M&G

# IFRS 17 market update and unaudited comparatives

20 July 2023

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# Key messages

## All figures refer to FY 2022

**1** IFRS 17 does not change M&G's strategy, solvency, capital mgmt. framework or dividend policy

**2** Shareholder Equity increases by over 50% to £4.3bn, Adjusted Equity is £8.3bn[1]

**3** IFRS leverage ratio reduces to 28%[2]

**4** Adjusted Operating Profit increases by 4% to £552m

**5** CSM of £5.1bn[3] shows sizeable discounted future value from M&G insurance operations

**Note:** All figures in this presentation given on an IFRS 17 basis are preliminary, on an unaudited basis and subject to change. CSM = Contractual Service Margin

1. Calculated as: IFRS 17 Shareholder Equity + CSM attributable to Shareholder net of tax; 2. Calculated as: Nominal value of subordinated debt / (Adjusted Equity + Nominal value of subordinated debt); 3. CSM attributable to Shareholder before tax; the equivalent figure net of tax is £4.1bn

# M&G’s priorities and targets unaffected by the transition to IFRS 17

No change to our strategy, solvency, capital management framework or dividend policy

## Priorities

1. Financial strength
2. Simplification
3. Growth

## Targets

£2.5bn Operating Capital Generation over 2022-24

Solvency II leverage ratio < 30% by 2025

£200m cost savings[1] and Asset Manager CIR to < 70% by 2025[2]

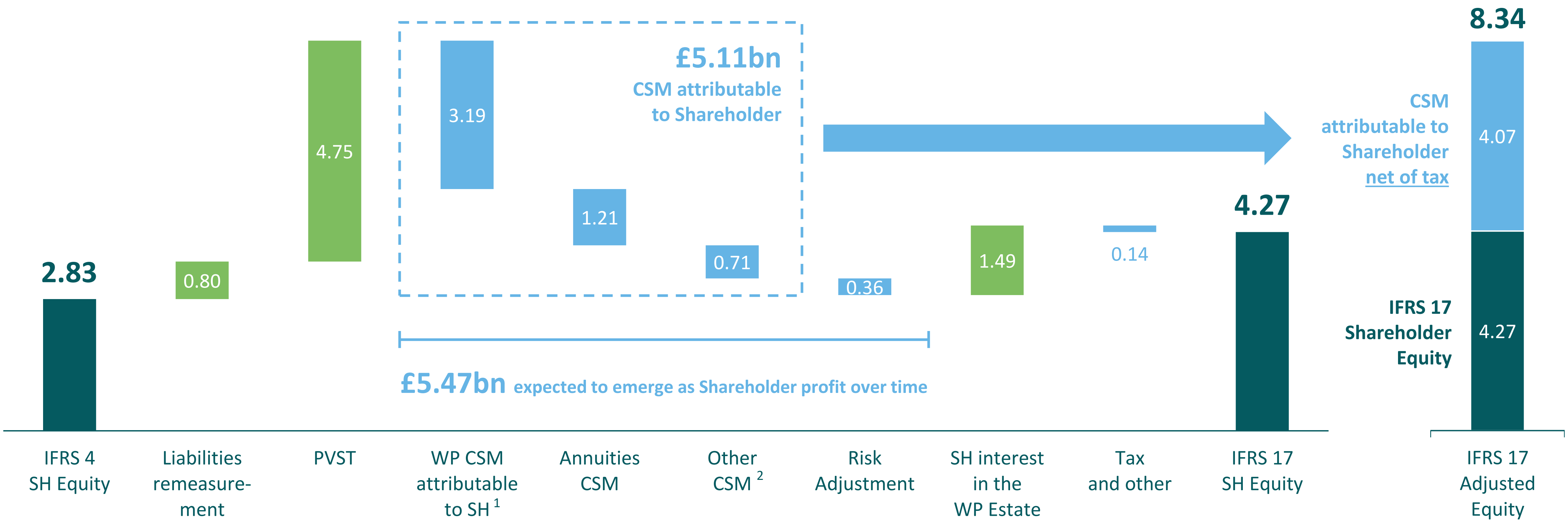
> 50% earnings from the Asset Manager and Wealth by 2025[3]

1. Refers to the managed cost base; 2. Refers to the Core Cost Income Ratio (CIR), which excludes performance fees from the definition of income; 3. Based on IFRS 4 and financial segmentation as relevant at the time of the 2022 FY Results

