Prudential plc 2020 Full Year Results

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Opening Remarks

Mike Wells

CEO, Prudential plc

Welcome

Welcome everybody to the conference call today for our 2020 Prelim Results and the next phase in the transformation of Prudential plc into a pure-play Asian and African group with obviously exciting growth opportunities. As you have heard me say in January this year, we have two key priorities. One is to pursue at pace an independent Jackson. The second is to enable our investors to fully benefit from the opportunities of Asia and Africa. Today, we are announcing further substantial progress in this journey.

Firstly, indicative details on our timetable and H1 2021 for the intended demerger and a summary of what we can say at this stage of our Jackson equity story. Documentation will follow in due course with more details as we proceed with the required approvals. We can then give you full details on the timetable for the Q2 completion. Second, now that we have secured committed bank financing for Jackson, this will support its RBC which we now expect to be above our 450% RBC target level on demerger, again subject to market conditions. Thirdly, our fully audited financial results are in line with our expectations, as highlighted to you in January. I think this is an encouraging performance given the challenging conditions. Then finally, further details on the preferred route of the $2.5-3.0 billion equity raise that we announced in January.

I am delighted to introduce to you today by telephone to Laura Prieskorn, Marcia Wadsten, the new CEO and CFO of Jackson respectively. And now Laura is going to give you some brief introductory remarks. We also announced in January the appointment of Steve Kandarian as the independent Chair of Jackson's Board of Directors and we expect to make further non-executive appointments at Jackson shortly. In February, we announced two new plc Non-Executive Board members, Chua Sock Koong and Ming Lu are joining the plc Board. Both are Asian-based business leaders with skills and experience closely aligned to our Asian and African future. We welcome them all.

Also joining me on the call today are several other members of the leadership team, including Mark FitzPatrick, Group CFO and COO; Nic Nicandrou who is CEO of our Asia business; Ben Bulmer, Interim CFO of Asia. James Turner, our Group CRO, is with us as well and then we also have our Group and Jackson investor relations teams.

So, Laura, over to you, if you would please, to make some short prepared remarks on what you see are the key features of the business, on another early morning for you and your team.

Jackson

Laura Prieskorn

CEO, Jackson

Thank you Mike. I am excited to speak to you today about Jackson's outlook and progress towards independence. Over my many years at Jackson, I have helped guide the company's growth from a regional firm to a leading US annuity provider. Our broader history, our culture of ownership and accountability has served us well and will continue to do so as we move towards an independent public company. Our 2020 results highlight the hard work of our associates and the steps taken to position Jackson for success as a standalone company, all while navigating our response to the COVID-19 pandemic. As the former COO, I can personally speak to the dedication of our employees to our customers, our business partners, our communities and certainly to each other. Although the pandemic persists, we continue to adapt our business to deliver on our ongoing commitment to helping Americans seek financial protection as they transition to and through retirement.

2020 Operational Highlights

From an operating standpoint, given the low interest rate and tight credit environment, we have repriced our fixed and fixed indexed annuities and reduced our institutional new business, actions designed to optimise our capital position ahead of separation. We actively managed our product offering which you saw in our updated variable annuity benefits. Our customers continue to place great value on the investment freedom we offer and they were rewarded with strong separate account returns in 2020, a significant positive for both them and for Jackson.

We have maintained a leading market position with key distributors and increasingly diversified our channels to market. Customer service and operational standards have been industry-leading and remain a priority as we meet customers' needs throughout this period of COVID-19. This collective effort contributed to a 13% rise in VA sales and a modest increase in fee income, reflecting the higher average separate account balance for this year.

Demerger Progress

In 2021 you can expect us to remain innovative in our approach to the market. We look forward to future updates on the rollout of our registered index-linked annuity, or RILA, which meets market demand for equities exposure with a limited downside protection structure. Jackson is well on track to demerge in the second quarter, subject to shareholder and regulatory approval.

You have seen us take important steps as we prepare to operate as an independent public company. Last June, we announced positive capital transactions with Athene, including a reinsurance agreement and an equity investment. In addition, our hedging strategy continued its long-term track record of protecting our business during stresses, most evident in the stability provided during the volatile first quarter. As Mark explained in his video this morning, the recent hedge modelling change, which reduced our year-end RBC, is a revision under the new statutory accounting framework related to hedge credits. It was not a change to our hedging strategy and does not change our view of in-force capital generation.

As we move towards separation, Jackson is pursuing a focused strategy which prioritises the optimisation and stability of capital resources while protecting our franchise value. This strategy, combined with Jackson's well recognised brand and award-winning customer service, will allow us to further build upon our position as a leading US annuity provider. We will have further details in our SEC Form 10 filing but I want to highlight today that Jackson's financial goals as a standalone company will be to maintain a resilient balance sheet, to provide shareholders with attractive capital returns and profitable growth over the long-term.

Both Marcia and I look forward to spending more time with you here today but for now I will turn the call back over to Mike.

Update on the Demerger of the US Business

Mike Wells

CEO, Prudential plc

Expected path to completion

Thanks Laura. Despite quite extraordinary market and operating conditions, the businesses across the Group have proven extremely resilient, adaptable and agile. In particular we can confirm the overall quarterly sales trajectory in Asia continues to improve during the second half of 2020. Our presentation slides up on the web today go into this in more detail. By pivoting to a demerger, we are aiming to complete the transformation of Prudential into a business that is purely focused on the exciting growth opportunities of Asia and Africa sooner than would have been possible under the minority IPO. To spell this out, under the IPO route, Prudential in all likelihood could have been a majority owner of Jackson for some considerable time. However, we expect to complete the demerger in the second quarter of this year.

Equity Raise

Going forward, the pure-play Asian and Africa Pru is, in a sense, a new company. We want that new company to have the best possible start and have the further financial flexibility to invest in growth opportunities. We said in January that we are considering raising $2.5-3.0 billion in equity, primarily to redeem relatively high coupon debt and 2020 was a year of substantial inorganic investment, for example in Thailand. Today, you saw we announced a very significant 15-year extension and an expansion of our MSB bank assurance partnership in Vietnam. With this agreement, Prudential will become MSB's single partner nationwide. Vietnam's life assurance sector has significant growth potential with insurance penetration of roughly 1.6%.

Being well positioned in these fast growing economies is an important part of how we can achieve our objective of sustained double-digit growth of embedded value per share. We believe that there are clear benefits to Group as an Asian-focused company of increased institutional ownership in Asia and enhancing the liquidity of our ordinary shares in Hong Kong. As a result of that, our preference is to raise the new equity through a fully-marketed global offering to institutional investors concurrent with a public offering in Hong Kong to retail investors. This would be undertaken after the Jackson demerger and obviously subject to market conditions.

We have spent a lot of time assessing the ways we could achieve our objectives with this potential equity offering and we have also consulted widely with shareholders and Asian-focused investors.

ESG

Our teams continue to get better and better at adapting to the restrictions caused by COVID-19 and meeting the needs of our customers. As indicated on the pre-recorded video published earlier this morning, I also see the virus has reinforced demand for our products and services as well as aligning us even further with the social purpose of the Group. To that end, I want to highlight what we will shortly publish with our full Report and Accounts, and importantly our updated ESG strategy. Our ESG strategy distils the many ways in which the business model and strategy support our stakeholders. Let me briefly go into the three core themes here for you.

One, we give people greater opportunity for good health and financial security and we are doing this at scale. We are moving beyond our traditional role of financial protection to provide services that also prevent and postpone illness, and we are increasing our focus on the underserved parts of the population. Our multi-product, multi-channel approach of agents, bancassurance and now 20 million downloads of Pulse show you how active we are in doing this.

Second, we are stewarding the human impact on climate change. We are setting new and stretching targets for Scope 1 and Scope 2 greenhouse gas emissions with the aim of becoming net carbon neutral across these two scopes by the end of 2030. And we are assessing similar suitable targets in respect to carbon emissions from our investment. Crucially, as an Asian and African business, we are pursuing an inclusive transition in the market.

