Prudential plc 2022 Full Year Results Live Q&A

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Introduction

Patrick Bowes

Investor Relations, Prudential plc

Good afternoon from Hong Kong. Could I please first ask that you turn off your phones and any other mobile devices that may make a noise? Welcome. This is the Prudential's 2022 full year Q&A session and we are very pleased to see you all. I would like to hand you over now to Anil, our new Chief Executive Officer who has got some opening remarks and then we will go to questions from the floor, from the phones and then from the webcast. Anil, over to you.

Opening Remarks

Anil Wadhwani

Chief Executive Officer, Prudential plc

Thank you Patrick and good evening to everyone in the room and good morning/good evening for folks who are joining us remotely. I am Anil Wadhwani Chief Executive Officer of Prudential plc. It is indeed a pleasure to welcome all of you to our full year 2022 earnings call. I am truly excited to be part of Prudential plc and I have known Prudential as a competitor. I have always admired Prudential because I have competed with them in every single market that Prudential operates in. Clearly Prudential has a lot of strengths, the brand, the rich history of 175 years, great distribution, diversification, the trust and confidence of 18 million customers. Clearly a lot of strengths and as I said in every single market they were a formidable competitor.

What I bring to the table is 32 years of experience in financial services. The last five have been in Asia leading a competitor both on the asset management as well as on the insurance side so I have operating experience in many of the markets that Prudential operates in. I have a fair amount of knowledge in terms of both the opportunities and the challenges in the markets of Asia.

This evening/this morning I have the pleasure of introducing my management team. On my right James Turner our CFO. Next to him is Dennis Tan who runs Singapore, Vietnam and Thailand. Avnish Kalra, next to Dennis, our Chief Risk & Compliance Officer. On my left is Lilian Ng who runs Greater China. Solmaz Altin runs Malaysia, Indonesia, Philippines, obviously manages our joint venture partnership in India, Africa and also is responsible for Digital and Technology. Next to Solmaz is Wai-Kwong. Wai-Kwong is our CEO of our captive inhouse asset management company Eastspring. Together we will be responding to your questions and I really look forward to the interactions this morning/this evening.

At this juncture I also wanted to extend my sincere gratitude to Mark who is in the room with us. Mark has been absolutely superb in terms of his contribution over the last six years but more specifically in the last 12 months. His leadership has been instrumental in putting Prudential in a position of strength as we look to addressing the growth opportunities specifically in the high-growth, high-potential markets of Asia and Africa.

On that note I am going to turn it back to Patrick and we can get rolling with the questions and answers.

Q&A

Thomas Wang (Goldman Sachs): A couple of questions I think mainly on the Hong Kong business. I want to know what you are seeing on the Hong Kong business in terms of the Mainland China Visitor segment. Also the domestic segment how you are seeing that rebound and what you are hearing from the agents? Then maybe a question for James is when we look at the margin obviously first half second half there is quite a large difference. When we are thinking about going forward which one is the reference point when we are thinking about projections on margin? Thank you.

Anil Wadhwani: Thanks for your questions Thomas. Let me tee it up with the MCV and the Hong Kong business question and then I will pass it on to James for his comments on NBP margin. However, before I answer the MCV question specifically I just want to step back and provide a bit of context in terms of how we created the momentum getting into 2023. We employed specific emphasis on the diverse needs of the Hong Kong domestic customer. We saw traction on account of that in the second half of the year as compared to the first half. That also led to a high level of agent activation and it put us in a good position as the borders opened up. Once the borders open up we have seen the Mainland Chinese Visitor traffic coming in. It is clearly not at the peak levels that we were accustomed to in 2018/2019. Our estimate is it is about in the range of about 40-45% right now but it is starting to have a positive impact on the volumes. Now, unsurprisingly the first set of customers coming in based on at least what we are witnessing is more skewed towards the affluent segment. As a consequence of that the demand that we are seeing is coming through more towards the savings products. Having said which I clearly understand that our emphasis is going to be on providing a diverse set of products to address the diverse set of needs including those of Mainland Chinese customers. The momentum is going to complement some of the good work that Lilian and team did in the last year on the domestic market. I am going to stop there. I am going to turn it to James to address the new business margin question and then I will probably also ask Lilian if she has any further comments on the Mainland Chinese Visitor customer.

James Turner (Group Chief Financial Officer, Prudential plc): Thank you Anil and thank you for the question. In terms of the Hong Kong margin the thing to remember is that we are applying an EEV methodology and we are marking to market. We are marking to market at the year-end rate for the whole year. At the half year we marked to market at the half year so it went from 150 bps at the beginning of the year to 300 bps at the half year. By the year end that was at 390 bps but under our methodology we mechanically revalue the whole year at that year end rate.

Anil Wadhwani: Lilian, do you want to add anything on Mainland Chinese Visitor customers?

Lilian Ng (Managing Director, Strategic Business Group): Yes, thank you Anil. I think two points I just want to add. Thomas you mentioned about the domestic segment. I think what Anil said in 2022 we have been able to actually grow our market share from half one to half two by doubling. Our half two market share is 10% and that feels actually a very robust platform for us to continue to capture the opportunities of the domestic market. In terms of the MCV segment the early signs we are seeing, as Anil was mentioning, is more on the affluent segment but what is very good to see is that 58% of the MCV are new to Prudential so far in the first two months. I think we are very well positioned to capture that opportunity.

Anil Wadhwani: Thank you Lilian.

