FY21 results Mike Wells script for pre-recorded analyst presentation

Hello, I'm Mike Wells, CEO of Prudential.

Slide 4 - Strategic and operational highlights in 2021

2021 has been a historic year for Prudential. We completed the strategic positioning of our business to focus solely on the exciting opportunities in Asia and Africa.

Despite the challenging conditions created by the Covid pandemic, we have executed against our plans and continued to deliver for our customers and all our stakeholders, producing a resilient financial performance.

We've continued to enhance our distribution capabilities, expanding our multi-channel, flexible and value-driven model. We saw strong performances in our agency, bancassurance and digital channels.

China has been a key highlight, demonstrated by CPL's outperformance of the market in terms of gross written premiums.

We've also accelerated our innovation and product development, launching over 200 new or improved products last year, and developing our group business, Business@Pulse, and our sharia-compliant offerings.

We're seeking to increase the breadth and quality of our customer engagement across income groups, using our strong brand. At the same time, we're building the capacity to serve up to 50 million customers.

We continue to re-invest significant amounts of capital into the business, and we deployed over 500 million dollars to write organic new business during the course of 2021, laying down larger and larger foundations for future growth.

Our strategy is aligned to the policy goals of the societies where we operate.

We want to succeed as a business by being inclusive through our product development, through our people, and by managing our assets to support an inclusive transition to a low-carbon economy.

I'm very proud of what we've achieved in terms of strategy and operational delivery in 2021, and all the more so as we've also reported strong financial results.

Slide 5 - 2021 financial highlights

Our performance highlights the resilience and effectiveness of our business model and scale, and also our agility and relentless focus on execution.

New APE sales were up 8 per cent, despite the disruption caused by the pandemic. Our new business profit was up 13 per cent, with strong new business margins of 60 per cent. This has all been delivered while the border between Hong Kong and Mainland China remained closed.

Outside Hong Kong, APE growth was 16 per cent and reached the highest levels in our history. New business profit was up 23 per cent – clear evidence of our geographic diversification helping us continue to grow.

Group IFRS operating earnings were up 16 per cent to 3.2 billion dollars, including a 10 per cent increase in profits to 314 million dollars at Eastspring, our asset management business.

And Group embedded value at year end was 47.4 billion dollars, up 7 per cent on a per share basis, despite Covid and adverse foreign exchange movements.

Slide 6 - Strong broad-based delivery despite challenging operating backdrop

Prudential has once again shown high-quality, resilient growth.

Most importantly, we've continued to deliver for our customers, and I'd like to offer my deep gratitude to our staff and agents for their outstanding efforts.

Over the last two years, we've managed waves of infections, social restrictions and disruption to economic activities across our markets.

You can see from the chart that this was especially severe in the second half of last year, when new business profit only increased marginally. Sadly, this was also the period when deaths increased in frequency and the bulk of our Covid-related claims occurred. Most of these were in Indonesia.

The Group has responded effectively to these challenges. We've adapted, evolved and accelerated our development. We've increased investment in the talent, tools and capabilities that position us well to capture the significant opportunities ahead of us.

The result of this work has been record levels of health and protection APE sales in seven markets, and record new business profits in three out of the four markets we previously highlighted as offering the highest growth prospects, namely China, India and Thailand.

We are highly diversified. China is now our largest single market for sales, with APE of 776 million dollars, and many other markets are rapidly becoming more important. Africa produced 134 million dollars in sales, up 24 per cent in the year.

The key to this success is sticking to our operating model. So let's take a look at our multi-channel distribution platform.

Slide 7 - Enhancing multi-channel capabilities to accelerate growth – Agency

Starting with our agency channel. This is our largest source of new business profits, and is crucial in building long-term value from those relationships.

We have scale, with over 540 thousand agents across our markets, and we're rapidly developing and re-tooling our agency force in response to changing customer behaviour.

The objective here is to improve quality, activity and productivity. We can see this coming through in the operating metrics.

For example, we've increased the number of qualifying Million Dollar Round Table agents in eight markets, leading to an increase in the contribution to new APE sales from these agents, up from 34 per cent to 40 per cent.

We've also increased the productivity of our agents, with APE per active agent, outside Hong Kong, up by 16 per cent.

And we've embedded the use of virtual tools across our business, so that 45 per cent of agency new policies were sold virtually.

It's the attention to detail by the management team that grinds out operational performance.

