

Prudential plc 2022 Half Year Results Live Q&A

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2022 Half Year Results Highlights

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Welcome

Welcome everyone to our 2022 half year presentation from our offices here in Hong Kong. I am Mark FitzPatrick and I am joined by here in person by several members of our leadership team and by a number of our Hong Kong based analysts. From the Prudential team we have James Turner our Group CFO and Avnish Kalra our Group Chief Risk Officer and Compliance Officer. We also have the Managing Directors of our three strategic business groups. Here with us in the room is Lilian Ng responsible for Chinese Mainland, Hong Kong, and Taiwan, as well as overall Distribution capabilities. Then joining us remotely from Singapore is Dennis Tan who heads up Singapore, Thailand, and Vietnam, Solmaz Altin who is responsible for the remaining country markets including Indonesia, Malaysia, and the Philippines, who also has a responsibility for our Digital and Technology functions, and Seck Wai-Kwong Chief Executive of Eastspring.

I appreciate this is a very busy day for many of you and we will close the session just before top of the hour. But very briefly, before we go into Q&A just a couple of key points I would like to highlight from the half year.

Resilient performance

Firstly it was a resilient set of results. APE sales were up 9% to \$2.2 billion reflecting diverse source of growth due to our geographic footprint, product mix and distribution channels. APE sales in Southeast Asia and in Greater China are now both at about \$1 billion. New business profit was flat year-on-year when you exclude economic effects and it was down 5% to \$1.1 billion following differences in country and channel mix and the impact of higher interest rates. The jaws could be attributed approximately a third to each of those factors. IFRS group operating profit was up 8% to \$1.7 billion. Our resilient operational performance is testament to our multi-channel digitally enhanced distribution platform and our strong franchise across Asia and Africa where we are a top-three player in 11 Asian life markets. The quality of our business is strong as evidenced by the high customer retention rate that we published today.

Management priorities

We are looking to drive growth through a focus on operational delivery, writing quality health and protection business and by investment in people. Therefore our management priorities are around distribution, digital, business quality and people. In distribution it means we are expanding our distribution channels and driving higher productivity across both our agency and banca channels. In digital we are embedding digital into our sales and servicing process to deliver a superior customer experience and to enhance operational delivery. We are focused on maintaining the quality of our business and we continue to build leadership bench strength and building capabilities of our people through ongoing training and development. We are also very pleased to announce two new non-executive directors today as well.

Confident of future growth

We are confident of continued growth. Customer demand continues to be strong. Our indexed monthly sales were up 13% in July this year and our latest Hong Kong border survey which is included in the appendix to the slides continue to show very high intention to purchase insurance. Importantly we see that long-term structural growth drivers remain intact driven by urbanisation, growth in middle class and their corresponding wealth, and rising demand for health and protection. We remain confident that Prudential has the financial resilience, capital strength and capability to meet the growing health and saving needs of our customers in Asia and Africa.

With that let us start the Q&A session with questions in the room in the first instance please.

Q&A

Michael Chang (CGS-CIMB): I have got two questions. Firstly on the China business, it is definitely better than expected first half and NBP is only down 4.0% off an extremely difficult base for last year. Could you shed some light on your view of the operating environment? Maybe you can give some figures on trends of Q1 and Q2. As China exits the outbreaks how is July doing on that front? What are you doing to continue to outgrow the industry? Secondly on the Hong Kong business in terms of the fifth wave obviously a very tough 1Q but since then things have improved in terms of Covid cases. How is the business momentum of the domestic segment since then?

Mark FitzPatrick: Michael thank you for that question. Let me start off and then Lilian I will hand over to you for a little bit of extra colour please. In terms of our business in China we are very pleased with how we have performed this half. A key differentiator in our performance was undoubtedly the multichannel distribution that we have. We had strength in agency, we see strength in bancassurance but also the very broad footprint we have in Chinese Mainland. In terms of 99 cities, in terms of 6,000 outlets which meant most of the business could continue performing even if some cities were in various stages of lockdown or restricted movements. That undoubtedly was a very important component. I think we have also been very focused on the quality of our agents in terms of additional training and we have seen significant improvements in terms of the number of cases that each agent is working through and a significant increase in terms of health and protection policies that we have seen coming through. We think these are important drivers and important competitive advantages because it takes time to build up bancassurance relationships and we think we have those and we have them in abundance throughout China.

Lilian do you have any further comments on Chinese Mainland and then maybe a little bit on Hong Kong domestic please?

