Prudential plc – IFRS17 Briefing - Live Q&A Event

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Introduction

Patrick Bowes

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Welcome

Thank you all for joining us today to discuss IFRS17 at Prudential, as well as the formal announcement we have today published a short video presentation, the associated slides and the transcript, as well as a companion guide. We will also be publishing a transcript of this call.

Just to remind you, the half year 2023 IFRS17 results are due to be published on 30th August. And as ever, the IR team are available to help follow up with you.

We are in a formal close period given the proximity of our half year results. This call and the matters discussed today are all covered by the disclaimers in the presentation and the other materials that we published today on the website.

I am delighted to introduce you to Ben Bulmer, our CFO, who will lead the session. Over to you, Ben.

Introduction

Ben Bulmer

CFO, Prudential plc

Introduction

Thank you, Patrick, and welcome, everyone. I am looking forward to seeing you all at our interim results and subsequent road shows. Just to let you know, I am also joined today in Hong Kong by Rebecca Wyatt, who leads our financial reporting; and Matt Donnery from our performance management team.

As you are aware, IFRS17 is a new accounting framework, impacting the timing of profit emergence rather than total profit. It does not change the attractive fundamentals of our business, nor the exciting growth opportunities ahead. We have continued our approach to investment valuation and accounting that we have used historically. This means that the adoption of IFRS9 has no material impact on us. Both the IRFS17 2022 opening equity and operating profit are in line with the guidance we provided earlier this year.

As we indicated in March, our balance sheet capital position and associated financial flexibility remain in very good shape. IFRS17 does not change any of this.

In respect of the mechanics of IFRS17, profit growth is driven by growth in the contractual service margin, or CSM, which in turn is dependent on adding more from new business than is released to profit in the period. We expect the compounding effect of growth from new business CSM to support growth in adjusted operating profit over time.

Consequently, adjusted operating profit remains one of our key IFRS performance metrics. Our earnings remain of very high quality, stemming predominantly from insurance services, representing two thirds of our 2022 adjusted insurance operating profit.

And finally, we continue to view our long-established embedded value reporting framework as more representative of shareholder value.

That concludes my prepared remarks. Over to you, Bailey, now, so we can take your questions.

Q&A

Michael Chang (CGS CIMB): I have got a question on operating profit. So if I am taking a look at the slide of the operating profit and how that is forecast. A large portion of that relates to the release of the CSM. Could you perhaps elaborate a bit more on the release of the CSM amortisation rate, whether that is stable across time? And then related to that, on the CSM, forecasting the CSM going forward, should we assume that the new business profit CSM ratio to the EEV new business profit, should we assume that that ratio is stable across time as well?

Ben Bulmer: Okay. Thank you, Michael, for your two questions. Let me start briefly with the amortisation rate. As you will have seen, we have a rate of 10% at a Group-wide level. That varies slightly depending upon product mix across the Group, but broadly looking across countries, we are in a range of between high-single-digit to low teens. And of course, whole of life savings products will tend to have a slower rate, whereas protection products tend to have a faster rate. But given the size of our stock of future unearned profits on our balance sheet in the form of the CSM, I would expect that 10% to be relatively stable going forwards.

On your second question, which was around NB CSM to EEV NBP ratio, as we set out, and there is a slide, Michael, which walks through the key differences. And just briefly, they are tax treatment and economics, of course, being the difference between the real world returns we earn on an EEV basis and the market consistent risk neutral applied under 17. And then, of course, additions in the form of riders, where the geography is different as to where that value add comes in between the two frameworks.

Those reasons are going to remain. The ratio you are referring to will of course differ from period to period. And I think you need to think through the mechanics you are used to thinking through when thinking about projecting new business profits on an EEV basis. So the usual things of product mix, channel, geography.

Of course the other factor there, Michael, is economics, and where current period economics are compared with longer term expectations.

Edwin Liu (CLSA): So I have one question, which is, how should we think about the volatility to your operating profit and shareholders' equity under IFRS17 going forward, compared to with that in the past? In particular, for example, the sensitivity to equity, rates or spreads, those market factors compared to before, that would be very appreciated.

