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**20%**

Increase in adjusted operating profit from continuing operations<sup>2</sup>

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**\$1,953m**

IFRS profit after tax from continuing operations (2018: \$2,881m)

# Delivering profitable growth and positioning ourselves for the future

We have delivered a positive operating performance during 2019, led by continued growth in our Asian business.



Our clear strategy and focused execution, combined with improvements in our operations, have enabled us both to deliver profitable growth and to position ourselves for continued growth into the future.

We exist to take the financial risk out of the biggest events in the lives of our customers, enabling them to face the future with confidence. In addition to fulfilling our traditional role of providing life and health protection, savings opportunities to meet family goals and retirement income, we aspire to lead in new areas aligned with this purpose. During 2019, collectively our continuing businesses agreed to pay over \$29 billion to our customers in claims and savings pay-outs. Our products help consumers postpone and prevent ill-health through digital innovation, increase access to finance, and provide solutions for an ageing world. At the same time, we are investing our customers' savings in the real economy, helping to drive sustainable growth.

Our business is built around long-term structural opportunities. In our fast-growing markets in Asia there is a strong and growing need for health and protection, for savings opportunities and for ways to invest, and there is a significant gap for products that meet those needs. By meeting important financial needs, we expect to build long-term relationships with our customers. This translates into recurring income streams and low lapse rates, which in turn produce high-quality earnings.

We are well positioned to meet structural opportunities. We are diversified by geography, with operations in 15 markets in the region, through our products offering health and protection, savings and asset management, and in our mix of channels, providing our products through our large agency force and our network of partnerships with banks across the region. We are also innovating at pace and scale to digitalise the customer journey end-to-end, and delivering new value-added solutions, such as Pulse by Prudential, our new digital health app.

In the US, where the continuing transition of millions of Americans into retirement creates a substantial opportunity for Jackson's products, we have delivered organic diversification and Jackson has paid a dividend of \$525 million<sup>1</sup>.

During 2019, we successfully completed the demerger of M&G plc from the Group, enabling us to focus on structural growth markets. We are working collaboratively with our new Group-wide regulator, the Hong Kong Insurance Authority, and our other supervisors across our markets.

The US is the world's largest retirement market with trillions of dollars expected to move from savings into retirement income products over the next decade. As a top-two annuity provider, Jackson is a leader in meeting the needs of Americans who aspire to a secure retirement with a guaranteed income.

Jackson's ambition is to play the fullest role possible through a strategy of diversifying both its product range and distribution network. Over time, this is expected to lead to a more balanced mix of policyholder liabilities and enhance statutory capital and cash generation.

As we stated at our half-year results, in order to diversify at pace, Jackson will need access to additional investment which we believe would best be provided by third parties. Since then, we have undertaken significant work with our advisers to assess options for introducing third party finance into Jackson. The Board has determined that the preferred route to achieve this is to seek a listing of Jackson in the US in due course, subject to market conditions.

Accordingly, we are today announcing that preparations have commenced for a minority initial public offering (IPO) of Jackson and have already taken a number of management actions to support this path. We will now commence detailed engagement with key stakeholders, with a view to ensuring that Jackson will have the capital strength as a separately listed business to support its continued success as a broad provider of retirement solutions for America's aging population. We will provide an update at our HY20 results scheduled for 11 August 2020.

### Macroeconomic environment

The core demand for our long-term savings and protection products has remained strong despite uncertain conditions in the macroeconomic environment. A combination of low interest rates, trade disputes and volatile international politics has created difficult conditions across many sectors. The US government 10-year bond yield fell to 1.9 per cent at the end of 2019 (2018: 2.7 per cent). Equity markets finished 2019 higher than the start of the year, especially in the US, where the S&P500 index was up 28.9 per cent, and valuations in the credit markets were also elevated well above historic norms. We continue to manage our business conservatively for the long term, with a cautious allocation of shareholder funds and extensive hedge programmes in Jackson. These hedge programmes manage the economic risk, with consideration of the local regulatory position, of the guarantees contained within the products sold to customers.

### Financial performance

The adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit<sup>2</sup>) for 2019 from our continuing operations increased by 20 per cent on both a constant and actual exchange rate basis, reflecting the continued growth and resilience of our Asian businesses and the beneficial impact of strong 2019 capital returns on deferred acquisition cost amortisation in the US. The IFRS profit after tax from continuing operations was \$1,953 million in 2019 (2018: \$2,881 million on an actual exchange rate basis). This is after a \$(380) million post-tax loss in Jackson, where accounting volatility continues to be expected given the economic nature of our hedging programme and the related accounting mismatches that exist.

Alongside our financial performance we have made significant investments, funded regionally and centrally. During 2019, this included the renewal of our regional strategic bancassurance alliance with United Overseas Bank Limited for an initial fee of \$853 million, (\$301 million of which was paid in 2019), entering into an exclusive bancassurance partnership with SeABank, our acquisition of 50.1 per cent of Thanachart Fund Management Co., Ltd for \$142 million<sup>3</sup> and a total investment of \$619 million of free surplus in writing profitable new business in Asia, along with an investment of \$539 million in free surplus in US new business.

