Prudential plc 2023 Half Year Results Live Q&A

Wednesday, 30th August 2023

2023 Half Year Results

Anil Wadhwani

Chief Executive Officer, Prudential plc

Welcome

Good morning, good afternoon everyone and a very, very warm welcome to the half-yearly results for 2023. I am Anil Wadhwani. I have taken over the role as Prudential plc's CEO over the last six months and I am delighted to be sharing both the first half results as well as the update on our new strategy.

2023 Half Year Results

Right at the outset, we are very pleased with the exceptionally strong performance that we have been able to communicate and deliver in the first half of this year. Our new business profit touched $1.5 billion, registering growth year-on-year of 39%. If you were to remove the impacts of interest rates our growth was even stronger at 52%. Importantly, our margins were resilient and our margins came in at 49% on an overall basis, which was more or less flattish to the same time last year. Again if you remove the impact of interest rates our margins improved by four percentage points. This was largely driven on account of the strong sales growth. Our sales were in excess of $3 billion. Again, a very strong growth of 42% year-on-year. This was underpinned by a strong performance by agency. Agency volumes doubled and this was on the back of the last set of Covid restrictions going away. We have a very strong bancassurance channel that complemented our agency very well and delivered sales in excess of $1 billion for the first half of this year. Hong Kong led our performance but we also witnessed a growth in new business profit in ten out of our 13 Asian markets and all our African markets delivered sales growth. Indeed, very excited and very pleased with the set of results that we have announced today.

Strategy Update

We at the same time launched our new strategy. Our new strategy is a promise to accelerate value creation for all our stakeholders. Our customers, our people, our shareholders and importantly our community. The strength of our strategy lies in its simplicity and we believe that the focus that we are driving on both operational and financial discipline will be key to driving sustainable value creation between now and 2027. We are also using our newly launched purpose to give us the inspiration and the guiding force as we write the next chapter of growth at Prudential.

We have shared two financial targets. Firstly, 15-20% new business profit growth on a CAGR basis between now and 2027 and secondly, accelerating our free surplus generation to double-digit during the same time period. Both are going to be driven by the three strategic pillars of customer, technology-driven distribution and scaling of our Health business. They are going to be enabled by three enablers. Our open architecture technology platform, our people and our wealth and investment capabilities. We are very excited about the future that we are just about to create. As I said, it is a pleasure to be hosting you this morning, this afternoon.

Introductions

Before we launch into the Q&A I would like to introduce our Group Executive team. Starting on my right, Ben Bulmer our Chief Financial Officer. Next to Ben is Dennis Tan. Dennis looks after Singapore, Vietnam and Thailand. Next to Dennis is Catherine Chia, our Chief Human Resources Officer and at the far end is Avnish Kalra our Chief Risk Officer. On my left is Lilian Ng. Lilian is responsible for Greater China Markets and has additional responsibility for Customer and Distribution. Next to Lilian is Solmaz Altin. Solmaz has a wide range of responsibilities from managing Malaysia, Indonesia, Philippines, our African markets, India, as well as responsibilities for Health and Technology. On the far end is Bill who is our newly appointed CEO for Eastspring. Together we look forward to engaging with you in the questions and answers. Back to you Patrick.

Q&A

Patrick Bowes (Chief of Investor Relations, Prudential plc): Thank you very much. We will start in the room to respect that we are here. I think there are some microphones that will come round. Mimi, I will let you go first.

Mimi (CLSA): Thank you for taking my question. I have two questions. The first one is about China outlook. Could you share with us more about China outlook in the second half in terms of the sales volume, margin, product, channel, etc? My second question is about the MCV segment. In the first half MCV segment achieved a very strong growth. I wondered if you expect such strong momentum to continue into the second half. We also track the MCV arrivals on a regular basis. I wonder, do you expect there to be a strong correlation between the MCV arrivals and the Hong Kong insurance sales or do you think there will be a disconnect between the two? Thank you.

Anil Wadhwani: Thank you. Thank you for your question. Let me start with your first question on China outlook and I will ask Lilian Ng, who is responsible for Greater China to supplement some of my comments. Right at the outset I want to point to the fact that China's growth potential and the fundamental drivers of demand have not changed. We believe that the aging population, the high life expectancy are only going to accelerate the demand for savings, retirement, as well as the health proposition. The clear message coming out of China Mainland is focus on quality growth and quality sustainable growth over a period of time. China is the second-largest economy in the world and slated to grow at approximately 5%. We have a very strong joint venture partner, CITIC, that allows us access to a hundred cities across China. Combine that with the multi-format distribution channel across agency and bancassurance, we are very well placed to capture the growth opportunity that China Mainland presents.

We on our own behalf took some decisive measures to drive a different product mix and something that I had signalled at the quarter one earnings call and that has had a short-term impact on volumes and value. However, I believe driving a much more balanced product mix is the right thing to do to deliver sustainable value creation. Despite the decline in new business profit in China, we were able to deliver 39% growth on new business profit. As we look forward on an overall basis our half one momentum has continued into quarter three. We will continue to reshape our balance mix in China. As I said, I believe that is absolutely

the right thing to do to deliver medium-to-long term sustainable value. I am going to just stop there and check Lilian, if there is any further comments you would like to add.

Lilian Ng (Managing Director, Strategic Business Group): From an outlook perspective I just want to highlight what Anil was saying. In our CITIC-Prudential we have a good multi-distribution platform. Just a little bit more colour on our agency platform where we have 15,000 agencies. What we have actually seen over the first half is the quality of our agents has improved significantly in terms of their productivity as well as we continue to actually recruit in quality. As some of you might know, in China now there is a lot of focus on agency conduct in terms of their qualifications as well as no contacting consumers, making sure that you do the consumer conduct. We believe we have a very strong agency force over the year and that will continue to take us driving a very balanced product mix, as Anil has said. I think that is where we are going to continue to see strong growth in agency.

On the bancassurance front we actually continue to work with about 6,000 outlets in China with 60-something banks. I know everyone knows there is a transformation and transition in the bancassurance market currently happening but we strongly believe we have all the right products and the capabilities to take us forward.