Lilian Ng (Managing Director Strategic Business Group, Prudential plc): Thanks Mark and thanks for the question. Obviously on the Chinese Mainland I think the reason why we can continue to outperform is a combination of our wide geographic footprint as well as the multichannel distribution. Basically we are where the customers are and we can serve them the way that they want to be served, whether it is through our agency or our bancassurance channel. To touch a little bit on our agency capacity and capabilities as people are aware the regulator is focusing more on sales practices and I think there is now a draft in place in terms

of looking at how does an insurance company and sales intermediaries drive consumer conduct. You will be very happy to hear for a CPL agency force we are already impacting on that role that they play. We are very selective in who we recruit as well as how we equip them to actually do the right thing for our customers. As a result we have been able to see an increase in what we call the productive and the elite agents month-on-month. Since the beginning of this year as you appreciate Covid has been impacting on our recruitment momentum but we have seen that quality coming up.

On the bancassurance side the beauty of our bancassurance platform other than our capabilities is I believe in terms of our digital technology platform that we can actually hook up with a bank partner quickly and also address the double recording which is coming through in terms of financial advice. You have to do a video and sound recording. These are capabilities that we have and as a result we can onboard a bank partner and the branches quickly. On top of that obviously continually evolve our product offering. Overall we do see a lot of opportunities in China and we believe we have the capabilities and continue to refine in that area.

Onto Hong Kong on the domestic segment, obviously Hong Kong is a very resilient place and I think there are two things that we need to recognise in Hong Kong. This is promoted by the new administration, the Hong Kong government as well as from the Chinese Mainland government, which is it continues to be seen as an international financial centre. One thing that we need to recall is that Hong Kong is also seen as an international healthcare centre and these are the two reasons why we can actually continue to grow in the domestic market and when the border opens we continue to believe there will be a lot of appetite or pent-up demand from MCV customers coming through.

On the domestic front the purpose we are doing is we are driving more health and protection through our agency force and we can see in some of our data that we are now driving our product mix in an area where the product mix alone is adding 11 points to the new business margin for the agency product mix. On our banca piece we continue to have a very good partnership with Standard Chartered Bank and I have to say one of the only ones who continues to offer a whole range of products including savings and protection. Whereas we know a lot of our bank partnerships are purely saving or spread products. That is an area that we continue to work on.

Thomas Wang (Goldman Sachs): A couple of questions. If I can follow on that China question, in terms of distribution we have seen struggles among the Chinese insurers on the agency side how – and then Pru did a lot of new bancassurance relationships. I wanted to know how you think about medium-to-long term how that dynamic or balance between the two channels developing. The second question if I can ask on the capital side could we have some update on the IFRS 17 implementation, how potentially that impacts our financials for next year?

Mark FitzPatrick: Thomas thank you. In terms of distribution on the Chinese Mainland I think what we have seen is a real shift towards quality. You have seen the number of agents in the market come down, a real focus in terms of quality and you are seeing the regulatory direction from CBIRC focusing on quality of agents as well. That plays to our strength and we think that that supports who we have been and the space in the market that we play in. We do think that banca is going to continue to be a very important part of distribution as well in

Chinese Mainland and we have developed it in such a way that the margin is very respectable at about 40-41%. Therefore it is a meaningful contributor and as Lilian says we have the wherewithal to be able to link up with new banking relationships very significantly. In Chinese Mainland we have 55 banca partners and we have access to over 6,100 bank outlets. It is a capability and a strength of scale and of size as well, which is important. Both banca and agency will be important. I think the whole industry will shift towards a more professional agency force and that is very much in line with where we are at.

James Turner (Group Chief Financial Officer, Prudential plc): Thomas thank you and thank you for my first question as CFO. In terms of IFRS 17 we have given you a slide in the deck which sets out the timetable and some of the key points. However, in terms of impact really the key issue is that the methodology is still being defined in a number of areas. What we will do is we will do a market update in Q2 2023 where we will go through the impact of IFRS 17 and bridge between IFRS 4 and the new accounting basis. Really the important thing to remember is this is an accounting basis. It does not change the economics of our business. It does not change our strategy, our dividend, our cash generative basis or indeed our capital strength. It is clearly important. It is front of my mind in terms of ensuring we get an optimal outcome but the key underlying economics of this business are not impacted by IFRS 17.

Edwin Liu (CLSA): If I can switch gear to non-China markets, my first question is on Singapore. I noted that last year and actually for the first half of this year the Singapore business performed quite well and the momentum seems to be much better than your peers. I wonder could you share some colour behind the strong momentum for your Singapore business and should we expect such momentum to continue in the second half? The other question is going back a little bit to the Hong Kong business. I understand the economic assumption may have some impact on the new business profit for Hong Kong in the first half. Is it possible to share with us if such economic assumptions change what would be the new business profit change for the Hong Kong market in the first half? Thank you.