Edwin Liu (CLSA): Hi, I have a question on the Indonesian market. We have seen some weakness in that market for several years but I think this year we have seen some stabilisation. My question is would you say we have seen the bottom of the Indonesian market and going forward would the growth of that business be driven more by bancassurance or agency or both? Thank you.

Anil Wadhwani: Yes, that is a great question and clearly Indonesia is a critical market for us. I am just going to offer my opening comments and I will then turn to Solmaz to provide greater colour. Indonesia is a focus market for us. We have had leadership positions in that market and unsurprisingly so because we have a vast distribution specifically on the agency side. If you combine the conventional and the Sharia business we have been in a position of strength over many, many past quarters. I am going to stop there and I am going to turn it to Solmaz to provide some further insights.

Solmaz Altin (Managing Director, Strategic Business Group): Thank you Anil and thank you for the question. We did indeed see a strong recovery in Indonesia in the second half. The second half APE grew 30% versus first half and we see that momentum mainly coming from agency channel. Banca was strong in growth throughout the year so looking forward we also see the momentum in the first two months continuing. Agency channel plus the banca channel will be both channels that we are betting on also for the future.

Michael Chang (CGS-CIMB): Thanks, I will ask on Mainland China. Last year obviously a very strong performance. I think bancassurance performance in particular stood out. Maybe you could shed some light in terms of the partnerships that were signed last year. I think there were 11 new bancassurance partners and in the report itself CMB was mentioned specifically. Could you maybe shed some light on how well diversified the bancassurance growth is? How much of it is concentrated with CITIC and CMB versus the others? Maybe year-to-date what is the bancassurance signup rate like? Also related to Mainland China the agent channel I think is starting to show some signs of recovery. What is the agent recruitment rate like right now year-to-date? Thanks.

Anil Wadhwani: Thanks for your questions Michael. Multiple questions in that and I am going to ask Lilian to provide you a greater detail. However, let me start by saying that you are absolutely right, we have a multi-formatted channel in Mainland China and as a consequence of that we were able to deliver 15% new business profit growth last year on the back of 19% sales growth. That was pretty strong given the environment that we were operating in and in some sense underscores the diversified nature of channel mix that we have. You are right in saying that as the Covid measures get relaxed you are going to see greater emphasis on agency and agency activation. That is something that we are already witnessing on Mainland China. Before passing to Lilian I do want to emphasise the fact that the structural demand drivers on Mainland are very much intact. It is really positioned well for medium-to-long term growth. Again given our capabilities on the ground we feel very optimistic in terms of addressing those customer needs. Lilian you may want to provide some greater detail.

Lilian Ng: Yes, thank you Anil. In China like in most of our business we have a diverse multi-distribution platform. On the bancassurance front actually we work with 59 banks across 6,687 branches. We have been able to increase that outlet by 11% in 2022. That is supported by also three thousand insurance specialists. We are actually blessed. We have a diverse portfolio of working across the national banks, the commercial banks as well as the foreign banks. We are also very blessed because we have a shareholder partner in CITIC Bank and also a strategic partner in Standard Chartered Bank. This is how we have the platform we have in bancassurance.

Having said that we are also building a quality agency force within China as well in CITIC Prudential Life. We have been able to grow our MDRTs to 1,000 and agency productivity has grown 9%. Taking that forward into 2023 we continue to actually ensure we have the relevant customer proposition to serve two areas. Mainly protection as well as savings, in particular retirement planning. That is supported by the government agenda as well as supported by the regulator on long-term savings and protection.

Anil Wadhwani: Lilian, you may want to address the CMB question Michael asked specifically.

Lilian Ng: Okay, so in China bancassurance is an open architecture. We have been able to actually engage with in particular the Shenzhen branch of CMB. That is where we have been seeing a lot of growth in that area, in particular in the GBA area.

Michelle Ma (Citigroup): Hi management. My first question to Anil is just out of curiosity what are the top three items in your to-do list? Can you share them with us? The second thing I think investors these days pay a lot of attention to the asset side so for our disclosure out of our 11.5 billion corporate debt in a shareholder backed debt I notice there is 34% that belongs to the financial sector. Can you shed some light on how much belongs to North America or other regions? Thank you.

Anil Wadhwani: Thank you Michelle. Thanks for the question. Again a two-part question. Let me address the top three priorities and then I will hand it over to James and Avnish to answer your second question. This is week three and I am still finding my way to the coffee machine but in terms of priorities clearly there are three of them. Obviously there are going to be many and I will have to get to that in due course but if I have to simply pick three it is people and culture, our customers and our operating performance. What I can tell you is just based on my initial interactions with talent they are highly committed, highly focused, highly energised to be able to write the next chapter of growth for Prudential. I am going to stop there, turn it to James first and then to Avnish.

James Turner: Michelle, thank you for the question. The balance sheet as you know is very conservatively positioned and that 34% of our shareholder assets [editor: shareholder-backed corporate debt] equates to $3.9 billion. Approximately $1.1 billion of that relates to US banking stocks. 97.5% of those are investment grade. 95% are systemically important banks so the big JP Morgan, Citi, yourselves, etc. Very conservatively positioned. In terms of the banks that are in the spotlight, SVB and Signature, our exposure to SVB I think was around $1 million. That out of a $23-billion book we are talking about one or two basis points.