Anil Wadhwani: Ben, would you like to add your comments on China margin?

Ben Bulmer (Chief Financial Officer, Prudential plc): Sure, thank you Anil. We were very pleased. We managed to hold the margin at 43% and that was with economics going against us. If you back out the impact of economics actually our margins in China were up seven points which talks to the strength of the actions driving a more balanced business mix.

Patrick Bowes: I think there was a question on MCH. The second question was on MCH.

Anil Wadhwani: Coming to your MCH question, you are actually right. We are absolutely delighted with our Hong Kong performance. Hong Kong is our home market. Winning in Hong Kong is important to us and we were able to re-establish our leadership position in Mainland Chinese visitor segment as well as in the agency channel on an overall basis. The good news is that our growth did not only come from Mainland Chinese visitor customers. It also came from Hong Kong domestic customers. We were able to win market share not only on an overall basis but also specifically in the Hong Kong domestic segment. You are right in observing that the Mainland Chinese visitor traffic is going to be a key driver. If you look at the traffic coming into Hong Kong up until June it was about 50% of the 2019 levels. We have seen a pickup getting into July/August to about 70%. I do not see any fundamental impediments for it to go back to 100%, if not higher, of 2019 levels. We continue to remain exceedingly optimistic about Hong Kong. It is slated to grow at 4-5% at a GDP level as well as, as I mentioned, we have seen momentum more broadly continue into quarter three.

Patrick Bowes: I will stay here in Hong Kong. Michael.

Michael Chang (CGS-CIMB): Thanks, I have got two questions. Firstly on the Hong Kong business and secondly on the 3Q outlook comment that Anil made that I thought was quite interesting. On the Hong Kong front, like was asked previously, MCV obviously is very strong and you can see the visitor numbers obviously in July and August were very strong but there was also a comment made in the pack that 2Q has returned back to pre-Covid levels. That is more on an APE basis and maybe not on an NBP basis because I think the product mix is still

slightly different. Could management perhaps shed some light on the differences in maybe the geographic mix? While the volumes have returned, what percentage of it comes from Guangdong and outside of Guangdong? What is your savings mix right now versus back then and do you see a return to normality in terms of product mix or geographic mix any time soon? Staying on Hong Kong, as Anil said just now, the domestic segment is extremely strong, 68% year-on-year, significantly exceeding peer group. What is Prudential doing right that maybe peers are not? Then on the outlook statement strong momentum continuing into Q3. Obviously with the visitor numbers in July and August, it is obvious that Hong Kong is quite strong but some of the other markets that are quite big for Prudential, like Mainland China and Singapore, I am sure there are initiatives in place to help turn around some of the underperformance. What exactly has been done in the first half that we should see in the second half or in Q3? Thank you.

Anil Wadhwani: Hi, thanks for your question. That was a laundry list of questions so let me try and see if I can answer all of them. I will seek both Ben's and Lilian's comments to supplement some of mine. You are absolutely right, we are very pleased with our Hong Kong performance and you are also right in pointing out that the quarter two volumes have now exceeded the quarter two volumes of 2019. We have seen a level of traction continue into quarter three. We did see a spike in March and April because of the pent up demand and you can imagine the initial traffic obviously led to a higher level of growth. We have seen a level of normalisation in May and June. Still very high levels but we did see a normalisation of that which has continued into July and August. You are right in pointing out that the demand was in savings and no surprise there because one is obviously the customers have saved up over the last three years and secondly the interest rates are at a very different place as compared to during the Covid level. From a business mix perspective the Mainland Chinese visitor business contributed to almost two-thirds of the NBP in Hong Kong. We are going to see a similar traction as we transition into quarter three. You are also right in pointing out that we are very pleased with our performance in the domestic segment and in many ways, whether it is the Mainland Chinese visitor or the domestic segment, what it underscores is the quality of our franchise. The quality of our distribution. We are a multichannel format, both across agency and bancassurance. That really brings out the strength of our performance and the strength and quality of the customer relationships that we have in Hong Kong. I do want to point out that our margins in Hong Kong improved in quarter two as compared to quarter one. Our margins on an aggregated basis came in at 65% but we did see a pickup. The last thing I would leave you with is that the Health and Protection mix, the number of policies in Hong Kong still contributed to 56%. As we see the normalisation effect we are going to see a gradual pickup in the Health and Protection NBP and contribution between now and the coming quarters. I am going to stop and check with Ben if you had any additional comments.

Ben Bulmer: Maybe just to reiterate a few points, thanks Anil. As you say, on an ex-economic basis margin remains very strong at 75%. We have seen the mix start to normalise a little bit so Q2 margins grew over Q1. We are seeing good traction on Health and Protection policies in terms of number of new sales. That is not just on the agency side. It is also on the banca side where H&P as a proportion of APE mix has picked up about 10-15 points so some great traction there. Stepping back, very pleased with Hong Kong margins.

Lilian Ng: I have got three points to add to what Anil said. Firstly on MCV we mentioned we are tracking close to 2019 levels but a lot of that track is actually in terms of the case size where we have quoted is double. Actually in terms of number of policies we are tracking close to the MCV traffic based on 2019 so as that increases we will capture that growth as well. The second point I want to call out is actually the H&P case count which is currently at 50% for MCV. If you look at Q1 we were around 40% and it has improved to about 50%+ in Q2. We believe that again that will be trending back to where we used to see it, over 60% of our H&P policy count and that has helped improve margin. Just one question you have on the volume of business from the Guangdong area, actually over 70% of our MCV volume is outside of GBA. This is what we like because we have diversified. We have actually got GBA at about 30%, Beijing is about 30% and the rest is about 30%. We have got a diversified MCV customers base in our Hong Kong portfolio.

Anil Wadhwani: If I may go to your second question or second part of the question around what we are seeing in the early part of quarter three, overall obviously Hong Kong continues to remain strong. We have seen a strong comeback in Singapore and we are very pleased with that performance. We have seen ongoing momentum in Indonesia. We see ongoing momentum in Malaysia. As I mentioned, in Mainland China we will continue to drive a much more balanced product mix and while that might have an impact in the short-term on volume and value, we believe it is absolutely the right thing to do to create sustainable value creation in the medium-to-long term.

