Moving to TEV: accompanying notes

Moving to TEV: Key messages

- To better represent underlying growth trends and allow greater comparability with our Asia peers, we will shift the basis of our embedded value reporting from the CFO Forum European Embedded Value principles we adopted in 2005 to a 'Traditional Embedded Value' ('TEV') approach starting from our 1Q25 update. We will provide an indication of TEV comparator results with our 9M24 and FY24 reporting
- This is an accounting change that does not affect the economics or ultimate cash flows earned by the business. This has no impact on our strategy, our capital allocation priorities or our dividend policy. There is no change to the level of required capital, free surplus or free surplus ratio as this is based on regulatory reporting.
- While there are changes to cash flow projections reflecting the introduction of long-term investment return assumptions, the EV reduction is largely the result of a higher discounting effect with a 2.3 percentage point increase in the in-force discount factor. At the end of 2023 our TEV weighted average RDR is 8.2%, broadly in line with our peer.
- We have also capitalized head-office expenditure costs which previously sat outside the EEV 'covered business' perimeter.
- These changes result in reductions of 20% and 25% to embedded value and new business profit respectively, on a like-for-like basis. However, the operating return on embedded value is estimated to increase by 1 to 2 percentage points from 12% for FY23 to 13-14% on a TEV basis. This RoEV calculation applies the start period equity excluding goodwill and intangibles as the denominator, to aid comparison with peers, similar to the approach adopted for our EEV reporting at HY24.
- Our 2027 Gross OFSG cash objective of above $4.4bn and our NBP objective CAGR of 15-20% over 2022-2027 are unchanged, but the starting 2022 TEV NBP value is reset to of $1.7bn post central costs; therefore the 2027 NBP objective range implied is $3.4-4.2bn.

Key TEV impact results from increased RDR

- The key change is to the value of in-force ('VIF'), and also the introduction of capitalizing of central costs.
- Discount rate changes:
    - The EEV discount rate essentially reflects market risk determined by product, with explicit allowance for the fair value of options and guarantees, and a fixed 50bps for non-market risk. In some of our smaller entities an additional allowance for emerging market risk is also applied.
    - Under TEV, the discount rate reflects all sources of risk and can be considered as our long-term risk free rate plus a risk margin to cover all financial and non-financial risk.
    - Our average TEV risk discount rate is 8.2%, 2.3 percentage points higher than that on a EEV basis, and this increase drives the largest impact on VIF.

- Future investment return assumptions. TEV introduces long-term risk free rate assumptions, to which our risk free rates grade to over time from current market levels. The impact on modeled cash flows is minimal over the first 20 years.
- Recurring corporate expenditure, which previously sat outside the EEV 'covered business' perimeter, are capitalized.
- Operating assumptions, such as claims, expenses and persistency, are unchanged and remain aligned to our existing IFRS and EEV bases.
- This results in a Group TEV at end 2023 of $34.2 billion equivalent to 1,241 cents or 973 pence per share.

Comparable risk premiums

- The chart on the left shows the in-force risk premiums (calculated as the risk discount rate less risk-free assumption) used in our TEV economic assumption compared with those publicly disclosed by our peer at the end of 2023.
- Each market will have risks driven by a number of factors including product mix and it should not be assumed that a like-for-like comparison is relevant to all markets.
- While there are inevitably some differences from market to market, these are ultimately relatively small, shown on the right-hand chart on a total weighted average basis showing this based on both our own mix and the mix of the peer, as well as the peer's actual basis.
- At a group level, based on our geographic mix, our weighted average risk margin is 4.4%, nearly twice that of our EEV basis. If our risk margins are weighted with the geographic mix of our peer, our average is 4.7% or almost exactly in-line.
- This close alignment should be seen in the context of:
    - Our focus on health & protection, with profits and unit-linked products, with relatively limited exposure to direct market risks.
    - In markets such as Hong Kong, we have a UK style with profit structure with limited risk for the shareholder.
    - Our equity risk premium assumptions remain conservatively set and unchanged.

TEV leads to lower EV / higher RoEV
RoEV upside as strategy executed

- Mechanically, TEV results in a lower EV but a higher return on that EV. The 2023 operating return on embedded value, or RoEV, is estimated to increase by 1 to 2 percentage points to 13-14% from an EEV RoEV of 12%. The key mechanical effects resulting from moving to TEV are shown on the slide.
- In dollar terms, the in-force expected return, or 'unwind', is estimated to be materially unchanged at FY23 as a higher discount rate is balanced by a lower VIF.
- There may also be some differences in the quantum of variances impacting VIF given the shift to TEV.
- Looking forward, we see material scope to increase this RoEV by delivering NBP growth, eliminating adverse variances, growing asset management earnings and managing our capital with discipline.

No change to 2022-2027 NBP CAGR nor 2027 Gross OFSG objectives. NBP restated to a TEV basis

- Moving to TEV does not change our 2022-2027 NBP average growth objective, but is shifted to a TEV basis implying a 2027 objective range of between $3.4bn and $4.2bn. the starting point for 2022 NBP and the 2023 outcome is adjusted accordingly and shown in this slide.
- Our 2027 cash objective, measured in terms of Gross OFSG, is unchanged at above $4.4bn.