# Shareholder Equity increases by over 50% from £2.8bn to £4.3bn

## IFRS 17 Adjusted Equity of £8.3bn includes £4.1bn CSM attributable to SH net of tax

### Shareholder Equity as of FY 2022 (£bn)



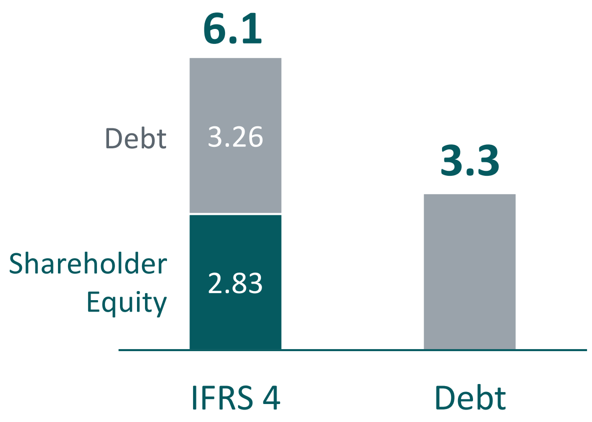

**Note:** SH = Shareholder, PVST = Present Value of future Shareholder Transfer from the With-Profits fund, WP = With-Profits, CSM = Contractual Service Margin

1. Total With-Profits CSM at FY 2022 is £3.85bn, of which £3.19bn attributable to Shareholder and £0.66bn attributable to With-Profits Policyholders; 2. Other CSM predominantly relates to M&G investments future profits from the management of the internal client assets, and to PIA (Irish subsidiary)

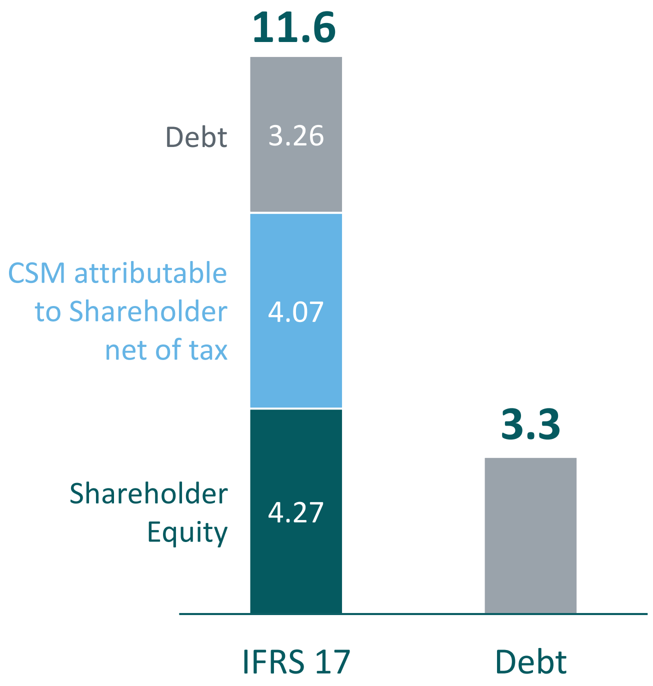
# FY 2022 IFRS leverage ratio reduces from 54% to 28%

## IFRS 17 leverage ratio compares favourably to Solvency II leverage ratio of 35%

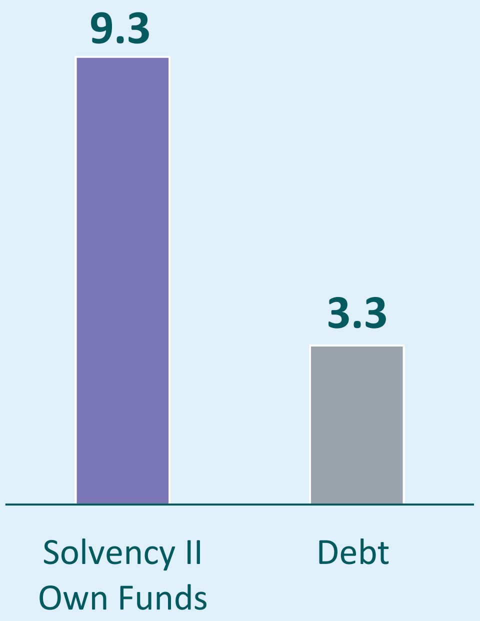
### IFRS 4 view
**54% leverage ratio**




### IFRS 17 view
**28% leverage ratio**




### Solvency II view
**35% leverage ratio**




- The Solvency II leverage ratio continues to be the key leverage metric in our capital management framework
- We remain committed to reducing this ratio to < 30% by 2025

**Note:** All figures on this page are in £bn and refer to FY 2022 financial position; all references to Debt indicate the nominal value of subordinated debt

# 2022 movements in the Annuities CSM

## Increase in CSM over the year shows resilience of earnings despite the book being closed

| (£bn) | FY 2022 | Notes |
|---|---|---|
| **Opening Annuities CSM** | **1.17** | |
| New Business | 0.01 | Expected to be negligible as long as no new business is written |
| Interest accreted on the CSM | 0.02 | Interest on the CSM accrues at c. 2% p.a. – Rate of returns is expected to remain stable over time[1] |
| Assumption changes and variances | 0.09 | Positive impact from longevity assumptions partly offset by short-term expense provision |
| **Closing Annuities CSM pre-release** | **1.30** | |
| Release of CSM to AOP | (0.09) | c. 7% of the 'Closing CSM pre-release' ⇐ **Impacts the in-year AOP** |
| **Closing Annuities CSM** | **1.21** | |