Ben Bulmer: Okay, thank you for your questions, Edwin. Let me deal with perhaps earnings. First, our adjusted operating profit as we have labelled it in our results. I think, Edwin, the key thing, stepping back from this to bear in mind, yes, this is a new standard, but ultimately it is the same product mix that you are familiar with.

Now, clearly, 2022 was an exceptional year for us in terms of market volatility. But when it comes to earnings, you need to bear in mind that a high proportion of our business is classified as VFA, and that is some 70% of CSM. So the impact on earnings from market volatility through that model is always going to be a much smaller second order effect.

For our GMM business, as we have said, the adjusted operating profit is actually based on longer term returns. So the market related volatility there is in non-operating profit. And I do hope that the new disclosures we have given help with the predictability of the expected CSM release.

Moving from operating result to more of an equity or IFRS17 adjusted equity, which I think is a useful measure. Clearly, in adjusted equity, we are going to have more volatility, because we have brought the value of in-force into the accounts, which is a clear benefit of IFRS17 over IFRS4. Where that market volatility comes through depends upon the accounting model. And there is a slide in the deck that directs you to the geography of this.

But in short, for our VFA business, the CSM will be unlocked. For our GMM business, that volatility will come through in short-term fluctuations. And it is important to note, Edwin, when comparing us to peers that we have made very limited use of OCI. Consistency was important to us when it came to our accounting policy decisions and transition policy decisions.

So we very much remained fair value through P&L, as we were before, hence, limited impact of adopting IFRS9. I hope that answers your question, Edwin.

Edwin Liu: Yes, very clear.

Thomas Wang (Goldman Sachs): Just a quick question. You talk about 72% VFA and GMM is about 28%. By market, is there anything we should be kind of aware? Because obviously the GMM will probably create more, as you said, more volatility on the profit side. So just interesting, is there any market we should be particularly aware of?

Ben Bulmer: I would not have said there is markets you should be particularly aware of. And actually stepping back, Thomas, again, the advent of a new accounting framework would not change that long held focus that we have on writing health and protection products and savings business. And when we write the savings business, we continue to favour with-profit and unit-linked structures.

And it is the fact that many of these contracts that we write bundle savings and protection riders together, and the fact that IFRS17 gives this overall combined product view, really gives the reason as to why about 70% of our business is measured under the VFA model. There is a slide in the pack that directs you to the style of products that tend to fit between the VFA and GMM model.

Say, apart from the geography of things, I think we are relatively ambivalent as to which model products sits under. Candidly, obviously, the CSM inception is the same under each model. It is as you subsequently go forward and how market volatility is treated.

Andrew Crean (Autonomous): Two questions. Firstly, on slide eight. The economic and other variances of minus 4.4 billion have three components in them. There is obviously operating experience variances and assumption changes. There is the investment return to move from the risk neutral to the long-term real return, and then there is the genuine economic variances. And I wonder whether you could split those three and provide that split into the future, because I think it is a very important element as to what bits are sustainable and what bits are merely markets.

And then the second question, on slide 14. I am coming back to the new business issue. I suppose two things here. Firstly, you are going to write a lot of Hong Kong MCV business. And does that broadly in IFRS terms, add to the margin or detract from the margin? And more broadly, it is tough for us to understand why your IFRS new business contribution is about 20% below the embedded value basis, whereas your peer, AIA, 61% above. And I just wonder whether you might be able to give some broad commentary as to why those are so different?

Ben Bulmer: Okay, thank you. Thank you for your questions, Andrew. I will start with the third one, if I may. Clearly, it is not appropriate for me to comment on others, but I think we have to be very, very cautious when it comes to comparability. As you are aware, there is many different approaches to transition. And from a Prudential perspective, for us, consistency was important. And to that end, we have one set of best estimate operating assumptions we have applied across EEV and IFRS17.

We made widespread use of the retrospective method of application. So some 80% of our CSM is done under a retrospective method. And that gives a consistent view for us in terms of profitability, particularly across in-force and new business. As you would have seen in the slides, the key difference for us really then between our EV and our IFRS17 adjusted equity is the removal of real-world risk adjusted returns.