Mark FitzPatrick: Edwin thank you. I will start off on the Singapore and then Dennis I will hand over to you for a little bit of extra colour seeing as you are on the ground in Singapore. Then maybe James you could cover the Hong Kong NBP margin excluding economics, thank you. In terms of Singapore I think the team have continued to do fantastically well. The agency has performed well. We have got nearly 20% of our agency base as MDRT. That is continuing to do well and I think with the banca channel and the customer appetite over the course of the last six months banca has come through very strongly and we have seen a real appetite from high net worth clients for long-term policies that really look at savings and legacy protection. Maybe Dennis I could hand over to you for a little bit of extra colour please.

Dennis Tan (CEO, Prudential Assurance Company Singapore): Thank you Mark. I think in the Singapore context given the reopening and things being more endemic in nature now there has been a lot more activities on the ground. We see that a lot more in the second quarter of this year as compared to the first quarter. In that regard, a lot more customer engagement, a lot more face-to-face activities are being rolled out both in the bank channel as well as through our large agency force. That continues to support a lot more of the business generation here. The other item is actually with the pandemic there has been a

huge adoption in terms of our digital tools so despite the reopening now the agency force continues to use the digital tools in some sort of video engagements and video tools to sell. I think that continues to help us increase productivity. Definitely we will continue to see this coming through in terms of momentum into the second half of this year. Back to you Mark.

Mark FitzPatrick: Thank you very much Dennis. James?

James Turner: Edwin thank you. In terms of the economic impacts in Hong Kong in terms of margin it had about a 25.1 percentage point hit in terms of the NBP margin and that equated to about \$57 million in terms of NBP.

Jenny Jiang (Morgan Stanley): Hi management, first of all thank you for organising this on-site event. I think it is so good to see management in person and also our peers. Maybe two questions from me. One is still on China. I want to ask about management's view on China's retirement market. On the asset management side I think there is a lot of changes in regulation, removal of foreign ownership cap. Is there any further thinking or strategy planning there in China? Also on the insurance side we have seen some new business model in China. They are doing financial products plus retirement services, legacy senior care homes. It is getting quite popular. A lot of local peers, your key competitors are all trying to explore that business model. I want to hear your view on that. Maybe a second question is on Indonesia. It used to be a very, very important market for us. It has been struggling a little bit. We just want to hear management's comments on how the market is doing. Do we think it has turned around? We have done some changes there. We have a new Sharia licence. How is that going to develop? Also in the bancassurance side in Indonesia is there anything further we can do to strengthen the distribution there? Thank you.

Mark FitzPatrick: Okay, Jenny there is a lot in there. Let us start with China. I will make some opening comments and then Lilian maybe over to yourself, then Solmaz. I will start on Indo and then hand over to yourself if that is okay please. Thank you. In terms of China the retirement market it is a huge opportunity. We think pillar 3 is a huge opportunity for the market and it is great that consumers and regulators on Chinese Mainland are spending more time focusing on the need to save for retirement. It is a need I think that we are seeing throughout the world so it is great to see it really being an area of focus in Chinese Mainland. I think the opportunities we have within the CPL are very real and CPL our China business has a 100%-owned asset management company that effectively provides all the support. Some of the new regs effectively would link into that entity. Lilian if I could ask you to provide a bit more colour please.

Lilian Ng: Okay thank you Mark. As you said I think this pension opportunity in China is huge. Our joint venture CITIC Prudential Life, as Mark mentioned, we actually have a wholly owned subsidiary for the insurance asset management company. There are probably around about 30+ insurance asset management companies in China and about a third of them are what we call JV or foreign owned. We are proud to say that actually we are one of the top three or four JV IAMC in the market so we have capabilities in that AMC business. Going back to the pension opportunities I think where we definitely can play is actually in the pillar 3 which is the private and personal pensions. CPL is one of the first to actually engage in the pilot where CBIRC allowed certain insurers to pilot the retirement products in certain provinces. Obviously as a learning regulator CBIRC continued to work with those pilot insurers to improve the product offering.

The second thing where we are actually quite excited is formalised in the revised regulations that just came out this week is we can also now with our IAMC participate in the asset management of pension assets from other providers. That is an area that we are very excited to tap into. Hopefully, that addressed our capabilities already on the ground to capture those opportunities.