**Note:** CSM = Contractual Service Margin, AOP = Adjusted Operating Profit. 1. The yield is equivalent to the 1 year point on the risk free yield curve plus liquidity premium – the yield has been locked at the transition date to IFRS 17 and is not expected to change as long as no new business is written in the annuity book. If new business is written, the yield would become a weighted average of the c. 2% yield on the existing business and the yield of the new business which will be determined by the prevailing economic conditions at the time

# 2022 movements in the With-Profits CSM (PruFund + Traditional WP)

## CSM increased by c. 20% mainly due to favourable market impact from higher rates

| (£bn) | FY 2022 | Notes |
|---|---|---|
| **Opening With-Profits CSM** | **3.17** | **Of which £2.53bn attributable to Shareholder** and £0.64bn to Policyholders |
| Release of CSM to AOP | (0.25) | c. 10% of the ‘Opening CSM attributable to SH’, excludes lines below from AOP — In-year AOP |
| New Business | 0.02 | CSM increase expected to be c. 0.4% of PruFund gross flows |
| Interest accreted on the CSM | 0.06 | Interest on the CSM accrued at c. 1.9% in 2022[1] |
| Assumption changes and variances | 0.04 | Favourable longevity assumption changes[2] and adverse persistency variances |
| Market impacts | 0.98 | Mainly due to higher interest rates increasing future Shareholder transfers (primary driver of CSM)[3] |
| Release of CSM to non-op result | (0.17) | Portion of ‘market impacts’ included in the in-year result and CSM release attributable to PH |
| **Closing With-Profits CSM** | **3.85** | **Of which £3.19bn attributable to Shareholder** and £0.66bn to Policyholders |

**Note:** All figures in the FY 2022 column show the values for the entire With-Profits fund (combining PruFund and Traditional WP), WP = With-Profits, CSM = Contractual Service Margin, SH = Shareholder, PH = Policyholder, AOP = Adjusted Operating Profit

1. The rate of return is set at the start of each year and moves roughly in line with the 1-year risk free yield; 2. The With-Profits fund owns a book of non-profit annuities; favourable longevity assumption changes increase the With-Profits Estate; 3. We will provide economic sensitivities in due course

# Profitability under IFRS 17

# Restated 2022 Adjusted Operating Profit

## AOP increases by 4% due to IFRS 17 transition and revised AOP methodology

| (£m) | IFRS 4<br>FY 2022 | IFRS 17<br>FY 2022 | Notes |
|---|---|---|---|
| **Asset Management AOP** | **264** | **264** | **No change** |
| Wealth | 96 | 136 | Change in Wealth AOP driven entirely by PruFund's transition to IFRS 17 |
| *o/w With-Profits (PruFund UK)* | *128* | *167* | *Detail on page 12* |
| Heritage | 466 | 390 | Both Traditional With-Profits and Annuities AOP impacted by IFRS 17 |
| *o/w Traditional With-Profits* | *226* | *134* | *Detail on page 12* |
| *o/w Annuities & Other* | *240* | *256* | *Detail on page 11* |
| Other Retail & Savings | 10 | 19 | Change mainly due to the reclassification of a provision |
| **Retail & Savings AOP** | **572** | **545** | **Change driven by transition to IFRS 17 and revised AOP methodology** |
| Head Office cost | (143) | (93) | FX non-cash loss of £(50)m moved to non operating result |
| Debt interest cost | (164) | (164) | No change |
| **Total Corporate Centre AOP** | **(307)** | **(257)** | **Change driven only by revised AOP methodology** |
| **Total Adjusted Operating Profits** | **529** | **552** | **+4% impact from IFRS 17 transition and revised AOP methodology** |

# Shareholder Annuities: Restated FY 2022 AOP increases by c. 7%

## More stable AOP going forward, minimal impact from assumption changes and mismatching

| Shareholder Annuities (in £m) | | IFRS 4 FY 2022 | Impact | IFRS 17 FY 2022 | Notes |
|---|---|---|---|---|---|
| CSM release | | - | | 89 | Calculated as c. 7% p.a. of the period 'closing CSM pre-release' |
| Return on excess assets and margin release | | 163 | | 138 | • Lower result as the creation of the CSM reduces surplus assets<br>• Margin releases replaced by slightly lower risk adjustment releases |
| Asset trading & optimisation | | 35 | | 41 | • Different portfolio of assets is used to back IFRS 17 liabilities compared to IFRS 4<br>• IFRS 17 portfolio better aligns to the Solvency II one, earnings more closely match capital generation |
| Longevity assumptions | | 193 | | - | • Eliminated as a source of earnings as assumptions changes are absorbed by the CSM<br>• c. 7% of the change in CSM impacts the in-year AOP through the "CSM release" line |
| Other Annuities | Assumption and model changes | (19) | | - | Same treatment of changes to longevity assumptions |
| Other Annuities | Mismatching profits | (122) | | - | Limited / no mismatching expected under IFRS 17 |
| Other Annuities | Experience variances | (8) | | 0 | • Only reflects variances fully incurred in the period, longer-term ones absorbed by the CSM<br>• Expense variances expected to be the main contributor, likely neutral / small negative |
| Other Annuities | Other provisions and reserves | (15) | | (29) | • Impact from provisions and reserves captured through the CSM and released over time<br>• In-year result expected to be broadly neutral with possible short-term volatility (e.g. £29m loss in 2022[1]) |
| **Shareholder Annuities AOP** | | **227** | | **239** | |
| Other non-Annuities AOP | | 13 | | 17 | |
| **Shareholder Annuities & Other AOP** | | **240** | | **256** | **+7% impact from restatement** |