And candidly, from my perspective, from a valuation lens, I think it is right to include an allowance for those returns, that is the very nature of the products we write with-profits or unit-linked propositions, the shareholder is sharing in a share of those returns with policyholders through either fee income or cost of bonus.

On your question on Hong Kong margins and MCV, if I can use, if I may, an EEV lens for a second. Historically, the MCV margins have been very well aligned with domestic margins. I think as we flagged earlier this year, what we have seen is more savings in the mix, certainly in Q1.

We have said that we expect to be, on a glide path, perhaps to a more normalised mix. But the key point to remember really with regards to Q1 results is that heavy savings orientation we are seeing in MCV business candidly across the market. It is not just us. And that will have a lower amortisation rate than the weighted 10%. You will be in a single digit number.

Then in terms of the 4.4 billion impact on CSM, you are right. There is several different component parts. I mean, the key bit for us on the vast majority of the balance was essentially the impact from economic changes in the period. And that is essentially the difference between the actual returns and of course, the risk free that is assumed. Again, if we want to navigate back to longer term assumed returns, I would guide everybody to the 7.9 billion difference between our embedded value on an EV basis and that IFRS17 adjusted NAV.

Maybe just pause there, Andrew.

Andrew Crean: Could I just follow up on that? Is it possible to give us the IFRS new business profit using real world assumptions and then give the in-force unwind using real world assumptions? That is the piece that I think people would be interested in, because risk neutral is a very depressed level.

Ben Bulmer: Understood, Andrew. But I do not have those numbers to hand today. So perhaps that is something we can follow up on.

Kailesh Mistry (HSBC): Just a follow-up question on the CSM unwind rate of 10%. Are there any particular markets where the amortisation rate is materially higher than the Group average? And I guess related to that, on one of the slides you have put the breakdown in the change in OPAT between IFRS4 and 17? Obviously, Hong Kong goes up and I think this is due to the with-profits business. For the other markets, they are all down. What is driving this? Is it the same thing or are there specific differences by market? Any colour on that would be helpful.

And secondly, I guess this is more of a request. I know you have highlighted in your presentation that you will provide detailed sensitivities at full year 2023 results. But just a request to maybe think about providing this not only for the earnings and the OCI, but also for the CSM. And I think that might help answer some of the previous question as well.

Ben Bulmer: Okay, super. Thanks, Kailesh. In terms of markets with amortisation rates significantly greater than 10%. Well, the key one that springs to mind is we have a slightly faster rate in Indonesia, really relating to the protection richness of the book. Most markets are pretty well weighted, and this is for the segments that we disclosed, are exposed to that 10% rate.

On your point on IFRS4 to 17 differences, and I think this is about net income, right, if I heard you correctly. Kailesh, is that correct?

Kailesh Mistry: No, it is related to OPAT, so it is on slide six. So where you showed the differences on transfer from IFRS4 to 17.

Ben Bulmer: Okay. Right. You are absolutely right. So yes, look in terms of a bit of colour on how OPAT changed by segment. In Hong Kong, Hong Kong went up, that was primarily driven by more smooth profit recognition from par products, and higher surplus assets. And you will recall, and can see on the left-hand side of slide six, a bump from the shareholder share in the with-profit estate.

As I go through the other segments, by and large, I guess there is a few effects. One is the removal of day one profits. So that has impacted Singapore, growth markets in particular. In Singapore on the old IFRS4 basis, protection profits used to come through more quickly. I think they were more aligned with cash earnings candidly.

Malaysia is a bit of a rounding on the page. Actually, it is more or less in line. And then of course we have the impact of the shift to risk neutral that washes across. The strength of that impact is ultimately dependent, obviously, on the mix of savings business.

Andrew Baker (Citi): Just one on really, are you able to say anything on the medium-term growth expectations for the CSM? Obviously, 2022, if you sort of ignore the economic moves, it looks like it could be about 1% to 2%, but that was on lower new business contribution. If I adjust for that, just back of the envelope looks like its more like 6% growth, if I layer in MCV business. Does this seem like a reasonable number going forward? Or are you able to say anything about what you are expecting organically from the CSM growth going forward?

