

# Strong performance and continued profitable growth

I am pleased to report that over 2017 our clear, consistent strategy, high-quality products and improving capabilities have enabled us to meet the needs of customers around the world better than ever before.

Our purpose is to help remove uncertainty from life's big events. Whether that's starting a family, saving for a child's education or planning for retirement, we provide our customers with financial peace of mind, enabling them to face the future with greater confidence. We also invest our customers' money actively in the real economy, helping not only to improve the lives of individuals and families, but also to build stronger communities and drive the cycle of growth.

Our strategy is aligned to structural trends: the savings and protection needs of the fast-growing middle class in Asia, the retirement income needs of the approximately 75 million baby boomers in the United States<sup>1</sup> and the growing demand for managed savings solutions among the ageing populations of the United Kingdom and Europe. These trends are sustained, and we remain focused on the opportunities they present.

We have continued to develop our products and our capabilities in order to improve the way we meet customers' needs. We are creating new, better and more personalised products, and we have a flexible, collaborative approach to incorporating the best digital technologies into our operations, while also leveraging our global scale to share new insights across our businesses at pace. The result is constant improvement in the way we serve our customers, providing value both to them and to our shareholders.

In March 2018 the Group announced its intention to demerge its UK and Europe businesses ('M&G Prudential') from Prudential plc, resulting in two separately listed companies, with different investment characteristics and opportunities. Our businesses share common heritage, values and purpose. Looking forward, we believe we will be better able to focus on meeting our customers' rapidly evolving needs and to deliver long-term value to investors as two separate businesses. On completion of the demerger, shareholders will hold interests in both Prudential plc and M&G Prudential.

In line with its strategy to transition towards a more capital efficient, de-risked business model, M&G Prudential agreed in March 2018 to the sale of £12.0 billion<sup>20</sup> of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion<sup>20</sup> of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. The capital benefit of this transaction will be retained within the Group to support the UK demerger process.

In preparation for the UK demerger process, and to align the ownership of the Group's businesses with their operating structures, Prudential plc intends to transfer the legal ownership of its Hong Kong insurance subsidiaries from The Prudential Assurance Company Limited (M&G Prudential's UK regulated insurance entity) to Prudential Corporation Asia Limited, which is expected to complete by the end of 2019.

### Our financial performance

We have built on our good start to 2017 through disciplined execution of our strategy, again led by our businesses in Asia.

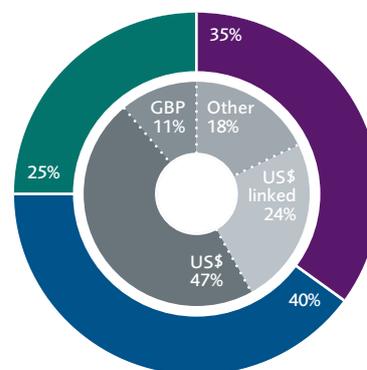
We announce today the achievement of our remaining 2017 objectives, which were set in December 2013. During the first half of 2017, we exceeded the Group objective of underlying free surplus generation of at least £10 billion from the beginning of 2014 to the end of 2017. By the end of 2017 we had generated £12.8 billion over this four year period. Our Asia businesses delivered growth in IFRS operating profit based on longer-term investment returns<sup>2</sup> ('IFRS operating profit') at a compound average rate of 16 per cent<sup>3</sup> over the period 2012 to 2017, and underlying free surplus generation of £1,078 million<sup>3</sup> for the full year 2017. This is testament to the strength, scale and diversity of our Asia platform, validates our focus on recurring premium health and protection business and

demonstrates the strength of our operational execution. It also marks the third set of objectives that we have successfully achieved within the last 10 years.

During 2017 we combined our UK and European life and asset management businesses to form M&G Prudential, which delivered record levels of external asset management net inflows of £17.3 billion in 2017. This contributed to combined assets under management<sup>4</sup> of £351 billion at 31 December 2017.

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 a period of currency movement.