I think the second one you mentioned is about the insurance products. The way we actually look at the insurance product is we look at it from a customer proposition. We offer what we call the retirement savings insurance product but at the same time we have what we call value added services. To go back to your point we actually offer for example engage with one of the property developers so that we can say to purchase a retirement home in advance in Hainan of all places. We have also engaged with one of our health management companies called St Lucia offering healthcare management services. This is how we provide those value added services for our customers who are planning for retirement. All that you see is something that we are actively engaging in.

Mark FitzPatrick: Then on Indonesia, Indonesia is a very exciting market for us. Very, very exciting and we have been very busy. The team have been very busy this year. We launched the new Sharia business, the first in the world to launch a standalone Sharia business in April and that has come along really, really well. We are also very pleased in terms of the broadening out and the continued upskilling that we are doing in terms of our agency but also the element of our product range. We have spent a lot of time developing and expanding the product range. Therefore that is actually resonating with a lot of customers and especially at the moment when Covid is still very real in some parts of Indonesia making sure that there are policies that are available for those customers. As well as getting into the SME market, which is one that we got into fairly recently and we are seeing some very encouraging signs from that. Solmaz, why do I not hand over to you and allow you to provide a little bit of extra colour please?

Solmaz Altin (Managing Director Strategic Business Group, Prudential plc): Thank you very much Mark and thank you very much for the question. We will see the Indonesian insurance market, which has been hit hard indeed by the pandemic, as the country opens up the situation will become better. Let me also point out a few things on the questions that you mentioned on Sharia and bancassurance. On the Sharia side indeed we have successfully separated our Sharia business. We are currently the market leader in the Sharia segment with 30% market share and we have 160,000 agents able to operate and sell Sharia compliant products with that new entity. We have an amazingly strong position in the Sharia segment. Our distribution power in Indonesian conventional business is extremely strong. We have almost 50% of all agency population with us and as the country opens up this will give us the opportunity to increase also sales again with banca being flat and APE sales in agency was a bit down. With bancassurance overall we do see some progress with our existing bancassurance partnerships, albeit from a slow base. We will certainly look into other opportunities that might present themselves to us over the next year or so and we must certainly also be cautionary in terms of the transaction values and the price we will be willing to pay for that. Back to you Mark.

Mark FitzPatrick: Solmaz thank you. Thanks for those questions Jenny.

Andrew Baker (Citi): Great, thanks for taking my questions guys. Just two from me please. Are you able to provide an update on where you are on the Macau licence registration process? Then when that does come into effect what impact are you expecting on both APE and new business profit for Macau? Then secondly on the group-wide supervision ratio obviously there are a lot of moving pieces and it now includes the RBC and the C-ROSS changes. I was wondering when you think you might be in a position to provide us with more information on what you might consider an appropriate target range for that ratio. Thank you.

Mark FitzPatrick: Andrew thank you for those questions. I am pleased to hear that James will have to deal with the target range question rather than me having to deal with it in the past. In terms of Macau licence we continue to engage with the regulators. As soon as that is open we will expect to be able to being business very shortly thereafter. A key component clearly of Macau is not only the element of Macau itself but also the visitors coming down from Chinese Mainland and the opportunity of that. While the border with Hong Kong and Chinese Mainland remain shut that provides a useful conduit to be able to tap into some of that demand that undoubtedly is there for multi-currency, for critical illness protection and the like that can be effectively provided through what would be a branch of our Hong Kong business. That is what we would expect to happen once the licence gets approved.

James Turner: Andrew thank you. In terms of the GWS ratio as we state in our disclosures we have not set a maximum limit on the coverage ratio because the GWS solvency position which is a key metric for assessing our regulatory capital but does include elements of capital that cannot be converted into cash immediately. A classic example would be contributions from the with-profits fund. Where we have guided to is free surplus. I think that is a much better metric in terms of understanding the shareholder capital available for distribution and it is also the primary metric we are using to assess the group's sources and uses of capital. What we have done is we have given you a risk appetite level of above 150% and so that was the new piece that we have added in terms of those moving parts that you referenced.

Andrew Baker: Thank you.

Farooq Hanif (JP Morgan): Hi everybody, thanks very much. Going back on Andrew's question on GWS ratio first, what does that risk appetite mean? If we take free surplus ahead of that how much of that do you think you will need to retain for growth and how much do you think could be part of some sort of future distribution either through dividends or buybacks? If you could talk about that or tell us what you might consider talking about that. The second question is you have got this 13% growth momentum that you talk about in July in your slides, can you give us a bit more of an idea of where this is coming from and where growth is accelerating? Quickly the third question is what are your latest thoughts on dividend growth generally given the momentum that you have seen in free surplus? Thank you.