Ben Bulmer: Thanks, Andrew. Look, you are absolutely right with mechanics. Obviously, it is all about adding quality new business to our CSM, which in turn drive earnings growth. I am

not going to be able to provide you with an earnings forecast today, but what we did try to do is to set out the drivers for adjusted operating profit on slides nine and 10. And obviously you have got the expected release of the CSM in there for 2023, which is on a discounted basis, and clearly, we need to allow for new business.

I do remember that net investment income, whilst on a smooth basis, is based on assets at the start of the year. As you said, 2022 was an unusual year for us, not just in terms of macro economics, but also the impacts of COVID, particularly on the large markets.

Looking forwards, I am highly optimistic we are going to drive significant growth in new business value. We have got a great platform here at Prudential. We are in high growth markets, and very exciting opportunities ahead. And to that end, as you saw from our Q1 trading update and comments related to that, we made a very strong start to the year.

Charles Zhou (Credit Suisse): I have a question. So when we talk to other insurers, we know that they have selected the OCI option, for example, recognising the certain market fluctuation through the other comprehensive income to just to reduce or to remove the earning volatility from the P&L. So do you, or will you follow suit using the same way? Just would like to hear your comments.

Ben Bulmer: Yes. Thanks for the question, Charles. As far as I mentioned earlier, we have maintained our asset valuation approaches for our IFRS4 accounts. So largely at fair value with all investment returns passing through the income statement. And we have made very, very limited use of other comprehensive income. And that was important to us from a consistency approach and notwithstanding the operational complexity cost of OCI treatment.

So I guess if you are trying to make peer comparisons, what I would urge you to do is to remember that the geography of some of the market volatility is going to be different. It is going to be important to look at total comprehensive income, and not just PBT. For us also, to deal with that volatility, we use this concept of adjusted operating profit. I would observe that a lot of our peers continue to use an adjusting operating profit metric as well.

And the idea of that is, of course, excluding the short-term market fluctuations from the adjusted profits in the income statement.

Patrick Bowes: Ben, I have got a question that has come in online, which I will just read out. It is from Henry Au, the Hong Kong Mortgage Company. Are there any key assumptions, methodologies and so forth, which have not yet concluded and subject to change. Any points that are still under discussion with your external auditors?

Ben Bulmer: So, no, there is no outstanding discussions, if you like. The companion guide, I do not know if you have managed to have a look, Henry, contains extracts from our 2022 audited accounts. We thought it would be useful to pick on the extracts of those accounts that we felt were the most relevant to guiding today's conversation and backing up the slides. So that is why we have not released full accounts.

Patrick Bowes: Thank you. Obviously, Henry, we will be publishing interim accounts, as I said on 30th August, and the full year accounts at the year end, obviously, which we will have all the full detailed accounting notes. Obviously today, we just extracted some information from the audited 2022 numbers.

Leon Qi (Daiwa): In fact, my question was raised by Thomas earlier, but I do have a follow-up on that. Regarding the VFA across different markets, correct me if I am wrong, because my understanding is that across all the different markets we have, Hong Kong has relatively higher portion of par business and VFA is all on par because we use GMM for non-par. If that is the case, does that mean Hong Kong will have a relatively higher, basically higher than 72% of VFA that you are using as a Group for Hong Kong? Because the reason why I am asking is because for the first half of this year, the capital market movements across different regions are a little bit different. And Hong Kong is underperforming the rest of the market. So theoretically, if you have higher portion of VFA for Hong Kong business, then that would negatively affect the 4.4 billion equivalent in the first half of this year. So just wondering if my understanding is correct that Hong Kong had relatively higher portion of VFA.

Ben Bulmer: Thanks for the question, Leon. And the short answer is yes, you are absolutely right. Hong Kong does have a higher proportion of VFA business in its mix. Candidly, where I am sat today, I am not going to make predictions about economics. I think what I would rather do is extensively in a few weeks time and when we can stand up and talk to the actual results, if that is okay.