We are also building social capital, promoting diversity and fostering a culture of inclusion by prioritising digital responsibility to our organisation, digital capabilities in new markets and engaging with new demographics using new product sets and services.

Summary

To close, we are well positioned for growth and today's announcement shows we are moving at pace and executing on our strategy. As you will be aware, everybody, there is a considerable amount of regulatory work going on so some of our answers are going to need to be limited until we can share more detail with you. Please, bear with us. Let us now open up for Q&A.

Q&A

Farooq Hanif (Credit Suisse): Hi everybody and congratulations today on all the steps you have taken. My first question on Jackson actually. Given the positive news you have given on the outlook for the RBC ratio, it seems that your capital generation will allow that to potentially recover quite quickly. What are your early thoughts on capital return policy at JNL? I know you probably will not be able to give a lot of detail but do you feel that the 450% level is a really good base? That is question one.

Question two, on mainland China, the recent regulatory move to potentially allow greater overseas insurance and share ownership, I am wondering what your thoughts were on those regulation developments and whether that is actually a benefit or a risk to your business model?

Lastly on Pulse, given the very quick payback period that you have on Health and Protection in Asia, can you guide us a little bit to when Pulse will appear in your P&L? When will it start to be an isolated contributor to the Group? Thank you.

Mike Wells: Let me give a couple of general comments and I will go back to Laura and Nic on the specific answers. One of the things with Pulse that is critical to keep in mind is what you are seeing is an integration of the channels, as much the success in each one. We are growing agency and they are more efficient and more effective. We are growing banca, maintaining leadership position there and again, getting involved in their digital platforms. Then, obviously, growing the digital platform with the sheer scale of Pulse now and its success.

However, they also intertwine so you have leads going from Pulse to agency, you have banca using Pulse technology on their platforms. We talk a lot about the reporting on this and we will continue to give you enhanced reporting on our activities as we move forward. However, it is an interesting challenge. The closest analogy we have in-house would be Eastspring because Eastspring's success is both related to its sister companies in the Group and it is also related to its ability to raise money with Asian investors directly and investors outside of Asia who want to invest directly in Asia. The scale of all of those make each piece more successful. I think you are going to see Pulse continue down that sort of trajectory. We will keep giving you more detail but if you pull it apart, you underestimate the value of those intersects.

Let us go with Laura first, with what little you can say about capital return, given the current SEC filing, but a little direction on your views on that. And then Nic on the other two, if you would please. Laura first.

Laura Prieskorn: Thank you Mike. A couple of points I can share. The health of the existing in-force book is very strong and you would of course expect this to be the case with the equity market's near all-time high. The other point I would share is keep in mind we have a long history of capital generation and remittances to Prudential. Then, in relation to our overall financial goals, I would point out that we will have more detail available in our upcoming SEC filings.

Mike Wells: Nic, do you want to – share ownership rules in China and Pulse.

Nic Nicandrou: Sure Mike. Hello Farooq. The share ownership rules in China are neither really a benefit nor a risk to our franchise. It is a 50/50 JV. Yes, we are interested in buying up but that is now dependent on our partner. As I said, neither a risk nor a benefit.

In relation to Pulse, clearly the cost that we are incurring, both technology and marketing, are included in the numbers that you see. On average, it costs us about $1 to secure a download, and active users, so some of the marketing spend. The technology spend is part of our change agenda and we have a significant spend each year, so we are redirecting more towards this particular platform.

The sales that we are generating, we have generated $3 million of APE from direct-to-consumer small bite-size products. However, importantly we generated $208 million of APE from referrals to agents. At least 34,000 agents have done at least one sale from referrals that have come from Pulse. The economics of that are very similar to any of our products. Given that the vast majority of what has been sold tends to have a Health and Protection flavour and tends to come from the markets of Hong Kong, Malaysia, Singapore and Indonesia, which is where our downloads are greatest, they are very rich from a margin perspective.

The economics are there in the numbers that you see, both in terms of top line, new business value and contribution to IFRS. Contribution to IFRS will lag. This is like any other start-up but it is part and parcel of what we offer. It is integrated with our other [inaudible] offering.

Farooq Hanif: Thank you. To come back on the share ownership, I was referring more to rules about individuals in Mainland China and their ability to buy foreign insurance products and liberalising that. I am happy to take that offline. I know there are lots of questions on the line but that is what I was referring to more than your ownership of the JV.

Nic Nicandrou: I see. You are referring to the announcements that were made on SAFE's priorities for 2021?

Farooq Hanif: Yes, that is right. Yes.

Nic Nicandrou: Yes, we note that with interest. They did say that they will study how, when and if so, how to open up the capital account. The capital account is the component of the $50,000 a year that can be directed to buying, effectively, protection-linked products or protection products with a saving element. Clearly, if that was to come to fruition, it will unwind some of the restrictions that were imposed in 2017. It may even lead to using the Union Pay card to effect transactions but we are getting ahead of ourselves. It is positive that they are looking at it and it will be positive for our franchise were they to conclude to reopen aspects of the way in which people bought, that were in place pre-2017.

Mike Wells: Thanks for the questions, appreciate it.

Farooq Hanif: Thank you.

Jon Hocking (Morgan Stanley): Hi, morning everybody, I have got three questions please. Firstly, on Indonesia I see from the appendices that you have got increased market share of the traditional business of about 20% or so. I wondered whether you could comment on the way you see that topping out and how do you see the return profile for the traditional product versus what you have historically written in that market. That is the first question.

Second question. In the slides, you have reiterated the guidance you had before where there is a double-digit EEV growth per share growing forward for the pro forma Asia Group. That is slower than the traditional guidance you had doubling the business every five to seven years or so. Is that predominantly a function of the discount rate coming out of the EEV with rates over the last three years? Or is there something structurally you are signalling there in terms of growth slowing over time. That is the second question.

The final question. On the Holdco cash, on a pro forma basis, you held a billion and a half at the end of 2020. What level do you want to run in terms of central liquidity going forward once you completed all restructuring? Thank you.

Mike Wells: Thanks Jon. Nic, do you want to take Indonesia and then Mark, the EEV question and the Holdco cash question please?

Nic Nicandrou: Hello Jon. Let us start with Indonesia. We have done a number of things this year. There is more detail on the Indonesia-specific slide, but we have launched around 60 new products. Remember, we have been saying for some time that we are looking to broaden out the offering that we have in place. And in the past we have effectively a linked protection flagship product, and that is pretty much all we did, linked with riders. Over the last few years, and it is further accelerated this year, we started offering standalone protection products; whether that is hospitalisation, whether that is simple critical illness, whether that is medical. Clearly, not linked, not having a savings element, so to speak, pure protection. And the vast majority of those 60 products were of that nature.

Now, against the backdrop of the pandemic where there has been an enhanced demand for all sorts of protection, and against the backdrop where people are a little more worried about their financial outlook, selling pure protection with lower ticket sizes had found favour with consumers in Indonesia.

So, that is what you see. Many more products, pure protection in nature, both with lower ticket size. So, just to give you some colour, even though our sales are down 30% year on year, the number of cases that we wrote in Indonesia this year is up 10%. That gives you a sense to how we are fulfilling demand in the current environment.

The contribution to our sales from pure protection has gone up to around 38% of our sales, up from 8% the year before. So, that is what is driving that uptick in the market share. For traditional, it is not endowment, it is not guaranteed type products, it is candidly pure protection without a savings element.

At the same time, we pushed very hard on the Sharia component of our business. We are market leader in Indonesia. We have 35% market share. So, as we have created or manufactured these products, we've issued them both in conventional and Sharia format, and the Sharia segment is highly underpenetrated. We have a 35% market share, we have 400,000 customers, to give you a sense. Muslim population of Indonesia is 220 million. So, again, lower ticket size products found favour with the people who buy Islamic insurance, and again, which is why even though our overall sales are down, APE from Sharia products was up 6%, NBP was up 27% because of the high Health and Protection component. And we sold twice as many policies as the year before.

