontinued within our half year 2021 financials. Accordingly I will only refer to it briefly in that context.

2. Prudential plc
HY 21 Financial Highlights

As Mike has indicated, our people, our agents and our partners have performed well in this half, culminating in positive results across our financial metrics.

Compared with the first half of 2020 we have grown new business profit by 25%and grew OFSG, our primary measure of capital generation for our life and asset management businesses by 9% and our GWS shareholder capital surplus by 7%.

We also grew Asia operating earnings by 11% and Group IFRS operating profit by 19%.

And lastly, in-line with our dividend policy which applies a formulaic approach to first interim dividends, the Board has approved a 2021 first interim dividend of 5.37 cents per share.

3.Growing value
Broad-based HY21 performance: 9 markets delivered double digit NBP growth

Turning to my first topic: growing value.

Looking at each of our new reporting segments: new business profit for China, Singapore, Malaysia and Growth Markets all rebounded very strongly, despite Covid-related disruption in many of our markets and reflects higher sales from our expanded product offering, broader roots to market and use of new digital capabilities.

In Hong Kong, overall new business profit fell 13%, due to the very low levels of cross-border business compared with the prior period. However, in our domestic Hong Kong business, new business profit was up 16% reflecting our continued focus on high quality H&P business. Supporting that H&P performance, our focus on the Voluntary Health Insurance Scheme proposition is performing particularly well. We now have a c20% market share in a product that appeals to a new, lower income bracket.

Our banca distribution relationship with Standard Chartered Bank has also pivoted to H&P business through tightening of sales criteria. As a result it increased its new business profit contribution very substantially.

We continue to believe there will be demand from Mainland Chinese customers for the Hong Kong health and protection insurance products when the border reopens, but as we’ve indicated, we believe the border is unlikely to reopen this year.

In Indonesia, new business profit fell by double digit percentages. Covid related economic disruption is on-going, but we have continued to successfully diversify our product- suite delivering strong growth in new policies, particularly in the Sharia segment. This is another example of us accessing a broader range of customers. At this early stage, these products have contributed to significant improvement in agent activation, but with materially lower case size which has contributed to some of the reduction in APE and new business profit.

Overall 9 markets in Asia delivered double digit NBP growth.

4.Growing value
NBP growth supported by quality focus and multi-channel distribution platform

Overall, our APE was up 17% and new business profit was up 25% to $1.2 billion.

We benefited from both absolute sales growth and a higher new business margin driven by favourable shifts in product mix and channel, as well as higher interest rates in the period. In addition, the growth rates over the first half of this year also reflect the varied timing and nature of Covid related disruption across various markets in the prior period.

Underlying this is our relentless focus on writing high quality business: over the first half of the year 88% of our APE was regular premium business and 28% was from health & protection products.

We continue to benefit from significant breadth and depth of distribution capability. Spanning agency, banca and digital, as well as our diversification by market, allows us to mitigate some of the Covid disruption. Our virtual distribution capabilities continue to develop and we have sucessfuly deployed this capability in a number of higher and middle income markets.
APE involving Pulse was $158 million in the first half of 2021. In addition, the remote selling tools which have now been in place for more than 15 months, are enabling our channels to reach customers despite Covid restrictions. For example in Singapore, with its high GDP per capita, 39% of agency and 26% of banca cases were sold virtually, while in the Philippines, which we featured at the Investor Day – 85% of agency cases were virtual.

5.Growing value
NBP drives EEV growth

As I explained at our recent Investor Day, the core driver for EEV growth is the generation of new business profit.

The embedded value presented on this chart represents our continuing operations and so excludes Jackson.

In the first half of the year, $1.2 billion of new business profit was the key contributor to the $1.8 billion of EEV operating profit before restructuring costs.

Within this, the expected return of $0.9 billion was 15% higher than the prior year, reflecting the benefit of underlying business growth and the effect of higher period end interest rates under our active basis EEV methodology.

Experience variances and operating assumption changes in the last 6 months were very small, at negative $27 million, partly due to Covid related effects, which may persist into the second half of the year. Investment variances were a small positive, with currency movements contributing to a negative $0.2 billion overall for non-operating and other movement.

Our Group EEV for continuing operations at the end of June was $43.2 billion or 1,650 cents per share.

6.Growing value
Asset management operating profit +10%

As you know, we consider Eastspring's ability to add value for the Group's life and external customers in Asia as core to our differentiated proposition.

Eastspring delivered an encouraging first half performance with funds under management at the end of June of $254 billion.

