Measuring our financial performance

To create sustainable economic value for our shareholders we focus on delivering sustainable compounding growth while generating cash and capital to reinvest in the Asia and Africa businesses and meet our financing needs. We focus on the following metrics when looking at our financial performance[1].

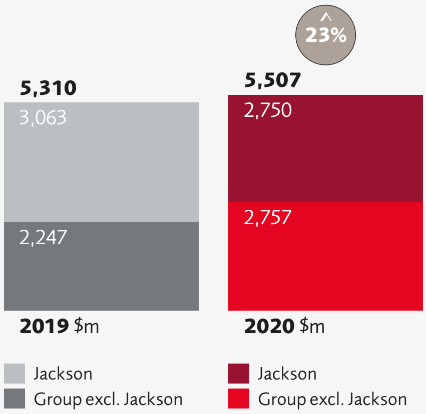
Adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit)[2] $m

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 is management's preferred measure when evaluating 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 2020 is 4 per cent higher on a constant and actual exchange rate basis compared with 2019.

Adjusted operating profit for the Group excluding Jackson Financial Inc. and its subsidiaries (Jackson) was $2,757 million up 24 per cent on a constant exchange rate basis (23 per cent on an actual exchange rate basis), reflecting higher adjusted operating profit from Asia life and asset management operations, up 13 per cent on a constant exchange rate basis to $3,667 million (12 per cent on an actual exchange rate basis) and lower central and restructuring costs (excluding Jackson), down 12 per cent to $(910) million (2019: $(1,029) million) on an actual exchange rate basis.

Jackson adjusted operating profit before restructuring costs was $2,796 million, down (9) per cent largely reflecting the impact of DAC adjustments in the current year and the expected reduction in spread-related earnings following the Athene reinsurance agreement. Jackson adjusted operating profit after restructuring costs was $2,750 million.



Note
Amounts stated after restructuring and IFRS 17 implementation costs attributable to each block.

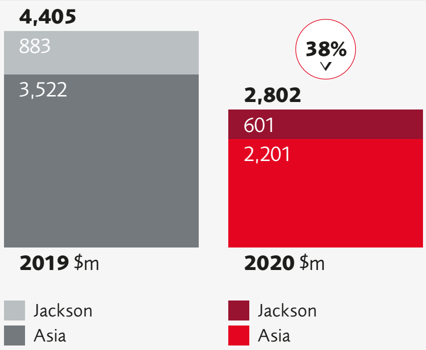
EEV new business profit[3] $m

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 2020 decreased by (37) per cent on a constant exchange rate basis and (36) per cent actual exchange rate basis compared with 2019.

EEV new business profit for Asia declined by (38) per cent on a constant and actual exchange rate basis to $2,201 million, driven by declines in new business sales as a result of Covid-19 related disruption.

Jackson EEV new business profit declined by (32) per cent, largely reflecting a decline in sales and the reduction in interest rates during 2020, partly mitigated by the higher proportion of variable annuity sales in the year.



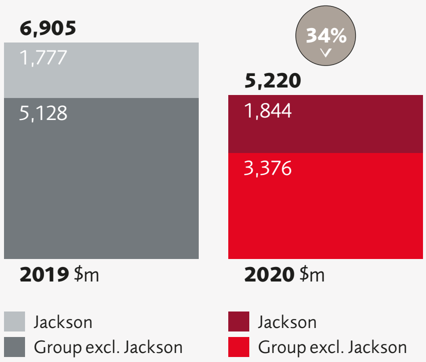
EEV operating profit[6] $m

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 on an IFRS basis. As with IFRS, EEV operating profit reflects the underlying results based on longer-term investment returns.

Group EEV operating profit in 2020 decreased by (24) per cent on an actual exchange rate basis compared with 2019.

EEV operating profit for the Group excluding Jackson fell by (34) per cent on an actual exchange rate basis, largely reflecting the decline in new business profit, described above and the effect of lower interest rates on the in-force operating profits.

Jackson EEV operating profit increased 4 per cent to $1,844 million.



Note
Amounts stated after restructuring and IFRS 17 implementation costs attributable to each block.