The result was an increase of 9 per cent in new business profit, outside Hong Kong, for the agency channel, and was broadly flat if you include Hong Kong.

Slide 8 - Enhancing multi-channel capabilities to accelerate growth – Bancassurance

Moving to our second form of distribution, the bancassurance channel.

We continue to have great success here. Our new business profit grew to 795 million dollars in 2021 overall and 661 million dollars outside Hong Kong.

Bancassurance is crucial, as it allows us to reach many more clients, and to establish brand and credibility in markets where we're relative newcomers.

For example, in Thailand we've increased our market share in the bancassurance channel by 4 percentage points to 14 per cent in just one year, a great achievement in this large middle-income market.

We've made strong progress in improving the product mix, and this has supported margin expansion in nine markets and double-digit growth in new business profit in 10. Standard Chartered and UOB's performance was particularly strong.

We continue to invest heavily in our leading positions, and we've expanded both the number of branches we have access to and the number of partners.

And importantly, we're continuing to integrate our digital platform in this channel. We recently partnered with a leading digital bank in the Philippines, CIMB Bank, where we will deploy our Pulse capability.

All of this has supported high-quality, resilient new business profit growth outside of Hong Kong of 48 per cent for the year, with new business profit in nine markets above pre-Covid levels seen in 2019.

Slide 9 - Enhancing multi-channel capabilities to accelerate growth – Digital

A crucial and integrated part of our multi-channel distribution model is digital.

Pulse is now operating at scale in 17 markets and 11 languages across Asia and Africa.

The take-up has been strong, with over 32 million downloads and around 13 million registrations.

We're using Pulse to attract new customer segments, who are a much younger cohort. This means reaching customers earlier in their life cycle. As those customers become wealthier with us over time, we have the opportunity to up-sell or cross-sell to them.

We're enriching the engagement we have with our customers, seeking to maintain that all-important retention rate, and providing more value-added features and capabilities by adding more local and regional partners to the platform.

The integration of agency sales and lead management into our digital ecosystems can be very powerful, and we're getting better at using the 4.3 million leads recorded on Pulse and other digital sources last year.

The contribution to new sales associated with Pulse has increased throughout the second half of the year, from 10 per cent at the half year to 11 per cent in the discrete third quarter and 13 per cent in the fourth. For the year as a whole, this amounted to 11 per cent of sales in those markets where Pulse is available.

Clearly it's early days, but we plan to roll out our improved know-how across all the markets where Pulse operates.

We're very pleased with the success of Pulse so far. It's integral to our whole distribution structure, we own 100 per cent of it, and the customers are ours alone.

So you can see how well our distribution model's performing.

Let's look at this at a market level and focus on how we're competing to win in the largest markets.

Slide 10 - China – strong strategic platform with a high-quality balance sheet

In 2021, CPL became the largest contributor to the Group's sales, with strong growth in APE of 25 per cent.

Our multi-channel distribution platform delivered double-digit sales growth in both the agency and bancassurance channels. Our margins are some of the highest in the industry.

Our balance sheet is strong and high-quality. There's a lot of change happening in the industry, but we welcome the improving regulation. Directionally, it aligns with the way we run our business.

In terms of product mix, around 25 per cent of new business profit comes from health and protection.

Our channel mix is well balanced in terms of new business profit, and we continue to strengthen our distribution capabilities across the board.

We're focused on building a professional agency force and enhancing the productivity and quality of that force. The number of our agents qualifying for the Million Dollar Round Table was up 23 per cent in 2021, and cases per active agent were up 69 per cent.

At the same time, we continue to build out our bancassurance distribution. We have a network of 48 bancassurance partners, giving us a broad reach across China. This is over and above the CITIC relationship.

Our bancassurance channel delivered both a higher level of APE sales and an improved product mix. New business profit from bank relationships expanded by an impressive 31 per cent.

I'm particularly pleased that we continue to outperform relative to the industry, growing our gross written premiums by 15 per cent, compared to the sector's decline of 1 per cent. Our market share increased significantly.

Strong sales volume growth, coupled with a favourable shift in our mix to higher-margin protection and long-term saving products, led to a 22 per cent increase in overall new business profit.

We're also building scale in our asset management businesses. Within the CITIC Prudential operation, assets under management rose to 25 billion dollars, up 29 per cent.

2021 will be tough comparator for us and the industry, but we see good long-term prospects and we intend to grow our business in China further.