### Asia

Our Asian operations continued to drive our performance. The fast-growing markets of Asia offer long-term structural opportunities for us, with the region's growing population having a clear and increasing need for the products we deliver. Insurance penetration in Asia is only 2.7 per cent of GDP, compared with 7.5 per cent in the UK<sup>4</sup>, while mutual fund penetration is just 12 per cent in Asia, compared with 96 per cent in the US<sup>5</sup>.

We have demonstrated the strength of our portfolio of businesses in the region by delivering double-digit growth in APE<sup>6</sup> sales in six markets and in new business profit<sup>7</sup> in eight, reinforcing the value of our diverse portfolio and demonstrating the breadth of earnings streams and new business spread in Asia.

Outside Hong Kong, we delivered a 17 per cent<sup>8</sup> increase in APE<sup>6</sup> sales and a 29 per cent<sup>8</sup> rise in new business profit<sup>7</sup>. Within Hong Kong, our domestic business was resilient despite the effect of social unrest, with APE<sup>6</sup> sales growing by 8 per cent<sup>8</sup>. Our domestic Hong Kong business has continued to expand and invest, driven by new health, protection and retirement solutions and supported by focused sales initiatives. Fewer visitors from mainland China caused a fall in total Hong Kong APE<sup>6</sup> sales by 11 per cent<sup>8</sup> and a fall in new business profit<sup>7</sup> of 12 per cent<sup>8</sup>.

We have continued to accelerate our joint venture business in China, where APE<sup>6</sup> sales over the year were 53 per cent<sup>8</sup> higher, driving new business profit<sup>7</sup> growth of 38 per cent<sup>8</sup>. We recently established a new branch in Shaanxi, our 20th in the country, and added seven cities and 14 sales and servicing offices. We are developing rapidly in a number of our other markets in the region, including Vietnam and the Philippines, where APE<sup>6</sup> sales grew by 12 per cent<sup>8</sup> and 34 per cent<sup>8</sup> respectively and we are making good progress in Indonesia, where our sales grew by 23 per cent<sup>8</sup> in the year including 41 per cent<sup>8</sup> in the second half. Overall our Asia life businesses delivered 4 per cent<sup>8</sup> growth in overall APE<sup>6</sup> sales and a 2 per cent<sup>8</sup> growth in overall new business profit<sup>7</sup>.

The benefits of our long held focus on writing high quality, recurring premium business, contributing to resilient and broad-based in-force growth are evident in the 12 per cent<sup>8</sup> increase in renewal insurance premium<sup>9</sup> and 14 per cent<sup>8</sup> increase in adjusted operating profit<sup>2</sup>, with double-digit growth<sup>8</sup> in eight insurance markets including 24 per cent adjusted operating profit growth in Hong Kong and 20 per cent<sup>8</sup> growth in mainland China.

At the same time, our Asian asset manager, Eastspring, has continued to grow well. Average assets under management were up by 15 per cent (on an actual exchange rate basis), while earnings were up by 18 per cent<sup>8</sup> and net external inflows totalled \$8.9 billion<sup>10</sup>. Eastspring is continuing to expand its footprint in the region, and in December acquired a controlling stake in one of Thailand's leading asset managers, Thanachart Fund Management Co., Ltd, with the option to acquire the remaining equity in this business in due course.

We have broad and efficient channels in Asia, through both our agency force and our bank partners. During 2019, we continued to strengthen our network of bank partnerships, renewing and expanding our successful strategic alliance with United Overseas Bank in five markets across the region and signing two new partnership agreements in Vietnam.

We are continuing to deliver digital innovation to support our successful agency and bank channels. We are diversifying into new areas, including employee benefits insurance for both large and small employers in the region, and at the same time we are building new value-added services such as Pulse by Prudential, our new end-to-end digital health app.

### Africa

We are continuing to make good progress in our newer markets in Africa. In 2019 we enhanced our growing scale in the region by acquiring a majority stake in a leading life insurer operating in Cameroon, Côte d'Ivoire and Togo, which have a combined population of more than 65 million. We now operate in eight markets in Africa with a total population of almost 400 million. In 2019, the Africa business delivered a 76 per cent<sup>8</sup> increase in APE<sup>6</sup> sales to \$82 million (2018: \$47 million).

### US

In the US, our product innovation and distribution leave us well positioned to provide an ageing population with financial strategies for stable retirements. The US is the world's largest retirement savings market<sup>11</sup>, with approximately four million Americans reaching retirement age every year<sup>12</sup>. This transition continues to trigger the unprecedented shift of trillions of dollars from savings accumulation to retirement income generation<sup>13</sup>.

We provide products that offer Americans the retirement strategies they need, including variable, fixed and fixed index annuities. Our diversified product approach has enabled us to deliver APE<sup>6</sup> sales up 8 per cent, with increases in both fixed index and fixed annuity products. New business profit<sup>7</sup> declined by 28 per cent, reflecting lower interest rates and changes in product mix.