So, despite the fact that the onset of COVID in April 2020 slowed down, if you like, or halted the progress that we have made in the previous two months in growing this business, we have continued to increase and broaden our product set and finding favour with consumers in the current backdrop. And we are a better business for it.

Mike Wells: Thanks Nic. Mark, you wanted EEV and Holdco cash, please?

Mark FitzPatrick: Sure. Jon, so on the double-digit EEV growth, not trying to signify or signal anything particular other than an element of actually allowing for slightly lower rates in our projection, and also acknowledging there is a somewhat larger base to grow from. So there isn't anything particular that you are missing in that particular piece.

And as for the $1.5 billion central liquidity, very comfortable with that level. I think we did expect a lower level of central cash to be held post-demerger. And as the Group demerges from Jackson, our central costs will continue to come down, interest costs come down in light of the potential equity raise. So, all of that will mean that we have a very good cover in terms of our central cash level.

So, we are very comfortable with the level it is at the moment, and I would expect to see that come down a little bit as we get the other side to Jackson.

Jon Hocking: Thanks very much.

Colm Kelly (UBS): Yeah, thanks a lot. I think, given the guidance on the US demerger, it is quite clear. I will focus mainly on Asia. The first question is on the Health and Protection mix. You made very good progress on increasing that mix over time, given the product strategy. I know there as a full year, the percentage is likely lower than at the half year at 27%. So, is that just a function of market disruption in 2020 or is there anything more related to the use of more digital distribution in 2020 that influenced that Health and Protection mix? That is the first question.

The second one is on solvency capital, and specifically to Hong Kong. So, I noticed that ahead of the move to Hong Kong RBC regime you put in place a de-risking reinsurance treaty ahead of that, are there any further management actions you are looking to take with respect to the Hong Kong portfolio in advance of the move to the RBC framework?

And related to that, both in the context of the fact that the move to the Singapore RBC actually benefited the group solvency, the group LCSM by $2 billion or more, are you able to provide any more updated guidance on what is going to be the impact to the Hong Kong capital levels will be as you transition to RBC? And I will leave it at there. Thanks.

Mike Wells: Appreciate that, thanks. Nic, do you want to talk about Health and Protection mix, and then Mark, the capital regimes and the actions required or not required going forward for RBC, including probably should mention the group-wide supervisory regime as well?

Nic Nicandrou: Okay. So, on Health and Protection mix, candidly, the reason it changed because of how significant in terms of the case size the Mainland China business is in Hong Kong. We had the benefit literally of a month in 2020, or just over, with pipeline business, and that factor alone sways that overall ratio.

When you go beyond that and you look at market by market, the Health and Protection mix actually increased in seven of our markets, including places like India, which was strong, Singapore, to name a few, Vietnam, Thailand, so a few markets. So, that is really what is driving and it is on the back of this, that really we have seen margin improvement in ten of our markets last year, notwithstanding the drop-off in overall sales.

Look through other metrics, the Health and Protection renewal premiums were up 8% to $6.3 billion. This is the totality of the premiums that we collect from in-force as well as new business. Look at the contribution to IFRS earnings of our Health and Protection business if you like the underwriting result, that was up 19% to $2.6 billion.

And, of course, that 19% increase compared to 14% for the Life business, of course, the contribution to that total has increased to 74%.

So, no, there is nothing that we are seeing in the mix of that portfolio that is making us anything other than happy, and we clearly would like the border to open and for that high ticket size critical illness sales to Mainland Chinese customers to resume. We have shown a lot of innovation in that space and we are ready to go once the border opens up.

Mike Wells: Mark, on RBC management actions?

Mark FitzPatrick: Colm, maybe if I step-up a little first to GWS and then I will cover off the RBC. As you can see, we have noted that the group-wide supervisory regime is that much closer. We are expecting the rules to come into operation on 29th of this month.

The rules and the framework will be effective for ourselves and upon designation by the HKIA in the second quarter of 2021, and that will be subject to certain transitional arrangement. So, the GWS methodology is largely consistent with that which we have got at the moment in terms of the LCSM, and we do not expect any significant changes. There is a potential upside, I think I have mentioned it before in terms of what might happen in terms of the debt instruments, that all of them may be recognised and therefore it would act as an uplift to our LCSM ratio.

In terms of the RBC2 for Hong Kong, we continue to work closely with HKIA on that. And as we move towards that, clearly, as Asia markets generally transition to a more realistic solvency regime, we tend to see benefits. And that was I suppose what you were alluding to or referring to in terms of Singapore, and we would expect to see a benefit in terms of the Hong Kong regime.

And that is still all to settle down, so I do not want to get ahead of ourselves in giving you any kind of number. As soon as we are comfortable, as soon as the regulators are comfortable, we will be able to share something more fully with you on that side. But generally speaking, as the markets move towards these new realistic regimes, we do see a very significant benefit coming through.

Scott Russell (Macquarie): Yeah, good afternoon everyone. Three questions, if I can, about Asia. Firstly, in Hong Kong, I am interested in the half-on-half increase in margin that was surprisingly strong in the second half, which is surprising given rates were lower in terms of assumptions and acquisition costs would have been higher on these policies as well. So maybe just a bit of explanation how the margin remains strong there in the second half. Is it all product-related or is it something else going on?

The second question is just picking up on Nic's comment about MCV cross-border sales being ready to go, and I have got slide 63 in front of me here where I am wondering what the source of the data is here. There have been some reports of agents who are based in Hong Kong, who traditionally focus on MCV visitors, who are currently residing in Guangdong until the border reopens. I mean, do they transition back to Hong Kong to continue their cross-border sales? I am just wondering if that is an opportunity for Pru, whether some of your agents in Guangdong at the moment and that is there you are getting the confidence from this surveying future customers?

And then, finally just on the orphan estate, the unallocated surplus, now at $5.2 billion. This is a headache to value, but I am more interested in why it keeps rising. What does that say about the level of bonuses that you are paying on with profit policies at the moment? Is there anything I can infer there? Thanks very much.

Mike Wells: Thanks Scott. Nic, why do not you do the first two and then Mark on the third?

Nic Nicandrou: Okay. The increase in margin in the second half is purely a protection business mix change. Clearly, with the border closed, our attention turned squarely on the development of our domestic franchise. Maybe, I can give you a little more colour.

Historically, in the domestic franchise, we have targeted the affluent, the high net worth; around 500,000 of our 800,000 domestic customers are in that segment. And over the last 12 or so months, 12 to 18 months, really, we have had a twin strategy. The first one was to up-sell to this segment. An example of that being the qualified deferred annuity plan, which was launched in 2019, and through which we have secured around 16% market share. So, that shows the power of our franchise. And to the specific question recently, we have refreshed the high-end critical illness offering in this, for that particular segment.

Now, in addition to that, we have sought to broaden our presence in the mass affluent in the mid segment. Again, there we launched a VHIS, the Voluntary Health Insurance plan in 2019. That was an entry level product, but in the second half of this year, we extended it to a mid-tier product. So much so that our market share of that particular offering increased from 7-or-so percent in 2019 to more than 20% in the second half of this year.

And there were a number of other standalone protection products that were also launched, again, like we have done everywhere else, in light of the pandemic in light of enhanced demand for protection. And that is really what you are you are seeing coming through. Clearly, with the 600,000 downloads that we had on Pulse, 50% of those were new to Prudential. Again, our agents were given leads, and really, the first product that is often sold to that particular cohort tends to be a protection product.

So, really, what is driving it is an uptick in sales from agents in the second half of the year relative to the first half. And because agency does a lot more health and protection, that is what is driving the uptick that you see. Less to do with rates, less to do with the savings component. Really, a lot of the profit comes from Health and Protection. Savings is participating. Inevitably, the margins of those are more modest.

Mike Wells: Yeah, Mark, you want to take the "with profits "question, please?

Mark FitzPatrick: Sure.