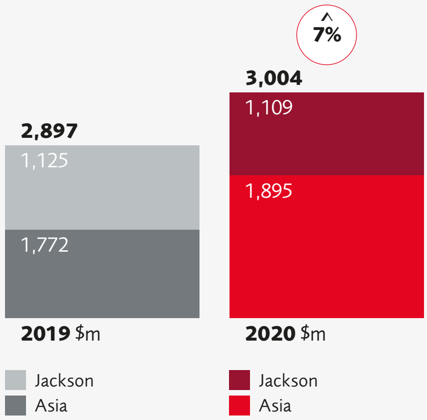
Growth rate on Group excluding Jackson on an actual exchange rate basis. Group excluding Jackson comprises Asia, Africa and central operations.
Growth rate on Asia operations on an actual exchange rate basis.

Free surplus generation from insurance and asset management businesses[4] $m
Free surplus generation from insurance and asset management businesses 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.

Group operating free surplus generation from continuing insurance and asset management operations before restructuring costs was $3,004 million in the year (2019: $2,897 million on an actual exchange rate basis). Group operating free surplus generation from continuing insurance and asset management operations after restructuring costs was $2,886 million in the year (2019: $2,861 million on an actual exchange rate basis).

Operating free surplus generation before restructuring costs for Asia operations increased 8 per cent on a constant exchange rate basis (7 per cent on an actual exchange rate basis) to $1,895 million, following the growth of the in-force portfolio and lower levels of new business, partially offset by the effect of lower interest rates compared with the prior year.

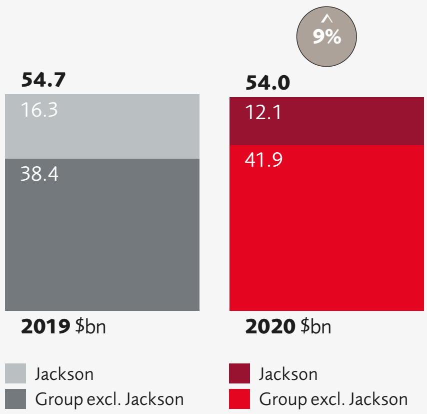
Jackson operating free surplus generated before restructuring costs fell (1) per cent compared with 2019, which included a $355 million benefit following the integration of the John Hancock business acquired in 2018.



EEV basis shareholders' equity[6] $bn
EEV represents the present value of the shareholders' interest in the post-tax future profits (on a local statutory basis) expected to arise from the current book of long-term business, after sufficient allowance has been made for the aggregate risks in the business. Asset management and other non-insurance subsidiaries, joint ventures and associates are included in EEV at the Group's proportionate share of IFRS basis shareholders' equity, with central Group debt shown on a market value basis.

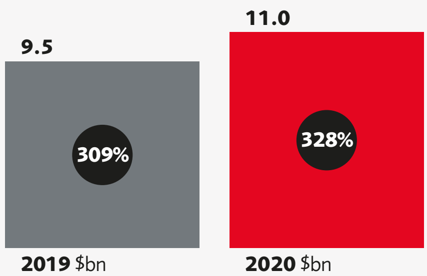
Group total EEV basis shareholders' equity decreased (1) per cent during 2020 to $54.0 billion.

EEV shareholders' equity for the Group excluding Jackson increased 9 per cent to $41.9 billion, largely reflecting Asia new business sales and operating returns on its growing in-force book.



Group local capital summation method shareholder basis surplus[5] $bn
The Hong Kong Insurance Authority (IA) is the Group-wide supervisor for the Prudential Group. In agreement with the Hong Kong IA, the Group currently applies the local capital summation method (LCSM) to determine Group regulatory capital requirements (both minimum and prescribed levels) until the Group-wide Supervision (GWS) Framework is effective, which for Prudential is expected in the second quarter of 2021 upon designation by the Hong Kong IA. See the Group capital position section of the Group Chief Financial Officer and Chief Operating Officer's report for further information.

The Group's available capital, as recorded on a LCSM shareholder basis, covers the Group's minimum capital requirement over three times. In 2020, capital generation from the in-force business has been used to invest in new business, pay the external dividend and invest in new partnerships. After these investment and distributions, and the impact of market movements, LCSM shareholder surplus increased from $9.5 billion, with an LCSM shareholder ratio of 309 per cent, at 31 December 2019 to $11.0 billion, with an LCSM ratio of 328 per cent, at 31 December 2020.



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 Group Chief Financial Officer and Chief Operating Officer's report on our 2020 financial performance. Growth rates for 2019 to 2020 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 New business profit, on a post-tax basis, on business sold in the year, calculated in accordance with EEV principles.

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

5 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. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.

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