Slide 11 - Hong Kong – Pivot to domestic protection & enhancing capabilities

Moving onto Hong Kong….

We continued our pivot to the domestic segment. We're shifting the product mix towards health and protection and higher-margin savings solutions, as well as increasingly using shareholder-backed capital. This results in higher quality all-round and improved payback and cash generation over time.

Meanwhile, sales to Mainland China customers have been severely disrupted by the closure of the border with Hong Kong.

Based on our own and third-party surveys, we believe there is latent demand from Mainland China customers for our Hong Kong product suite, driven by the sophistication of the products offered and the high level of medical care available in Hong Kong.

We expect to see the return of this important source of new business when the border reopens. Our agency force has been fully focused on the retention and servicing of our clients in anticipation of this. So the infrastructure is in place and ready to capture the opportunity once visitor arrivals normalise. However, the timing is uncertain.

In the domestic business, protection APE sales grew double-digit, supporting a 9 per cent increase in new business profit. We've secured strong market positions in a broader product range, including government-supported products such as the Voluntary Health Insurance Scheme and the Qualifying Deferred Annuity Policy.

These are new products and new demographics for us, as we broaden our offering in the market and help drive activity levels across our distribution channels.

On the bancassurance side, we achieved excellent results in 2021. New business profit more than doubled, driven by a well balanced mix of wealth and protection offerings and a shift to higher-value products.

Agent professionalism and career progression are extremely important to us. This can be seen in the improvement in our operational metrics.

The take-up of Pulse has been very strong, and we've seen over 800 thousand downloads in Hong Kong since launch in 2020. More than 60 thousand new policies has been sold via Pulse over the same period.

We've created good momentum in the business, booking sequential rises in quarterly new business profits as we launched new products and refreshed our single-premium offering. The domestic business did well, and there's more we can do to improve it further.

Slide 12 - Indonesia - Resilience supported by broadening and strengthening capabilities

In Indonesia, we've executed well in tough market conditions, reflecting the continuing Covid-related disruption, which was particularly severe in the third quarter.

We've continued to execute on our strategy by broadening our product range, enhancing our distribution capabilities, and digitising and future-proofing the business. So when the economy opens back up and consumer sentiment improves, the business will be in a much stronger position.

We're continuing to innovate our offerings, and to broaden our sales product mix. We've substantially increased our standalone protection policy sales and boosted our group business capabilities and sales.

To realise the potential of the Sharia life market, we're setting up a dedicated Sharia entity. There are around 230 million Muslims in Indonesia and they are massively underserved. The Sharia market is a key strategic priority in Indonesia, both for us and for the government.

The development of our bancassurance channel has gathered pace. New business profit increased 25 per cent, despite a 6 per cent decline in APE sales as a result of higher-margin new products in the traditional, funds and retirement space. There is much more to be done on bancassurance.

The digital program has also been very successful. The agent adoption rate for Pulse has increased, with 29,000 agents closing sales using our leads and activity management tools hosted on Pulse. We've also seen around 16 thousand policies sold D2C.

While the number of new cases has continued to grow, we've reported a decline in overall sales volumes, reflecting lower average case sizes. Covid-related social restrictions and the economic slowdown affected customer sentiment and wider consumer confidence, disrupting sales activity. As a result, overall new business profit was 21 per cent lower, although we've seen good sequential momentum in new business profits throughout last year. Covid-related claims held back earnings materially.

Our focus for coming periods will be to future-proof the business, grow policy count and manage through the ongoing Covid impacts.

Slide 13 - Singapore & Malaysia – continued momentum supported by strong market positions

Now onto Singapore and Malaysia.

Together these two markets deliver 30 per cent of the Group's new business profit and over a quarter of IFRS operating earnings, so they represent a substantial source of diversification in our Asian business, and they're performing really well.

We have leading market positions and we're continuing to build on our positioning through our focus on the quality and enhancement of our distribution capabilities.

In Singapore we had a very strong performance, with diversified growth across our wide product offerings. This was our best year ever for APE sales, and new business profit was up 49 per cent.

We've improved both the quality and productivity of our agency force. On the bancassurance side, we've seen strong new business profit growth as we penetrate further into the high net-worth segment, focus successfully on retirement solutions, and shift towards higher-margin products.

In Malaysia, we continue to broaden our product proposition, launching the first of its kind comprehensive critical illness plan.

The Takaful segment, the Malaysian form of Islamic finance, saw strong sales growth, supported by a growing agency force.