Nic Nicandrou: No, I did not – sorry, I did not answer the question on agency. Yes, we are clearly maintaining our distribution infrastructure, is key. A lot of the agents that were purely Mainland China focused have not been very busy in 2019 and remain so. So, some are in China, not all, but clearly, they cannot market in China. It is against the rules.

A number of others refocused their efforts into the domestic market, and as I said on the last call, often fed by leads from Pulse in order to help them establish a client base.

Mike Wells: Okay, Mark?

Mark FitzPatrick: So, on the with-profit fund, I get that it maybe be abit messy thing or a difficult thing to value, but it is an incredibly valuable thing to have in the business. So, as you say, we have $5.2 billion of unallocated surplus, and that is really there to fund future bonuses. And it is a bit difficult to read into bonus rates from that number. It clearly grows, the business grows, and market returns generate more capacity to be able to pay future bonuses. And that is in essence what is held by the unallocated surplus until it is converted into terminal bonuses. So really see that as a capacity for future bonuses that would come out to the policyholder and then clearly a percentage of it would come out to us as shareholder.

[Editor's correction: IFRS unallocated surplus includes the shareholder's share of future bonuses, with the policyholder share being in policyholder liabilities].

So, it is an incredibly valuable component of the Asia business in terms of the way the risks are pooled and our earnings from them tend to be fairly back-end loaded, but it is an incredibly powerful and a key differentiator.

Scott Russell: Thanks Mark. Can I just quickly pick up on that? I am trying to understand why you are not actively trying to reduce it because it is money that stuck there that does not really belong to anybody. And if you are paying out – it gives you the firepower to pay more bonuses to with-profit policyholders. Is it going up simply because the asset value has increased during 2020? Or is it going up because an insufficient level of bonus was paid out to policyholders and allocated to them during the year?

Nic Nicandrou: If I may, the unallocated surplus is the surplus over and above asset share. So, it is not correlated to, if you like, the phasing of your annual or terminal bonus. It simply reflects the overall size of the fund. This is a $63 billion fund, and it needs to have a sufficiently healthy estate in order to provide the investment freedom and to provide the working capital in order to continue to grow that particular fund. So we do not think it is out with the size of the overall fund, and as I said, it provides the investment freedom that allows us to manufacture a yield that allows us to compete in the savings part of the sector here in Hong Kong.

Scott Russell: Okay. Thanks all. I appreciate the detail.

Oliver Steel (Deutsche Bank): Thank you very much. A couple of questions. The first is, I wonder if you can just give us a little bit more granularity fourth quarter on fourth quarter and third quarter on third quarter in terms of VNB growth in the different markets because otherwise, it is incredibly difficult to try and forecast ahead over the next 12 months for new business.

The second question I have is really on the Group structure and the management going forward. You are becoming an Asian-focused business, a little bit of Africa, but you have still got head office and top management in London. And in fact, you have got two layers of management now because you have head of Asia and you have got chief executive of the entire group. So I am just wondering, what do you see long-term in terms of the management structure, and what do you see long-term in terms of the head office of the Group?

Mike Wells: So, the quarter-on-quarter, Nic, I will let you address that, and then Nic, I will take the group structure. I think your question, Oliver, is on me [inaudible]. So I will come back to that. Nic, why do you not do Q4 on Q4?

Nic Nicandrou: Hi, Oliver. I would point you to two slides in the appendix. Slide 59 first, which gives our quarterly progression in the middle section of that slide on new business profit. Admittedly, it is not by markets, but it gives you the uptick. You see 28% uplift Q3 on Q2 and another 40% uplift Q4 on Q3, at least sequentially.

And then the second slide that I would point you to is 39, which gives, in the commentary, some colour around the market dimension. And really, what we would point to is that there are eight markets, and they are listed in the first bullet on slide 39, which have all seen upticks in 3Q versus 2Q and upticks in 4Q or for the 3Q, including Hong Kong overall, interestingly. Notwithstanding the fact that – mind you, in Q2 there was no Mainland China, but important markets such as Singapore, Malaysia, Thailand, Vietnam and the Philippines. So, it pretty much mirrors the uptick that we saw in APE.

And if you go into the individual country market slides further back from 59, then you will see quarterly bars; we do not show the numbers, but they are proportionate to the upticks that we saw in each one. So, they have come across the piece pretty much, aided by agency coming back more strongly, more Health and Protection being done and just generally volumes going up as we re-tooled the business and as we got used to doing business in the current environment.

Oliver Steel: Can we work out from these what fourth quarter on fourth quarter growth was ex-Hong-Kong? Because you are always higher in the fourth quarter than in the third quarter. Well, you are normally during the fourth quarter.

Nic Nicandrou: Yes, so, bottom left of slide 39. It gives you the numbers.

Mike Wells: Thanks, Nic. On the structure, there a couple of pieces. So we have about 200 roles now in London approximately, and I think for all of us, I am sure on this call, COVID has demonstrated that you work globally, and teams do not have to be in the same building, and we have no aspiration to have all of our associates in one location. So let us start with that. So you saw us open in India and Shenzhen tech centres even during COVID, that do development work for us on Pulse and other tech synergies. And I think there is a cohort of the team in London that is absolutely critical and difficult to replace in Hong Kong, and are close to the stakeholders they interact with. So, from a staffing structure, that part of your question is key to us.

And candidly, I think the roles are likely to be more expensive in Hong Kong than they would be in London, as we have competitors there that a transition RBC for us is straightforward, but for some of these firms it is quite a material change, and they need the kind of people we have, with the experience they have to do it. So, those roles are very much in demand in Hong Kong right now and just in Asia in general with the direction of travel, as Mark alluded to, on regulatory models.

On the overall group structure, I guess on the management structure. First up, we have a lot to do, as you see laid out in the work programmes there, but I have a personal view on this over my 26-plus years here, in that there’s always a lot of focus on one individual in these organisations. It is true of the industry, not just us.

However, actually, the reason we have got as much done as we have in the last three years is the complementing skills we have got as a team. And whatever the final structure is of the Group over time, it should, one, be appropriate for the group, but it is also based on the skill of the individuals. We are not looking to replicate anybody else’s management model, and the one proof point I think we have over the last three years for sure, without question, is just the sheer amount of work we can do at the exec level and at the level below that, even with less people in the level below that. And I think that more decentralised approach to decision-making and management, more of a team view versus one person making all the calls structure, is extremely effective for the Group to move this fast.

And so I think over time, the model will evolve when you see us hitting the cost targets that we put out, and it will stay appropriate with the location and scale of the business. However, as you and I have talked many times, we all travel in a normal environment, and we were all locked down last year in an unconventional environment and we made sure we had execs in each of the key markets. And that served us well when you look at these results, not just on a performance side, but on the strategic side.

So I think that we are well-structured now, and if we are going to change that, we will come back to you and tell you what that is going to look like. But my bias would be to guide you towards the combination of skills versus any one person up 24 hours a day making all these calls. Because we now work pretty much around the clock and that is where this bandwidth is coming from. And I would say that is true of the new management team in the US and certainly true of the people on the ground in Asia and where we have at Group. It is all working because of the leverage in it, not because of any one individual or where they are sitting.

Kailesh Mistry (HSBC): Hi. Good afternoon. Thank you for taking my questions. The first one is just coming back to this point around Mainland Chinese sales in Hong Kong. Two points here. Has in-force persistency held up well given the border restrictions impact on the ability to access policies, the medical system, etc.? And coming back to Scott’s question around what makes you confident that this market will look like what it was pre the second half of 2019, given obviously GBA expansion, Connect, some change in critical illness pricing on the mainland, etc. and obviously what COVID has done to perceptions?

The second question is around Pulse. Thank you for the additional disclosures. One thing I just wanted to ask is, am I reading slide 36 correctly, in that $3 million APE is the very, very low-margin business and the other 205 is effectively consistent with other Health and Protection at the Group level? If so, can you just talk a little bit about plans to upscale effectively that higher-margin product into the people that have either downloaded or gotten the bite-size product?