Charles Zhou (Credit Suisse): Thanks very much, I have got two questions. First, when I look at your strategy, I think you just talk about four regions, Greater China, ASEAN, India and also Africa, but when we look at the financial reporting I think India is still in growth and other markets at the moment. Does this mean that you think India will have a very great potential? What is your ambition for India? In five years' time shall we see your Indian business big enough to be reported separately? Let us talk about India. This is the first question and secondly I think many questions are centred around the margin but I do want to know internally when you manage your business, is margin also one of your KPIs or maybe growing your new business profit or the value of new business remain the key over time? I want to know about how you look at the margin and the value of new business. Thank you.

Anil Wadhwani: Thanks Charles. I am going to start with your India question and more broadly on the four regions and then pass it on to Solmaz for comments on India. Then I will turn to Ben on your second part of the question which is the margins and how we manage our business from a KPI perspective. Firstly, I want to make a fundamental point that for medium-to-long term sustainable value creation it is important to have a multi-market growth engine model. That is key to the new strategy that we have just disclosed. We have strong franchises in Greater China. We have leading franchises in many of the markets in ASEAN. We are very excited about the growth prospects that India offers and absolutely while Africa is not a big contributor today, it absolutely has the potential as we see the demand drivers to be very similar to what we have witnessed in this part of the world. The reason I am very excited about India is obviously the 1.4 billion population. The out of pocket expenses, specifically on health, is as high as 50%+ and we have a fantastic JV partner. We are almost a household brand in the form of ICICI Prudential in India so we really like our business and

business model in India. However, I will move to Solmaz and I am sure he will provide you with some greater insights.

Solmaz Altin (Managing Director, Strategic Business Group): Thank you very much Anil. Indeed India we are very happy with our franchise with ICICI. It is growing nicely. The margins are increasing and we would like to see that continuing. We are supporting our joint venture partner where we can on this. As you rightly say, India is going to be strategic for us. We do see as well huge opportunities in the Health business. Health insurance penetration is below 1% and we will see the health insurance market grow by $5 billion alone in the next few years up until 2025. We see a good opportunity there to both grow with our joint venture partner with IPL and also look into the opportunities on how we can create a footprint in the health insurance market.

Ben Bulmer: Thank you. Charles, your question on margin, if I may. You will have seen from the targets we have announced, the two objectives, that we are looking to accelerate total shareholder returns and to do that through growth. One of those targets is a value based measure, new business profits, and from my perspective I see margin somewhat as an outcome really. We are confident about achieving that value target we set out, given the multiple growth engines we have and the pillars and enablers we are investing in. However, more importantly this is about quality growth and for every dollar invested we are creating roughly $3.60 of value. That is underpinned by attractive IRRs and payback periods. Ultimately that is key which is really why we have set then the second target of operating free surplus generation to underpin our commitment to monetising that value creation. You may have some products that screen with a relatively low margin but still have a very attractive IRR. That is what it is about fundamentally, the underlying economics.

Patrick Bowes: Thank you. We are going to go to the phones now this time, just to spread it out a bit.

Larissa Van Deventer (Barclays): Thank you very much and congratulations on the results. Three questions, please. The first one to elaborate or to expand on the question asked earlier on Hong Kong, do you have any sense on how long it may take for volumes and mix to normalise from a sustainable base? You have commented that it is elevated at the moment and skewed towards savings but how long before we see what is sustainable going forward? The second one on Indonesia, very strong sales growth up 42% on a APE basis, could you please add some colour as to what was holding back the growth in the past, what sparked this 42% growth in the first half and how you see Indonesia evolving going forward? Then the third is on capital allocation. You expressed a strong preference for growth. Where do bancassurance agreements and potential increased stakes in the JVs rank amongst your other options? Thank you.

Anil Wadhwani: Thank you Larissa for those questions and again I am going to ask my colleagues to supplement some of my comments. Let me start with the normalisation question. We believe that we are going to see that trend at least continue through this part of the year or in the second half of the year. It is really hard for us to predict as to when exactly the mix is going to shift. I do want to emphasise the point that Lilian made that 50% of our policies are still coming through in Health & Protection. Again, Health & Protection the sales time is longer and the ticket size is smaller but we believe that over the next 3-4 quarters you will see that normalisation effect come through. It should not be a surprise to

us because the interest rates given where they are it is only natural for consumers to seek the savings products. As I said, we are very pleased with the opportunity to be able to serve that distinct need.

To your second question on Indonesia, Indonesia in my view is a key market for us. What we have called out is that in and along with Greater China, ASEAN it is going to be a key growth engine for us. Of course India we just spoke about but within ASEAN we have some very strong markets. We have Singapore. We have Malaysia. We have Vietnam where we have just climbed to the number-one position in quarter one and of course we have Indonesia. Indonesia also is the third-largest country in terms of population in this part of the world after India and China so clearly it offers a distinct potential for growth for us as we think about our strategy cycle. However, I am just going to stop there and turn it to Solmaz to offer further commentary.

Solmaz Altin: Thank you and thank you Larissa for the question. Indeed, we are very pleased with what we are seeing in Indonesia. We have started a good momentum in the last quarter of last year and we have seen in the first half here strong growth. As you have seen, we have grown NBP by 22% and the second quarter was stronger than the first quarter. We see an amazing reactivation of the agency channel. We have had 51% growth in (editor: agency) APE. Just for comparison, industry growth was just 1% so with 51% we have really made a difference for the insurance industry. We have the household brand in Indonesia and we will continue to play on it. We will continue to drive business through our very strong agency channel. We are still the biggest agency channel of the industry and we are going to also explore banca opportunities when and if they arise and will value them on their merits. We are very pleased with what we see. We do see momentum continuing so we are continuing also with our project to really fundamentally and sustainably bring Indonesia to market leadership.