Investment performance improved in the current year driven by the particularly strong relative performance of our value-style focused equity teams.

Asia life in-flows were $4.5bn and external flows saw higher margin equity in flows offset by lower margin bond outflows.

Funds managed on behalf of M&G plc increased by $0.4 billion from $15.7 billion at the end of 2020 to $16.1bn at the end of June 2021 reflecting positive investment performance. We expect around $5 billion of outflows in the second half of the year from these mandates.

Operating profits were up 10% to $162 million and fee revenues rose, supported by higher revenue margins. At 52%, the cost income ratio was in-line with that over 2020.

So, in summary, NBP is up, EEV is up and FuM is up.

We have achieved double-digit growth in value across both our life and asset management businesses over the last 12 months.

And we will continue to focus on achieving long term double-digit growth in embedded value per share, albeit this is clearly going to be more challenging in the near term given the ongoing closure of the Hong Kong/China border and the effects of Covid on new business volumes and hence NBP across Asia and Africa.

7.Growing capital
Reinvestment of OFSG drives compounding value

Turning to my second topic now, that of growing our capital.

The output of our focus on high quality sales is a highly predictable emerging surplus from our in-force portfolio. As this surplus emerges, we can reinvest to achieve attractive risk-adjusted returns and drive further compounding growth.

OFSG is our primary measure of capital generation.

In this period, the expected in-force life insurance return was 12% higher than in the prior year and operating variances were a small positive of $35 million.

This took our in-force life OFSG to $1.3 billion and to $1.4 billion with the addition of Eastspring's earnings.

Central costs of $0.3billion for the 6 month period include the benefit of $180m per annum of head office expense reductions since 2018, in line with our previous guidance. We expect our central costs to fall further as we aim to deliver an additional $70m per annum of cost reductions by the start of 2023.

In total the existing businesses therefore generated $1.1bn of capital over the period, which is available for reinvestment in line with our capital allocation priorities. These priorities are:

1/organic investment in new business,
2/ strategic investment to support further growth
And then 3/ dividends to shareholders
Over the first six months of the year, we invested $0.3 billion in writing high quality new business which created $1.2 billion of new business profit i.e. nearly a four times multiplier on our investment.

Holding company cash

On the right of this slide you will see a summary of our holding company cash development.

Remittances from our continuing businesses were just over $1 billion and are up significantly from the prior period. This reflects the timing of remittances from individual businesses and is not expected to recur at the same level in the second half of the year. In a change to the presentation of remittances, these are now shown before deducting Asia head office costs, reflecting our operating model changes to merge our central functions across Hong Kong and London.

The corporate activity costs of $216 million therefore relate to the aggregate cash costs of all central functions in both Hong Kong and London, aligned with our IFRS and EEV reporting of central costs.

The vast majority of the $267 million non-recurring item is for investment in strategic growth initiatives. These include: non-recurring payments for recent bancassurance distribution agreements for UOB, and our bancassurance extension in Vietnam.

Our resulting central cash stock at 30 June was $1.4 billion and we remain comfortable with cash resources above $1 billion for our continuing operations, combined with the financial flexibility afforded by our target leverage range.

8.Growing capital
GWS transition in-line with expectations

We are now operating under a new regulatory capital regime – the Group Wide Supervision or GWS regime, which became effective on the 14th of May this year.

We were well prepared for this and the transition from the previous regime, which was called the Local Capital Summation Method or LCSM, is in-line with our expectations.

The GWS methodology is largely consistent with the previous LCSM other than for debt.

As expected, we benefited from grandfathering of our existing senior debt, in addition to the sub debt which we already allowed for as capital under the LCSM methodology. The addition of our $1.6 billion of senior debt increased the cover ratio by 47 percentage points.

The increase in GWS shareholder surplus over the first half of 2021, to $10.1 bn from the estimated year end position is principally driven by operating capital generation of $0.7bn, and resulted in a cover ratio of 383% at the end of the period.

By design, GWS will incorporate changes in local market capital frameworks as these come into force. In respect of Hong Kong's RBC framework, we expect the Pillar 1 rules to be finalised this year. The HKIA is also currently developing plans to enable early adoption. We remain supportive and keen to adopt an economic capital regime aligned to our capital allocation framework.

9.Growing capital
Resilient GWS position

This strong capital position is also resilient to external macro shocks, as demonstrated by the relatively low sensitivity of the GWS ratio and surplus to the sensitivities shown here. This resilient capital position is the result of our focus on selling high quality, recurring premium H&P business, which is highly capital generative and has lower exposure to market risk.