Avnish Kalra (Group Chief Risk & Compliance Officer, Prudential plc): Just one more thing to add there that, as you would expect from a company of our size, scale and history, we have a very well developed credit risk framework which relies on concentration risk, single party limits, etc to cover the exposures that we see on a day-to-day basis. We are well positioned on that.

Anil Wadhwani: Thank you.

Patrick Bowes: Thank you. Just to clarify I think it was 34% not of our Group net assets but just of those investment credits. Investment credits, not the Group.

Tianjiao Yu (Bernstein): Hi, good to see the management today in person. I just want to follow up on the Hong Kong recovery. Can you give us a bit of colour in terms of the agency business? How many agents do you have now versus 2018's level? Also I saw on a presentation slide, you have a slide showing the visitor numbers compared to 2018. I am just curious, can we use that as a way to gauge how much you can recover this year?

Anil Wadhwani: Yes, thanks for the question. I think Lilian will be best placed to speak to the agency but I do want to preface it by saying that it is still early days. We only have experience of about 7-8 weeks and the momentum started in terms of the visitors coming into Hong Kong. We saw distinct momentum pickup in February and that has continued as we have progressed through February into March. However, it is still early days for us to gauge the full impact of it going forward. Lilian, any comments on agency specifics?

Lilian Ng: Yes, we have about 19,000 agents in the total force. Actually 80% of them joined us before the pandemic so what I am trying to say is during the pandemic we have been able to continue to motivate and activate these agents. Now of that 19,000 around 10,000 are actually MCV focused agents. A lot of the activities we are seeing in the first two months is actually driven by this group of agency force.

Tianjiao Yu: Can I just follow up with one more on the IFRS 17? There is a guidance on operating profit reduction. Can you talk us through what is driving that change? Is it mostly on the in-force book?

Anil Wadhwani: Sure. I think I will turn it to James but I just want to say that IFRS 17 is an accounting change. It fundamentally does not change our business model, our strategy, our valuation or our operating free surplus generation. It does not change that. It is an accounting methodology and does not impact our business strategy but I am going to turn to James to provide you with greater insights.

James Turner: Thanks Anil and onto that long list of things it does not change it also does not change our dividend paying capacity or our dividend policy. Really the key thing to recognise on the IFRS 17 is that our shareholders' equity has increased. It has increased and we have given a range on that of between $1.8 billion and $2.7 billion. That increase is reflecting profits that we have never recognised under the previous IFRS 4 regime. For example, with profits things like our terminal bonuses under IFRS 4 we would have recognised when they were paid. Now they are accelerated and brought forward and added to our shareholders' equity. The guidance we have given on the reduction in operating profit from our IFRS 4 operating profit of $650-850 million reflects really timing differences again because, as Anil said, this is just accounting. From a timing difference perspective there is both a one-off impact. This year there was approximately $200-odd million that was recognised as a one-off gain from the introduction of Hong Kong RBC. There is then the new business so when we sell new business rather than being able to recognise the profits under IFRS 4 immediately we have to spread those over the lifetime of the policy. Then the balance really is the consequence of that increase in equity and it is really that flowing through in terms of we have had those profits.

Blair Stewart (Bank of America): Thanks very much, I have got two questions. The first question is on agency. You touched on the Hong Kong agency and how much damage might have been done through the pandemic. I seem to remember you having about 24,000 agents in Hong Kong so it looks to me like you are trying to replenish from the lost agents in the pandemic. I just wonder if we could expand that discussion across the other main territories albeit briefly. I recognise there are a lot of territories but what has been happening to the agency and to what extent does that need to be repaired? I would imagine there is a fair amount of competitive behaviour amongst agency as well in terms of your competitors looking to pick up your agents. Sorry for the long question.

My second question is on IFRS 17. James, I am assuming that the quid pro quo of a lower IFRS 17 starting point from an earnings perspective is that we might expect faster growth in profits in future than we might have seen under IFRS 4. Could you just add some colour around that? I know you are going to give more detail in June but conceptually is that the way we should be thinking? Thank you.

Anil Wadhwani: Thank you for your question. I am going ask Lilian to answer the agency question. She did mention that we have 19,000 agents but I think she can provide you with a little bit of context in terms of where we are coming from, where we are and what our plan is to grow our agency force, specifically in Hong Kong and then more broadly across the region.

Lilian Ng: Okay. Blair, thank you for that question. I think what we see in terms of attrition of the agents in Hong Kong is mainly outside of the industry. Obviously during the pandemic it is very challenging to actually acquire customers so we saw them actually leave the industry. Now, obviously we will continue. 83% of the 19,000 we have are still with us from 2019. We are now obviously driving a recruitment to replenish. In 2018/2019 on average actually we recruited about 6,000 agents per annum so this is what we are going to continue to drive the recruitment with the economic activity coming up. We are seeing a lot of momentum already in terms of recruitment.

Now, for the overall agency in Asia and Africa we actually see in 2022 recruitment is up by 9%. With the economic activity coming back up other than Hong Kong I think a lot of the markets actually opened earlier. We are seeing that recruitment drive and the productivity growth has been increased by 6% so a lot of good momentum in terms of our overall agency in Asia.

Anil Wadhwani: Thank you Lilian. James, if I may pass it on to you for the IFRS question.

