Prudential full year 2022 results

Chief Executive Officer results presentation

Introduction

Hello everyone, I'm Anil Wadhwani, Prudential's Chief Executive Officer.

I am delighted to join Prudential at such an exciting time.

Prudential has a rich history of serving customers and communities across the world with my 30 plus years operating in financial services in Asia, the UK and the US. I am so proud to be leading this team.

Let me begin by thanking Mark FitzPatrick for his leadership of our business over the last 12 months. We are in a position of strength to address the incredible opportunities in the high-growth, high-potential markets of Asia and Africa.

My outside-in observations

Before going through the financial highlights for 2022 and our outlook for 2023, I would like to share my observations.

Our market leading positions across both the life and asset management markets of Greater China, South-east Asia, India and Africa provide an opportunity to potentially serve a population of four billion people across two exciting continents.

The demand in these markets is driven by structural trends, including:

- Fast economic growth and a rapidly growing middle-class, expected to expand by a further 1.5 billion people by 2030.
- A vast health protection gap, estimated to be 1.8 trillion dollars, and
- significantly underserved wealth and retirement needs.

Importantly, we have both scale and breadth. Having lived and worked in Asia, I have seen the value of this first hand.

Our high-quality diversified platform, comprising 35 businesses in 24 markets, is focused on addressing customer needs with health, protection, savings and investment products and services.

I have long envied this diversification, strengthened by our 100,000 plus active agents and our leading bancassurance platform in Asia, that has over 190 partners.

Eastspring, our in-house asset management company, manages in excess of 220 billion dollars of third party and life assets.

In terms of people and culture, I have been impressed by:

- the commitment of our teams in building and maintaining trusted relationships with more than 18 million customers;
- as well as our focus on inclusivity and ESG.

And finally, we have a rich 175 year history, with an iconic brand that is widely recognised and trusted by our customers, communities and stakeholders.

Areas of focus for the next six months

Over the next six months, I am sure you are keen to understand where I will be spending my time.

I am going to be meticulously focused on our operational execution so as to fully capture the value from the opportunities we have ahead of us.

This is the single most important priority for me and my leadership team.

I am looking forward to gaining a deeper understanding of our businesses.

I'm excited by the opportunity to spend time getting to know our people, listening to their ideas and feedback, so that I can further sharpen the focus on our customers and continue to improve our operational performance.

I will also be engaging with our key partners and stakeholders; building some new relationships and refreshing many others, with the objective of propelling our business into the next chapter of growth.

This will help inform my review of our strategic and operational priorities, as well as our capabilities and how we operate as a team.

I anticipate sharing an update with you at our half-year results in August.

FY22 financial highlights

Moving onto today's results. Our CFO James Turner will provide a much more detailed commentary, however I would like to highlight the following points:

Despite the economic headwinds, new business profit was down only 11 per cent, largely reflecting the impact of interest rate increases.

New APE sales were up 9 per cent, underscoring the ongoing capability and diversification strength of our distribution platform.

IFRS operating profits were up 8 per cent, and

Our operating free surplus generation for life and asset management grew by 9 per cent.

This is indeed a creditable and resilient operational performance given the economic and Covid-related disruption last year.

In terms of the balance sheet, this is a resilient capital position, with cover in excess of 300 per cent.

Standing back, we have a strong base and are well placed to address both organic and strategic inorganic opportunities in the high potential, high growth markets of Asia and Africa.

Diversified by geography, channel & product

Prudential's diversification by geography, channel and product, across 24 markets, is one of the key attributes that I have long respected. Covid taught us, among other things, that there is value in diversification.

Greater China contributes 42 per cent of the Group's new business profit:

- The Chinese Mainland business, CPL, has grown significantly in the past few years, and this continued to be the case in 2022. The business has outperformed the industry.

- As we look ahead, CPL's broad footprint in both agency and bancassurance means that we have access to 100 cities, covering more than 80 per cent of the life insurance market and the broader economy.

- I am focused on quality and on our long-term protection and retirement product offerings. A focus which is very much aligned with the regulatory guidance. Our

product set is already broad but the product mix will need to evolve in the near-term as we continue to grow the business.