Andrew Sinclair (Bank of America): Three questions for me. First is just on leverage. Just how you are thinking about leverage capacity today under IFRS 17. Do you have a target range that you would be thinking about? And I see in the appendix you have given leverage figures both with no CSM and 50% CSM credit. So just how you are thinking about that? That is my first question on leverage.

Second was just on the CSM. Just wondered for both new business contribution and the CSM as a whole, how does that break down country by country for new business profit? Should we just think about that in line with embedded value, new business profit and can give anything overall in the CSM split?

And then finally, with just on the risk adjustments, I know it is small, but just how should we expect that to evolve going forward?

Ben Bulmer: Super. Okay, thanks. Thanks for your questions, Andrew. Firstly, with regards to leverage, the Group has strong financial flexibility. 17 is not going to change our appetite to leverage debt issuance. Now we are operating at the lower end of our given range, which was the 20% to 25% on a Moody's total leverage basis. Moody's indicated that they might consider up to 50% of CSM as equity for purposes of the leverage calculation. And that is why we have given you that as a pro forma number, but probably the 14% you will have seen.

And candidly, we are waiting on rating agencies to conclude and update their methodologies. And perhaps to that, I would add there is no change to our dividend policy or distributable Pru PLC reserves, as a result of IFRS17.

If they then move to your question on segments, look, we are thinking about our segmental disclosures as we continue to develop disclosures around 17. I think it is fair to say that the portions of those CSM and adjusted equity by segment is broadly similar to the disclosed split of operating profit by segment. CSM and adjusted equity by segment versus EEV segment actually is not that different, and it is, as we said on slide 12, due to economics.

The split of new business CSM and additional CSM generated from riders compared to NBP segment by segment is also broadly similar. So I think you can take the sort of EEV NBP to translate at the sort of Group-wide multiple. Yes, there is some ons and offs for amount of riders or occasionally onerous contracts, but I think it is not a bad yardstick to start from.

I think your third question, Andrew, if I heard it right, was on risk adjustment and the runoff of the risk adjustment. Well, the release rate on that is around 7.5% in 2022, perhaps stating the obvious that obviously runs off in line with release of risk, whereas CSM amortises in line with this concept of transfer of services to our policyholders.

Just check if that has answered your questions, Andrew?

Andrew Sinclair: Yes. I mean, I think just also checking if there is anything else we should be thinking about topping up that risk adjustment over time or would you just expect it to be reducing over time?

Ben Bulmer: I see. So I think we have described the confidence level approach. We have used to setting that adjustment. Obviously, any change in the determination of that has an equal offsetting impact on the CSM. What I would point you to, and there is a slide in the deck is a pretty good history in terms of managing non-market risks and variances through an EEV lens. So, in many respects, whilst I have not included it in the adjusted IFRS17 equity, I think you can think about the risk adjustment as an additional store of the future profits we need to maintain in managing the in-force book.

Dominic O'Mahony (Exane PNB Paribas): I have really got one question, I guess in multiple parts, and it is what if anything, is really changing fundamentally because of these vis-à-vis accounting standard? And in my head, there is three types of things. One is whether there is any change to local entity remittance capacity. I am not familiar with all the accounting standards in your markets, but I am wondering whether you could expand on whether anything changes in your entities ability to push cash up or to fund growth, or whether it is completely irrelevant?

The second I suppose is that some other insurers have essentially revealed that they were applying hedging programmes based on IFRS. I do not know whether that applies to yourselves. But is there anything like that where you may have been managing the business on a way that is aligned with IFRS, and as a result, actually the way you manage the business changes?

And then the third, I guess, comes back to leverage points. I mean, while you might say, nothing fundamental has changed about the embedded value or the business needs, if you get 50% of the CSMs, suddenly you have a lot more leverage headroom. Would you agree that that gives you more leverage headroom if you did want to raise debt? Or are you essentially going to just ignore that and manage or consider your leverage position as if you had not had that change?

Ben Bulmer: Okay. Thanks, Dom. Great questions. In terms of local remittances, candidly, I am not expecting any change in cash remittance profile from our entities. Just to give you a bit more colour on that, the local dates for adoption for Hong Kong, Malaysia and Singapore are 2023; Indonesia, Philippines, Thailand, and possibly India, if I recall rightly, are 2025;

China, Taiwan, Vietnam 2026. And then there is a string of other countries, candidly, where the date is still unclear to us.