Our qualifying Million Dollar Round Table members are now up to over 1,200, up by 45 per cent, and the number of total active agents has grown by 20 per cent.

We also continue to benefit from our established bancassurance partnerships with Standard Chartered and UOB. The pivot to longer-term products contributed to a 33 per cent increase in new business profit from this channel.

We've had a great performance by our teams in both these markets.

Slide 14 – India and Thailand – Good progress

And now for one of our largest segment by earnings - the growth markets. I'll pick out the key highlights for India and Thailand, two of the markets that we have previously identified as offering the most significant growth opportunities.

In India, ICICI Prudential is a market-leading franchise. The business has continued to enhance the productivity of its agency force and broaden its reach by adding around one hundred new partnerships, reaching around 700 in total, of which 23 are banks.

This multi-channel capability delivered 41 per cent growth in new business profits and a 28 per cent increase in APE per active agent, one of our key productivity measures.

Covid claims affected IFRS operating results, but the business is delivering on its aspirations for rapid growth in new business profit, through a substantial shift to health and protection sales. It's doing really well in a market that is going through significant change.

On the asset management side, our 49 per cent joint venture is also performing well, increasing its assets under management to 63 billion dollars, up 15 per cent in the year. We're number two in the market, with a 12 per cent market share.

In Thailand, we're focused on delivering the strategic benefits of our recent investments and upscaling the business significantly through our bank partnerships with TTB and UOB.

This has resulted in a higher-than-industry-average APE sales growth in the bancassurance channel, as well as for the overall business. We now have a 6 per cent share of the total market and 14 per cent of the bancassurance market.

We're increasing the diversity and resilience of our Thai business through continued innovation and enhancements to our product range. This includes developing a portfolio of segment-led insurance and savings solutions that match the needs of our bank partners' customers. For example, we expanded our investment-linked offerings through the bancassurance channel, where sales increased by 88 per cent.

And leveraging our Business@Pulse ecosystem, our Employee Benefit business has also gained traction, delivering 76 per cent growth in APE sales.

Slide 15 - Building on track record of delivering sustainable shareholder value

We've delivered a long track record of strong growth in all our key metrics. The key is our relentless focus on operational improvements, enhancements of our capabilities and the disciplined execution of our growth strategy.

Our 2021 full-year results show this continuing.

We reported strong growth in new business profit, embedded value, IFRS operating profit and operating free surplus, and our asset manager, Eastspring, now has over 258 billion dollars of funds under management.

Prudential has the capabilities, operational resilience and capital discipline to continue to generate substantial value for shareholders.

Slide 16 - APE reflects the timing & scale of Covid-related restrictions

The timing of the opening of the Hong Kong border remains uncertain, and Covid will continue to have an impact, despite progress on the vaccination front across many of our markets.

However, our multi-channel approach and focus on quality business and operating efficiency is the right strategy for dealing with volatile operating conditions.

We're confident that our investment in new business, in new tools, in distribution and product enhancements will continue to build value for our shareholders and meet the needs of our customers over the long term.

Slide 17 - Key messages

To conclude, we have three key messages for this successful full year.

- First, we had a resilient performance. The pandemic is expected to accelerate digital and health trends, further highlighting the need for increased provision of financial protection and health. Covid has also reinforced the alignment of our business and social purpose with our communities, staff and stakeholders.

- Second, we're enhancing our capabilities to build on our substantial competitive advantages, strengthening our distribution, broadening our product ranges and enhancing our digital capability.

- And third, with the completion of our strategic positioning to focus entirely on Asia and Africa, we now have leading positions in markets with large structural opportunities, and we have the right model to take advantage of them.

As I bid farewell to the Group after 26 years, stepping down from the CEO role and the Board at the end of March, I'd like to thank the staff and the Board for their support as we've delivered our significant change agenda.

Prudential has had 174 years of success, and I believe the business is well positioned to capture the long-term growth opportunities ahead of it.

FY21: CFO script

Hello, I am Mark FitzPatrick – the Group CFO and COO of Prudential.

Mike Wells who has been with the Group for 26 years and as CEO for 7 years, will be stepping down from his role.

On behalf of the whole Prudential team, I would like to thank Mike for his outstanding contribution to Prudential. He has led the Group through one of the most significant periods of change in our history, while steering it through the pandemic. I wish him every success in the future.