James Turner: Sure. Blair, thank you for the question. I was expecting a lot on IFRS 17. In terms of that quid pro quo really the key point to recognise is the CSM, that store of value. You can see from the information in the deck that that is going to be about circa $25 billion. That will really unlock and unwind over time. We anticipate that that will unlock in the range of 9-10% a year and given that the total profits from the sale of any product does not change this is really going to be about timing. What we do know is that profits are smoothed. The profits are recognised over the service that is provided to the customer which is typically the policy term. The way that you have got to think about it is I think that it is going to be about what we are adding to CSM. It is not just going to be about the operating profit. It is going to be about what we add to that CSM balance and that stock of future profit, Blair. However, you are right, we are going to sit down in June and have a real big deep dive into IFRS 17.

Kailesh Mistry (HSBC): Hello, hi, good evening everyone. The first question I guess is for Anil. You very elegantly highlighted your outside-in observations on Prudential. Perhaps if you could just follow up and ask which markets and subsegments are you most excited about for the next three years and why? What are your thoughts on the Pulse platform that has been built already? Will you be investing further in it and what areas will you look to, to improve the proposition? The second question is around Indonesia. I think James mentioned in his slides agency transformation in Indonesia. Can you provide a little bit more colour on that? How long will it take and what are the key objectives? Then one last one if I may, in the CFO appendix slides the reason I am asking this is there is a lot of noise in the market about the investment mix. I just wanted to pick up on the slide where it shows the corporate bond by rating profile. Could you just reiterate why there is quite a high proportion in the BBB and below? What has been the default experience over time on that portfolio? Thank you.

Anil Wadhwani: Thank you Kailesh. Many questions so let me try and orchestrate this. Let me start with your first question on which markets I am most excited about. If I were to just step back and just look at the diversification mix around geographies that we have 42% of our new business profits are contributed by Greater China. 53% is contributed by ASEAN and we have leading market positions in many of the ASEAN markets. Then we have India and Africa. Now, there is growth opportunity in every single market and that was one of the reasons why we pivoted solely on the high-growth, high-potential markets of Asia and Africa. However, if I were to simply pick up two, China obviously is exciting just given the sheer size of China and the sheer size of the opportunity that we have there. That is bound to be one of the more exciting markets for us. India again similar population as compared to Mainland but a much younger population to that. Again, in both these markets there is significant under-penetration as we know whether it comes to health, wealth, protection, savings or investment needs. We believe that given our joint venture partnership across these two markets we are very well positioned to be able to address those opportunities.

On Pulse and I will steer it back to Solmaz but I do want to preface it by saying Pulse is part of our digital strategy. The way we think about our digital strategy is to solve for the pain points of the customers. The moment you do that, the moment you create greater ease, greater convenience for our customers and for our distributor partners you end up winning market share in my experience. I am going to stop there and turn it to Solmaz and then we will come back to your Indonesia and the investment mix question.

Solmaz Altin: Thank you very much Anil. Thanks for the question on Pulse. Pulse has been developed over the last few years and is a strong asset in the digital estate of Prudential group. We will continue to develop Pulse as a key customer servicing and customer engagement tool. The technology focus going forward will be on developing tools and systems that will support our distribution, banca and agency channel to do their business more effectively and more efficiently. The second focus is customer experience, both of in-force customers and then creating potential leads also then playing back into our distribution forces. Our focus clearly is to create a better customer experience every step we go and then increase operational effectiveness and efficiency going forward.

Anil Wadhwani: Solmaz you may want to answer the Indonesia question on agency transformation as well.

Solmaz Altin: Yes, thank you very much. Now, important to note is that we have regained the market leading position in Indonesia in 2022. In order to consolidate that position we embarked on a transformation programme which we call Transformation for Accelerated Growth. It is not only focused on agency. It is one of the focus points and here we are addressing agency activation, our agency sales management, how we activate our agents and recruitment of agents of course. However, it has more pillars than that. We are also looking into operations and claims especially focusing again on customer value and shortening the time where customers have to wait to get their claims paid and things like that. As well as expenses. It is a comprehensive transformation programme in order to consolidate our market leading position in Indonesia.

Anil Wadhwani: Thank you Solmaz. I am now going to turn to James for the investment mix question.

James Turner: Kailesh, it is James. Listen, thank you for the question. As I said earlier, I think that our balance sheet and our shareholder debt position is incredibly conservatively positioned. However, let us just take it through the elements that you asked the questions on. First you asked about what our total defaults were and our total defaults last year was $75 million in total. In terms of the split I think what I need to flag, and you referenced the elements in the CFO appendices, is that of the total shareholder debt of $23 billion 89% of that is investment grade. 55% of it is A- and above. Of the amount that is below investment grade that is largely made up of three buckets. We clearly do asset and liability matching by country. The first is we have significant business in Vietnam. As you know, the Vietnamese sovereign debt is not investment grade and therefore all of the corporate debt by definition is below investment grade. That accounts for 46% of our total non-investment grade exposure. The balance is really between Thailand which has a BBB investment grade and similarly a chunk of the corporates that we use to back our business in Thailand is therefore below investment grade. We have some high yield in the US but it is relatively minor in the scale of the $23 billion of total exposure. As I said in response to one of the earlier questions, our losses have been really small.

Kailesh Mistry: That is great, thank you.

Patrick Bowes: Maybe just a clarification I think on the investment grade and not investment grade we use independent ratings.

Larissa Van Deventer (Barclays): Thank you very much, just one question. You say that you want to focus on operational performance improvement. Do you see more runway in sales volumes, quality or margin? Are you able to quantify how much upside you see in the near-term please?