- Moving to Hong Kong, our domestic business has performed well, and we have grown in Taiwan.

South-east Asia accounts for 53 per cent of the Group's new business profit;

- We have a top 3 position in 8 out of the 9 markets.

- We are number one in Indonesia, Malaysia and the Philippines, a close number 2 in Vietnam, and we are indeed very proud of our top tier position in Singapore.

In India, we have leading franchises across both the life and asset management sector. Insurance penetration in India continues to be low, in a similar sized population to that of the Chinese Mainland.

Finally and looking further ahead, in Africa the underserved needs of our customers for health and protection, and savings, are very similar to what we're witnessing in Asia.

Hong Kong primed for growth

Given the announcement earlier this year of the border re-opening between the Chinese Mainland and Hong Kong, here are some of my early insights:

Our domestic business was re-energised during 2022 and we gained market share in the second half.

We remain very optimistic about the demand for our products and services by Mainland Chinese customers. Our customer surveys continue to show that as part of their private wealth management plans, 86% of participants intend to purchase life insurance in Hong Kong.

Over time, this source of additional demand will complement our domestic Hong Kong business.

Since the border re-opened, we have seen the number of Mainland Chinese visitors gradually increase, though significantly lower than the peak volumes seen during 2018.

It's still early days, but we have seen encouraging signs in year-on-year sales growth in the first two months of 2023.

This has reinforced my conclusion that the capabilities and value drivers of our Hong Kong business are in place. Though I am sure there will be areas for further refinement and improvement.

We have one of the largest agency forces in the industry with significant capacity retained.

We are also planning to significantly increase capacity, targeting the recruitment and onboarding of 4,000 agents in Hong Kong.

There has been encouraging momentum with sales up 30% in the second half of 2022, as compared to the first.

I am delighted that we will launch our Macau business this year, after having obtained our licence in January. This gives us access to all 11 cities in the Greater Bay Area.

These are exciting times for the Hong Kong business, and we are well placed to capture these opportunities.

Strong momentum as restrictions eased

Despite the Covid-related disruption during the year, Prudential continued to out-perform. We increased market share in 8 of our life markets.

Momentum has continued into 2023 with new APE sales growing 15 per cent year-on-year in the first 2 months.

Key takeaways

To close:

In 2022, Prudential delivered high quality resilient growth, and the encouraging sales momentum in the second half of last year has continued into the first quarter of 2023.

We have fantastic opportunities across Asia and Africa, with a diversified and market leading business.

Together, we can deliver sustainable long-term growth and value creation for all our people, our customers, our shareholders and our communities.

I am very clear that meticulous operational delivery and a focus on the quality of the new business written will be key aspects of driving our growth forward.

I am truly excited to be part of this team as we write the next chapter of growth for our company.

Thank you.

Group Chief Financial Officer results presentation

Growth & resilience

Hello, I'm James Turner. I am Prudential's CFO and I am delighted to take you through the Group's 2022 financial performance.

Our financial results demonstrate the benefit of our diversified platform, and underpin our confidence in the growth opportunities ahead. There are three key messages I hope to leave you with:

Firstly, we've got strong momentum in agency. In the second half, agency sales in particular are up 23% versus the first half, positioning us well for growth in 2023 as Covid restrictions have now been lifted across the region.

Secondly, our balance sheet is strong. We have the capital and cash to support and fund that growth.

And finally, that we see diversification in geography, channel and products, combined with our quality focus, as a source of competitive advantage supporting our growth momentum.

As Anil explained, Prudential has a powerful, pan Asian, multi-channel, high quality business model positioned in attractive markets. Our results showcase this.

And we've delivered these results despite continued, and in the case of Hong Kong, intensified Covid related disruption in the first half of 2022, with the Chinese Mainland border effectively remaining closed for the entire year.

2022 has also been characterised by substantial macro-economic volatility, with significant increases in interest rates, particularly in the US 10 year which more than doubled to 3.9% and hits to equity markets, with the MSCI Asia ex Japan down 24% for example.