Thirdly, just, if you could provide any comments on sales momentum in the first two months of this year? Perhaps split it into Hong Kong and then ex-Hong-Kong.

Then lastly, just on management KPIs for the Pru Group post first half of this year, I guess, what would those KPIs be going forward? Because obviously the structure of the Group has changed and then you are hoping to get some change in the shareholder structure as well. Thank you very much.

Mike Wells: Help me a little bit on the last one, on KPIs. Give me a little more detail on what you would like on that question. I want to make sure I answer that specifically.

Kailesh Mistry: Yeah. Yeah. So, obviously, you have talked about EV per share growth of double digits, and then you have talked about dividends tied to operating cash generation, but what are the KPIs on which management or the financial KPIs that management would be remunerated upon? And I guess that fits into the G part of the ESG debate. Thank you.

Mike Wells: Yes, that helps a lot. Thank you. So, I guess, Nic, I will give you the Mainland China. But just a general comment I would make first is remember, we have been operating in Hong Kong for decades, so while COVID is unique in scale, we have seen pent-up demand come back multiple times. And I think the structural demand for Health products and Protection products across Asia clearly is up with COVID. And I am not trying to make a virtue out of that, but the reality is it is brought the awareness of not only the availability of products that can offset this risk but the out-of-pocket cost of not having it, much more relevant to a retail consumer and certainly policymakers.

Nic, do you want to talk about Mainland, GBA, critical illness pricing?

Nic Nicandrou: Okay, so on Mainland customer persistency, no change to what we have seen historically. Between 97 and 98% of customers that were with us at the beginning of 2020 ended up with us at the end of 2020. No significant premium collection issues. In 2020, we collected $6.1 billion from the nearly 500,000 Mainland China customers that we have. And because of the new business that we wrote the previous year and early in 2020, the renewal premiums were up 6%. So, nothing on the in-force book.

Look, our confidence comes from understanding those customers. The survey – and sorry, there was a question earlier that I did not answer – it was not a survey undertaken by agents that are in situ. We use proper firms. It is something that we do twice, and in fact, we have increased it to three times a year. It is done statistically and validly, in a statistically rather valid way across a number of parts of China, and the trend has been consistent. That people do look to Hong Kong to buy the high-end medical and critical illness policies because of some pricing advantages, because of certainly perceived and real better medical treatment. And as I said, because you can get multi-stage and multi-condition products that are not yet available, given the regulations in China. So, that is why we are confident that once the border opens, demand will return.

On Pulse, if I can refer you to slide 36. Effectively, you are right. The way we are thinking about this is 20 million downloads, nearly eight million registrations, which means people have given us their names and means of contacting them. And really, the next stage is to then curate those registrants, so to speak. Whether it is the 37 digital products that we currently have, some are premium, some are small bite-size premiums, we are talking about anything between $1 to $10 a year. Whether it is some of the package subscriptions. That is a combination of maybe some nutrition advice, a virtual personal trainer, some telemedicine, maybe some protection hospitalisation. All these are there to curate and increase the 'stickability', the reuse – a user coming back. Then, as we curate and we learn more about our customers, then that is transferred in the form of a lead to an agent. The $208 million is exactly that; it is the normal products that an agent would sell as part of their briefcase.

Now, what we are doing on Pulse is we are connecting. We are putting the entire lead management and activity management – we are integrating and enhancing the activity and lead management system, so effectively a referral can be made on the same platform. We are also adding virtual advice technology on it. Again, on Pulse, someone can use video calling to effectively undertake a sale virtually all the way through to an e-signature and an electronic payment. Therefore, we are integrating the entire fulfilment process from someone downloading the app, registering, taking one of the 20-odd services and 37 products or subscription, and that is integrated all the way through with our activity and lead management system through to fulfilment. That is the power of the platform that we have.

Year one was directed to attracting more customers, and clearly, we want to grow that further and increase, if you like, the proportion that drops through at the bottom of that funnel. Year two will also move into servicing of in-force customers as well as trying to up-sell to those at the appropriate point in time.

Mike Wells: I think at least on that, one of the things that we have said to you all a couple of times in the past is one of the objectives on Pulse, and one of the objectives in general of the business, was to acquire clients at a faster rate and not just one at a time, whether a formal meeting in a bank lobby or a normal sales process. Clearly, we have had a good year of doing that. Then, as you see from some of the information, we are trying to broaden the products, the channels, the cohorts of people we do business with. Pulse is bringing a younger client in every market than we get through our traditional channels. I do not think that is surprising to anybody on the call, but it is access for us to get another demographic. And those things are structurally key to sustaining the kind of growth we want.

I do not think we are going to do trading update on the first part of the year yet today, so I am going to leave that one unanswered.

However, on the KPI of management, the report will be out shortly and I will let that speak for itself. But we are aligned with the public statements and goals that the firm has stated, and very much aligned with shareholder returns in the Rem. And then, obviously, we are aligned with ESG and the comments I made at the beginning of the call to make sure that all those things are true. I think that just goes to the broader category of management being paid on its public commitments. I will let that report stand for itself, and if we need to talk after when it is out, you and I can schedule some time to go through that.

However, I think it is well structured, the remuneration models, given the breadth of the objectives we have as a Group for the year, and they are all concurrent. We have got to grow the business, grow the value of the business, grow the return of the business while we are doing all the strategic objectives we have stated, and that is how people will be paid.

Andrew Crean (Autonomous): Good morning, everyone, three questions. Firstly, on the CITIC relationship. I know you said you want to take majority control and it is up to them, but could you give us a bit more context? Is CITIC actually thinking about selling a stake to you. They have done something with Allianz. What is the timing on that? Would you look to try to take the whole 50% off them or creeping control? That is one.

Secondly, this LCSM capital ratio, I think is about 373 or 370-ish with all the senior debt. Can you give us some sense of bandwidth as to when that ratio means that you have excess capital for inorganic, when that ratio falls to a certain level you need to do capital preservation. We have got no idea whether 373 is a good number or a bad number, so bandwidth around that would be helpful.

Then on the Hong Kong border opening, broadly, I think the assumption is that business return to normality. Given the fact the border has been closed for over a year, nearly a year and a half, and there was earlier disruption before then, is there any likelihood that there will be superannuated sales from pent-up demand from the years when the border was closed? Thank you.

Mike Wells: Okay. Nothing to announce on the negotiations or discussions with CITIC on structure. As I said before, both firms view the business as a quality property. The regulatory landscape has changed over the last 24 months. I do not think there is read across. I will let Allianz comment on their structure, but they had a different structure, different business than we have, and I will let them speak to their trade. However, I do not think it is particularly meaningful, give, it was a different relationship, different ownership structure than we have.

Andrew Crean: Are you willing to negotiate?

Mike Wells: I am not going to comment on that sort of strategic conversation. What I have said before publicly, and I will stay with this, is we would like to own more of it. I think CITIC also sees it as a valuable asset. Those of you that follow CITIC probably don't have it as a huge part of sum of the parts for them. I think it is, candidly, more valuable to us than it is to them, and we are growing the value of it annually, because it just continues to outperform the market there, and it is probably one of the cleanest balance sheets of any insurer in China. You saw last year under the bank channel, which we have taken that model from our play book, and the balance of Asia was incredibly resilient in COVID. Even when markets were closed, the banks were not completely closed. The business model looks great, you see the agency margin at 85% looks solid. 80%-plus of the country are under our footprint now, so it is a very good business as is. However, I do not want to negotiate with CITIC on a call like this, so I am going to keep the percentages and things guarded. I think, as I have said before, a control premium for a small piece of it probably does not make sense to either firm, because I do not think our shareholders would like the price for that, and I do not think it would make sense for them to do. They are a good partner and I would not underestimate the value of that, as we enter new markets and continue to move forward.

On LCSM, it is a good number, and I will let Mark comment on that, and then Nic comment on border opening one more time. Mark on capital.

