Measuring our performance

To create sustainable economic value for our shareholders we focus on delivering growth and cash while maintaining appropriate capital.

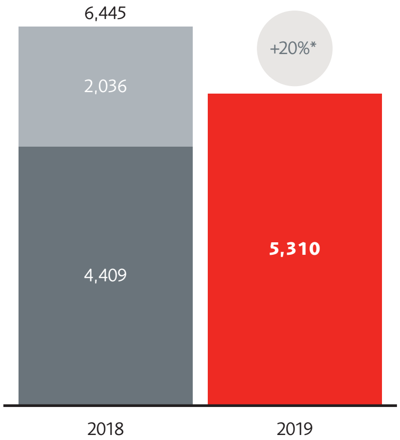
Profit, cash and capital[1]

Prudential takes a balanced approach to performance management across IFRS, EEV and cash. We aim to demonstrate how we generate profit under different accounting bases, reflecting the returns we generate on capital invested, and the cash generation of our business.

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

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

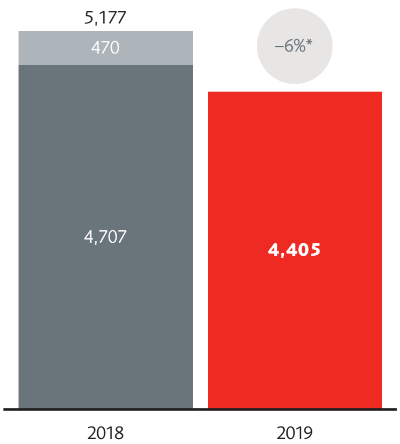
Group adjusted operating profit in 2019 is 20 per cent higher on a constant and actual exchange rate basis compared with 2018. Adjusted operating profit from Asia life and asset management operations was up 14 per cent on a constant exchange rate basis (13 per cent on an actual exchange rate basis). In the US, adjusted operating profit was up 20 per cent reflecting a lower market related deferred acquisition cost amortisation charge.



EEV new business profit[3] $m

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

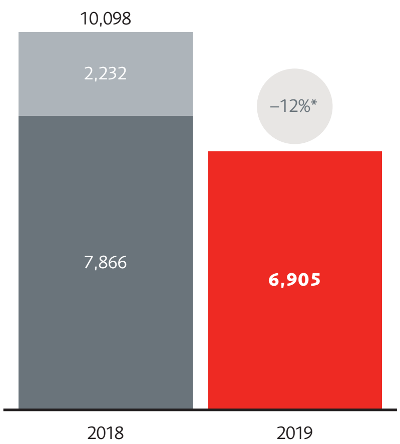
EEV new business profit in 2019 decreased by 6 per cent on a constant and actual exchange rate basis compared with 2018. New business profit generated by our Asian business was up 2 per cent on a constant exchange rate basis, with a 29 per cent increase from Asian businesses excluding Hong Kong. Hong Kong fell by 12 per cent broadly in line with the fall in APE sales given the decline in mainland China visitors in the second half of the year. US new business profit decreased by 28 per cent, with an increase in sales being more than offset by a fall in interest rates and the planned diversification of product mix.



EEV operating profit[3] $m

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

Group EEV operating profit in 2019 decreased by 12 per cent on a constant exchange rate basis (12 per cent on an actual exchange rate basis) compared with 2018. In addition to the decrease in new business profit described above, in force profit was lower due, in part, to falling interest rates.



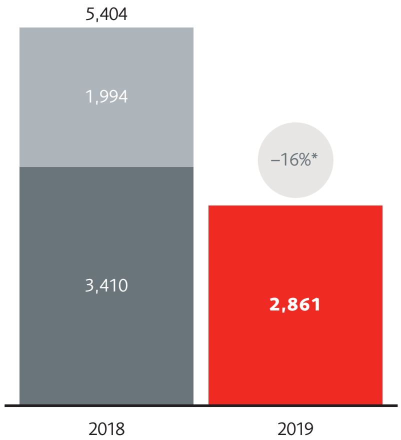
Key
- Continuing
- Discontinued
- Continuing

*Growth rates relate to continuing operations.