I am honoured to have been asked by the Board to act, from the 1st of April, as CEO of the Group for an interim period whilst a formal search takes place for a permanent CEO. I look forward to engaging with you in that capacity.

For now, let me take you through our 2021 financial performance.

Slide 19 – FY21 Financial & operational highlights

2021 saw us complete our strategic transformation into a pure Asia and Africa business. At the same time we continued to deliver high-quality, resilient growth despite the continued challenges of the global pandemic. Our 2021 financial highlights included:

- 13% growth in new business profit, contributing to 7% growth in embedded value per share
- 7% growth in life and asset management OFSG, our primary measure of capital generation, and
- 8% growth in life and asset management IFRS operating profits

Having successfully executed our equity raise on the Hong Kong Stock Exchange and subsequent debt repayment, our balance sheet is robust with a Moody's leverage ratio of 21%, at the lower end of our target range. This give us significant financial flexibility to benefit from the growth opportunities ahead.

Our organic new business continues to deliver high risk-adjusted returns for shareholders, and we continue to prioritise value over volume as we grow new business profits. The 2 percentage point improvement in our 2021 new business margin to 60% reflects continuing focus on regular premium health and protection business, and a shift towards higher margin shareholder-backed products, in response to changes in customer demand.

Our strong financial results are also supported by expense discipline and head office cost reductions in line with my previous guidance. Our 2021 result includes the full benefit of $180 million of head office cost savings. These savings supported 16% growth in Group IFRS operating profits in 2021, and we remain on track to deliver the further $70 million of remaining cost savings by 2023.

In the remainder of my presentation I will focus on three elements of growth that continue to be evident in our 2021 financial results: namely our growth in value, capital and earnings.

Slide 20 –High quality, multi-channel, diversified new business profit growth

Turning to our first topic, growth in value. Our growth in value stems from writing high-quality, profitable and well- diversified new business, which meets the changing needs of our customers.

Over 85% of our 2021 sales were regular premium contracts, and we continue to prioritise health and protection business which accounted for 27% of APE and 54% of our 2021 new business profit. We broadened coverage for new risks and introduced or enhanced more than 200 products in 2021.

Despite significant periods of Covid disruption, sales grew by 8% as we continue to benefit from our multi-channel distribution model. Within this growth, sales associated with Pulse increased to $364 million, up over 70%, reflecting increased customer and agent engagement.

The diversification benefits of our pan-Asia franchise have been particularly evident through this period of Covid disruption, with 8 markets in Asia and our Africa business achieving double digit sales growth, more than offsetting the fall in Hong Kong and Indonesia.

Our largest market by APE sales was our China business, Citic Prudential Life, which delivered 25% APE sales growth. CPL outperformed the wider industry, increasing its share by 12 basis points to 0.86%, testament to the strength of its multi-channel distribution. Looking into 2022, the level of sales generated over the first half of 2021, represents a high bar for us and the industry, but we are optimistic that CPL can continue to outperform the market.

In Hong Kong, given the on-going closure of the border with Mainland China, we have pivoted to the domestic segment. Here, we further strengthened our focus on high margin regular-premium health and protection products, increasing the protection mix by 7 percentage points, although the resultant lower case size led to a decline in overall APE sales.

The combination of sales growth and a higher margin product mix led to the 13% increase in overall new business profit to $2.5 billion in 2021, with China new business profit up 22%. And this NBP growth remains broad-based with 8 markets in Asia achieving double-digit NBP growth compared to their pre-pandemic 2019 sales levels.

Slide 21 –New business profit drives EEV operating profit

The benefit of this NBP growth has been to drive a 13% increase in Embedded Value and a 7% increase in Embedded Value per share.

Even in a Covid impacted year, the $2.5 billion of NBP accounted for over 70% of EEV operating profit, and added 6% to our opening Embedded Value.

Next, the operating return on our in-force business added $1.6 billion. This includes negative experience variances and assumption changes of around $0.1 billion. These reflect a number of factors including adverse claims experience in Indonesia and India given the significant level of Covid cases seen in the mid to late part of 2021, and short-term Covid-related persistency impacts.

Eastspring delivered another solid performance, increasing its pre-tax operating profit by 10% to $314 million, broadly in-line with the growth in average funds under management, and we closed the year with funds under management of $258 billion. This asset management profit is shown as the $0.3 billion post-tax contribution to our EV operating profit.