Anil Wadhwani: Yes, thank you for the question. I guess the short answer is all of the above but as I said I am in week three and I will be getting to many things. One of the emphases that I would like to lay is understanding our strategy and operational capabilities. In the August timeframe we will be more than happy to come back to you and share with you a much more granular strategic roadmap. The short answer would be quality and quantity and not one at the cost of the other.

Larissa Van Deventer: Thank you.

Leon Qi (Daiwa): Thanks a lot, one question on Hong Kong MCV and the other on your capital. Firstly I just want to swing back to MCV. I appreciate the colour just now. You mentioned your agency headcount movement. We have noticed some news in the media recently talking about the agency hiring plans for Prudential and also your competitors. Interestingly we have seen that actually Anil's old shop actually has a more aggressive plan than Prudential especially given they have a much smaller presence than us. I just want to hear anything, any colour from you or Lilian on your agency hiring plan in Hong Kong and particularly the MCV. Second question on capital, I think the background there is that Prudential went through several restructures over the past few years and also the solvency regime in Hong Kong and also Mainland China went through two major changes. Now these are behind us so starting afresh for Anil what will have to happen to make you take any revisits to your capital management plan from here? These are the two questions I have. Thank you.

Anil Wadhwani: Thank you. Thank you for your question. On Hong Kong MCV I am going to ask Lilian to provide you with greater colour but let me start by saying that coming in I am already looking at MCV very closely, as you can imagine, seeing whether we have an opportunity to refresh our plans. We have 10,000 MCV focused agents as Lilian mentioned and I believe there is an opportunity to firstly activate the agents that have gone quiet during the Covid period, as you can imagine. At the same time also hire, train quality agents that can focus both on domestic but also on the MCV market. I am going to turn it to Lilian who can apprise you of her latest plans.

Lilian Ng: Yes, obviously recruitment is part of what an agency force does. Amongst the 19,000 agents we have probably got about 8,000 agency leaders where their role is to go out there every day to recruit as well as activate those agents. One thing we need to pride ourselves on as Prudential Hong Kong is we do have the platform. What triggers an agent joining a company is the infrastructure, the platform, the products, the operations and we believe we have a very robust platform to allow our agents who are onboarded to actually deliver for the customers.

Anil Wadhwani: To your second point, firstly you have seen our capital position which is very strong. We would like to keep it that way because it gives us ample flexibility in terms of addressing the different opportunities. However, I am going to ask James to provide you further texture on that.

James Turner: Thanks, Anil and thank you for the question. We see our capital allocation policy as a way of maximising shareholder value and maximising our shareholder return. We are really crystal clear on three priorities. The first priority is always organic growth and funding that organic growth because we see these amazing opportunities across the region.

We have talked about some of them already today. Ensuring that we can absolutely maximise that is our first priority. The second is really in terms of strengthening our capabilities whether it is in customers, whether it is people or distribution and really adding to our capabilities so we can accelerate that growth. Then third is just in terms of if there are strategic opportunities in line with our strategic intent then clearly we will consider those as well. However, the primary focus is really on funding that organic growth and those organic opportunities.

Anil Wadhwani: I think that is logical because these are the businesses that we understand. We have a track record so we would like to deploy capital where we have experience and there is potential to grow further. I could not agree more with James in terms of the way he has articulated it.

Leon Qi: Sorry, just a follow up. Other than the potential inorganic that you have already commented on, what about returning to shareholders? Do you have any thoughts on that?

James Turner: Look, we have entered this new phase. We have completed all of the transformations with an incredibly strong balance sheet that is focused really on taking advantage of the opportunities we have in front of us. You have got to remember that for every dollar that we invest we get $4 of returns. Those attractive IRRs with really fast payback that is the best way we see of adding to shareholder value.

Jing Li (Huatai Securities): Thanks, I just want to ask what is your house view about the interest rate environment in the next 1-2 years and how will it impact our product mix and investment application? That is the first question. The second question, back to the normal period before the pandemic, is about the Hong Kong agent. What is a normal attrition rate of this agent team? Thanks.

Anil Wadhwani: Alright. Let me first go to a combination of Wai-Kwong as well as James to talk about our house view. Then Lilian will address the Hong Kong agent attrition question. Wai-Kwong, do you want to go first?

Seck Wai-Kwong (Chief Executive Officer, Eastspring): Yes, thank you very much for that question. Obviously to try and forecast where interest rates are going especially this year is going to be very, very challenging. Obviously you have seen how rates have been rising over the last year or so. We still think that the Fed will probably need to keep a very fine balance and especially after the events of the last few days. I think next week's meeting will be pivotal in terms of deciding the cost of things for the rest of the year. I will just say that I think we have just got to watch that space very carefully.

Anil Wadhwani: James, any additional comments?

James Turner: The only thing I would add is we have a really diversified portfolio of products with Health & Protection, ILP, Savings and therefore we have lots of opportunities to really meet all of our customers' long-term needs regardless of the interest rate environment. The other thing is that if you look at our source of earnings a significant proportion is from Health & Protection and that is not really impacted by interest rates. Wai-Kwong is right, I would not like to try to guess where interest rates are going to move even in the next week, let alone the next year.

Anil Wadhwani: Thank you James. Lilian, anything on the Hong Kong agent attrition?