New business profits were 2.2 billion dollars, down 11%. Excluding our Hong Kong business which bore the brunt of both Covid and adverse economic effects in 2022, they were 5% higher.

The good news is that since the border re-opened, we have seen encouraging momentum in the number of visitors coming across from the Chinese mainland and the early demand for our products is pleasing, with clear evidence of significant pent up demand.

After adjusting for market effects, the year-end Group embedded value was 42 billion dollars equivalent to 15.34 dollars per share.

Our capital position is strong. From a regulatory perspective, our cover ratio is 302% after allowing for a sterling debt repayment in January.

Our stock of free surplus was 8.0 billion dollars again after this debt repayment.

And operating capital generation in respect of our life and asset management business was up 9%.

We have declared a second interim dividend of 13.04 cents per share taking our total 2022 dividend declared to 18.78 cents per share, this is up 9%, in-line with our dividend policy.

Finally, for my last time on an IFRS4 basis, the Group's full year IFRS operating profit was up 8%.

As CFO, I take great comfort from the fact that after a year as challenging as 2022, and after having both reduced leverage and paid out a healthy dividend, our capital position is largely unchanged and remains resilient.

Diverse platform supports resilient NBP generation

In the first part of my presentation I am going to outline the high level drivers of how we built value as measured by our EEV framework.

This slide illustrates that this encouraging performance results from our geographic, distribution and product diversification, particularly in periods of disruption.

APE sales increased by 9% in 2022, to 4.4 billion dollars, delivering 2.2 billion dollars of new business profit.

We use a mark-to-market philosophy for our EEV. So, higher long-term interest rates resulted in meaningful NBP margin compression. This is most evident in Hong Kong for two reasons.

Firstly, the discount rate we apply for the NBP calculation in Hong Kong is based on the 10-year US Treasury rate, reflecting the high level of US dollar business that we write. The 10-year US Treasury rate increased by 2.4% in the period, much higher than the increase in long-term interest rates that we saw across our other Asian markets.

Secondly, our health and protection business in Hong Kong is particularly long-dated, we have annual customer retention in the high 90 percents, and those longer dated health and protection cashflows are naturally more impacted by discounting in the NBP calculation.

As a result, NBP was down 11% overall for the Group, but excluding Hong Kong, it was actually up 5%.

From a distribution and product perspective, agency and health & protection remain our key value drivers accounting for 55% and 43% of NBP respectively.

Let's now take a closer look at our performance in some of the key markets starting with the Chinese Mainland.

Chinese Mainland: Expanding & deepening our presence

Our Chinese Mainland business, CPL, had a good year, growing NBP by 15% to just under 400 million dollars.

CPL has continued to outperform, with gross written premium growth 5 times the industry level in the year.

There are three reasons for this strong performance:

Firstly, we have a great footprint and are well diversified with exposure in 23 provinces and 100 cities.

Secondly, we have strong, multi-channel distribution platform, agency and banca, supported by excellent digital capability.

And finally, CPL has an extremely capable management team and the business has executed effectively in very challenging conditions.

Bancassurance was the key driver of our performance in 2022, accounting for 70% of new sales, and being up 32% on the prior year, driven by further expansion of our bank partner network.

Agency sales improved in the second half, with APE up 6%, albeit that COVID restrictions remained in force for almost the entire period which inhibited our agency performance.

New business margin in the banca channel increased to 43% while the agency margin was a little lower at 65%, with the overall margin remaining broadly stable at 44%.

Looking forward, the Chinese Mainland represents a tremendous long-term opportunity for Prudential. CPL is currently our 2nd largest market when measured by NBP and yet our market share is only around 1%.

In the short-term, there are on-going regulatory developments across the industry that will lead to some transition of our product set in 2023 which could impact our volumes.

But in the longer-term the opportunity to drive significant growth in NBP remains vast.

Hong Kong: Premium franchise ready for reopening

Turning to Hong Kong.

This market was significantly impacted by Covid in 2022. But we continued to invest in retaining capacity to serve the mainland Chinese visitor market in anticipation of the border reopening, and we are now starting to see the benefit of those investments with clear evidence of pent-up demand.