Moving to the right of the chart, we reduced central costs by 10% to $0.9 billion, and we expect to reduce these further. There were negative non-operating impacts, mainly as a result of higher interest rates and therefore higher discount rates, and negative FX effects from the US dollar strengthening. Our EV includes the $2.4 billion proceeds from the Hong Kong equity raise and our remaining 18% investment in Jackson, which we intend to reduce to less than 10% this year.

So we ended the year with $47.4 billion of Group EV. I would highlight that this includes a conservative balance for our share of the India JV which is significantly lower than our share of its current market value.

Overall our embedded value growth was driven by EEV operating profit of $3.5 billion, largely underpinned by broad-based growth in NBP. We remain focused on delivering double-digit growth in EV per share over the longer term, assuming a return to more normal levels of sales and growth post the pandemic.

Slide 22 –Reinvestment of OFSG drives compounding value

Turning now to my second topic, that of capital growth. We grew OFSG by 7% in the year, and by 26% once allowing for central cost reductions.

The largest source of OFSG is the profit emerging from our in-force life business and the release of capital backing this business as it matures. This amounted to $2.3 billion in 2021, and is relatively predictable, with our accounts showing how we expect this in-force capital to continue emerging over time.

Adding the asset management earnings resulted in overall capital generation of $2.6 billion from the in-force business during the year.

This capital is used to write organic new business at attractive rates of return, to reinvest in our businesses by developing our capabilities, for other inorganic opportunities, and to fund shareholder dividends.

So, in 2021, we reinvested $0.5 billion to write the organic new business that generated $2.5 billion of new business profits. This represents a return of around 5 times the invested capital and supports the compounding growth in EV over time.

All the while, we have also invested the capital we generated to further digitise our distribution, and continued to invest in broadening our bancassurance platform. This includes the residual funding of our previously announced pan-Asia partnerships with UOB and broadening our MSB bank partnership in Vietnam.

Finally, our Board has recommended a 2021 second interim dividend of 11.86 cents per share which brings our total 2021 dividend to 17.23 cents per share, an increase of 7%.

Slide 23 - Strong liquidity: funding costs reducing, flexibility enhanced
Our central liquidity remains strong, with $1.8 billion of central resources, after allowing for our January 2022 debt repayments. This provides us with the financial flexibility to continue to invest in our businesses and to take advantage of disciplined inorganic growth opportunities which meet our risk-adjusted return targets.

This slide sets out the movement in our central stock over 2021, with remittances received from business units being more than sufficient to cover recurring central outflows.

The largest items of movement in our cashflow were the successful funding actions, with the $2.4 billion equity raise being used to redeem $2.25 billion of high coupon debt, reducing annual interest costs by around $125 million a year going forward.

We also repaid a further $725 million of debt in January 2022 using the proceeds of $1 billion of cheaper debt issued in November last year. This generated around $275m of additional regulatory capital with broadly no impact on interest costs, and this net cash movement is shown in the 'Other debt refinancing' bar to the right of the chart.

Our resulting debt stack is shown in the Appendix slides and we have the opportunity to refinance $1.5 billion more debt in the coming 2 years, if market conditions support it.

Overall, the cash generated by our businesses remains strong. Generally we bring up to the centre what we need to cover central outflows and our on-going investments in capability. Shareholder dividends will continue to be determined primarily on OFSG growth, reflecting steady-state costs, rather than by growth rates in remittances.

Slide 24 - Strong and resilient GWS position

Our regulatory capital position is also strong and resilient.

On a shareholder basis, adjusted for the debt redemption in January this year, our GWS shareholder surplus increased by $2.1 billion to $11.5 billion, representing a cover ratio of 408% compared to the Group Minimum Capital Requirement. Before allowing for our January debt redemptions, the year-end cover ratio was 454% and this is the basis on which the sensitivities shown on the right of the slide have been prepared.

The $2.1 billion increase in surplus was mainly driven by $1 billion of operating capital generation, after investment in new business. This was reduced by $0.1 billion of corporate investment, mainly reflecting upfront bancassurance payments, and $0.4 billion of dividend payments. In addition, we saw $0.3 billion of non-operating benefits from interest rate and equity market increases. Our surplus increased by a net $0.8 billion from our financing actions reflecting the actions taken in 2021 and January 2022 to position the Group's balance sheet for growth.

Our capital position also remains resilient to stresses, as illustrated by the limited impact of the scenarios shown on the right of the slide. This resilience reflects our high quality product mix, and in particular, our focus on less market-sensitive health and protection products. The sensitivity impacts would not materially differ when allowing for the January debt redemptions.