In the US, we have one of the leading distribution teams<sup>14</sup>. We are agile and successful in launching well designed, customer-centric products, have successful risk management and hedge programmes are investing in technology platforms and have award-winning customer service. We are continuing to work towards further diversification and growth, within a highly competitive industry.

Our US business has taken important steps in the delivery of its diversification announced with our half year results in August 2019 and has maintained a cautious approach to managing risk through its dynamic hedging programme. The financial results of the US business reflect the execution of this strategy. While adjusted operating profit<sup>2</sup> increased by 20 per cent to \$3,070 million, the effects of strong US equity market performance and lower interest rates in the period led to a post-tax IFRS loss in the US of \$(380) million. We continue to accept a degree of volatility in our IFRS results

since our hedging programme is based on managing the economic risks in the business and protecting statutory solvency in the circumstances of large market movements. Further detail is provided in the Group Chief Financial Officer and Chief Operating Officer's report.

### Outlook

We continue to monitor closely the development of the coronavirus outbreak. Our priority is the health and wellbeing for our customers and staff during this challenging time.

While the coronavirus outbreak has slowed down economic activity in the year to date and dampened our sales momentum in Hong Kong and China, we remain confident in the medium to long-term prospects of these economies and their respective insurance sectors. Our broad geographic spread across the region and the strength of our recurring premium business model lends considerable resilience to our earnings.

Given the impact of the coronavirus outbreak on travel and activity in the markets in which we operate, lower levels of new sales activity in those affected markets are to be expected. Our book of existing business is proving resilient and we are taking measures to manage the effect of lower activity while maintaining our investment in products, distribution and technology. Existing customers in both Hong Kong and mainland China continue to contribute to their policies with premiums being paid through a broad range of remote payment facilities.

The longer term structural drivers of growth in our Asia markets remain unchanged and compelling. The resilient and high quality nature of the IFRS operating earnings growth of our Asia business remains supported by the compounding nature of a highly enduring regular premium income

base and focus on health and protection products. These drivers, combined with the diversity of the Asia platform and quality of its execution, are expected to outweigh the effects of any one period's new sales.

In the US, we have commenced preparations for a minority IPO of Jackson as our preferred route to introduce third party finance into Jackson. As previously announced, from 2020 Jackson's remittances are expected to be more evenly spread over the calendar year than in prior periods.

The Group's strategy remains focused on structural growth opportunities. The Group will prioritise the considerable attractive investment opportunities available when considering the deployment of capital and applying its progressive dividend policy.

Interest rates have declined materially in 2019 and are trending lower in 2020. Equity markets have been volatile and have declined in the current year to date from their peaks in Q4 2019. These market conditions, as well as the coronavirus outbreak, create headwinds in respect of near-term new business profit and IFRS fee-based and spread earnings. However, our performance in 2019 demonstrates that the opportunities we have identified are clear and long term and that we are addressing these opportunities well. We are continuing to deliver growth based on the strength of those opportunities, the diversification of our business and the resilience of our earnings. I am confident that, with our clear focus on our structural growth markets and our continuing operational improvements, we will continue to deliver profitable growth for our investors and benefits for our stakeholders over the medium and long term.



**Mike Wells**  
Group Chief Executive

### Notes

- During 2019, the Group's holding company cash flow was managed in sterling and significant remittances were hedged and recorded on that basis. Amounts received were therefore distorted by the onwards translation into US dollars. The dividend paid by Jackson in the US in US dollars in 2019 was \$525 million (2018: \$450 million). The amount recorded as received in the holding company cash flow was \$509 million (2018: \$452 million).
- Adjusted IFRS operating profit based on longer-term investment returns is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the year is set out in note B1.1 of the IFRS financial statements.
- Cash payments made over 2019 and 2020.
- Source: Swiss Re Sigma 2017. Insurance penetration calculated as premiums on per cent of GDP. Asia penetration calculated on a weighted population basis.
- Source: Investment Company Institute, industry association and Lipper.
- APE sales is a measure of new business activity that comprises the aggregate of annualised regular premiums and one-tenth of single premiums on new business written down during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial statements. See note II of the Additional unaudited financial information for further explanation.
- New business profit on a post-tax basis, on business sold in the period, calculated in accordance with EEV principles.
- Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated. As in previous years, we comment on our performance in local currency terms (expressed on a constant exchange rate basis) to show the underlying business trends in periods of currency movement.
- See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
- Excludes Money Market Funds.
- Source: Willis Towers Watson Global Pension Asset Study 2019.
- Annual Estimates of the Resident Population by Single Year of Age and Sex for the United States: 1 April 2010 to 1 July 2018. Source: US Census Bureau, Population Division.
- 2016 Federal Reserve Board's Triennial Survey of Consumer Finances.
- Source: Independent research and Market Metrics, a Strategic Insight Business: U.S. Advisor Metrics 2019, as of 30 September 2019.