**Legend**
- Change expected to lead to an improvement in AOP
- Change expected to lead to a deterioration in AOP
- AOP contribution likely minimal going forward

1. One-off loss not expected to recur, due to a reduction in the lifetime mortgage voluntary repayments assumption

# With-Profits: CSM releases become the main profit driver

## IFRS 17 reflects different business maturity profile for PruFund and Traditional WP

| PruFund (in £m) | IFRS 4 FY 2022 | Impact | IFRS 17 FY 2022 | Notes |
|---|---|---|---|---|
| CSM release and risk adjustment unwind | - | ↑ | 131 | Calculated as c. 10% p.a. of opening CSM attributable to Shareholder |
| Expected return on excess assets | - | ↑ | 21 | Expected return on the Shareholder share of the With-Profits fund excess assets (c. 2.4% rate of return in 2022)[1] |
| Shareholder transfers | 146 | ↓ | - | Profits driven by CSM releases, transfers no longer impact AOP but continue to determine cash generation |
| Equity hedging on the Shareholder transfer | (33) | ↑ | - | Hedge result treated as non-operating due to the revision of the AOP methodology following IFRS 17 transition |
| Other | 15 | ↑↓ | 15 | No material change, 2022 provision release not expected to repeat |
| **Adjusted Operating Profit** | **128** | → | **167** | **+30% as back-ended IFRS 4 profit is spread across product lifetime** |

| Traditional With-Profits (in £m) | IFRS 4 FY 2022 | Impact | IFRS 17 FY 2022 | Notes |
|---|---|---|---|---|
| CSM release and risk adjustment unwind | - | ↑ | 121 | Calculated as c. 10% p.a. of opening CSM attributable to Shareholder |
| Expected return on excess assets | - | ↑ | 19 | Expected return on the Shareholder share of the With-Profits fund excess assets (c. 2.4% rate of return in 2022)[1] |
| Shareholder transfers | 300 | ↓ | - | Profits driven by CSM releases, transfers no longer impact AOP but continue to determine cash generation |
| Equity hedging on the Shareholder transfer | (69) | ↑ | - | Hedge result treated as non-operating due to the revision of the AOP methodology following IFRS 17 transition |
| Other | (5) | ↑↓ | (5) | No material change |
| **Adjusted Operating Profit** | **226** | → | **134** | **-41% due to the mature profile of the book** |

1. The 2022 2.4% rate reflected the weighted average return on the With-Profits estate at the start of the year
This rate of return can change over time and is mostly driven by the movement in risk-free rates at the start of the year

# 2023 Half-Year IFRS 17 Results

## Retail & Savings segment

| Wealth | Notes |
|---|---|
| **PruFund** – CSM release and risk adj. unwind | Expect to be c. 5% of the opening CSM (c. 10% on annual basis) – 2023 PruFund opening CSM attributable to Shareholder is c. £1.7bn |
| **PruFund** – Expected return on excess assets | 2023 rate of return to be estimated adjusting the 2022 rate by the move in risk-free rates between 01/01/22 and 01/01/23[1] |
| **PruFund** – Expense overrun and other | In-year impact of non-market experience variances, mostly the expense overrun – Expected to be negligible over the medium-term |
| **Non-PruFund** – Advice, platform and other | Result expected to be in line with recent experience |
| **Traditional With-Profits** | Same drivers of PruFund (CSM release, return on excess assets, and other) – 2023 Traditional WP opening CSM attributable to Shareholder is c. £1.4bn |

| Shareholder Annuities & Other | |
|---|---|
| CSM release | Expected to be c. 3.5% of the period 'closing CSM pre-release' (c. 7% on annual basis) |
| Return on excess assets and margin release | Expected to gradually reduce as excess assets decline slightly over time through dividends to the HoldCo (if no new business is written)<br>Higher rates reduce surplus assets but improve the rate of return on them – Balance expected to be marginally negative |
| Asset trading & optimisation | Result expected to remain small positive, broadly in line with 2022 experience |
| Other | Includes multiple offsetting components, expected to remain a small contributor to the results over the medium to long-term<br>Possible short-term volatility might be driven by in-period experience variances and / or results of Unit-Linked business |

1. The quantum of With-Profits excess assets attributable to the Shareholder to which the rate of return is applied should be assumed to be constant Y-o-Y for simplicity (movements in excess assets have a marginal impact compared to the move in rates)