Looking forward, C-ROSS 2 in China becomes effective in the first quarter of 2022.

We also expect to early adopt the new RBC framework in our Hong Kong business during the first half of this year, and have made an application to the Hong Kong Insurance Authority which they are currently reviewing. If approved, we anticipate that the adoption of Hong Kong RBC would increase our GWS regulatory surplus.

This continues a trend of Asia regulatory regimes moving to be more risk-based. We typically benefit from this trend given our mix of business is weighted towards less market-sensitive health and protection products, and given our robust approach to asset-liability management.

So to summarise on our capital position: our business is well capitalised, highly capital generative, and resilient to macro shocks, and the balance sheet is well positioned to support further growth.

Slide 25 - <u>Quality focus supports IFRS life operating profit growth despite higher Covid claims</u>

Now turning to my third and final topic, that of the growth in our earnings.

Overall, our life and asset management IFRS operating profit was up 8%. This remains underpinned by our focus on high quality business, characterised by a high regular premium mix, a focus on health and protection and high retention ratios. Retention ratios remain in the high 90’s for Hong Kong and average 89% across the region.

Our IFRS earnings are underpinned by insurance margin revenues, which are less sensitive to market conditions, and grew by 8% in the period. This reflects the weight of our regular premium health and protection products.

Fee income also grew strongly, by 20%, reflecting strong equity markets for a large part of the year.

Looking at the segmental analysis on the right of the slide, all our segments other than Indonesia, delivered double-digit earnings growth, with China delivering growth of 28%. This earnings growth reflects the growth of our in-force book, albeit that growth was partly dampened by more normalised claims experience in 2021, following the lower level of claims we had seen in 2020. We have also experienced higher Covid-related claims in India and Indonesia; the latter weighted to the second half of the year. The reduction in earnings in Indonesia reflects these higher Covid related claims and the effect of lower APE sales over recent years.

The overall effect of lower new sales over the last few years is a dampening of our expected life earnings growth from the historic trend. As we look forward, near term earnings will also remain sensitive to Covid claim levels, although with vaccinations continuing at pace, we would hope the situation will begin to normalise.

Slide 26 - Positive operating leverage as we reduce central costs
This slide summarises our 2021 earnings and brings together some of the points I have already covered.

Beyond the resilient 8% growth in our segment profit, I would highlight the benefit of the actions we have taken to de-lever the balance sheet and reduce central costs, as the Group is reset to focus purely on Asia and Africa growth.

Our total central overhead was 15% lower and we expect to reduce this further as:

- Our interest costs will decline by approximately $125 million a year following the recent debt redemptions;
- We expect to deliver a further $70 million per year reduction in our corporate expenditure by the start of 2023;
- Restructuring and IFRS 17 costs are expected to remain elevated until IFRS 17 is fully implemented.

To cover briefly the remaining items of IFRS profit:

- The negative short-term fluctuation mainly reflects the impact of higher interest rates which led to greater declines in bond values, compared with a more dampened movement in policyholder liabilities under IFRS reporting
- The effective tax rate on adjusted operating profit was 17% and is expected to be similar in 2022. From 2023, the effective tax rate on adjusted operating profit is likely to be impacted by the OECD proposals to implement a global minimum tax rate of 15%. These OECD proposals are complex and require detailed analysis and consideration, which is ongoing. We will update you further at our 2022 first half results.

The loss associated with the Jackson demerger, as we discussed at half year results, relates to the write-down of Jackson to its accounting fair value upon demerger.

Slide 27 - Concluding remarks

To wrap up, in 2021: we delivered growth across our KPIs, with new business profit growth of 13% perhaps the highlight in a Covid impacted year. This again demonstrates the key attributes of our business model: a quality brand, quality products and the advantages of our multi-channel distribution platform.

We enter 2022 with a strong balance sheet and capital and we see significant opportunities ahead.

In China and Hong Kong our focus is on the domestic businesses on both sides of the border, while there continues to be uncertainty on the timing of its opening.

Our multi-channel approach and focus on qualiasty business and operating efficiency is the right strategy for dealing with volatility in operating conditions.

We continue to invest for the long term in new products and additional distribution capabilities. These will further build our presence as a leading digitally enabled agency and bancassurance player and to penetrate new pools of customers.

We are confident that we will continue to build value for our shareholders and meet the needs of our customers over the long term.

Thank you.