**IFRS operating profit\* by business and currency % 2017**



● Asia  
● US  
● UK and Europe

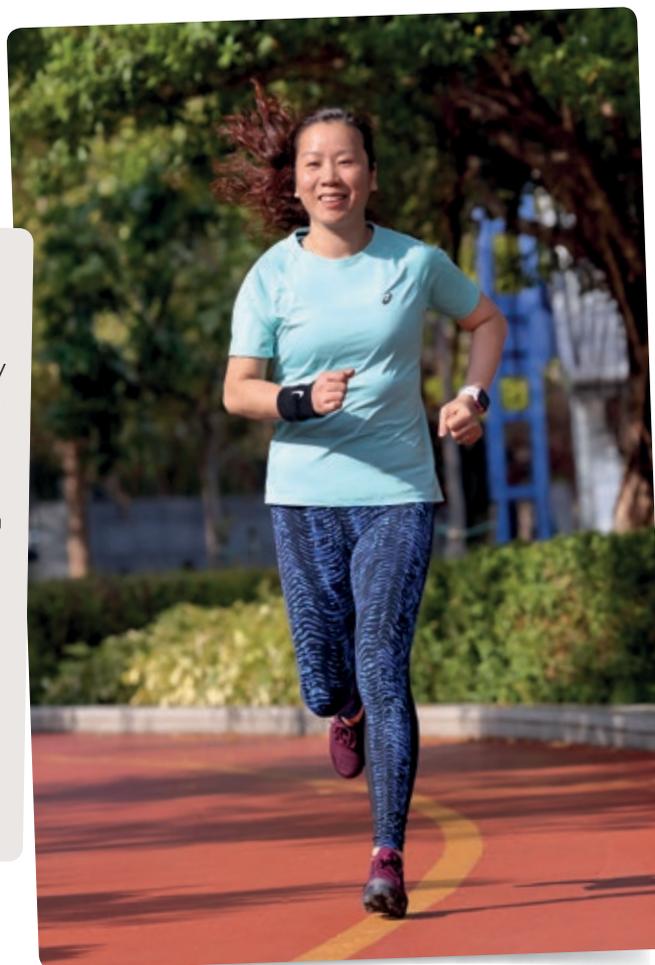
\* Segmental earnings of key businesses and excludes other income and expenditure.

## Adding more to life: Helen, Prudential Hong Kong

'I've always considered good health to be very important to my life. It's great that Prudential offered me access to myDNA Pro, which has given me key insights into my genetic risk profiles.

The first step was to do a DNA test, which showed my body to be sensitive to carbohydrate and fat intake due to my genetic makeup. Based on these findings, the personal health coach I chose as part of the programme helped me set a weight loss goal and plan to maintain a healthier lifestyle, including changing my dietary habits and ensuring I incorporated more cardio workouts into my exercise regime. With these, I have been able to maintain a healthy weight and am now in an overall better shape.

'I've been very impressed by the genetics-based recommendations and level of personal guidance provided by the programme. Huge thanks to my coach and Prudential for all the support and motivation.'



Group IFRS operating profit was 6 per cent<sup>5</sup> higher at £4,699 million (up 10 per cent on an actual exchange rate basis). IFRS operating profit from our Asia life insurance and asset management businesses grew by 15 per cent<sup>5</sup>, reflecting continued broad-based business momentum across the region, with double-digit<sup>5</sup> growth in eight out of 12 life insurance markets. In the US, Jackson's total IFRS operating profit increased by 3 per cent<sup>5</sup>, due mainly to growth in fee income on higher asset balances, which outweighed the anticipated reduction in spread earnings. In the UK and Europe, M&G Prudential's total IFRS operating profit was 10 per cent higher than the prior year, reflecting 6 per cent growth in the IFRS operating profit generated from insurance business and 18 per cent growth in that generated from asset management.

The Group's capital generation is underpinned by our large and growing in-force business portfolio, and focus on profitable, short-payback business. Overall underlying free surplus generation<sup>6</sup> decreased by 1 per cent<sup>5</sup> to £3,640 million, with higher contributions in Asia and the UK and Europe, offset by higher restructuring costs and a lower contribution from our US business. 2016 benefited from the impact of a US transaction to enhance local capital efficiency that was not repeated in 2017.

Cash remittances to the Group increased to £1,788 million, with Asia the largest contributor<sup>7</sup> at £645 million. The Group's overall performance supported an 8 per cent increase in the 2017 full year ordinary dividend to 47 pence per share.