Our shareholder asset exposure is significantly reduced by the proposed US demerger.
The shareholder asset exposure of the Group's continuing operations is roughly 4x smaller than the Group position at the end of 2018, which included the UK and US businesses.

10.Growing capital
Clear route to enhancing financial flexibility

Lastly on capital and balance sheet structure. As we have said before, post the proposed US demerger we will seek debt leverage in the 20-25% range on a Moody's basis over the medium term.

Our potential equity raise would achieve this, with the proceeds expected to be used to repay high coupon debt in order to increase our financial flexibility.

So in summary on my growing capital topic:

Our capital generative business creates predictable free surplus emergence, funding reinvestment in new business which creates 4x the value of the investment,

Our GWS capital surplus remains strong and resilient under the new group-wide requirements.

AND
We aim to ensure we retain financial flexibility to take advantage of the significant growth opportunities in Asia and Africa, including from our potential equity raise of around $2.5bn to $3bn.

11. Growing earnings
Resilient, broad-based growth. H&P drives segment IFRS operating profit

My third and final topic is about how we are growing our earnings.

We delivered 11% growth of segment operating IFRS earnings to $2.0bn. Growth Markets was our largest single segment followed by Hong Kong and our China JV delivered the highest growth in the period. Overall 10 businesses delivered double digit growth. And these are businesses at scale: two markets generated adjusted operating profit of $250 million or above, and a further five markets, including our asset management business, were above $100 million in the first half of the year.

As Mike indicated in his presentation, Covid related experience varies widely. For example in Hong Kong we saw less favourable claims experience following the lower level of claims seen in 2020, while in markets like Indonesia we saw increased levels of Covid related claims, including sadly, mortality related claims. We expect this trend to continue into the fourth quarter for those markets with a high number of Covid-19 cases.

We continue to benefit from in-force growth reflecting the compounding nature of the growth of the health and protection business over recent years and higher fee income as equity markets continue to rise.

Insurance margin, the underwriting profits from our Health & Protection business, accounts for nearly 80% of insurance income. As such, the $141 million increase in insurance margin was the primary source of the rise in overall operating profits and the growth here reflects the drivers I have just described.

12.Growing earnings
Positive operating leverage as central costs reduce

At a Group IFRS level you can see the benefit of our cost actions starting to come through. Our adjusted operating profits rose 19% to $1.6 billion, driven by a higher segment profit from operations and reduced corporate expenditure.

We continue to actively manage expense levels across the Group, including, for example, reviews of property needs and costs, given changes in distribution trends. At the same time, in high potential markets, we will continue to invest for the long term.

In respect of restructuring and IFRS 17 costs, as I said at the Prelims in March, we see scope for further automation and reshaping of core functions and processes to support growth. We will incur more costs with the on-going IFRS 17 programme. As a result, we continue to expect overall restructuring and IFRS 17 costs to remain elevated in the lead up to implementation of IFRS 17. Thereafter, we expect these costs to reduce.

Finally, and probably for the last time, I will comment on Jackson's financial performance. I would like to highlight that Jackson delivered $2.2 billion of IFRS profit before tax in the first half, driven by growth in fee income from higher account values and net favourable short-term fluctuations driven by higher interest rates. Its new sales of variable annuities were also up 30 per cent.

In accordance with IFRS 5, as a discontinued operation, Jackson has been remeasured to fair value less costs to distribute. Using this fair value has resulted in a loss on remeasurement, after tax, of $(7.5) billion. $(5.1) billion of this remeasurement relates to the Group's 88.9% economic interest. Following the proposed demerger, the remaining 19.7% economic interest will be held at fair value.

So, from an earnings growth perspective, we saw good growth in operating profit, costs coming down and a good performance from Jackson.

13.Prudential plc
HY21 financial performance: strategy translates into growth in value

To wrap-up:

Our first half performance again demonstrates how our strategy delivers growth for shareholders – in terms of value, capital and earnings.
New business profit generation is the core long term driver of EEV growth.

Our near term performance will continue to reflect the impact that Covid is making on the various economies, movement of people and lives of our customers.

However, with our proven capabilities, diverse and digitally enabled distribution platform and relentless focus on quality business, we will continue to support our customers and provide them with protection in these uncertain times.

We reinvested at attractive margins, generating nearly 4 Dollars of value for every Dollar invested in new business.
At the same time, we continue to focus on central cost and wider operational efficiency, growing our OFSG and our GWS surplus.

AND our capital-generative business, resilient balance sheet and financial flexibility support our plans to pursue continued compounding growth in our chosen markets across Asia and Africa.