Mark FitzPatrick: Yeah. Andrew, so LCSM, as you say, the levels that we are at at the moment – 328% at the end of the year, ex-Jackson about 323%, and then if you add on the senior debt, you get to the 370% number that you quoted. We are very happy with that. Our LCSM risk appetite is really derived from applying stress tests, and we are very comfortable within our risk appetite. We have seen the impact of the stresses and we have a very comfortable buffer above the regulatory minimum. While we are pleased, and it has been in place for a little while now, it is still relatively early. We want to make sure the GWS has settled as we expect it to settle before we start talking about any potential ranges in terms of which we are looking to operate. However, as things stand, we are very comfortable with the level that we are at, and it enables us to do what we need to do.

Mike Wells: Nic, about border.

Nic Nicandrou: Okay. Hi, Andrew. I do expect there to be some pent-up demand, not least because, like everyone else, we will be ready with a number of customer campaigns. However, I do not think that that is what is going to influence the shape of the recovery. I think the determining factor will be whether the border opens up at a whole-of-China level or whether it opens up firstly with neighbouring provinces, and then gradually or over time with other parts of China. I think that is what is going to drive the shape of the recovery, less than any pent-up demand, which, as I said, I do expect to see that. We have seen that elsewhere when the markets have suddenly reopened and with campaigns, we have tried to access it. However, I think it is the pace of which the various parts of China open – air corridors or otherwise – with Hong Kong.

Mike Wells: Andrew, I think we are much faster and much better at dealing with re-openings than we have ever been in the history of the Group, and you see that across the different markets in Asia. Also, in China, we have initiatives with the Eastspring, with the WFOE that is doing well. I mentioned earlier we opened the Shenzhen Tech Centre which is doing well, and the GBA, we have a strategy there that we are implementing as well. It is not just the CITIC partnership that is doing well, but the other activity is part of our broader Mainland China strategy. We are pleased with the breadth of that. And obviously, relative to market, very pleased with the year-on-year growth and as you see the growth of the earnings.

Andrew Crean: Thank you.

Mike Wells: Thank you.

Larissa Van Deventer (Barclays): Thank you and good afternoon. Three questions, the first on numbers, the other two strategic on distribution fees, all on Asia. On the first one on numbers, you schedule 1.4 on Asian in-force business generation. I will read you the numbers, you do not necessarily need to go there. Basically, the profit on the in-force business out of Asia were $2.4 billion in 2018, declined slightly to $2.3 billion in 2019, but then they dropped to $1.9 billion in 2020. The question is why the volatility and how should we expect this metric to evolve going forward? Because we would have thought it would be a relatively stable number.

Number two on distribution, you have mentioned why the change towards Health and Protection products impacted margins into 2H20. However, you do take a multichannel approach, you have made active investments in bancassurance last year and then also renewing this year. How do you see the mix in new business profit change from a distribution perspective? And then how should we think of the impact on margin, please?

Mike Wells: Mark, do you want to take the first one, and Nic the second?

Mark FitzPatrick: Mike, I am just looking at the numbers. If Nic wants to start on the second and then I will come back to the first one, I will appreciate that.

Mike Wells: Sure.

Nic Nicandrou: Okay. Hello, Larissa. The first thing I would say is that all these channels, they are not competing with each other, they are complementary and the level of penetration is what it is across all of our markets in Asia. Actually, what you would want to have, and this is what we do, is to have as large a shop window as possible. So, the 600,000-odd agents we support, the 20,000 branches, 100-plus banking relationships, and now, a digital ecosystem gives us as wide a shop window across the markets that we are in as anyone, if not better than anyone. That is the first thing I would say.

The other is these banks, of course, tend to market a lot to their in-force. It is a very captive audience. They tend to traditionally go for long-term, regular premium savings-type products with an element of protection, often death cover. And not many banks have cracked the selling of standalone protection products. Now, we think with the ecosystem, we have a fighting chance of doing that, as we simplify the customer journey and the user experience.

Banks, because they stayed open, as Mike said, as an essential service, the performance of banks was much more resilient. Across our portfolio of sales, we are only down 9%; you can contrast that with the overall sales of PCA. In fact, at the second half they were positive, positive APE of 6%. Now, of course, that does depend on which country and in terms of margin. But we were pleased with that. We were pleased that the diversification that we have on channel came through in a much more resilient performance from this particular channel. And we were pleased to see that five markets, including China, Indonesia, Vietnam, Thailand and Taiwan, grew sales through that particular channel year on year.

Products are priced to deliver good returns, certainly measured on an IRR basis, which is, I think, a more useful metric when you are looking at savings type products. If you are looking at PAR products, with-profit type products, unit linked, really margin is not the best measure. What matters most is the return for the risk capital that one is deploying. And we deploy very little risk capital.

So, the performance on an IRR basis is very strong and it complements that from agency to produce overall, and across our portfolio, an IRR north of 30%, with very attractive payback periods.

Larissa Van Deventer: Thank you, Nic.

Mark FitzPatrick: And Larissa, if your question was about the in-force on unwind, yes, that is really due to the lower rates that we saw during the course of the year. And that element has created some movement there.

Larissa Van Deventer: Okay. Thank you. So, mainly a rate-driven change?

Mark FitzPatrick: Yeah.

Patrick Bowes: Mike, it is Patrick, I have a question online now, which I will just read out. It is from Justin Floor in South Africa from PSG. I have got two questions, one for Mark and then one for Nic. The question for Mark is, under what conditions would Prudential not need to raise equity capital, and what is the probability of this? And the question for Nic is that a key competitor, AIA, has launched a strategy partially built around Vitality wellness ecosystem, where early signs have been positive. What is the competitive threat from this for Prudential Asia's franchise? Thank you.

Mark FitzPatrick: Yeah. So, in terms of the element of looking around equity raised, firstly, as you can see with the elements of the debt to equity ratio that we have, and what was said previously in terms of the comments from the rating agencies, is we do not have to raise. We are raising to be able to create the additional flexibility really that we are looking at. And we are looking at that flexibility to be able to make the most of the opportunities that we see ahead of us in Asia. So, ultimately, it is really around that element. It is to accelerate the deleveraging, really, with the view to enhancing our financial flexibility. We do not have to raise, but we think if we do not raise, it will curtail some of the growth opportunities we see ahead of us in Asia.

Mike Wells: Thanks, Mark. Nic?

Nic Nicandrou: Clearly, we study what everyone else is doing in the region. What we have with Pulse is a completely different proposition. Vitality is a wellness app and it is focused on reward-based behaviour. Ours is an ecosystem. It is infinitely scalable. That is why we have been able to take it to 15 markets and deploy it to consumers, whether they sit in an urban location or whether they sit on an island in Philippines, or one of the many thousands of islands, it is infinitely scalable. It sources services from a number of providers, and as I said, whilst in year one, it has been about growing. The people who get to experience Prudential for the first time, different cohorts in different ways, it will also become our fulfilment and servicing platform. It is multi-sided, so it can connect with anyone's ecosystem. We are already connecting it with UOB Mighty app. We are already connecting it with SCB's mobile banking app in Hong Kong. We are connecting it with our new wave partners, the most recent example being the Central's E loyalty card. We are able to harness the data exchanges to effectively develop personalised propositions for different customer sets.

So, it is a very different concept and it is certainly very important to us and critical to our growth ambitions going forward.

Blair Stewart (Bank of America): Good afternoon. I have actually four questions. Apologies. The first question is just linked to the favourable experience you talked about in Asia. We have seen a decoupling of profits growth, 14% against the in-force premium base, which grew by 6%. Is the favourable experience a key factor within that decoupling, and would you expect that to unwind?

Secondly, just for the US business, what conceptually can be done to reduce the market aspect, the 108 points of unwanted volatility that you had in the RBC progression? What conceptually can be done to reduce that, or hopefully eliminate it going forward? Just thinking about the volatility of the RBC.

Thirdly, the Asian EV, there was a big turnaround on the non-operating contribution. That was negative $3 billion at the first half, and it finished the year plus $1.6 billion. So the delta there of $4.6 billion. Just give us a bit of colour as to what is in that.