The Group remains robustly capitalised, with a 2017 year-end Solvency II cover ratio<sup>8,9</sup> of 202 per cent. Over the period, IFRS shareholders' funds increased by 10 per cent to £16.1 billion, reflecting profit after tax of £2,390 million (2016: £1,921 million on an actual exchange rate basis) net of other movements that included dividend payments to shareholders of £1,159 million and adverse foreign exchange movements of £470 million. EEV shareholders' funds increased by 15 per cent to £44.7 billion, equivalent to 1,728 pence per share<sup>10,11</sup>.

New business profit<sup>11</sup> increased by 12 per cent<sup>5</sup> to £3,616 million (up 17 per cent on an actual exchange rate basis), driven by improved business mix in Asia, higher UK volumes and the favourable effect of tax reform in the US.

In Asia, we continue to develop our capabilities and reach, which build scale and enhance quality. Our strategic emphasis on increasing sales from health and protection business has contributed to a 12 per cent<sup>5</sup> increase in new business profit in Asia. Our asset management

business, Eastspring Investments, has again seen growth, with its total assets under management up 18 per cent<sup>12</sup> to £138.9 billion and IFRS operating profit also up 18 per cent<sup>5</sup> to £176 million.

In the US we remain focused on meeting the retirement income needs of the growing generation of baby boomer retirees and expanding our operations into the large asset pools of the fee-based advisory market. Although the evolving regulatory environment continues to cause industry sales disruption, in 2017 Jackson delivered positive separate account net inflows of £3.5 billion, with separate account assets reaching £130.5 billion, an increase of 19 per cent<sup>5</sup>. In December 2017 the US enacted a major tax reform package, including a reduction in the corporate income tax rate from 35 per cent to 21 per cent effective from 1 January 2018. While this led to a £445 million charge in the income statement from re-measuring deferred tax balances on the IFRS balance sheet, we expect the tax changes to be positive in the long term. The US effective tax rate is expected to fall from the current rate of circa 28 per cent to circa 18 per cent in the future.

## Group Chief Executive's report - Mike Wells continued

In the UK, both our UK life and asset management businesses performed well in 2017. PruFund new business APE sales increased 36 per cent to £1.2 billion, while M&G saw record net inflows of £17.3 billion from external clients. Overall M&G Prudential assets under management<sup>4</sup> reached £351 billion, up from £311 billion at 31 December 2016.

Our financial KPIs continue to reflect the outcome of the Group's strategy. Our Asia life businesses are driven by growth in our recurring premium base and focus on health and protection business, and elsewhere we are benefiting from our prioritisation of fee-generating products across our Asia asset management, US variable annuity and UK and European asset management activities.

### A successful strategy

Our performance is based on our clear, consistent and successful strategy, which is focused on long-term opportunities arising from structural trends in our markets around the world.

In Asia, the growth of the middle class is creating significant and long-term demand for the products we offer. The working-age population in the region is growing by a million people a month, and by 2030 is expected to reach 2.5 billion<sup>13</sup>, while 65 per cent of Asian private financial wealth is held in cash<sup>14</sup> and at the same time, that wealth is growing by US\$4 trillion a year<sup>14</sup>.

The growing and increasingly wealthy middle classes of the region are under-protected. In Asia, out-of-pocket healthcare spend makes up 42 per cent of total health expenditure<sup>15</sup>, compared with just 12 per cent in the US and 9 per cent in the UK. While in a more developed market such as the UK insurance penetration is equivalent to 7.5 per cent<sup>16</sup> of GDP, in Asia that figure is just 2.4 per cent<sup>16</sup>, giving an idea of the scale of the growth opportunity that remains in our Asian markets. The gap between the insurance cover of people in the region and what they need in order to maintain the living standards of their families has been estimated at circa £35 trillion<sup>17</sup>. We help to bridge that gap with a broad range of solutions across 14 markets in the region. We are in the top three in nine of our markets in Asia<sup>18</sup>, and we have 15 million life customers, with access to total markets of more than 3.3 billion people.

The United States is the world's largest retirement market, with approximately 40 million Americans reaching retirement age over the next decade alone, and these consumers have a need for investment options through which they can grow their savings while at the same time protecting their income. This is creating demand for our variable annuity products, which are designed to help this cohort of Americans avoid running out of money and provide them with a reliable cushion against volatile markets. In the US, over US\$15 trillion is invested in adviser-distributed financial assets net of existing annuities, while penetration of variable annuity sales into the retirement market remains low, demonstrating the scale of the opportunity for us.