James Turner: Farooq thank you. In terms of GWS and risk appetite really the question is why did we pick 150%. Clearly we carry out a lot of internal stress testing to derive this buffer. We considered all the considerable risks to the GWS capital position and also the potential mitigating actions. Holding this level of buffer over the GPCR minimises the probability of regulatory intervention. Even after a very large movement and I would draw your attention to the fact that if you look at the pro forma GPCR level at the beginning of the

year of 320% and even after the significant disruption that we faced in the first six months and market volatility we are reporting a 317% at the half year.

I think your second question really is about how to think about fire power. I am not going to give a number but it is probably best if I tell you how I think about it. First I will refer you to our free surplus of \$8.6 billion and there is a slide in the CFO appendices that covers that. That is the best guide to distributable surplus because this is the stock in excess of 100% of GPCR. Clearly we are net capital generative so all else being equal that capital stock will increase over time. However, that stock does include \$2.1 billion of Holdco cash and clearly we need to maintain prudent levels of liquidity. I am also conscious of the scale of our organic opportunities, the attractive IRRs that we are able to achieve and that we are able to invest in, so we would also need to look at all the necessary stock at one time. I would not necessarily want to pull it up from the businesses. A classic example is when we invested in TTB in Thailand. You saw that that was a \$750 million investment. About \$500 million came from the central resources but we used the stock in the business units to pay the balance. That is how we think about free surplus. Clearly there is also the fact that we are capital generative and that we look at things like our debt equity ratio where we are at the bottom end. Hopefully, that gives you a sense of the strength of our capital position and our financial flexibility Farooq.

Farooq Hanif: Thank you.

Mark FitzPatrick: Then Farooq hi, good morning to you. In terms of the growth in July I think it was about ten markets registered year-on-year growth. There are some doing stronger than others across the patch so pleased is quite a broad brush in terms of performance. James I wonder if you could pick up the dividend question?

James Turner: Sorry, can you just repeat the question?

Farooq Hanif: My question was in light of your strong free surplus, in light of your growth in generation of free surplus what is the trajectory here in dividend growth?

James Turner: Thanks Farooq. We announced a new dividend policy last year and we are linking that through to that growth in free surplus. Obviously relevant of normalised central costs, etc and so you would expect to see it grow at the same level as our growth in free surplus aligned with that dividend policy.

Farooq Hanif: Thank you so much. Thank you.

Greig Paterson (KBW): Morning, just two questions. I was wondering if you could give us an update on your ambition to increase your stake in the Chinese JV. The second thing, there seems to be a retail property crisis going on in China and it seems to be escalating. A hiccup maybe from some supply chain issues from one big insolvency we had last year. I was wondering if that is having any detrimental or will have any detrimental impact on your volumes. Thank you.

Mark FitzPatrick: Greig hi, thank you. The stake in CPL we have made it clear to yourselves, investors and to CITIC of our appetite to buy more if that opportunity arose. That being said our time and effort and Lilian as Chair Elect, all our time and efforts are being absolutely committed to try and help that business grow as quickly as possible. Grow into the footprint further, you have seen the great job that the team have done over the course of this

half and we look forward to seeing them continue. To contextualise vis-à-vis the industry, CPL outperformed the industry four times in the first six months of the year so very, very strong performance. That is really what we are going to keep driving and keep focusing on. Nothing new on that side Greig.

In terms of the retail property piece actually I suppose that is going to be a broader economic and macroeconomic piece for the Chinese economy. That being said the inflation print that was done for China this morning at 2.7% CPI is not causing any concerns in the market. The core inflation is running at 0.8%. The Chinese consumer is not driving up demand significantly. We do believe that there is an opportunity to continue really focusing on the health and protection space which is what we have been doing for a number of years. I think Covid and the unpredictability of Covid outbreaks around the world continues to remind customers of the need to get some protection should they suffer from Covid or should unfortunately die from Covid. At this stage we are not seeing that there is going to be a major direct impact and the impact from ourselves in terms of our balance sheet is fairly minimal. Thanks Greig.

Patrick Bowes (Chief of Investor Relations, Prudential plc): Thank you. To that end I have got a question on the web which I will just read out. Part of it has already been answered but Nasib at UBS is asking, 'What opportunities do you see in the banca space and which markets?' And then a question for Lilian which is, 'How would you expect to run sales from the branch in Macau once that licence is approved?'