But from what we see, not expecting any change in cash remittance profile. One caveat on that, of course, and that is, out in Asia, taxes often based off local accounts. I think, frankly, tax authorities will need more time to get their heads around IFRS17. So I cannot conclusively say that this would not impact future remittance profiles. We got to watch this space.

Would I wrap hedging programmes around an accounting standard? No. We will stick to the economics of the business, and our cash flows.

Your question on leverage. I think where we stand today, Dom, is in a position of having very strong financial flexibility, as I referenced. We will see where we land and how rating agencies adopt 17 and update their methodologies. But as of where I sit today, I am very happy with our capital position. So no immediate plans. I will continue to look at the 20% of the Moody's total leverage number, and no change in range as of today.

Tianjiao Yu (Bernstein): I just wanted to ask about this CSM release pattern. On your slide nine, I think, well, we can see you have about 2.3 billion CSM release, that is about 9% of your opening CSM. That is a blended number. But you also mentioned about the different protection and savings. I am just wondering how much is the release pattern for different product types.

And also maybe to build up on this is to understand what is really going to drive this release pattern going up or down in the future. Is that to do with the product mix or something else?

Ben Bulmer: Yes. So thank you for your questions. In terms of what drives the release pattern, and it is essentially the provision of services, that is policyholders by which in itself depends upon how coverage units are defined. Of course, things like lapse rates, as I referenced earlier, tends to be quicker for protection business, supposed to say whole of life savings business.

The 10% release rate I referenced, the actual number is 9.7%, I think, it was at the top of my head. I have not got a clean split for you between protection and savings. So I think it is going to be difficult for me to give you a definitive answer on that at a Group level. We just not cut the data that way. Yes. So I think we will have to leave that as a follow up, if that is of interest.

Tianjiao Yu: Thank you. Can I just also build on, on the second question regarding – well really just build on these OCI versus EPS difference. I think my understanding on this IFRS17, one of the biggest difference is how you treat the investment volatilities. The biggest difference for Pru versus your competitors is probably you have the majority of that in your P&L, while your competitors packed a lot of that volatility in OCI. Can I just ask about what is the thoughts behind these treatments? And then what is really driving the difference here?

Ben Bulmer: Okay. Thank you for the question. Look, I think I would refer you back to my earlier answer, and the point for us was consistency and then a more pragmatic point around operational complexity of credit models and so on and so forth required under an OCI basis. So as you rightly point out, for us, it is fair value through P&L.

So it is important when you are comparing to look at total comprehensive income between us and our peers, because as you say, the geography of market movements will be different for people who are extensively using OCI. On a GMM model, the volatility is going to sit there. For us, that volatility will sit in our non-operating results in our P&L statement. And that is why we are guiding you to our adjusted operating profit to better measure of underlying business performance. I hope that addresses your point.

Rhea Shah (Deutsche Bank): Just one. In terms of the unwind in the CSM, so about 0.5 billion. How is that expected? So I get that the split was 0.2 billion GMM and then 0.3 billion VFA . GMM element going to be quite stable going forward based on locked rates, and then how will the VFA develop?

Ben Bulmer: So, okay. Thank you Rhea for the question. So look, for GMM, that unwind is going to use locked in yields from point of sale. So I think that talks to stability, right? But for the VFA business, of course, it is actually based on a one-year risk free plus liquidity premium. So I think the other thing to bear in mind when you are thinking about this is, of course, that unwind on the VFA changes the CSM first order effect, and then there is a second order effect of how it earns through time. And that is through the CSM release and the amortisation patterns we have been describing.

So I think when you are thinking about our operating profit going forwards and how that might move, I think the unwind elements in any sort of individual period versus prior period is likely to be relatively small in the context of that 2.7 billion.

Rhea Shah: And just to follow-up. On the one-year risk free rate, which rate would be taking?