I'll first cover our new business performance in 2022, which effectively represents our activity in the domestic market and then comment on what we have seen since the border fully reopened on February 6th.

Overall new sales were 4% lower, reflecting the '5th wave' covid disruption impacting agency in the first half. I am encouraged by the recovery in the second half of 2022 with the rebound in agency driving a 30% increase in overall APE sales compared to the first half, and demonstrating our ability to grow domestically once the economy began to re-open.

Banca also performed well, with a notably resilient performance in the second half of the year, reflecting the strength of our banca franchise and proposition, increasing our market share as measured by APE sales in the latest available public data.

New business profits fell 47%, due to a 60 percentage point reduction in new business margin from 134% to 74%.

The majority of this decline in margin was due to the impact of higher interest rates that I mentioned earlier. To briefly recap, the increase in the 10-year US Treasury rate was very significant in the period and resulted in a much higher discount rate being applied to the long-dated health and protection cashflows that our business in Hong Kong generates. The combination of these factors had a pronounced impact, driving just under two-thirds of the decline in the NBP margin.

The remaining one-third of the margin decline was due to channel and product mix. In the first half agency was significantly disrupted by the Covid restrictions and banca mix increased to 43% of total Hong Kong APE. In the second half we took a conscious management action to reinvigorate our agency force ahead of the mainland border reopening which resulted in strong sales of relatively lower margin savings products in the second half.

But overall in 2022, in the context of a tough market, we increased our market share while maintaining strong customer persistency, which remained stable at over 97%, demonstrating the resilience and strength of our franchise.

Now let’s turn to what we have seen in the MCV market as the border has re-opened.

As the mainland visitors return to Hong Kong, we are seeing the Chinese Mainland Visitor business coming back strongly and momentum is building week by week. This is consistent with everything the consumer surveys have been telling us and validates our decision to maintain, and in the second half of 2022, reinvigorate our agency distribution.

While visitor numbers are building encouragingly, these levels are currently considerably below those seen pre Covid; our base case assumption therefore is for a gradual recovery.

In these first few weeks, we have seen significant evidence of substantial pent-up demand coming through in terms of MCV APE sales.

The first wave of customers, perhaps unsurprisingly, are at the upper end of the wealth spectrum, and this is reflected in higher demand for our savings products. Over time, as we move beyond the first wave of customers, we expect the product mix will normalise.

So while it is still early days post the re-opening, the overarching message is that these are exciting times for our Hong Kong business, and we are well placed to capture significant value in both the domestic and the MCV markets.

Singapore: Strong positioning supports continued momentum

I will now turn to South East Asia, which accounts for 53% of our 2022 NBP.

Starting with Singapore, our largest NBP contributor in 2022.

Our business continues to deliver high quality growth through a multi-channel model.

Full year 2022 APE sales grew 6% year-on-year, reflecting a strong second half sales performance in agency and resilient sales within the banca channel.

As Covid restrictions eased, agency sales saw accelerating momentum in the second half of 2022 with year-on-year growth of 15%, 49% higher than the first half of 2022.

The bank channel saw +11% year-on-year sales growth, reflecting the power of our long-term exclusive partnerships with UOB and SCB.

Whilst volumes increased, total NBP was down 2% year-on-year, as higher interest rates impacted margins as 45% of our NBP originates from protection. Excluding this effect, NBP would have been up 4%, broadly in-line with our APE growth.

Finally, we received regulatory permission to commence Financial Advisory operations in December. This new channel will offer holistic financial services and advice to our customers.

Indonesia: Regained market leadership, further growth expected

Staying in South East Asia, let's turn to Indonesia.

By virtue of its population size and economic growth potential, it remains one of our key market opportunities given our leading position. We are investing to strengthen our capabilities, and have recently initiated a transformation programme looking to refresh the existing agency model.

The Indonesian economy has bounced back strongly as Covid restrictions have lifted and we have seen a strong new business recovery in the second half. However this is going to take time to 'earn in' to IFRS profits.

We have regained market leadership and are number one in agency and Syariah.

As agency accounts for nearly 80% of our sales, our growth in Indonesia will continue to be agency led.