Anil Wadhwani: Thank you Solmaz. Larissa, moving to your third question on capital allocation, we are very clear that the first port of call on investing shareholder capital will be in our organic business. These are businesses that we understand. These are businesses that we have experience in. They are high IRRs, in excess of 25%, shorter paybacks so the first port of call will be to grow our organic businesses. We believe that that is the strongest use of shareholder capital. The second is building up core capabilities. We have announced a few things that we would like to invest our capital in. We have called out scaling our Health business. We have called out empowering and really focusing on activation in our agency and our bancassurance channels through technology. We have called out the focus that we are going to employ on customer. All of this will require capability build and the underlying commonality is going to be the technology that is really going to impart the differentiated experiences that we are looking to impart for our customers. The third one is if there is a strategic fit we absolutely will look at inorganic. Again, there are a range of options there. As you rightly mentioned, it could be a bancassurance transaction. It could be something that we would look to acquire in the Health space. It could be obviously increasing the economic interest in our joint venture partners. I do want to mention that I was in India and China. I have met with our joint venture partners. We have an excellent relationship with both our joint venture partners. We are obviously leaning in quite strongly in helping grow the business on an organic basis but they like the business for exactly the same reasons we like

that business. It is going to be important for us to ensure that we align those objectives and we are obviously going to be in ongoing dialogue with our joint venture partners. I am just going to stop and see if Ben had any further comments to add on capital allocation.

Ben Bulmer: I think the only thing I would add, thanks Anil, is when it comes to making strategic investments, given the attractive economics we have outlined, for us it is about widening that opportunity set for reinvestment. As I said during my speech, ultimately if we cannot reinvest at appropriate rates of return then excess capital that is created as we move through the objective period we will consider returning that. However, from where we sit today at the start of our objectives we are in a position of strength ultimately to pursue the growth we have set out.

Patrick Bowes: Thank you Charles. Let us keep going on the phones.

Andrew Sinclair (Bank of America): Thank you very much everyone. The first one from me was just on your new business profit target of 15-20% CAGR. I just wonder if that is a little bit unambitious, frankly given the depressed 2022 base and the rebound you will get over the next couple of years. If we are talking about Hong Kong reaching new highs, frankly if we get Hong Kong back to 2018's level then you will hit the bottom end of your target range even without any new business profit growth in any of your other markets over the next five years. Really if you could help me square that circle on where Hong Kong can get versus what we should be expecting elsewhere. Can that target really be beaten if things go smoothly? That is my first question.

The second question on health insurance, again just going back to India I wondered if you can give us a little bit more colour on your thoughts as to how you can penetrate health insurance in India, first given you do only have 22% of ICICI Pru and I do not think they have a licence to sell health insurance last time I heard. If there is going to be any build out for India health insurance, is that included in your $1 billion investment spend? Then if I can just ask a third question, sticking on Health, how much do you expect the product to change if Health is becoming more of a push, do you think you need to add more capabilities or it is just going to be pushing harder? Thanks.

Anil Wadhwani: Thanks for your question Andrew and let me start with the 15-20% CAGR new business profit question. We have been exceedingly thoughtful in terms of crafting these targets. Clearly there are a set of opportunities on the horizon, as have been well documented and articulated, but there are also a bunch of challenges out there. The fundamental thing is that we have the ability and we have the capital strength to be able to invest in the multi-market growth engine model. Equally important, we are very conscious of the fact that we need to convert the new business profit creation into free surplus over a period of time. Our emphasis will not only be on new business profit but also ensuring that we are managing our in force in a very disciplined way and then converting that into free surplus. We are very pleased with the growth that we witnessed in the first half of the year but that cannot be a common factor as we think about the strategy cycle period. However, to the extent that we have an opportunity to overdeliver, I can assure you we are not going to hold back. We absolutely will try and beat the 15-20% CAGR growth target but the point that I wanted to land on you is what is going to be essential is that we are thoughtful about it, that we are writing quality business and focusing at the same time converting that topline growth into free surplus generation.

On your question on health in India, and I will go back to Solmaz once again, yes, absolutely. We are keeping all our options open, both looking at options to grow Health organically or if there are opportunities we will explore ideas to look at inorganic opportunities as well. However, I am going to ask Solmaz to provide a little bit more colour on that.

Solmaz Altin: Thank you Anil and I will also start to answer your wider question on Health and capabilities beyond India as well. Now, on India Health, as you know, our Life joint venture [inaudible 37.27] licence, as you mentioned rightly, cannot write health business. The Health business is written mostly by either general insurers in India or the standalone health insurance companies. We see especially opportunities in the SAHIs, the standalone health insurers in India. They have grown over the last five years by 30% and in light of some of the metrics that I mentioned before, with huge under-penetration and huge out-of-pocket expenses, we do see continued momentum in health insurance in India on the back of also the economic momentum in India. That is an area where we are really interested, on the SAHI proposition and we are exploring ways on how we can play a role in that opportunity.

When it comes to the wider Health strategy we have a two-pronged strategy. Firstly we want to indeed, as you say, manage health insurance as health insurance and not as we traditionally did. With that way, we grew by the way into one of the largest health insurers in Asia with about $2 billion in earned premiums and five million customers in health insurance reimbursement alone. We want to still focus more on health insurance and the capabilities of being a payer in the customer journeys in the healthcare system. What that means is we want to have capabilities around medical excellence, around technical excellence. We want to share best practices around how best to manage health claims, how best to price policies. We want to move from every 3-4 years repricing to annual repricing and then be able to make risk-based pricing in sophisticated ways. These are capabilities that we will add and invest in. The second priority is indeed that we want to explore possibilities on how we can embark on adjacent customer journeys, so before someone gets ill, after someone gets ill and has not received a treatment, i.e. in care opportunities and rehabilitation and management of chronic illnesses. These are adjacent journeys to our payer role which is why we are saying we want to evolve from a payer only where we will deepen our capabilities to also partner in adjacent and connected care journeys.

Anil Wadhwani: I just wanted to emphasise that Solmaz who leads our Health business has prior experience of managing and growing the Health business so we are really looking forward to his leadership as we have raised our ambition for our Health business.

Patrick Bowes: Let us keep going on the phones. You have been patient so next caller please.