Operating free surplus generation[4] $m

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

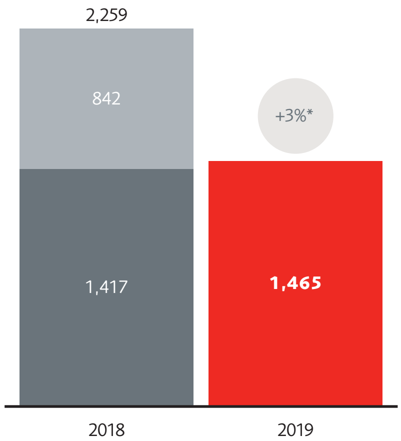
Operating free surplus from continuing operations was $2,861 million in the year. This comprises $4,958 million generated from the in-force business and asset management, up 12 per cent, before allowing for $(903) million of US EEV hedge modelling enhancements, new business strain of $(1,158) million, up 22 per cent following the planned diversification of sales in the US towards higher strain fixed index and fixed annuities, and restructuring costs of $(36) million.



Business unit remittances[5] $m

Remittances measure the cash transferred from business units to the Group. Cash flows across the Group reflect our aim of achieving a balance between ensuring sufficient net remittances from business units to cover the dividend (after corporate costs) and the use of cash for reinvestment in profitable opportunities available to the Group.

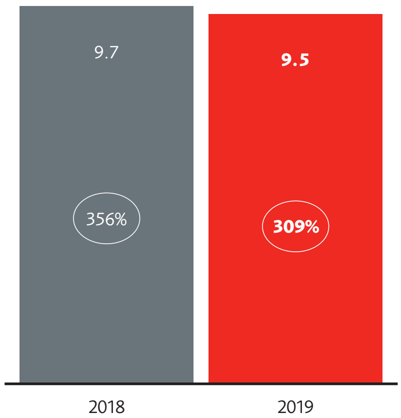
Cash remitted to the Group from continuing operations in 2019 amounted to $1,465 million, including $950 million from Asia (up 4 per cent) and $509 from the US (up 13 per cent). During 2019, the Group's holding company cash flows were managed in sterling and significant remittances were hedged. If local currency remittances in Asia had been translated directly into US dollars then the growth rate in Asia remittances would have been 8 per cent. The dividend paid by Jackson was $525 million (2018: $450 million).



Group local capital summation method[6] $bn

Following the demerger of M&G plc from Prudential plc, the Hong Kong Insurance Authority (IA) has assumed the role of the Group-wide supervisor for the Prudential Group. The Group is no longer subject to Solvency II capital requirements and currently 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 Group's available capital, as recorded on a LCSM basis, covers the Group's minimum capital requirement over three times. In 2019, capital generation from the in-force business has been used to invest in new business, pay the external dividend and invest in new bancassurance agreements and a new Thai asset manager. After these impacts and market movements, LCSM surplus fell slightly from $9.7 billion at 31 December 2018 to $9.5 billion at 31 December 2019.



Notes

1 The comparative results shown above have been prepared using an actual exchange rate (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown in financial tables in the Chief Financial Officer's report on our 2019 financial performance. Growth rates for 2018 to 2019 are on an AER basis.

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

3 The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of the EEV basis results. See note II of Additional unaudited financial information for definition and reconciliation to IFRS balances.

4 For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the period less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the period. Restructuring costs are presented separately from the operating business unit amount. Further information is set out in note 11 of the EEV basis results.

5 Cash remitted to the Group forms part of the net cash flows of the holding company. A full holding company cash flow is set out in note I(iii) of the Additional unaudited financial information. This differs from the IFRS consolidated statement of cash flows which includes all cash flows relating to both policyholders' and shareholders' funds. The holding company cash flow is therefore a more meaningful indicator of the Group's central liquidity.

6 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum capital requirement of participating business in Hong Kong, Singapore and Malaysia. 2018 surplus excludes M&G plc and includes $3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.