Lilian Ng: In Hong Kong to become an agent they have to go through quite a rigorous examination. Secondly we also actually put each of our new agents when they are candidates through what we call profiling to ensure that these are the right people in terms of wanting to do financial advice as a career. Now, with that in place actually the attrition rate is reduced to about 20-30% but for those who have not gone through the profiling obviously the suitability tests will help to get there. That is probably pre-Covid. As I mentioned, during Covid the attrition rate was mainly due to not being able to get enough business to sustain their income.

Anil Wadhwani: That is why we remain optimistic because the Covid relaxation is going to result in agency activation which is going to result in income for the agents which in many ways is going to be the tool for us to drive better retention.

Patrick Bowes: Anil, if you bear with me I am going to read out some questions on the web. I am going to do a quick-fire one for James. There are four or five which we should run together in the interests of time. It is already quarter to. Very quickly could you repeat the exposure to US banking investment? Some of the individuals had a poor line. That is the first one. The second one is on capital. Any thoughts about the 150% floor that you have in terms of the way that you look at your free surplus ratio on top of the GWS requirements? Is there any colour about the individual markets around the 15% overall Group growth rate in sales? Those are the first three.

Anil Wadhwani: Thank you Patrick. James do you want to take the first two and then I am happy to address the third one.

James Turner: Okay so the first one was the US banking exposure I think. What we said is that there is a total in the shareholder debt portfolio of $1.1 billion. 97.5% of that is investment grade. 95% is in systemically important banks.

Anil Wadhwani: The second question was the 150% floor for free surplus.

James Turner: In terms of 150% that is our risk appetite. It is a dynamic risk appetite. What you are seeing is that we have 302% capital ratio and that is the associated capital ratio regarding that risk appetite. We are significantly above the level of our risk appetite.

Anil Wadhwani: Thank you and on the third question we will not get into market specific dynamics in terms of growth. Suffice to say the greater relaxation on account of the Covid measures abating will result in agency activity. Not only in Hong Kong and Mainland China but more broadly across the Asian market. We have already signalled to you in terms of the positive impact that we are seeing on account of the MCV or at least the initial flow of the MCV customers coming into Hong Kong.

Patrick Bowes: Thank you. Anil, I will just give you another one and this time a change of markets. It is on Malaysia or it used to be on Malaysia. It looks like they have dropped off but we will move on. This is from Sudarshan at Soc Gen. Can you please provide some colour on the new business outlook for Malaysia? Can we expect some recovery after the decline in this year? Do you think there will be a subdued growth in the near future? Thank you.

Anil Wadhwani: Solmaz, do you want to take that?

Solmaz Altin: Yes, happy to. It is important to know that we have a prime franchise in Malaysia. We are on a consolidated level still number one in absolute premium when you combine the conventional and Takaful footprint. We are very excited about Malaysia and we have the biggest agency force. We are a clear market leader in Takaful insurance with a huge potential with about 64% of the population being the Bumi population. We are the clear market leader there. We have seen strong banca growth in Malaysia over the last year and the numbers when you look at it after the medical repricing one-off effect in 2022 we have dropped in APE by about -2%. The market overall dropped by 6% and in conventional by almost 9% so comparing that we did actually quite well in Malaysia. The first two months looking at the overall guidance of 15% we will see some momentum in banca continuing and agency as well.

Patrick Bowes: Okay, I will keep going. The next one is from Premier Miton Investors and it is on Mainland China JV. Could you please comment on the changes in the mix of products that you see demanded by customers in the Mainland business? Is Health & Protection losing share here? Would it be fair to assume that new business margins will reflect the reduction in Health & Protection demand that we saw last year? Thank you.

Anil Wadhwani: Lilian, would you like to address the product mix question for Mainland China?

Lilian Ng: I think obviously in our business we ensure we have a comprehensive customer proposition across from savings, protection as well as retirement planning. What we are seeing is actually there is still a demand for Health & Protection. I think subsequent to the change of regulation in critical illness in 2021 we continued to refine our product, our critical illness in 2022. What we have actually done from a customer proposition is added what we call a critical illness butler. These are the things that help to address the customer pain points across. We have seen as a result in actually our GBA area in Guangdong along about 20%+ of our APE is coming from this critical illness product and that is what helped us to drive an NBP of actually our GBA area by 72%. This is how we focus on protection.

The other exciting piece that we are looking at is actually driving our retirement planning proposition which is at the back of the pillar 3 pension which is to help people to actually save for retirement. In CITIC Prudential we have around 22 products that actually address retirement planning and most of them actually qualify for that tax benefit that has been put out by the state council. We continue to be very excited and well positioned to drive both protection and long-term savings. That is where we are going to continue to address the customer needs.

Patrick Bowes: Thank you Lilian. Last two from the web and they are both on margins and interest rate sensitivity. The first one is in terms of sensitivity of new business margin to interest rates with your sensitivities can we understand the pace of likely change in margins if interest rates rise again this year? More holistically, how do you see the impact of rate rises on demand for savings versus protection and lapses on savings products? That is the first one on margins. The second one on margins is specifically to the MCV market. What is the margin outlook for this business and the momentum for this business?

Anil Wadhwani: James, would you like to take the NBP sensitivity, the rate rises and the impact on lapses?

James Turner: Okay, let us start with lapses. What you have seen in this business now for a number of years is incredibly resilient persistency. It stayed around 89-90% and that has not changed. That is because we are offering long-term products for our customers that they want ultimately. Regular premium that they continue to pay. All the way through Covid, all the way through all of the disruption we have not seen any disruption to our persistency levels. That is the first point.