And finally, just looking at Holdco cash flows, if I take into account the lower dividend costs going forward and lower corporate expenses and lower interest paid, there is still not a great deal of headroom, if any, between cash in versus cash out. I just wonder if that is something that concerns you, or is there any plans to increase the amount of cash remittances from Asia? Thank you.

Mike Wells: Okay. If you do not mind, I will change the order and we will address them all. Okay? Marcia, do you want to address the RBC volatility? And keep in mind, in a year that was records on equity, rates and basis risk in the US, I think [inaudible]. But that said, why do you not address that, and then I think Mark, I am going to have you get the next three, if you do not mind.

Marcia Wadsten: Sure. I can acknowledge that we are largely a VA company. So there is a certain amount of volatility that is difficult to completely eliminate. But I would say certainly when we look at 2020 and even going back to 2019, we did have some pretty unique situational effects that were influencing what was going on in terms of the transition to VM21 in 2019. And then in 2020 preparing for the separation, we were definitely wanting to manage the hedging more tightly for smaller moves and so forth. But really, it is the economic drivers that we saw in 2020 that were definitely influencing our result in terms of historically low interest rates and the extreme high volatility, both on an implied and realised basis.

So, we certainly expect both of those economic sectors to normalise a bit as we have gotten into 2021, which is helpful. And certainly those situational effects around the preparing for separation, for example, were unique items that will not be repeated. But then going forward too, we are looking to introduce the RILA products, which should be helpful in terms of diversification and add some more stability in that sense from a diversification standpoint. And then just we look to our hedging program to just continue to operate effectively, as it has so many times over the years in a volatile period, and use that as a way to try to manage that volatility to the greatest extent that we can.

Mike Wells: Thanks, Marcia. Mark?

Mark FitzPatrick: Good afternoon. In terms of Holdco cash, I think you have heard me say for a little while now, we bring up to the centre what we need. And part of the reason that we do that is actually having the funds down in the businesses, is that we can actually work them harder. And you are seeing the return in terms of the new business investment and new business profit, and we can actually just deploy it far more efficiently. It also reduces any kind of withholding tax potential aspects that I might have whenever I bring the money up to the centre.

So I bring up effectively what I need, and the back end of last year, right at the very end of last year, we paid the second instalment for the Thai bank assurance deal just about $400 million. We paid that from the centre, literally the last couple of days of year-end to make sure the money landed in Thailand at the beginning of 2021.

Holdco cash very comfortable with in terms of how that stands and how it is looking. In terms of Asia EV, the non-op, I think by far and away, the largest component of that is rates. As you know, we adopt an active basis in terms of our EV methodology, rates came down significantly, and then with rates getting back up, we saw the element of that change and also coming through in terms of the high projected earn rate. So, that is really what you are seeing play out in terms of the non-op level on that side.

And then in terms of the Asia experiences, in terms of the profitability, I mean, there are lots of moving parts to the IFRS, there is not just a premium growth. There is an element, as we said before, some of the claims levels being slightly down this year and what we have seen in the past as a result of some deferral of, for example, elective procedures and the like that have been pushed out to the results of COVID and people understandably staying away from hospitals unless they absolutely have to go there.

Blair Stewart: Yeah, just on that last point, Mark, with all due respect, you have just repeated the question I asked. But what is the impact of that favourable experience? Is that the reason there is been a decoupling between the in-force premium base and the profit growth, and would you expect that to normalise as we go into next year and next?

Mark FitzPatrick: So, if the element of those claims come back, we would expect there to be a degree of normalisation coming through on that particular patch, because ultimately if you need a hip replacement, you are going to need to get that done as soon as you can, as soon as you feel comfortable getting back in. For the claims levels, we would expect the speed at which that is going to play through is unclear, clearly in terms of how the COVID manifests and how the various variants impact people's behaviour and people's appetite to engage with hospitals and the like.

So, claims is an important component of it. And therefore, I think you will see a more normalised level of those going forward, I would think, at the back end of this year and further into 2022.

Blair Stewart: But not possible to quantify it at this stage?

Mark FitzPatrick: Not at this stage, no.

Ashik Musaddi (JP Morgan): Thank you. And good afternoon, everyone. Just a few questions I have. So, first of all, thanks a lot for slide number 76 for giving the embedded value split for different regions. Having said that, when I look at that slide, it is a bit puzzling to me because if I compare the IFRS profit versus embedded value of Indonesia and say, [inaudible] embedded value of growth, growth market, it is 25% of EV – annual profit is 25% of [inaudible] EV. Whereas if I compare the same number for Hong Kong, it is only 3%. Now, I understand that I am comparing apples with pears because EV and IFRS are different, but then this kind of huge discrepancy is a bit weird as well. It would be great to get a bit more colour about the 3% versus 25%. So that is number one.

Secondly, Mark, you mentioned that you only take out cash from subs as much as needed rather than taking extra, but at the moment holding company cash is about $1.4 billion, and you are saying it might go lower as you demerge US. So, I mean, how do we think about any flexibility for inorganic M&A? I mean, if you need to do an M&A for $2 billion, $3 billion or $4 billion, would you say that you have flexibility in the subs to take out that money? Or would you say that you have flexibility in that LCSM ratio to take out that $3-4 billion cash and do the M&A? Or would you say that you would need to think about raising equity in that scenario?

Now, I agree it is a completely hypothetical situation, but then because there is always a debate about China M&A, that is the reason why I am asking, trying to get a bit more colour.

And the third question is basically around, the question on Thailand. What is going on with the Thai business? I mean, I thought Thai business is having a bit of a trouble because of COVID, like earnings was up 25% in that market. So if you can give some colour about why Thai earnings is up 25%, that would be very helpful. Thank you.

Mike Wells: Great. Thanks. Mark, the first two are yours. Nic, we will have you do the third one. I think generally to address your question on China and the second part, it would depend on the percentage we bought, right? So if we bought half the company, I am sure you have a value for it, that is a material raise. And then the other thing you have seen us do in region is on smaller transactions, including Thailand, we will use local capital and sometimes supplement that with Group capital to get the most efficient execution. And by efficient, that means tax friction and a variety of other ways of looking at that. So we already have a history of using local capital for distribution M&A, if you will, and other M&A and asset management and things.

So that trend you will see continue. And that is probably a better proof statement than a hypothetical. And I appreciate the hypothetical is an important one. So, Mark, do you want to do the first, and then Nic, the third question, please?

Mark FitzPatrick: Certainly. So, in terms of the extra information in the segmental reporting that we are going to look to do going forward really from the half year of 2021, in terms of that hopefully gives everybody a better sense of some of the different building blocks. And then over the course of the half year, we will be able to give a lot more commentary about those and be able to drill down a little bit further into information.

In essence, as you said, you are comparing two different metrics between IFRS and EV. EV, by definition, far more realistic value measure. IFRS, somewhat of a lagging indicator and it can take quite a while for EV to translate into IFRS earnings, especially for long-dated Hong Kong products. And also bear in mind that we have the with-profits fund component coming in.

But one of the things that we will certainly look to do as we go through the aspect of the half year, certainly gives people a better sense of some of the drivers behind the individual metrics for these new segments during the half year.

Mike Wells: Nic, Thailand?

Nic Nicandrou: Sure. So the question was, what is happening in Thailand? I will come back to your profitability point in a minute, but the transactions that we have done over the last two years has given us a real presence in a market that is effectively ASEAN's second largest economy, but importantly, in a market where there is a very fast growing high net worth population. We have given some more colour on slide 65 on Thailand, given the investment that we have made.

So just adding to that colour, on the asset management side now we have a top five position through the two transactions and serving the needs of the high net worth. And with the distribution transaction that we have put in place, we have the ability when it comes in-force, and of course it came into force the 1st January this year, to leapfrog in a top five ranking in that important market overall in terms of new business, and importantly, leapfrog into top two position on the bank channel distribution, which in 2020 was the fastest growing channel and now the more dominant channel.