Despite a challenging operating backdrop in the first half, agency activity rebounded in the second half, with fourth quarter sales up 15% year-on-year.

Over the year as a whole, new sales were up 2%, with positive sales momentum in the second half with sales up 7% year-on-year.

As a result, overall NBP returned to a positive trajectory, up 4% year-on-year, supported by growth across all channels.

We were also the first multi-national insurer to set up a standalone Syariah life insurance entity as part of our strategy to meet the growing demands for Syariah solutions and support the growth of the Muslim community and its economy.

We are cautiously optimistic about the near term outlook. Second half sales returned to positive year-on-year growth, and we see this momentum sustained in the first quarter of 2023.

Growth markets: Significant opportunities ahead

Finally, in South East Asia, I want to highlight that our 'Growth Markets' segment did just that: in aggregate delivering NBP growth of 20%; and this despite Covid related headwinds in the first half of the year.

Vietnam, Thailand and the Philippines are great stories underpinned by real execution and industrial progress including higher agency activation and productivity, we've got higher health and protection production as well.

EEV operating profit +15%, offset by adverse economic impacts

I want to highlight a couple of points in our EEV build.

Our EEV operating profit was 4 billion dollars, up 15%, driven by NBP and a higher in-force expected return.

The significantly higher expected return resulted from growth in the in-force business and a mechanically higher discount rate – the positive flip side to the negative effect of higher interest rates on our in-force and new business profit.

As a result, our operating return on embedded value improved to 9%.

Operating experience variances and assumption changes remain negative at 201 million dollars compared to 131 million dollars in 2021, reflecting a lower level of favourable assumption changes in the current year.

The negative 8.6 billion dollar non-operating loss was driven by increasing yields, widening spreads and volatile equity markets and I have broken out the drivers on this slide, including the 900 million dollar gain from our debt being revalued at a higher rate.

Growth & resilience

I want to finish this section with an update to the slide that I have used at the half year, which shows our NBP performance from 2018 to 2022; in other words the five years spanning the Covid period.

Excluding Hong Kong, we delivered a compound average NBP growth rate of 13% over this period.

And we have achieved this whilst maintaining our capacity to serve the MCV market which was effectively shut from the first quarter of 2020.

From my perspective as the CFO, this is a key slide. It demonstrates the resilience of our diversified business model during the most challenging periods of market disruption.

So as we return to something resembling more normal market conditions we have a great base, and the growth potential of our business is as strong as it has ever been.

Balance sheet & capital generation

The next topic is capital for which there are two key messages:

- Prudential's regulatory capital position is strong and resilient.
- And we have robust and growing operating capital generation, a strong cash position, low financial leverage, and we have the capacity to fund the growth opportunities ahead.

We have a clear and disciplined capital allocation framework which is focused on:

- Driving organic growth.
- Building our distribution footprint, for example, with additional banca relationships.
- And finally, being ready if strategic inorganic opportunities arise.

We have extended the perimeter of our centrally managed cash following the consolidation of what were our Group and Asia holding structures. This one-time change added 900 million dollars to central cash resources. Given this very strong cash position, we have continued with our policy of only upstreaming cash from our LBUs needed to cover our central obligations.

I was delighted that our Hong Kong listed shares, stock code 2378, have gained inclusion in both the Shenzhen-Hong Kong and Shanghai-Hong Kong Stock Connect programmes. This followed the inclusion of 2378 in the Hang Seng Composite Index in September 2022.

In short; our capital position is now primed for growth – demonstrated by the metrics you see on the slide; all of which are stated after allowing for the debt repayment in January.

Strong & resilient regulatory capital position

From a regulatory capital perspective, pro-forma for the January debt redemption, our cover ratio is 302% on a GPCR basis, comfortably ahead of our internal risk appetite.

You can see from the sensitivities we show to a range of macro shocks that our capital position is highly resilient.

And this is supported by strong and predictable capital generation.

Strong & predictable operating capital generation

From an internal perspective, our capital measure is Free Surplus. This is based on a regulatory view, but adjusted to reflect real-world fungability constraints to provide a more realistic view of the distributable capital.

On this slide I show a 'sources and uses' of capital over the year.