Mark FitzPatrick: Thank you for that question. In terms of the banca space one of the areas that we have said for a little while now that we continue to explore and consider opportunities to close the gap is in Indonesia where the market is a bit more balanced than our business. Our business is predominantly agency and the market is a little bit more balanced between agency and banca. We are very focused on various opportunities to try and pick up a bancassurance deal in Indonesia if possible, as Solmaz said a short while ago. That is probably the main component. Our big regional bancassurance deals are pretty much locked up for many years and we are very pleased at how well the processes are progressing. We continue to keep an eye on individual opportunities that may arise, ensuring at all times that we are very disciplined. We do not want to overpay and we want to make sure the terms and conditions are appropriate for what we do in the banca space. Lilian then on Macau.

Lilian Ng: I think as Mark mentioned we are applying for a branch licence of Prudential Hong Kong. Macau will operate as a branch; A lot of the infrastructure and operations will be done in Hong Kong. In terms of the sales model obviously we will continue to put in a multi-channel distribution. We actually already have capability in Macau in our rep office setting up, for example recruiting corporate salespeople to service the agency channel. That is one area. Interestingly enough on the banca side we are already starting to talk to some of our bank partners who are in the region and who have a branch in Macau. It will be in the same way that we actually run sales in most of our markets.

Patrick Bowes: Thank you, that is all the questions on the web.

Andrew Crean (Autonomous): Good morning everyone. Can I ask three questions please? Firstly could you give a sense of how you see the opportunity when the border opens in terms of sales and new business profits relative to the levels that you were doing in 2018? Secondly

coming back on the first questions could you give us the growth rate in China and Hong Kong new business profits or APE first quarter and second quarter so we get a sense of momentum. Thirdly coming back on this capital position, could you tell us in terms of the war chest for acquisitions, like say the China JV, how much you have got either in terms of the amount of free surplus available for that or in terms of the Holdco cash. It is important I think that investors understand what your fire power is.

Mark FitzPatrick: Okay. Andrew let me start off with the border opening piece and then I will hand over to James for the other components. In terms of the border opening vis-à-vis the previous periods when we had significant volume coming through and I think pretty close about \$100 million per month was effectively coming through of new business profit. Effectively from the research that we have done and the surveys we have done, a number of other houses do these surveys of people in Chinese Mainland asking about their appetite and potentially travelling down to Hong Kong. Then when they hear what they might do. We have seen an uptick actually in appetite for people to travel down to Hong Kong. We have seen an uplift in terms of people's propensity to purchase, especially those who are in the 45+ age group and those who have maybe about \$100,000 or more to be able to invest. It is a significant uptick. We think that that demand has not gone away. It is pent up. Maybe the very high net worth individuals in Chinese Mainland have ways to be able to move some of their wealth around the globe but our population, our audience rather is very much the affluent, the mass affluent and therefore they really need the border to be open to be able to benefit from the multi-currency opportunities to be able to benefit from the critical illness cover and to be able to access the Hong Kong healthcare system that is so well known and so well respected. Again that is something that we explored in the survey. Where people said for minor illnesses they are very happy to deal with local hospitals, if it is anything significant they would like to come down to Hong Kong given the brand that Hong Kong has. I think the border opening so much will depend Andrew on how the border opens. I think it is unlikely the border is just going to be flung open. Our expectation is it is more likely to be a gradual opening and likely to be GBA in the first instance that may get a broader opening. Just to remind everybody of GBA population size and scale it is sized at about 70 million people and a scale a bit like South Korea in terms of an economy. It is a very sizeable opportunity for us, for the market and also for Hong Kong because at its height we had a million visitors a week coming down from mainland China. While I am in Hong Kong at the moment you see it has got a lot more energy about it. People are very enthusiastic given quarantine rules have being restricted. It will be even better when the visitors come down.

James Turner: Andrew thank you. I will do the APE one first in terms of Hong Kong and China. In Hong Kong it was split pretty much 50/50 in terms of Q1/Q2. In China in terms of APE it was weighted much more to the first quarter and three-fifths in the first quarter. In terms of your second question in terms of where we are on –

Andrew Crean: Sorry, the growth rates there it is really the growth rates rather than the split quarter-to-quarter I was after.

James Turner: ~~[Editor's note Okay so in terms of Hong Kong the growth rate in Q1 was down about 18% and in Q2 it was up 19%. In China clearly in the first quarter you will recall that we had the fire sale of these CI products so that is reflected in Q1 where is it down 62%~~

~~and Q2 it was up 41%.~~—Revised answer by James Turner]—In Q1 in Hong Kong it was a 17% drop, in Q2 it was flat and in Q1 in China it was a 7% drop and in Q2 it was a 68% increase.

Andrew Crean: Blimey.