Ben Bulmer: So we set out rates, it is in the companion guide, and it is in note A3, the companion guide, which is on page 11. You can see the rates we have used there. There is a description of the basis around how we build the yield curve on the bottom-up approach and how we thought about the liquidity premium.

Nasib Ahmed (UBS): So first one, just coming back to the GMM versus VFA split. I know you mentioned Hong Kong is mostly VFA. But does that split change for China? I.e., do you have more GMM in China versus VFA?

Second question on onerous contracts. I see there is a negative 0.2 billion through the operating profit for onerous contracts. Where are these onerous contracts by geography, which products as well, if you could highlight those? And how do you expect that negative 0.2 billion to develop? Yes, just two questions for me.

Ben Bulmer: Okay. Thank you, Nasib. To answer your first one briefly, you are right. China does have a higher proportion of GMM business than the Group average suggests, if you like.

On onerous contracts, I mean, look, stepping back, we aim to write attractive risk adjusted profits for our shareholders. I think it is fair to say, in any given year, we are going to have a small amount of onerous contracts, either at inception or arising subsequently. And the key point here really is that this is an outworking of using market consistent risk free. It is not trying to say that these contracts are not profitable. And we would expect them to be profitable through earning real world returns as they go forward. And of course, you have got the release of the risk adjustment.

So in terms of the breakdown of onerous contracts, it was, I think we have got about 80 million relating to new business in full year 2022, and then around 100 million on the in-force. And bear in mind, those numbers are pretty small in the context of the opening CSM.

I think the other thing I would point out with regards to the in-force number is we obviously saw enormous market volatility in 2022. So I consider that 100 million to be a relatively small number.

Clearly, and as we have to-date, and we will going forwards, we need to be thoughtful about the amount of contracts of these nature that we write. But we have that discipline in place.

William Hawkins (KBW): Just first of all, you have touched on some of these points. But do you think there is anything you want to flag to us in the 2022 restated figures where there are particular distortions that have occurred because of the conversion process? There have been plenty of companies that I have seen with like onerous contracts or investment returns or something like that, which have been a particular distortion as they have changed, and we need to strip that out? Is there anything you would want to highlight on that?

Secondly, more of a strategic question. But do you think that the existence of the CSM as a global standard could be increasing the potential or attractiveness to do back book deals or think more creatively about the financing to crystallise or accelerate your in-force cash flows? Might be early days, but I do not know if you are seeing any opportunity in that.

And then lastly, do you think you guys might be thinking about introducing some concept of CSM adjusted earnings at some point? And again, forgive me if I have missed it somewhere, but I might have thought for a business like yours, there are some companies that are doing that and it can be a great way of capturing and disclosing the incremental value of new business. And you might have thought that Pru would be an ideal company for that. So is that something that you are against and that is why it is not in this disclosure, or is it, that is one of the many things that is work in progress at the moment.

Ben Bulmer: Thanks, William, for your questions. Look, in terms of one-offs and full year 2022, look, I mean, one-offs do not really exist as a concept in IFRS17, given its nature. I mean, I can point to severe macroeconomic movements being something I wouldn't expect to ordinarily repeat.

I think the only thing I would mention there, and then this comes up when you have the 4 to 17 read across, and we flagged this in our accounts last year is the one-off release of prudence in 2022 in Hong Kong. And that was driven here locally by the move from effectively a Solvency I basis to an RBC basis. I would say that was not in 17, but was a movement under IFRS4 during the period.

In terms of likelihood of CSM and people thinking about that and potential for acceleration of acquisitions, back books. I do not know. I think we are going to have to see how thinking develops and candidly, understanding of the standard and the metrics people begin to target and track to.

On your third question, would you mind just repeating just briefly the point you were making there?

William Hawkins: Yes. So some companies are adjusting their operating profits to add back some notion for the change of CSM, effectively to give themselves more credits for the new

business value, which is now hidden in the roll forward of the CSM. To me, again, that kind of makes sense. If you are going to be balance sheet that includes CSM, you should be looking at earnings that include the change in CSM. And clearly for companies where CSM new business value is an important part of how they are steering the business, it can be an important way of thinking about how to adjust your operating profits.