Our key source of capital is the steady and highly predictable emergence of capital from our in-force business along with our asset management earnings.

As we add new cohorts of profitable new business, this drives compounding growth, up 10% in 2022. There is a chart in the appendix which illustrates this in more detail.

We then invest that capital at attractive returns; this year about 0.6 billion dollars generating NBP of 2.2 billion dollars; a strong value multiplier.

After allowing for central costs, our Group Operating Free Surplus Generation or OFSG was 1.4 billion dollars.

Considerable financial flexibility

Staying with our internal view of capital, I want to outline our 'stock' position.

The pro-forma year-end free surplus stock of 8 billion dollars represents funds that are distributable over time, above the GPCR threshold in each country.

Of this, 2.7 billion dollars is held centrally. In practice we would never want to draw this to zero. As a minimum, we would like to cover 12 months of central outflows, including the cost of the annual shareholder dividend, with some buffer in addition. This year's central outflows were 1.1 billion dollars.

With the debt redemption in January, our leverage ratio is now 20%, which is at the lower end of our normal range that we target.

We have capacity to the upper 25% boundary of about 1.6 billion dollars and for the right strategic reasons we would exceed this normal boundary for a period of time.

Taking these factors together, alongside our organic capital generation capacity, Prudential is well placed to fund the growth opportunities ahead of us.

IFRS: High quality, broad-based delivery

For the final section of my presentation, I'm going to cover IFRS4 and the accounting impacts of IFRS17.

Starting, for the last time with our IFRS4 based results.

Overall our Group operating profit was up 8%.

Within this, our life result was up 7%.

The performance is well diversified with all segments other than Indonesia reporting growth. This included Malaysia, which was up 10% supported by in-force growth, in contrast with the new business metrics which were impacted by the re-pricing effects in the prior year.

Indonesia was down 20%. This reflects firstly, increased medical claims levels, which is a pattern we have seen in other markets when Covid restrictions have subsided, and the impact of lower new sales over recent years; not withstanding the more encouraging developments and results in the second half of 2022.

The 'other items' include various one-off effects which inevitably arise in a group of our scale but have tended to be positive over time.

Eastspring's profits were lower this year. This reflects the combined impact of lower average funds under management and the losses on seed capital investments that I set out at the half year.

I am pleased to confirm that we have delivered on our programmes to reduce central costs a further 70 million dollars from 2023 and this takes the total reduction to 250 million dollars or about 50% of the 2018 central cost level.

Following the debt redemption programmes which completed in January 2022, our interest costs fell sharply, and we will benefit from the redemption in January 2023. Based on our current debt position, we expect 2023 interest costs of about 175 million dollars.

As expected, IFRS17 and restructuring costs remained elevated. Until the standard is fully implemented, we expect further IFRS17 and other costs this year of about two thirds of the level we've experienced in 2022.

And given we fair value account and mark to market via our P&L, not through OCI; macro effects, including higher interest rates led to adverse short term fluctuations reflecting accounting mis-match effects.

IFRS 17: Strong fundamentals unchanged

Turning to IFRS17. The core message is that our strong fundaments are unchanged.

We plan to hold a detailed IFRS17 teach-in at the end of June, but I want to outline some of the estimated impacts today.

At the risk of stating the obvious, IFRS17 is an accounting change. While it introduces a new accounting framework, vocabulary and disclosures, ultimately all that really changes is the timing of the underlying profit recognition, not the total amount of profits that are going to be generated. The accounting for our asset management business and our central costs is unaffected.

Based on our work to date, as you can see in our accounts, we expect the transition to IFRS17 to lead to an increase in equity of between 1.8 and 2.7 billion dollars, from our IFRS4 31st of December 2021 position of 17.1 billion dollars.

We have not yet finalised our 2022 IFRS17 financials and intend to provide you with these at our IFRS17 briefing in June. However, we have estimated that our 2022 IFRS17 operating profit would be between 650 million and 850 million dollars lower than under IFRS4.

It is important to stress that IFRS17 does not impact our underlying cash flows, our free surplus generation, our EEV reporting, our regulatory capital position; none of these are impacted. There is no change to our strategy, to our capital management, nor our dividend policy.