# 2023 Half-Year IFRS 17 Results

## Asset Management and Corporate Centre segments

| Asset Management | Notes |
|---|---|
| Revenues | 2022 H1 revenues were £492m – Key drivers of revenues are average AUMA, flows, and margins:<br>• Average AUMA in H1 2022 were £320bn due to high opening assets of £325bn (before the start of the war in Ukraine)<br>• Opening AUMA for 2023 were £303bn (7% lower YoY) and remained relatively stable over the course of Q1 2023 (£306.5bn at end of Q1)<br>• 2023 Q1 flows of £0.1bn are broadly neutral and only have a marginal impact on a AUMA basis of £300bn+<br>• No major action on pricing has been announced / undertaken over the last 18 months<br><br>The acquisition of responsAbility completed on 01/07/2022. We previously guided to an impact on revenues of c. £50m p.a. (£25m per half-year) |
| Cost | 2022 H1 costs were £367m excluding responsAbility<br>We previously guided that the acquisition of responsAbility has an impact on costs of c. £45m p.a. (£22.5m per half-year)<br>The numbers above exclude any inflationary pressure over the course of the past 12 months |
| Performance fees | Over 2018-2021 these were c. £15m-£40m p.a. and skewed towards H2 |
| Investment income | In line with previous guidance, investment income is dependent on markets, typically small positive but can be volatile |
| Minority interests | Relates to our South Africa and Singapore JVs where we are majority partners, expected to be £(20)m-£(25)m p.a.; it was £(24)m in 2022 |

| Corporate Centre | Notes |
|---|---|
| Head Office | In line with previous guidance, expenses expected to be in the range of £40-£50m, i.e. £80m-£100m p.a. (2021 and 2022 FY Results were at the top end of the range with £95m and £107m respectively). Small amount of investment income on HoldCo assets provides an offset |
| Debt interest cost | In line with previous guidance expected to be c. £80m for the period[1]<br>This is £155m-£160m p.a. from coupons on debt of c. £190m with a c. £25m-£30m positive offset from the amortisation of fair value premium |

1. Exact amount in each period depends on USD / GBP exchange rate

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# Appendix
2022 financials on a IFRS 4 and IFRS 17 basis

# Shareholder Annuities: HY and FY 2022 on a IFRS 4 and IFRS 17 basis

| Shareholder Annuities (in £m) | | IFRS 4 HY | IFRS 4 FY | Impact | IFRS 17 HY | IFRS 17 FY | Notes |
|---|---|---|---|---|---|---|---|
| CSM release | | - | - | | 42 | 89 | • Calculated as c. 7% p.a. (c. 3.5% on a half-year basis) of the period 'closing CSM pre-release'<br>• H2 release is slightly higher than H1 as the H2 longevity review increased the CSM |
| Return on excess assets and margin release | | 76 | 163 | | 68 | 138 | • Lower result as the creation of the CSM reduces surplus assets<br>• Margin releases replaced by slightly lower risk adjustment releases |
| Asset trading & optimisation | | 26 | 35 | | 6 | 41 | • Different portfolio of assets is used to back IFRS 17 liabilities compared to IFRS 4<br>• IFRS 17 portfolio better aligns to the Solvency II one, earnings more closely match capital generation |
| Longevity assumptions | | - | 193 | | - | - | • Eliminated as a source of earnings as assumptions changes are absorbed by the CSM<br>• c. 7% of the change in CSM impacts the in-year AOP through the "CSM release" line |
| Other Annuities | Assumption and model changes | - | (19) | | - | - | Same treatment of changes to longevity assumptions |
| | Mismatching profits | (78) | (122) | | - | - | Limited / no mismatching expected under IFRS 17 |
| | Experience variances | 8 | (8) | | (10) | 0 | • Only reflects variances fully incurred in the period, longer-term ones absorbed by the CSM<br>• Expense variances expected to be the main contributor, likely neutral / small negative |
| | Other provisions and reserves | 1 | (15) | | (0) | (29) | • Impact from provisions and reserves captured through the CSM and released over time<br>• In-year result expected to be broadly neutral with possible short-term volatility (e.g. £29m loss in 2022[1]) |
| **Shareholder Annuities AOP** | | **33** | **227** | | **106** | **239** | |
| Other non-Annuities AOP | | 15 | 13 | | 3 | 17 | |
| **Shareholder Annuities & Other AOP** | | **48** | **240** | | **109** | **256** | |

**Legend**
- Change expected to lead to an improvement in AOP
- Change expected to lead to a deterioration in AOP
- AOP contribution likely minimal going forward