In the UK and Europe there is growing demand among customers for managed solutions, savings products that provide better long-term returns than cash, while smoothing out the ups and downs of the market. We meet that need through our PruFund propositions and our comprehensive range of actively managed funds. M&G Prudential is well positioned to target this growing customer demand for comprehensive financial solutions and the demerger will enable this business to play an even greater role in these markets.

### Doing more for our customers

We deliver on our clear strategy and our long-term opportunities by paying close attention to the needs of our customers, by responding to those needs with products that fit their changing requirements, and by improving our capabilities continually in order to deliver the best products in the most effective way.

In Asia, our broad-based portfolio of businesses continues to drive the growth of the Group. We are constantly improving the range and quality of the products we offer in the region, developing our multi-channel distribution platform to ensure that those products reach as many customers as possible and improving our capabilities throughout our operations, not least by accessing new innovations in digital technology.

We develop products that meet the needs of our customers, whether that is for more personalised features or products aimed at new areas of the market and in 2017 we launched a number of new health and protection products in Indonesia, Vietnam, Singapore, Malaysia and Hong Kong.

### Prudential's Group Executive Committee

Mike Wells is advised and assisted by the Group Executive Committee, which comprises our Executive Directors and a team of functional specialists.

 The members of the Group Executive Committee and their roles are set out on page 406.

**Back, left to right:** Tim Rolfe, Julian Adams, Al-Noor Ramji, Anne Richards, Jonathan Oliver, Alan Porter.

**Front, left to right:** Nic Nicandrou, John Foley, Mike Wells, Mark FitzPatrick, Barry Stowe.

James Turner was appointed as an Executive Director and as Group Chief Risk Officer in March 2018.





Prudential won the insurance category of Management Today's 'Britain's Most Admired Companies' awards in December 2017.

We were also named Britain's most admired company overall for quality of management and inspirational leadership and fourth for our ability to attract and retain top talent. The highly regarded awards are based on a review by peers.

We are also continuing to improve both our agency platform and our bancassurance partnerships in Asia to ensure that we reach as many customers as possible. Nowhere is this clearer than in China, where, through our joint venture CITIC-Prudential, we now have a presence in 77 cities, with access to 940 million people, or about 70 per cent of the population of the world's most populous country. We have over 44,000 agents in China and access to more than 4,000 bank branches. Across the region during 2017 we increased our total agents to over 600,000 and we ended the year with over 15 million life insurance customers. Recent announcements of new agreements in the Philippines, Thailand, Indonesia and Vietnam have also increased the reach of our bancassurance partnerships.

Continuous improvement of our capabilities is also a key part of our approach, and in Asia we introduced a number of digital initiatives that will benefit both our customers and our shareholders, including apps and chatbots, that, among other services, can provide rapid claims payment, constant customer support, answer queries, help schedule appointments and transfer feedback from customers to our businesses. Building on its success in Hong Kong, our myDNA service, which provides diet and exercise advice based on genetic profiles, has been launched in Vietnam, Malaysia and Singapore. In Singapore we also launched PRU Fintegrate, a new initiative enabling us to collaborate with fintech startups to co-develop digital solutions for customers.

Eastspring is well placed for the anticipated growth in Asia's retail mutual fund market. To prepare further, we have strengthened our in-house investment teams, entered into new strategic partnerships and made significant progress in systems and operating model upgrades. In addition, Eastspring recognises that environmental, social and governance (ESG) factors can be material to investment returns, particularly in the long term, and has become a signatory to the United Nations-supported Principles for Responsible Investment (PRI), joining M&G Prudential asset management.

In the United States, we are continuing to develop our business to ensure we capture the opportunity presented by the millions of Americans moving into retirement now and over the coming years. Regulatory and industry changes are creating new areas of growth potential and we are adapting our offering to meet those opportunities. During 2017, in response to evolving conditions in the hybrid adviser segment of the market, Jackson launched Perspective Advisory II, an advisory version of our flagship product, Perspective II. We also announced the formation in November of our Private Wealth & Trust group, a specialised team focused on complex planning, investment management and tax mitigation strategies for high-net-worth clients. At the same time, we are improving communication for customers, and our initiatives in this area last year included the launch of a new website, the Financial Freedom Studio, where consumers can learn about financial planning for retirement, aimed at simplifying the language and focusing on planning for lifetime income.