Farooq Hanif (JP Morgan): Hi there everybody and congratulations on your results. Going back to your DPS growth ambitions in the near-term and what you are saying, Ben and Anil, about capital returns. How should we think about what your level of surplus capital is? What would you say is the binding constraint for you? At what point could you get to a decision where you think, 'Well, we have got enough surplus and we want to show that discipline and give it back,'? Also, the DPS growth that you have given of 7-9% seems low in the context of your free surplus generation. If you could talk about that whole topic, that would be great. Secondly, it is quite clear that you are moving away from a federated model at Pru and wanting to have best of breed, best practice, not repeating things and having single platforms

across the business. Will that come with some sort of operational leverage or cost efficiency and where might we see this? Then lastly on agency, you talked quite a lot about activation as well as recruitment. Are there numbers or ambitions you can give around both of these for the business? Actually, I had one follow-up question. I am really sorry. A client is asking about your exposure and asset risk to local government financing vehicles in China. If you are able to talk about that. Thank you.

Anil Wadhwani: Thank you Farooq and it is good to hear from you. A bunch of questions and I am just going to play a traffic cop. Let me start by asking Ben to address your question on surplus capital.

Ben Bulmer: Thank you Anil and hi Farooq. Where we stand today I would say we are well but not excessively capitalised. You have seen the strong GWS ratio of 295%. As we have said before, our free surplus stock of $8.4 billion really is a better measure of distributable funds and, as you will have seen, we are holding about $3.3 billion centrally in Holdco cash at present. Our businesses are capital generative so we generated $0.7 billion of free surplus post strain. Most of our businesses are self-funding. As you know, we are operating at the lower end of our leverage ratio so we have flexibility. However, our agenda is driving shareholder returns through growth and applying that capital organically. Going back to the IRRs that were quoted earlier. We are going to do that through investing in our core capabilities and build optionality around making strategic investments as we go forwards. In terms of the 7-9% DPS guidance, the Board decided to revisit our dividend policy in light of the strategy we have announced today. In doing so it concluded that the link remains appropriate between the dividend and free surplus generation, which is entirely sensible. The 7-9% range is commensurate with payouts from the last few years but also looking back historically to recent gross operating free surplus generation. Yes we aspire to get this to double digits and we will be working hard to do that to fulfil our commitment to monetise the value we intend to create.

Anil Wadhwani: Thanks Ben. Farooq, I am going to move to your second question on the organisational model. The point that I want to convey here is that the objective here is to be able to leverage both the economies of skill and economies of scale as far as our business is concerned. We are already a very large player and what we are trying to do as part of the new organisational model is create centres of excellence in a way where we can then impart the best in class experiences to our customers and to our distributors. We do not have to reinvent the wheel every single time that we think about a certain or develop a certain capability. I do want to emphasise, having run many of these markets in this part of the world, the importance of empowerment. We are not going to be curtailing the empowerment for the local CEOs. The local CEOs will absolutely be empowered to manage their business from an end-to-end perspective. And as you said, I realise the importance of that. What we are going to ask them to do is to consume services differently. Whether it is talking about data analytics or talking about marketing or talking about creating digital experiences, talking about how we source talent, you do not have to create those capabilities individually which are going to be much more expensive to create in every single market every time. That is where the centres of excellence will allow us to leverage both the economies of skill and scale, as we deploy and execute against our new strategy.

To your question, where will this be evidenced, it will be evidenced in our expense variances and something that I have already indicated is going to be essential to manage if we have to translate the new business profit creation into free surplus generation. On to your third question on agency activation, we have given numbers as part of the non-financial matrix. One very distinct number that we put out there is that on a monthly basis we have approximately about 65,000 active agents and we would like to grow that to 85,000-90,000 agents between now and 2027. I think again the key thing there is going to be how you enable our agencies with technology so that they can spend more time with customers rather than shuffling the paper back and forth.

On your last question on assets exposure to LGFV, I am going first to Ben and then to Avnish to see if they have any comments to offer.

Ben Bulmer: Yes, thank you Anil. Our shareholder exposure is absolutely de minimis at $5 million. Our policyholder exposure in terms of directly held debt is small at $79 million. That is in infrastructure and transport related services. As you know, we account for our China business as a joint venture and associate so we bring our share of its net assets onto the balance sheet, rather than line by line consolidation. I have in the appendix of my slides included a slide for you that shows a snapshot of CPLs invested assets and its general account at our 50% share. Within that you can see that CPL has an exposure to the LGFVs of $1.1 billion. That is in AAA/AA rated investments along the economically developed eastern and central regions.

Anil Wadhwani: Thank you Ben. I will just checking if Avnish has any further comments.

Avnish Kalra (Group Chief Risk & Compliance Officer, Prudential plc): Nothing more to add. Ben has already covered it.

Anil Wadhwani: Thank you. Thank you Ben, thank you Avnish. Farooq, I hope we have been able to answer your questions but happy to take follow-up questions when we get to meet you in person.

Farooq Hanif: Thank you very much.

Patrick Bowes: Thank you and people on the website, there are videos of the presentations including specific presentations on distribution and customer. Also Solmaz has got one on Health. I would just remind the audience of that. Okay, we will have one more question from the phones and then we will go back to the floor. There were some very patient people here but let us go back to the phones please.

Andrew Crean (Autonomous): Good afternoon, thank you. Could I go back to explore the capital excess? 150% capital ratio on GPCR will give you $11.6 billion of excess although $7 billion I think you regard as restricted. That will give you an excess of about $4 billion which would halve your free surplus. Are you happy with that kind of mathematics? The second question is you have talked about inorganic in terms of banca and Health. What sort of size are we talking about? Then thirdly developing on from that there has been a long-held desire or anticipation that you would look at your joint ventures and associates and buy out both in China and India. Do you really think that that is credible in the near to medium term or is that much more of a longer term vision? Finally, is there any plans to report embedded value under a TEV basis at the year end?

Anil Wadhwani: Sorry Andrew, I did not pick up your fourth question. Patrick did you pick that up?

Patrick Bowes: The last one was on TEV versus EEV. The first one I think was on the surplus buildup and whether you were comfortable with the amount of central assets in that surplus.