In terms of sensitivities you have seen those in the deck. They are clearly from an NBP perspective we do have economic sensitivity for the reasons that I mentioned before. Ultimately the underlying profitability of these products is strong and this is really just a discounting effect because of our focus on Health & Protection.

Anil Wadhwani: Okay. Thank you James. Before I ask Lilian to comment on MCV margin, historically as we know the margin on MCV has been higher. I did mention in my earlier comments that the initial set of demand that we are receiving across the border is coming in the savings product which tends to be lower margin as compared to Health & Protection. If you think about Health & Protection those typically take a longer duration in terms of the sale cycle as compared to the savings product. However, as I said, the focus for us and for Lilian's team is to ensure that we have the entire range of products addressing the diverse needs of customers across savings, health, wealth and protection. Lilian, any specific comments on MCV margin?

Lilian Ng: The margin is driven by a combination of sales and the product. Also, what we are seeing at the early stage of MCV is we see the case size has actually doubled before Covid. That actually has an impact on the overall margin as there is more volume that go into the savings products. However, having said that in terms of the number of policies actually 50% of those MCV customers continue to take out a health and protection product as well. We will see that as the year goes. I think we will see a more balanced product mix going forward.

Patrick Bowes: I am conscious of time. We have got seven minutes, six questions on the phone and I think if I ask you there are probably some more on the floor. Let us go back to the floor in the first instance for a last sweep from the floor. Okay, having said that then there are no hands up. Okay, good. On the phones, let us go to the next caller on the phone please.

Farooq Hanif (JP Morgan): Hi, thank you very much and very nice to know that you are here Anil. Just quickly on India, there have been some regulatory changes impacting the tax benefit of products but also allowing life insurers to sell more products. Could you talk about your views on the regulatory environment there and how supportive it will be, and whether you would ever consider getting a larger share of that JV as part of strategic investment. Then lastly a quick one, you mentioned Macau taking some time to develop. Could it make any impact in 2023 sales to Hong Kong and what is the timeline? Thank you.

Anil Wadhwani: Sorry, I did not get the second part of the question. Can you just repeat that?

Patrick Bowes: Macau impact in 2023.

Anil Wadhwani: The Macau, thank you. Alright let me start with the India question. I am going to ask Solmaz to comment on the regulatory changes that he is witnessing but more broadly on India, India clearly is an exciting market. Large population, very similar to China Mainland. Significant under-penetration. We have a strong joint venture partner in the form of ICICI and they have a good track record in terms of performing in that market. I did mention that I will be reviewing our strategy and our operational capabilities between now and over the next six months. We will come back to you with the strategic roadmap in terms of how we want to grow our business forward, both across Asia as well as Africa. Solmaz, do you want to comment on the Indian regulations, specifically the tax related changes impacting the ILP product?

Solmaz Altin: Yes, I am happy to do that if that was the question. I am happy to explain that first and if you have another question with regards to regulations I am happy to follow up on that. On the bill, it is currently only a bill and the final implication will only be crystalised once the act is passed. Our understanding is that the policies sold until 31st March will be outside of the scope. Only policies sold from 1st April 2023 will be covered. If the total annual premium paid for non-unit linked policies exceeds 500,000 rupee then the difference between the total benefits received and premium paid would be subject to tax as other income is. Also our understanding is that the death benefit would not be considered in this computation. In this context as it is close on our results, the APE product mix for the nine months financial year 2023 we are well diversified with 41% unit-linked, about 20% protection and 6.3% annuities. There have been several inquiries post the budget announcement. We wish to bring to your attention though that the share of business of non-unit linked policies with annual premium of above 500,0000 rupee is just approximately 6% of the total APE. On a practical level this business is not expected to go away completely. Hence the net impact on the business is expected to be trivial. This is also in line with the announcements made by ICICI Pru in this regard.

Anil Wadhwani: Thank you Solmaz. Going to the Macau question before I ask Lilian to provide the update on that one I would be firstly delighted to have the Macau licence. What it does is it in many ways complements our Hong Kong business as well as our presence in South China across the nine cities in GBA. We now have coverage across all the 11 cities in GBA and we believe as the regulation evolves GBA clearly is an opportunity that we would be keen to address. As I said, we are looking forward to the launch of our business in Macau in quarter two. Lilian, any other points?

Lilian Ng: Absolutely. I think we are just doing the company registry opening bank accounts. It will launch in quarter two so will make an impact in 2023. One thing I want to highlight is obviously Macau we are there to serve the 680,000 people of Macau and also remember the MCV traffic is about a million a month so that is another opportunity for us.

Farooq Hanif: Thank you.

Dominic O'Mahony (BNP Paribas): Thanks, I will try to keep it quick. One question, you give the embedded value by geography. I wonder if you could give us the free surplus generation, even a rough indication of how much is coming from your bigger markets.

James Turner: We do not give a breakdown by geography but what you can see is you can see our NBP from the bigger segments. That is in the disclosure and so that will give you a flavour of where we are adding the most value.

Dominic O'Mahony: Thank you.

Rhea Shah (Deutsche Bank): Thanks, just one question. The cash remittances looked a bit low in 2022 as a whole and a bit low in the second half in particular. Was there anything in particular driving this?

James Turner: A quick answer, no. It is probably my quickest answer. We have got very robust levels of liquidity. We are at about $2.7 billion at the year end. We have always had a policy of only bringing up to the centre what we need. Clearly we do not need any more.