The business does do quite a lot of Health and Protection business. We saw further increase last year. One of its USPs is the credit life business that we attached to loans, or attached to loans that are issued by our existing partners. And these are high return products from our perspective. So yeah, a scale business with a rich Health and Protection content, growing; you can see on this slide, 78% was the H&P growth last year as we launched the new product not only ahead of the relationship that we started, but also for the existing relationships that we have. So it is a nice market if we can get the scale and we have taken actions to do that.

Dominic O'Mahony (Exane BNP Paribas): Thank you for taking questions. I am afraid I have got one more on the border in Hong Kong. Can you give us some sense of how the border closure has impacted policy utilisation by Mainlanders? For instance, the rate of surrenders and claims, and more broadly, is it fair to assume that Mainland residents have not been able to access Hong Kong hospitals at all during the period of the border closure? Or are there actually exceptions for people who have urgent need?

Second question, just on assumptions, both for reserving and pure embedded value calculations, I am curious to understand whether you use the same assumptions or persistency, mortality, morbidity across both your mainland and domestic population customers? Or whether that is are you expected to use different inputs for those two different populations?

And then thirdly, just on Indonesia, I wonder if you could give us a quick update on the competitive dynamics there? Thinking about the restructuring of [inaudible] and the creation of a new state-backed entity there. Is that having an impact on the competitive dynamic? Thank you.

Mike Wells: I think, Nic, why don't we let Ben answer a couple, make Ben work a little bit in the utilisation of benefits. The border is truly closed, I think is the way to think of it, but Ben, you want to talk about our assumptions and also utilisation, and then Nic, you want to talk about Indonesia?

Ben Bulmer: Yeah, sure. Hi. Okay. On the assumption first, so we do use the same assumptions set by and large for both the Mainland and domestic business. We have done that for a number of years. We monitor both books separately in terms of our experience studies, but yes, it is the same set underlying.

In terms of utilisation rates, look, there is nothing really untoward or remarkable. I would add that people have access to a variety of hospitals in the Mainland through their policies. They are kept on an updated hospital list and graded, and largely reside in the major cities. So I think from that regard, really very little to add, over and above, of course as we have seen elsewhere, given COVID, people deferring elective medical procedures.

Nic Nicandrou: Okay. Maybe just to add, clearly flows tend to be gated from Mainland China into Hong Kong, but not the other way. If someone wants to surrender a policy, they could, and the money could be paid into accounts in Hong Kong or even across the border. Also, as part of our critical illness offering, people can use hospitals and clinics in Mainland China. So, there is about 1,000 hospitals on our list. People use them, they pay and then we reimburse them for those claims. So, if you like, the servicing, the normal servicing, whether it is a surrender, whether it is an inquiry, whether it is a claim, is continuous, that you do not have to be in Hong Kong if you can't travel. So no, there is no exception unless people are prepared to do the quarantine.

As regards to the competitive environment in Indonesia, I am not sure I have understood the question. The market in Indonesia has been impacted because of COVID first and foremost. The bank channel has fared a little better, like we have seen elsewhere, than the agency channel; not phenomenally better but better. But what we saw specifically in the bank channel is a much higher incidence of single premium business than in the past. So I think the banking channel was up overall in terms of new weighted premiums, but all of that was driven by a single premium. Our regular premium business declined. Our normal bank business is of a regular premium guise. So, even though in the little graphic that we show is that totality, in other words, it is single and regular, or a 10th of single and regular, if we look through that to the regular premium component, actually our share increased from just below four to just over five.

So no, we are not seeing anything come through the specific example that you have referenced. And on our banking channel, we continue to focus on the regular premium and winning share in that particular segment.

Nick Holmes (Société Générale): Hi there. Thank you very much. I will keep this very, very brief. RBC ratio, what is the reaction have you had from regulators and rating agencies about whether 450% is sufficient?

And second, Jackson's strategy, what about diversification? What happened to diversification and what are you aiming to do to reduce dependence on variable annuity? Thank you very much.

Mike Wells: The rating materials, Nick has published, and I think, again, with the form 10, I am not going to get into a regulatory or anything forward-looking on that, but you see the rating agencies public on their comments.

On the diversification, Marcia and Laura both mentioned, we have a new RILA product coming, and I think just depending on your view at your firm and your personal view on rates, I think the timing on their re-insurance transaction on the fixed looks pretty good right now. So there is a variety of things. I mean, Jackson leads the industry and its distribution capability, and obviously has a full suite of products that it can diversify with, but those are its options. But that is all we are going to say prior to the form 10 filing later this month. So we have to be very guarded that we do not – you will get some more information on it, but again, we are live on that now, so I have got to keep those to a minimum.

Gordon Aitken (RBC): Great. Thanks very much. A couple of questions on embedded value, please. Firstly, you have continued to report embedded value alongside IFRS earnings when most European insurance companies have dropped embedded value and some a long time ago. Why have you continued to do this? And can you just give us a sense of how important embedded value is to Asian investors that you are trying to attract onto the register in comparison with European investors?

And the second question, in Asia, you really consistently recorded positive experience variances and operating assumption changes, and many people would see embedded values as the best estimate basis. How prudent do you believe your embedded value is? And should we continue to expect cost appearances and assumption changes in the future? Thank you.

Mike Wells: Thanks, Gordon. Mark, do you want to take those two?

Mark FitzPatrick: Sure. Hi, Gordon. So in terms of embedded value, we believe it is a very important metric. It is something that we use extensively ourselves in house as a management team. It is something we use extensively with our board to be able to talk about the performance of the business. And the general investor community for life insurance in Asia does tend to use embedded value and does tend to focus on the long-term cash flows and the expectations of those along the way. And you have seen the extensive disclosure we have given, and hopefully you will find the additional disclosure we have given this time around helpful and constructive.

In terms of the experience and assumptions variances, I suppose I would probably categorise it as a cautious best estimate. We have had a positive experience and assumptions coming through for a number of years now. And I would much rather have a cautious stance and release than overly aggressive and pair back. So our cautious stance has been as been proven out year after year, and I am not minded to change that on a go forward.

Thomas Wong (Goldman Sachs): Thank you. I will be rather quick. So, if I am reading correctly, I think Pulse is not yet in China and India. Just wondering why. So thanks.

Mike Wells: Thanks, Thomas. So, we obviously have the option to do both and we are looking at both actively. I think there is a bandwidth issue. And what you have seen us do with Pulse is we rolled it out in Malaysia in August 2019, and then each iteration of it in each country has been effectively an improvement and a further integration in the operating model. And then we are going back to the earlier markets and upgrading them to what we have seen in Pulse. So there is not actually one Pulse entity out there right now. In China, it has been, for the last five years, one of our most digitally advanced businesses, it is a cloud-based, almost signature-less platform. And on the life side, there is a variety of licenses you would need with the Pulse project and then in India the same, but they are both within our realm of strategic options and are looking at both.

All right, guys. So, hopefully that gives you an idea, everybody, on the progress we are making towards the strategic objectives. We think it was very agile and effective performance during the most severe parts of COVID, and I think that the key to me is the positioning of the Group has improved for what follows this, the strains of COVID. You see a business that has now larger agency, larger bank distribution, more digital, more operational efficiency, faster at pace. And I think the work on the US, independence continues at pace. We have given you as clear guidance as we can there. Again, it is basically now subject to regulatory and shareholder approvals. From one of the questions earlier, the ability to acquire consumers at a faster pace, the ability to get younger cohorts, the success of the new distribution activities and products sets we have rolled out. And we did not get a question on Africa, but it continues to grow nicely.

The options ahead of us are ours, and they are unique and I think they separate us from our peers and they position us to be the leader in Asia, to be clear. And that is the ambition and that is where we see the business going.

So thank you for your time. I know it was a long one today, but we wanted to make sure we took everyone's questions and appreciate your support through what has been a material set of transformations for a 173-year-old firm. We will continue to make sure it is highly competitive, growing its value and producing the kinds of returns you would expect us to. So, thank you very much for your time today.

[END OF TRANSCRIPT]