Anil Wadhwani: Right. Thanks for your questions Andrew. Let me go to Ben on the capital surplus one as well as addressing the TEV/EEV one. Ben, why do you not tee us up with the capital one and I can take the rest?

Ben Bulmer: Sure. No, thank you for your question Andrew. You are right, when we look at the free surplus stock in excess of the PCR, the $8.4 billion, as I said, we have got about $3.3 billion held centrally. In terms of your maths of assuming roughly $4 billion is deployable, yes, I am always going to want to hold cash centrally for liquidity purposes. As we have said before, a rule of thumb is 12 months of outgoings plus the dividend and a buffer. Of the remaining capital then sat in the businesses, clearly we want to hold some close to the business, notwithstanding our growth plans, but yes your maths is broadly right. In terms of your question on TEV, I hear the ask. I am conscious we have only just delivered IFRS 17 on an interims basis. We have yet to do so in terms of our full year accounts. I think looking forwards what is interesting is of course the IFRS 17 shareholders equity in effect if you want to take the economic risk/return debate off the table that gives you an MCEV like lens. I would remind everybody when you are thinking about market risk, as I said during our IFRS 17 session a few weeks ago, looking at our VIF 51% is H&P, 26% with profits and 17% unit linked. Of course, continue to point people to the sensitivities we publish, should you so choose to use them.

Anil Wadhwani: Thanks Ben and the only other point that I would add Andrew to the TEV/EEV question is we are open minded. I am focused on driving operational performance. I think that is where the shareholders are going to experience the true value creation and you are starting to see a bit of the evidence of the results that we have delivered in the first half of this year. Let me go to your joint venture question and then I will sign it off with the inorganic one around banca and Health. On joint venture I did mention the fact that I was in India and China, great relationships. They like the business exactly for the same reasons that we like the business. In the near term we believe that the opportunity is going to be more to focus on growing the organic business and that is where we are focusing and driving value for both our partners across India and China. On the inorganic question, I do not know how I can give a number on the size. It would really depend upon the bank in question and how big the landscape is. However, we have capital strength. We have, as Ben noted, a significant capital strength to be able to grow and deploy capital in our organic businesses and if there is an opportunity we will be happy to drive investments in our inorganic businesses as well. However, this is something that we will be on an active look out for.

Andrew Crean: Thank you.

Patrick Bowes: Okay, let us go back to the floor.

Leon Qi (Daiwa): Thank you, Patrick. Leon Qi from Daiwa. I appreciate your strategy update, which gives us a lot of information to anchor our long-term expectation. So I have two questions today regarding your two financial objectives for shareholders, respectively.

First of all, regarding your NBP growth CAGR objective of 15% to 20%, we have discussed quite extensively on the geographies early on. So I just want to ask about the product mix. I do appreciate all the initiatives and efforts we just mentioned on promoting H&P. But I guess the reality now in the market is that the savings demand seems to look like better than H&P. So do you think this 15% to 20% NBP CAGR is going to come in more from H&P or savings?

And then secondly, if I may ask a question to Ben on your shareholder returns. We have another financial objective on growing the gross operating free surplus by double digits, and our latest dividend policy is 7% to 9% DPS growth. I just want to confirm what is the difference between these two numbers? Is this entirely attributable to free surplus investments into the new business, or is there something else? Or we think they should look at these two metrics separately going forward?

Well, another sub question to that actually. Given our GWS is still close to 300%, which is very comfortable, what will have to happen to make you make another revisions to your dividend policy or start to consider buyback? What will happen to drive you to consider all these other possibilities in terms of shareholder returns?

Anil Wadhwani: Thanks, Leon. It is good to see you again. So let me start with the new business value question and geography and product mix. I think the important point here is more about ensuring that we are driving diversification as we have demonstrated in our channel mix.

Agency's back this year, very strongly. Last year, it was bancassurance, as agency was a bit constrained on account of some of the containment measures. Likewise, on product mix. I just illustrated one example where we have been very decisive on China Mainland to be able to drive a much more balanced product mix. And that is not going to be different from the way we think about driving businesses across Asian and African markets. Yes, you are right, the existing demand is coming in savings, specifically in Hong Kong, but you are seeing more than 50% of our customers being new to Prudential.

And I think that is an excellent opportunity for us to anchor the relationship by offering a savings product, and then over a period of time, upsell, cross-sell some of the Health and Protection products. So I do not have a definitive view as to how the shape of that product mix is going to look. But what I can tell you, it is going to be a balanced one to the extent that we can influence it.

I am going to go to Ben back on the shareholder return, dividend and free surplus buyback question.

Ben Bulmer: Yes. Anil, thank you. Consciously, we have touched on both of these briefly to some extent. In terms of GWS ratios and returns of capital, again, I would guide you to look at free surplus as the best reference for deployable capital.

GWS surplus counts a lot of future profits that are yet to monetise into free cash flows, if you like. And we have a dividend policy that centres around paying dividends out of flow, out of free surplus creation.

I talked about the 7% to 9% reference earlier. We have talked about the ambition of growing this double-digit in the longer term. And the guidance we have given you is purposely near term, that is in 2023 and 2024. That is because the Board is looking through the additional

$1 billion investment. And the geography of this investment will be as a variance to operating free surplus generation to EV and in our IFRS 17 accounts as well. And that is because this is investment over and above the loadings in our existing cash flows.

It is temporary in nature. And ultimately, it will drive value. So it will be reported as a variance. I mean, just for everybody's benefit, when thinking about modelling for that variance going forward from an IFRS 17 perspective, it is worth assuming it is about one half to one-third of the OFSG quantum that will come through in any given year.

And because amounts are taken to CSM and then take time to come through the earnings statement.

Anil Wadhwani: And just, Leon, one more point on buyback. I think the fact that we are now anchored in the high growth, high potential markets of Asia and Africa, I think we have plenty of opportunities to deploy capital and grow our business organically. And again, I do want to emphasise that these are businesses that we understand. These are businesses that we operate in, we have experience in. We have great brand in many of the markets. So that is really going to be the first place that we are going to go to deploy capital. And as I said, there are plenty of opportunities across the markets that we operate in.