In the UK and Europe, the combination of our life and asset management businesses into M&G Prudential has enabled us to meet the needs of our customers better than ever before. The business manages £351 billion of assets<sup>4</sup> for more than seven million customers, both in the UK and internationally, and we are leveraging our scale, financial strength and complementary product and distribution capabilities to enhance the development of capital-efficient, customer-focused solutions. Bringing these businesses together has given us the opportunity to

deliver better collaboration across business segments and more innovative and differentiated propositions. It also provides better access to customers and channels, merger cost synergies and transformation benefits, including the chance to invest to create a digital, data-led business with low marginal cost of growth. M&G Prudential is in the top five in UK retail funds<sup>19</sup>, with an active management offering, and provides a range of consumer-focused retirement and savings wrappers. The performance of its products continues to make them very popular among customers. The flagship PruFund Growth Life Fund, for example, has grown by 36 per cent since the start of 2013, compared with benchmark growth of 30 per cent, and this performance has driven growth in PruFund assets under management from £7.5 billion in 2012 to £35.9 billion at the end of 2017. To improve the offering to customers, in 2017 the business rolled out myM&G, its direct-to-consumer platform.

We took another step forward in our Africa business in 2017 when we entered Nigeria, Africa's largest economy and our fifth market in the region. Following the launch of our businesses in Ghana, Kenya, Uganda and Zambia, this further demonstrates our commitment to Africa and our determination to bring the benefits of our products to customers across the region.

We continue to invest in our capabilities and our people across the organisation. In July we welcomed Mark FitzPatrick to our executive team as Chief Financial Officer, succeeding Nic Nicandrou, who took over from Tony Wilkey as Chief Executive of Prudential Corporation Asia. Mark brings with him significant experience and knowledge of the sector, and I am confident that Nic will lead our Asian business to further success. In March 2018 James Turner was appointed Group Chief Risk Officer, bringing fresh perspective and additional leadership capacity to our executive team.

# Group Chief Executive's report - Mike Wells continued

## A positive outlook

With our clear strategy focused on long-term trends around the world and continued improvements in our execution capabilities, we are delivering value to our customers, our shareholders and the communities in which we operate. This is supported by our ongoing focus on risk management and the strength of our balance sheet. We believe the demerger of M&G Prudential from the international group will leave both businesses better able to focus on meeting our customers' rapidly evolving needs and to deliver long-term value to investors as two separate companies. I have no doubt that the strength of our underlying opportunities and our proven ability to innovate and improve the way we do things, will ensure that both businesses are well positioned to continue to serve our customers well and grow profitably into the future.



A handwritten signature in black ink, appearing to read 'Mike Wells'. The signature is fluid and cursive.

**Mike Wells**  
Group Chief Executive

### Notes

- 1 Source: US Census Bureau, Population Division, 2017 estimate of population.
- 2 IFRS 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. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the IFRS financial statements.
- 3 The current year and all comparative amounts for the Asia objectives exclude contributions from the Korea life business which was sold in 2017. The 2017 Asia IFRS operating profit objective was adjusted accordingly. 2012 comparative amounts include the one-off gain on sale of the stake in China Life of Taiwan of £51 million.
- 4 Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.
- 5 Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated.
- 6 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 11 of the EEV basis results.
- 7 Based on the 2017 operating segments.
- 8 The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.
- 9 Estimated before allowing for second interim dividend.
- 10 Closing EEV shareholders' funds divided by issued shares, as set out in note II(n) of the Additional unaudited financial information.
- 11 Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in note II(k) of the Additional unaudited financial information.
- 12 Growth rate on an actual exchange rate basis.
- 13 Working age population 15 - 64 years. Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision, DVD Edition.
- 14 Source: BCG Global Wealth 2016. Navigating the New Client Landscape.
- 15 Source: World Health Organisation - Global Health Observatory data repository (2013). Out of pocket as percentage of total health expenditure.
- 16 Source: Swiss Re Sigma 2015. Insurance penetration calculated as premiums as percentage of GDP. Asia penetration calculated on a weighted population basis.
- 17 Source: Swiss Re, Mortality Protection Gap: Asia-Pacific, 2015.
- 18 Source: Based on formal (Competitors' results release, local regulators and insurance associations) and informal (industry exchange) market share data. Ranking based on new business (APE or weighted FYP depending on the availability of data).
- 19 Source: The Investment Association, September 2017.
- 20 Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.