1. One-off loss not expected to recur, due to a reduction in the lifetime mortgage voluntary repayments assumption

# With-Profits: HY and FY 2022 on a IFRS 4 and IFRS 17 basis

| | IFRS 4 | | | IFRS 17 | | |
|---|---|---|---|---|---|---|
| **PruFund (in £m)** | **HY** | **FY** | **Impact** | **HY** | **FY** | **Notes** |
| CSM release and risk adjustment unwind | - | - | ↑ | 66 | 131 | Calculated as c. 10% p.a. of opening CSM attributable to Shareholder (c. 5% on a half-year basis) |
| Expected return on excess assets | - | - | ↑ | 10 | 21 | Expected return on the Shareholder share of the With-Profits fund excess assets (c. 2.4% rate of return in 2022)[1] |
| Shareholder transfers | 76 | 146 | ↓ | - | - | Profits driven by CSM releases, transfers no longer impact AOP but continue to determine cash generation |
| Equity hedging on the Shareholder transfer | (16) | (33) | ↑ | - | - | Hedge result treated as non-operating due to the revision of the AOP methodology following IFRS 17 transition |
| Other | 15 | 15 | ↑↓ | 14 | 15 | No material change, 2022 provision release not expected to repeat |
| **Adjusted Operating Profit** | **74** | **128** | | **90** | **167** | |

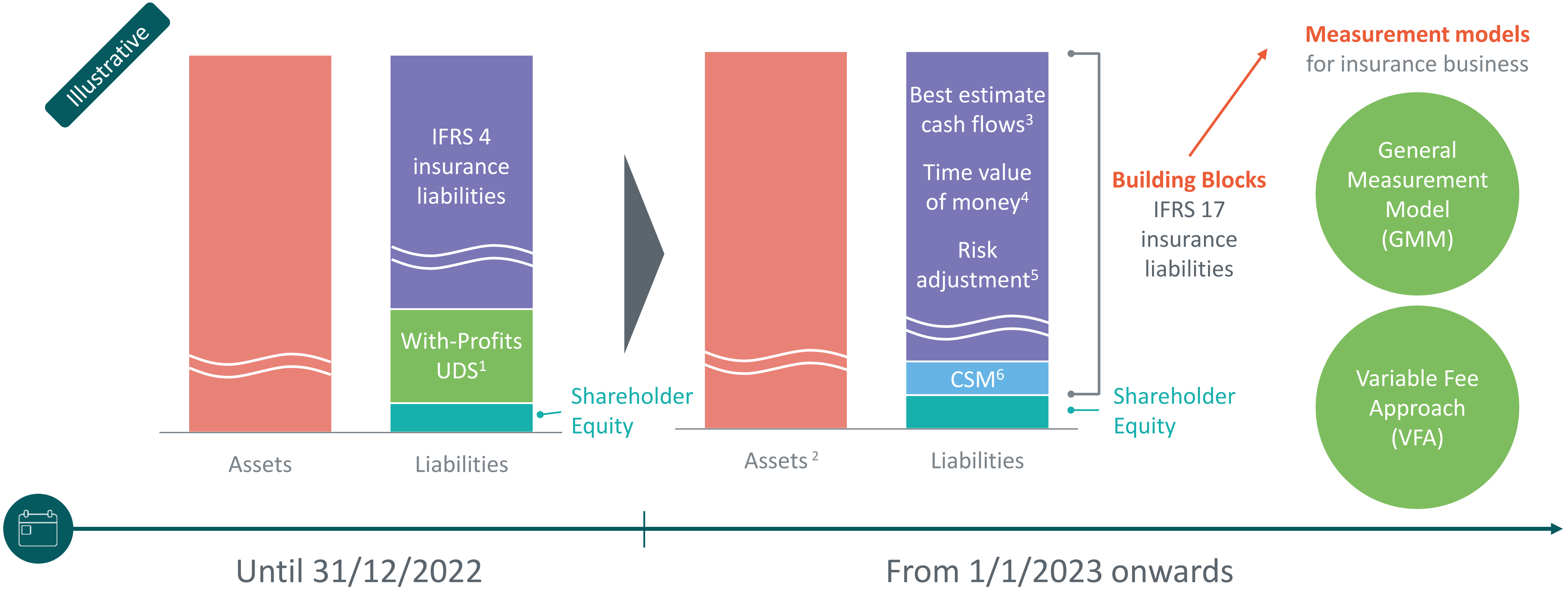
| | IFRS 4 | | | IFRS 17 | | |
|---|---|---|---|---|---|---|
| **Traditional With-Profits (in £m)** | **HY** | **FY** | **Impact** | **HY** | **FY** | **Notes** |
| CSM release and risk adjustment unwind | - | - | ↑ | 60 | 121 | Calculated as c. 10% p.a. of opening CSM attributable to Shareholder (c. 5% on a half-year basis) |
| Expected return on excess assets | - | - | ↑ | 9 | 19 | Expected return on the Shareholder share of the With-Profits fund excess assets (c. 2.4% rate of return in 2022)[1] |
| Shareholder transfers | 150 | 300 | ↓ | - | - | Profits driven by CSM releases, transfers no longer impact AOP but continue to determine cash generation |
| Equity hedging on the Shareholder transfer | (31) | (69) | ↑ | - | - | Hedge result treated as non-operating due to the revision of the AOP methodology following IFRS 17 transition |
| Other | 2 | (5) | ↑↓ | 1 | (5) | No material change |
| **Adjusted Operating Profit** | **121** | **226** | | **70** | **134** | |