Michelle Ma (Citi): I also have two questions today. So first, I really appreciate about this whole strategy presentation. That is like a dictionary to me, so I need to spend more time on this. But all the targets, that is very clear detailed and measurable. So I really appreciate that. And talking about the NBP growth rate, 15% to 20%, I think that is a very decent growth target. So maybe can you just roughly give us some idea on which country or region in your mind will lead the pack for the growth?

So I understand it is all under-penetrated and have great potential. But just in your mind, so in the coming like four to five years of time, so which regions maybe we will see stronger growth? And which regions maybe need more time for transformation? That is my first question. Just a rough ideas for us.

And the second thing is on China again. So I also really appreciate we are being very disciplined in the first half not to follow the market to sell those high guarantee rate products. So my question is, so currently we are experiencing some interest rate decline, and saving product actually is gaining traction in China. So I wonder about what's our actually guarantee rate for the in-force policies? And what is the current investment return can be achieved in China?

So I am actually talking about the potential negative investment spread. And in your mind, if China is still actually economically attractive compared to other regions, given the current status quo?

Anil Wadhwani: Yes, great questions. And Michelle, thank you for both of those. I am going to talk about the strategy in the region and where we expect the growth to come from, and then I will go to Ben and Avnish on your second question on investment returns, given the declining interest rate environment in China Mainland.

So, again, coming back to the multi-market growth engine. And as I said, we right now have the capital to be able to invest across Greater China, ASEAN, India and Africa. But the

markets that I would like to call out, obviously, Greater China and Hong Kong are going to be very important for growth.

Within ASEAN, I see Singapore, Malaysia, Vietnam and Indonesia. I think they are going to be the key for us to be able to drive growth. India, as I said, there are a couple of options that we are working on. And as Solmaz articulated, we are looking at the health opportunity, maybe not in the immediate term, but if you look at a range of five to 10 years, that can be a potential growth driver for us.

Clearly, within the strategy cycle, it may or may not necessarily have a major impact in its new business contribution. But over the five to 10 years, I think it could be a potentially big contributor to the mix of business that we originate.

I am going to go to Ben on the China investments. And maybe Avnish, if you have any supplementary comments to add?

Ben Bulmer: Thank you, Anil. Hi, Michelle. So in terms of your question on returns there, look, our China business has a very robust risk management framework. We have a large in-force book, but it is a very diverse book. We write par business. We have investment linked business and so on.

And as I referenced earlier, there are some slides in the appendices that show you we have a diverse portfolio of assets backing that. As has been referenced earlier, too, we have taken actions to continue to diversify that product mix on a go-forward basis. So I do not have any concerns about negative spread, if that is what you are asking.

Anil Wadhwani: Avnish?

Avnish Kalra: Yes. I would just like to add that the business, as Ben alluded to, has a very strong ALM management muscle, which it exercises through its ALM Committee, which monitors very closely, as you can imagine, the blended guarantee in the portfolio, the investment returns, the duration mismatch, and are very nimble in taking actions both on the product side as well on the asset side to adjust and rebalance as necessary.

Anil Wadhwani: Thank you, Ben. Thank you, Avnish. Patrick?

Kailesh Mistry (HSBC): I think most of them have been answered. So just wanted to go back to the $1 billion investment over the next five years. I think Ben mentioned it in his last response, but I just wanted to clarify. So the $1 billion goes through EEV operating variances between 2023 and 2025. And then I think you said a third to a half goes through, is it CSM and then through the OPAT? Or is it directly through OPAT variances? So that is the first one.

Second one is on the technology investment, effectively, what are you doing in this programme that you have not done already? Obviously, you talk about agency, banca and health. But could you just give us some colour on exactly what is being invested in, in order to deliver on the outcomes you are trying to achieve?

And the last one, just on the CSM evolution in the first half. On the variances, I think there was a small positive. But if you could just separate out what was mark-to-market and what was operating, just so we understand the movement there? Obviously, we do not have sensitivities, but it would be useful to understand that.

Anil Wadhwani: Thank you, Kailesh, and it is good to hear from you. So I am going to ask Ben, firstly, to answer the first question on $1 billion investments and how that is going to come through our variances. And then, Ben, if you could also kind of take the CSM evolution? And Solmaz, if you could answer the technology investment and what specifically are we going to change in our technology architecture?

Ben Bulmer: Yes. Okay. Hi, Kailesh. So you are right. The $1 billion, as I said in my speech, was weighted 2023 through 2025. In terms of how you should think about that, I would guide you really to elevated levels of about $150 million in this year. It is $300 million in 2024 and 2025.

In terms of how that comes through on an IFRS 17 basis, I would expect about a third to a half will come through as a variance, the remainder unlocking the CSM, and that then subsequently creating that more deferred earnings effect.

In terms of your third question that I think was variances and CSM, I am sorry, I did not quite catch the question. Would you mind maybe repeating what?

Patrick Bowes: Yes. So I think it was, you referred to a positive variance coming through this half. What was that split between economics and operating variances?

Ben Bulmer: So we had a negative variance of around $90 million on IFRS 17 coming through in the first half. That was in part investment in the business, but in part deterioration on medical reimbursement business, and we have seen this across our four larger medical markets. To some degree, this is a post-COVID impacts where we have seen higher levels of diagnosis but also higher incidence rates.

Clearly, we have levers to be able to address that and through repricing. But also as we talked earlier, our intent to invest around health, data, technology to improve risk-based pricing, claims and so on and so forth.

Patrick Bowes: The balance was through the CSM. There was a positive economic variances here.

Ben Bulmer: So there is a positive of 0.3, 0.4 on economics. That is right.

Anil Wadhwani: You want to take the CSM evolution question?

Ben Bulmer: I missed the CSM evolution question.

Anil Wadhwani: So I thought the question was more around the fact that CSM is positive. And is the mark-to-market included as part of the CSM results that we have disclosed?

Ben Bulmer: Yes. So there is a small positive of $300 million to $400 million, and you can see that on the CSM roll.

Anil Wadhwani: And then Solmaz on technology?

Solmaz Altin: Yes. Thank you. Now, technology, and I could talk hours about this, but I will try to keep it to roughly a minute.