There is also no change of any significance to our measurement of investments most of which are already measured on a fair value basis through the P&L and therefore will continue to be so under IFRS9. Except for our residual investment in Jackson, we don't use OCI. And as such, the parallel introduction of IFRS9 has no material impact on our results.

Let me now provide you with a little context.

IFRS 17 transition: adjusted IFRS 17 equity broadly aligns with EEV

Our IFRS4 accounting permits the 'grandfathering' of local GAAP in each market which is often based on the local regulatory basis.

This means we are not transitioning from a single accounting approach but from many different local bases. Therefore, the impact of IFRS17 adoption differs in each country. As I mentioned before, whilst the timing of profit recognition changes, the total profit generated ultimately does not.

Starting with equity, as I just said, we expect an increase from 17.1 billion dollars under IFRS 4 at the 31st December 2021 of between 1.8 and 2.7 billion dollars.

This increase reflects the prudence of our IFRS4 accounting relating to three main factors:

- First, the release of prudent regulatory margins, similar to the accounting effect we saw on the early adoption of Hong Kong RBC in 2022.
- Secondly, the addition of the shareholders' share of the with profits inherited estate. Under IFRS4 this sits within liabilities.
- And finally various timing effects which have overall led to a net acceleration of profits that have never been previously recognised under IFRS4.

Conceptually, there are broad parallels between IFRS17 and our embedded value approach.

The contractual service margin, or CSM, introduced under IFRS17, represents the stock of future unearned profits at the balance sheet date; it's akin to the EV value of in-force.

The sum of IFRS17 equity, CSM, risk adjustment less the related tax is about 10% below our EEV at the 31st December 2021.

The key difference is in the measurement of market risk where IFRS17 applies risk neutral, market consistent, economic assumptions, while our EEV approach is based on risk adjusted real world economic assumptions.

IFRS 17 operating profit

As I mentioned, we have not yet produced our 2022 comparators and we intend to provide you with these at our IFRS17 briefing in June.

For 2022, we estimate that our IFRS17 operating profit would be between 650 and 850 million dollars lower than our IFRS4 result. This is largely due to timing differences that led to the increase in shareholders' equity and the removal of one off gains recognised in IFRS4 that will now be smoothed into profit under IFRS17.

Firstly, there is a moderate new business impact. Under IFRS4, the grandfathering of local GAAP results in an effective 'day 1' profit contribution on certain products in some of our geographies. Under IFRS17, 'day 1' profits are not permitted.

Secondly, subsequent profits under IFRS17 are smoother and reflect the services provided to the policyholder, the types of product sold and the maturity of the business.

And finally, as I said earlier, other items this year added just over 200 million dollars to our IFRS4 operating profits. Under IFRS17 these are smoothed into profits rather than being recognised in the year they crystalise.

IFRS17 profit growth depends on level of CSM added from new business

To recap, the CSM balance represents our unearned discounted future profits. This discounting effect unwinds each period, and consistent with our EV framework, increases through the generation of profitable new business. This stock of CSM is the key driver of IFRS17 operating profit and amortises into operating profit over time as services are provided over the lifetime of contracts. This is illustrated in the chart on the left.

This means that the effect of higher, or lower, new business generation leads to only a gradual change to IFRS17 operating profit in any single period. This is illustrated in the chart on the right.

In the meantime, to reiterate, IFRS 17 is an accounting change impacting the timing of profit recognition not the total profits generated. And, as such, there is no impact on capital generation, strategy or dividend policy.

I am going to provide a fuller market update with more details in June.

Key messages: Growth & resilience

To summarise:

These are exciting times at Prudential.

Our diversified business model has many growth engines – and we see more of them were firing in the second half and this trend is continuing in 2023; agency is on the rebound.

The diversification also provides both considerable resilience and a very substantial opportunity set across Greater China, India and South East Asia.

This is underpinned by a strong and robust capital position, and a clear and consistent allocation policy supporting these growth opportunities.

But, most of all, we are focused on the quality of the business we write and on growing value, measured by NBP.

ENDS