1. The 2022 2.4% rate reflected the weighted average return on the WP estate at the start of the year
This rate of return can change over time and is mostly driven by the movement in risk-free rates at the start of the year

# Appendix
Slides presented in December 2022

# IFRS 17 in a nutshell: Fulfilment value liabilities and the CSM

## Two main measurement models to calculate the CSM, GMM and VFA




**Note:** Charts are illustrative. 1. Unallocated Distributable Surplus; 2. The implementation of IFRS 9, with effective date 1 January 2023, will have non-material impact on Assets; 3. Current unbiased probability weighted estimate of future cash flows; 4. Discounted future cash flows using 'Top-down' or 'Bottom-up' rate that takes into account illiquidity premium; 5. Reflects compensation for uncertainty on non-financial risks based on a defined confidence level; 6. Contractual Service Margin

# Introducing the measurement models for insurance business

## GMM applies to our Shareholder Annuities book and VFA to With-Profits

| | M&G application | Common features | Differences |
|---|---|---|---|
| **GMM:** General Measurement Model | **Annuities**<br>and other insurance contracts | • Building Block approach to calculate the CSM (best estimate cash flows and time value of money)<br>• CSM spreads over time the recognition of profits<br>• Non-market assumptions changes are absorbed by the CSM<br>• The risk adjustment is calculated with the confidence level approach | • Impact of market assumption changes is immediately reflected through the P&L<br>• Top down approach to the liability discount rate |
| **VFA:** Variable Fee Approach | **With-Profits**<br>(Traditional and PruFund) and unit-linked business | | • Impact of market assumption changes is absorbed by the CSM and released over time<br>• Bottom up approach to the liability discount rate (risk free + illiquidity premium) |

**Note:** The slide outlines the M&G specific application of GMM and VFA measurement models. Common features and differences refer to the application of the two different measurement models at M&G plc

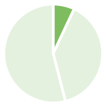
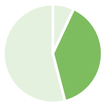
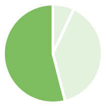
# Approach to transition will influence future profit recognition

## M&G will use a blend of three approaches to determine the opening CSM

IFRS 17 allows three approaches to determine the **CSM opening balance**

Whenever possible we apply the **fully retrospective** or the **modified retrospective** approach

The choice to apply the **fair value approach** is primarily driven by data restrictions and availability

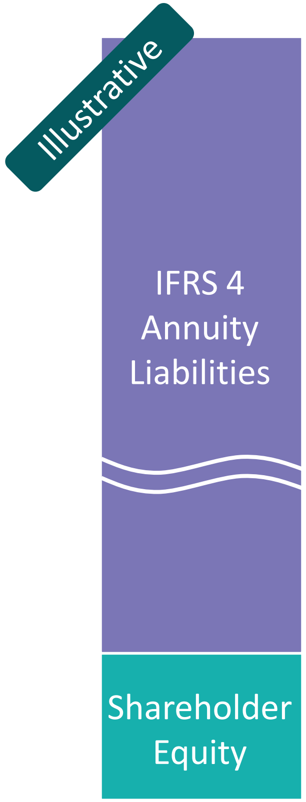
| | Fully retrospective | Modified retrospective | Fair Value |
|---|---|---|---|
| **Approach** | Recognise and measure each group of contracts as if IFRS 17 had always applied<br>It implies the calculation of the CSM at the date the insurance contracts were originally issued and subsequent roll forward to the date of transition | The application of prescribed and narrow simplifications to achieve the closest possible outcome to the retrospective approach by using reasonable and supportable information without undue cost and effort | The CSM is determined as the difference between the “fair value” of the insurance liabilities[1] and the IFRS 17 fulfilment cash flows (Best Estimate + Risk Adjustment) at the transition date |
| **M&G application** | Part of PruFund business | Remaining PruFund policies and part of Traditional With-Profits business | Remaining Traditional With-Profits, annuities and unit-linked |
| **% of insurance liabilities applied[2]** |  |  |  |

1. Calculated according to the IFRS 13 “Fair Value Measurement” principle; 2. Estimated impact ahead of the transition date

# Impact of transition on Shareholder Annuities

## Different profit recognition lowers Shareholder Equity and creates the CSM

### IFRS 4 - Shareholder Balance Sheet




- IFRS 4 annuity liabilities are calculated as the expected value of future annuity payments and expenses, discounted by a valuation interest rate
- Prudent assumptions are used to determine the value of the insurance liability

Shareholder Equity includes profits recognised in previous years

### IFRS 17 - Shareholder Balance Sheet


Fulfilment cash flows include the present value of best estimate liabilities plus the risk adjustment for non-financial risks

- The CSM represents unearned profits under IFRS 17 based on transition calculations
- Under IFRS 4 most profits would have been recognised as Shareholder Equity upfront
- Unearned profits will emerge through the life of insurance contracts (as CSM releases) as services are provided to customers