Nasib Ahmed (UBS): Thanks, a quick one on Jackson. When do you intend to sell it down? Just on inorganic opportunities where do you see them if you can list them down quickly? Thanks.

James Turner: Jackson, we made a commitment to reduce our exposure to below 10% which you know we did. We are not going to give comments on the sale of the balance because that would impact its price. Inorganic we will always look at opportunities that match our IRRs but our capital allocation is primarily focused on organic growth and filling in capabilities.

Andrew Baker (Citi): Great, thanks, two quick. IFRS accounting change obviously coming through. Any thought on changing the EV reporting basis? Then in China can you help me understand the margins? 70% is from banca, 43% margin, the rest I assume is from agency, 65% margin. How do you get to the 44% blended? Thanks.

James Turner: I thought I had escaped an EEV/TEV question but I hear you. Our focus has been on IFRS 17 and making sure that we get IFRS 17 over the line. Clearly as interest rates increase the differences between EEV and TEV actually reduce.

Anil Wadhwani: Lilian, do you want to answer the agency mix question? Would you have the data for that in terms of how the margin squares up to 48%? If you do not have the data, can you come back on that?

Lilian Ng: Yes, can we come back to you on that?

Anil Wadhwani: That is a very specific question. We do not have the data for that.

James Turner: It is in the appendix. It is in the slides, the CEO appendix.

Anil Wadhwani: We will come back to you, if you do not mind.

Andrew Baker: Great, thank you guys.

Abid Hussain (Panmure Gordon): Hiya, thanks, I will try to be quick. I have three questions. One on the bancassurance. Is there any high level colour that you can give us on why the margin has improved there? Is there anything structural there happening on the banca side or is it a one-off? The next two are on capital. First on capital sensitivities, the GWS capital is negatively geared to rising rates as that is to spreads. On rate is it just simply the discounting effect or is it something else going on? Can you just touch upon that very quickly? Then finally on capital your capital ratio is in the 300%s on the GWS basis. I know the floor is 150% but what is the operational target range that you are open to run within? Thanks.

Anil Wadhwani: James, why do you not answer the capital question and then we can go to the bancassurance question to Lilian.

James Turner: The two capital questions, the first one I think was GWS capital sensitivities and you asked about interest rates. Wherever you start we have had a really strong balance sheet. That 302%, you take off any of the single impacts and it is still a very high number. What I would draw your attention to is what has happened this year. We started this year at 320%. We have had significant increases in interest rate, huge reductions in equity, volatility and credit spreads increasing, a real combination of stresses and yet we ended the year equally strong at 302%. That gives you a sense of how actively we managed this. The second question you asked me was about the capital range at 302% versus the 150% that is our floor in essence. We do not set an internal target ratio of the type that you have just described.

Lilian Ng: On the value that bancassurance brings I think obviously bancassurance was actually our biggest channel in 2022 given the Covid restrictions. Having said that we also bring in a 15% growth in NBP in terms of value. What is good to know is our two large regional bank partnerships SCB brings in about 30% of our bancassurance value and UOB actually brings in 15-16% of our value into bancassurance.

Anil Wadhwani: Just to add to Lilian's point if I look at the penetration rates of insurance into the customer base of our bank partners, there is still a lot of runway. Most of the bank partners are exclusive bank partners who have single digit penetration into the customer base so there is a fair amount of runway for us to drive greater customer penetration as far as insurance products are concerned.

Andrew Crean (Autonomous): Great, thanks, a couple of questions. Firstly you talked about changing product mix in Hong Kong having a disruptive effect in 2023. Could you expand on that? Secondly, could you talk about any early thoughts on your CITIC joint venture? The past management team were keen to increase the share. Is that likely to continue as a desire and is it a middle-distance issue or not?

Anil Wadhwani: Thanks for those questions Andrew. Let me get to the CITIC JV. As I mentioned, China Mainland is obviously a big focus area for us and we are very committed to investing capital in China Mainland to ensure that we grow the business further. We have an excellent partner and we have 50% of what is a growing business, as was demonstrated in 2022. We look forward to working with our partner to see opportunities as to how we can grow our business even further on the mainland.

On the change in product mix, as I said, the initial flow that we are getting from the MCV customers coming into Hong Kong is in the savings category. However, Lilian did emphasise the fact that 50% of the policies are savings and 50% of the policies are H&P. Typically the H&P sales cycle is much longer than the savings product. It is also the profile of customers Andrew that we are getting across the border initially. I said, it is still early days and some of this is likely to evolve as we move forward. Our emphasis is to provide diversified product suite to address the diversified needs of our customer base in Hong Kong and elsewhere. Thank you.

Andrew Crean: Thank you.

Patrick Bowes: Thank you everyone and obviously there is scope for follow up questions on Monday face-to-face with Andrew if we have rushed and misheard anything.

Anil Wadhwani: For sure. Thank you Patrick and thank you everyone. It is really an exciting time to be part of Prudential and as I said hopefully I have been able to convey that excitement. In terms of both the growth opportunity but how Prudential is positioned to be able to address these opportunities across the Asian and the African markets. My focus right off the bat would be people and culture, our customers and our operating rhythm. I am sure we have been able to answer most of your questions but if you would like more texture, more colour we would love to engage with you further after this call. Thank you very much for being here. This is great because this is the first time in the last three years that we have done a face-to-face meeting. I look forward to many of these and have a good evening. Thank you.

[END OF TRANSCRIPT]