James Turner: In terms of the second question you asked about fire power, I refer you back to what I said before. It is not appropriate to give a number but it is best to look at examples. In that Thailand example the investment into TTB where we had just over \$750 million that we invested. \$530 million was from central resources, \$240 million was from local resources. That is about demonstrating that the free surplus that we hold in the LBUs is important for those investments and that we are able to call on it when we need to. You are right that we have \$2.1 billion of cash in the centre and we are very successful in growing our business and then being able to convert that growth into cash which ultimately comes up in terms of remittances. We are not looking to remit more than we need and we have got the financial flexibility aligned with how I describe the free surplus earlier to the earlier question.

Andrew Crean: Thank you.

Li Jian (Huatai Securities): Hi, my first question is about mainland China. There is a discussion in the market that the overall demand of the insurance in mainland China is weakening because people see a huge number of agents are leaving the industry. What is your observation and what is your future competitive advantage in this market. Secondly is about Malaysia. What is the opportunity in the Takaful business and what are you going to do to maintain your leadership?

Mark FitzPatrick: Okay, perfect. Thank you for those questions. Solmaz I will come to you for the Malaysia Takaful opportunity and then in terms of Chinese Mainland in terms of demand, undoubtedly the number of agents across the industry has fallen dramatically over the course of the last few years. I think a large part of that is you look at the type of business many of those agents were selling it tended to be very short-term endowment type products and that is not really what the CBIRC is looking for the industry to sell. The industry is looking to make sure there is greater protection and there is more long-term cover rather than short-term investment component. We do think there is undoubtedly a big shift towards quality and we are seeing that play through. Therefore one of our big advantages in the market is that we have never played in that space where some of the other agents and some other people played with a lot of short-term endowments. It was not something that we felt was attractive business or business we wanted to do so we have within our organisation, within the management team and within our agents a culture and a mindset of actually selling more health and protection products. We do think that that opportunity will continue and we think with our bancassurance footprint given how wide it is that gives us a tremendous opportunity. When we move into a new city, a tier 2 tier 3 city, it gives us an opportunity to establish a presence almost immediately and be selling through those bank branches while we then recruit up agents locally and while we then actually mature our business locally. We are very positive about the prospects and opportunities within Chinese Mainland for insurance. CBIRC has made it very clear that they are looking for a greater level of penetration than they have at the moment. They spoke about a penetration level of close to 5%. We are well

under that as an industry in Chinese Mainland so there is a long way to go before we reach anywhere near saturation. Solmaz could we go to Malaysia please and Takaful?

Solmaz Altin: Yes of course, thank you Mark. Thank you to Huatai for the Takaful question on Malaysia. Takaful is fast-growing segment in Malaysia and is an important component of our Malaysia APE and NBP overall. The size of the opportunity is actually very huge with Islam being the most widely practiced religion in Malaysia with around 60% of the entire population. We are with our PruBSN company we are the Takaful market leader with 29% market share, as of the financial year 2021. We are also launching new health and protection Takaful products. For example, the product called BSN Sakinah. We launched that in this past half year and this helps us support the very high APE mix of 67% in our Takaful business. We have a strong Takaful agency force, [Editor's correction: as I mentioned, with 160,000] and we have grown them [Editor's correction: year-on-year just in the past half year] by another 15% or 19,000. Back to you Mark.

Mark FitzPatrick: Solmaz thank you. On Takaful it is a huge opportunity, one that we are very, very excited about. Just for clarity I think the agent numbers Takaful is about 16,000. I think the number Solmaz gave was for Indonesia. The Takaful piece is about 16,000.

James Turner: Andrew, I picked up the wrong comparative number. The actuals that I gave you were correct in terms of quarter-on-quarter but the year-on-year I was picking up a different number. In Q1 in Hong Kong it was a 17% drop, in Q2 it was flat and in Q1 in China it was a 7% drop and in Q2 it was a 68% increase. Apologies for that but just to correct it immediately.

Michael Chang (CGS-CIMB): Hi, sorry James just on your comment about the second quarter for mainland China of 68% year-on-year, could you shed some light on what the agency was for 2Q versus bancassurance? I think that ties to what Lilian said earlier on that since the beginning of this year productive agents have increased month-to-month for every single month. Maybe shed some light on that. Secondly on the Macau business obviously a great opportunity to reclaim some of the MCV-related business. Could you shed some light on what proportion of the MCV historically came from the Greater Bay area, the Guangdong region? Maybe that could be some easy wins that could be tapped into in the near-term. Thanks.

Lilian Ng: Macau obviously there is the opportunity. In the past what we have seen pre-2019 the contribution from the Guangdong area is about a quarter of our MCV business will come from the GBA area. Actually if you then added to that what we call the Eastern Coastal Provinces, south of that who come to Hong Kong, that would be 50% of our business. We expect that is how the flow may come when the border opens up.