Ben Bulmer: Yes, I understand the suggestion. I think where we are today with, again, the sort of recent adoption of 17, clearly NBS CSM adjusted equity and operating profit, as we talked about, are key performance metrics for us.

I think because EEV, I think, gives a better representation of shareholder value, we will continue to drive the business through that lens. That is not to say IFRS17 is not part of our remuneration architecture. It is. So we have IFRS17 adjusted operating profits as part of that architecture. But for today, very much an embedded value lens that we will continue to take to manage and drive performance.

Andrew Crean (Autonomous): Thank you for taking a second draught of questions. It is really on slide nine and then, sorry, 12. The slide nine, you have got net investment results on longer term basis of 1.3 billion. A couple of questions around that. One, I think you are indicating that is going to fall by about 15% this year.

And then secondly, what is the logic of having long-term investment return there and then risk neutral returns in the other insurance service result, i.e., onerous contracts, and risk neutral returns in the CSM roll forward. That seems to be, you seem to be applying two different methodologies within one P&L account.

And then going onto slide 12, I am coming back to this, where you say that the move from this down to IFRS is $7.9 billion. Is the impact of moving to a risk neutral basis. Because I use that ratio for the – your risk neutral business contribution under IFRS17, i.e., if we were to use real world, could we operate by the same proportion, the 7.9 to 27.3 VIF.

Ben Bulmer: Okay. So thank you for your questions, Andrew. On the first one, the net investment results, you are right. We have guided to investments being down about 15%, over 2022 as a result of market movements. And those effects are going to flow into that 2023 net investment result. And that 1.3, splits roughly two thirds, being long term return on assets backing our shareholders equity.

And the remaining third is essentially spread income on assets backing GMM liabilities. And as you know, for adjusted operating profit purposes, let's us say, we are spread some returns to that relative start year balance.

As to the ethos of using longer term returns, look, it is an approach we consistently take, and I think through IFRS4 and EV reporting, as we have said, it remains important to us, particularly as we do not employ OCI. And we are calibrating those long-term assumptions based on past and current performance, but also future expectations.

And I think it is fair to say they are broadly stable from year to year. And when I think about the sort of EV read across, certainly, the long-term spreads and equity risk premiums are pretty consistent across those two metrics. The difference really is in the government bond yields that get used.

You had a question then I think on – would you mind repeating? It was on the ratio of the 7.9 on?

Andrew Crean: Yes. Well, I mean, the VIF has real world assumptions in it, and that gives a VIF of 27.3 billion. But if you use risk neutral assumptions, it would be $7.9 billion lower. So it would be about 19.4 billion-ish. And so what I was thinking that the new business contribution under IFRS of 1.7, 1.8 billion is on a risk neutral basis. We wanted to get it up to a real-world basis. Were we not just leverage up by the ratio of 27.3 billion over 19.4, i.e., does that make it clear?

Ben Bulmer: Yes, it does. Thanks, Andrew. Why do not I invite Matt, who is with me here to make some comments?

Matt Donnery: Hi, Andrew. Thanks for the great question. I think there is a couple of things I will point you to. Firstly, if you refer to slide 14, I see an equivalent waterfall between the new business CSM. I think that gives you an indication of the real world as a risk neutral effect in 2022.

The second point I would make is the magnitude of that difference to the product. So the makeup of our sales in 2022 is obviously slightly skewed towards savings products, given the nature of the operating environment. Therefore, you may see a difference because of product mix effects over time and how that ratio kind of changes as Ben referred to from one of his earlier responses. Does that answer the question?

Andrew Crean: Yes. I mean, at some point in time, I think it would be good if the company actually gave long-term real return numbers for both the in-force unwind and for the new business profit so that we get a better comparison versus competitors.

Ben Bulmer: Understood. Thanks for the suggestion, Andrew.

Okay. Thank you very much, Bailey. Really just to say that that concludes our call today. A huge thank you everybody for your time, and for your questions. I hope you found the last hour useful and indeed the products that we have made available on the website.

Just by way of brief reminder, the IR team are available to help you with any further queries. And I look forward to speaking to you and indeed meeting you all at the end of August.

[END OF TRANSCRIPT]