So as you can tell from the strategy, we are going to focus on customer distribution, health and technology needs to support all of them. So on customer, we will have to link customer data with our core value creation processes, and we want to enable customers to self-service

digitally like the experience from the likes of Amazon, Google, etc. So we are going to have technology supporting all of the strategic key pillars.

On top of that, as Anil mentioned in a strategy overview as well, we are going to embark on a new operating model where we are going to learn from each other. We are going to have a different collaboration model. So we currently have a situation, and there are decent applications, but every country having their own applications in many of our value chains.

So what we want to do is if Hong Kong has a great application, we want to make this available to others. Singapore is a good application health, as they have, we want to make it applicable in Indonesia. Yes, language barriers but this can be overcome.

On top of that, and that is really important, we want to use our data better. We will use AI more, especially with regards to new Gen AI applications, and we want to link data flow within the organisation much better ways.

Ashik Mussadi (Morgan Stanley): Thank you, and good morning from London. First of all, congratulations for setting out a new strategy and new goal. It has been quite some time, but good that we have it here. Just a couple of questions I have is, first of all, how are you thinking about currency? Now one of the key issues that we have seen in the past, especially with respect to ASEAN countries, is the currency because of typically higher interest rate or higher inflation in those countries versus dollar.

So how are you thinking about currency? How much headroom have you kept in your numbers to absorb some of the currency movements? So that is the first one.

And the second one is, again, going back to some of the questions earlier, is it possible for you to give some colour about your growth or the VNB growth and the OFSG growth by geography? Let us say big picture geography such as Greater China, Hong Kong, China and then ASEAN, and then others? Some big picture as to how you are thinking about that 15% to 20% growth? Is it like much more towards Hong Kong, China, less ASEAN? Or is it more similar everywhere. So some colour on that would be very helpful.

And then just one last question is, is it possible to get some colour on cash upstreaming from the free surplus generation? Will you be following any particular ratio, any particular formula when you think about getting cash to the holding company?

Anil Wadhwani: Thanks, Ashik. Thanks for those questions. So I think they kind of squarely fall with Ben, but I will add my comments at the end once Ben has addressed the question on currency, the NBP, OFSG growth and what regions are we getting that from and the cash upstreaming.

Ben Bulmer: Yes. Hi, Ashik. So on your point on currency, look, the main currency effects for us are really translational in our accounts. We currency match locally. That said, we have seen some significant devaluations in a number of our African countries. Nigeria, for example, I think Kenya, the currency devalued about 20%. But for us, as I say, we are matched locally. These are manageable. These are small amounts. So yes, it is a translational effect.

In terms of cash upstreaming, as we have said before, we look to maintain resilient capital positions locally. We want the surplus close to where the growth is going to come. Our remittances are driven by free surplus generation, and that is true at a local business level as

well. There is no impediment to that. You will have seen in the HoldCo cash flow, we brought up about $1 billion of cash in the first half of the year to add to the proceeds from Jackson shares. And I will look to continue to maintain a steady flow from our businesses.

Anil Wadhwani: Thanks, Ben. And Ashik, on your question in terms of the geography split. Again, going back to the earlier question that was asked around Greater China and ASEAN. And again, if you just kind of look at the mix, from the strategy planning cycle time, I believe that the growth is going to come largely from the Greater China markets and ASEAN.

And again, you simply have to look at the NBP mix of 2022 and you have to look at the NBP mix of the first half of this year. When we had COVID restrictions, ASEAN was a stronger contributor, greater than 50%. And when the COVID restrictions have gone away, obviously, the Greater China, Hong Kong being a dominant player, is contributing more.

The important point, and again I want to reiterate that, is that we have capital flexibility to grow Greater China and ASEAN at the same. It is very difficult for me to forecast as to which market is going to grow at which pace. What we are focusing on is operational performance, ensuring that we are building the right capabilities so that we are able to attract a greater share of wallet with our customers.

Dom O'Mahony (BNP Paribas): I have just got two left, if that is alright? One very short. Thank you for the new targets. Can you just confirm that these are organic targets? Or to put it another way, if you were to do any acquisitions of note that you consider revising them upwards?

And then, I guess, a more broader strategic question. When I look at the targets and as I listen to you talk about the business, I get the sense that there has been a slight shift in the way that you are assessing value. So Ben for instance, you made a point earlier about how some products can have a low NBP margin. There can be very high IRR and the NBP margin in a way, is an output, not your focus? And my sense is that this is a slight change in the way you are thinking about value creation, oriented more towards surplus generation and IRR. Is that fair, or have I misread this?

Anil Wadhwani: Thanks, Dom. So both good questions. And the short answer to the first one is it is only organic, so the inorganic part is not included in the target setting that we have just disclosed.

On your second question, no, we will be focused on the margins. Absolutely, we will. And again, a good signal of that is the way we have been able to manage, for example, the product mix in China Mainland or the way we have been able to respond to the growth that we are seeing in Hong Kong. So it will be a balance, obviously, and that is something that we are going to consciously manage over a period of time.

What I can tell you is if you look at the growth targets that we have shared, predominantly, that growth is going to come from volume. There will be some opportunity for us to work through the margins, but the predominant growth is going to come from volumes between now and 2027. But rest assured, we are maniacally focused on margins and ensuring that we manage the product mix effectively.

Patrick Bowes: I think we will go back to Anil for some closing remarks.

Anil Wadhwani: Thank you, Patrick, and thank you, everyone. It is indeed a pleasure, and you could probably sense the excitement both in terms of our half year performance as well as our new strategy.

Having now been with the company for six months, I truly believe Prudential is a great franchise and has not yet realised its full potential, and we are going to be leaning in quite diligently on operational and financial discipline. The strategy that we have just announced, to my mind, the power of that strategy comes from its simplicity.

Our three strategic pillars, three enablers and an organisational model and technology that will help us execute against the strategic goals that we have set for ourselves.

But we look forward to engaging with you in person. Ben and I are going to be on the road between now and the next couple of weeks. Thank you for your participation. Importantly, thank you for joining us this morning, this afternoon.

Ben Bulmer: Thank you.

[END OF TRANSCRIPT]