James Turner: In terms of split in terms of H1 what we saw in China is agency was down 11% and bancassurance was up 28%. That is completely in line with what Lilian was saying earlier.

Dominic O'Mahony (BNP Paribas Exane): Thanks for taking the questions, three from me if that is alright. The first you highlighted 22 new bancassurance arrangements. I wonder if you could highlight which geographies or which big arrangements you would highlight within that, whether there are any particularly meaningful large new arrangements that you could highlight. The second question is on the free surplus generation in the life business. This is

very, very strong. I think it was 18% increase in the expected free surplus generation and it is also well, well ahead of the outlook for 2022 as presented at full year 2021. I am wondering whether there are mark-to-market effects within the operating free surplus generation and if so how big that is. Then the third question if I look at the insurance margin which is very strong I was curious as to whether the lockdowns and border Covid-related measures may have reduced claims activity. I think that was something you highlighted in previous periods. For instance discretionary health claims may have reduced. I am wondering whether that was relevant in this period and if so if you have any idea of how much. Thank you.

Mark FitzPatrick: Thank you, okay, alright. Lilian do you want to give an overview of the new banca arrangements please in terms of the broad geographies that we have?

Lilian Ng: I think for 2022 actually the majority of that is in Chinese Mainland. As you know, in the Chinese Mainland it is an open architecture arrangement so we have been able to onboard 11 new bank partners in the first half of 2022. The majority of that is new and the rest is actually operating on the existing arrangements that we have with our regional bank partnership. We spoke about the Thailand one as well. That is what is adding the value.

Mark FitzPatrick: James in terms of the two questions on FS generation and insurance margin?

James Turner: To be honest they are both linked. The insurance margin, the 17% increase in the insurance margin benefits from the impact of the adoption of Hong Kong RBC. There is about \$200 million above the line and that goes through the insurance margin so that is why that is up at 17%. If you strip that out it would be an underlying of approximately 6-7%.

Dominic O'Mahony: Brilliant, thank you.

Fulin Liang (Morgan Stanley): Thank you very much, two quick questions on IFRS. The first one is as a follow up on Indonesia. If I look at the operating profit actually all of your regions are still showing high single digit or low double digit operating profit growth apart from Indonesia. I wanted to see when we can expect to see the turnaround in Indonesia from the IFRS side. The second thing is on Hong Kong. If I back out your numbers it seems like a majority of the short-term fluctuation came from the Hong Kong business which I was a bit surprising to me because in the past we have been advertising that the majority of Hong Kong's business is with-profit which means that it is actually relatively stable under IFRS metrics. I wonder actually is it because of your general account despite a small proportion in Hong Kong is still a very large absolute amount? What is the reason for that? Do you think that IFRS 17 implementation will change that? Thank you.

Mark FitzPatrick: Okay, thank you. In the interests of time let me just deal with the first one quickly and then James maybe if you could comment on the second two? In terms of the IFRS from Indonesia, the op profit, that is down. I suppose not particularly surprising given that there is a bit of a lag effect in terms of over the course of the last few years sales have unfortunately been down in Indonesia as we have retooled that business. Therefore effectively what I think you will see is a continuation of the softness in the Indonesian IFRS numbers until such time as we see the agency performing again at the levels that we are familiar with and until such time as we see effectively a sustained period of the market being

open and agents able to interact with customers on a more normalised level. James in terms of Hong Kong?

James Turner: You are right, a significant amount of the short-term flux is from Hong Kong and that is really reflecting the fact that we focus on high quality health and protection business. It is not particularly sensitive to market movements but all of those profits you are discounting at a higher level. That is what you are seeing driving that number. In terms of IFRS 17 you will see a spreading of profits. That is the nature of it. That has both advantages on a with-profits business where they are typically under IFRS 4 back ended but clearly under products where they recognise some more upfront they are spread out more along the whole of the life cycle of that product.

Patrick Bowes: Thank you operator. I will pass back to Mark who has got some closing comments.

Mark FitzPatrick: Thank you very much everyone. As you can see we have demonstrated hopefully that our business is delivering quality and disciplined growth, that we have diverse sources for this growth because of the regional footprint but also our digitally enhanced multichannel distribution model and a predominant and very strong focus on health and protection and a very keen focus on execution and delivery. There is plenty more to go for and we look forward to further progress as the effects hopefully of Covid diminish everywhere and with Asian growth generally higher than in the West we are really looking forward to a very exciting future here in Asia and Africa. Thank you very much everybody for your time this afternoon and this morning. We look forward to chatting to you in due course.

[END OF TRANSCRIPT]