Reduction in Equity at transition largely due to the CSM set up

**Note:** Charts are for illustrative purposes only

# Impact of transition on the With-Profits Fund

## c.10% of the IFRS With-Profits Fund surplus recognised as Shareholder Equity

### IFRS 4 - Shareholder Balance Sheet


- IFRS 4 With-Profits liabilities are calculated with a market consistent value approach
- Amount expected to be paid based on the current value of investments held by the WPF[2]
- No up-front Shareholder value is capitalised in respect of the WPF[2] surplus

- Excess WPF[2] assets over policyholder liabilities
- Recorded as a liability, with no benefit to Shareholder Equity

### IFRS 17 - Shareholder Balance Sheet


Fulfilment cash flows include:

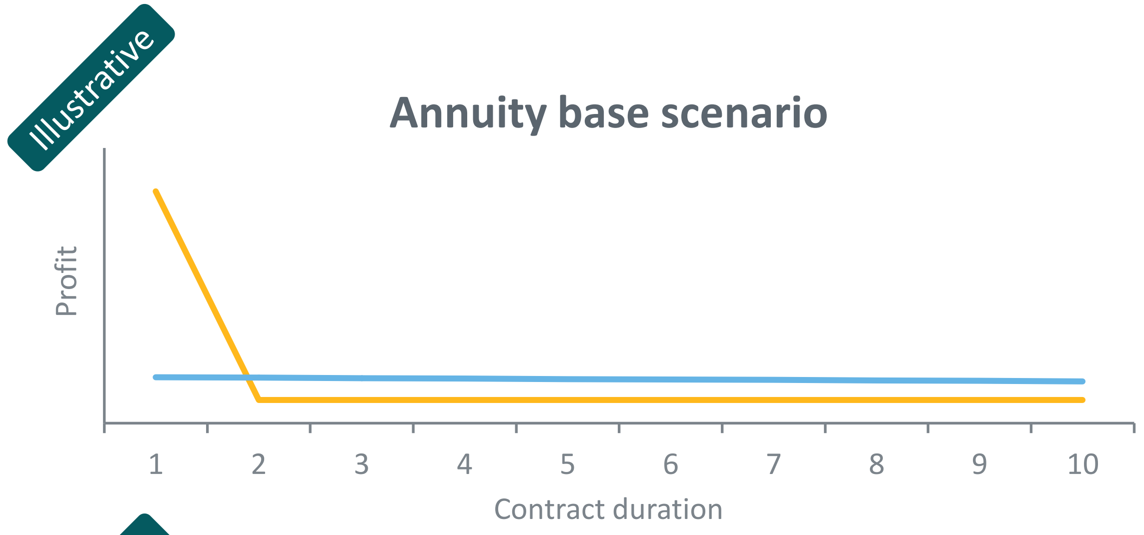
- The present value of best estimate liabilities plus the risk adjustment for non-financial risks, and
- The share of the IFRS WPF[2] surplus that is notionally attributed to current and future policyholders

- The CSM represents unearned profits under IFRS 17 based on transition calculations
- These profits will emerge through the life of insurance contracts as services are provided to customers

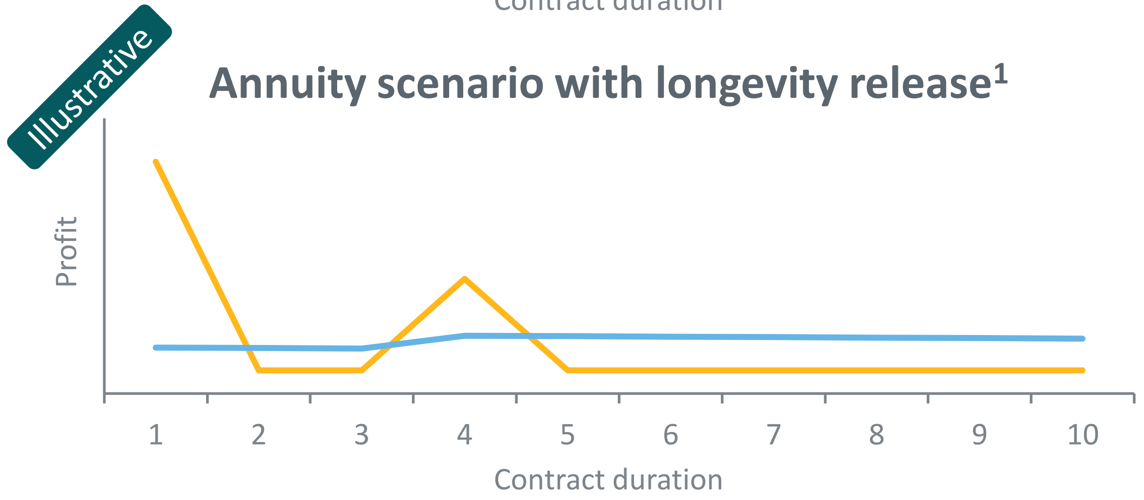
- c.10% of the IFRS WPF[2] surplus is notionally attributed to the Shareholder and is included in Shareholder Equity
- However, the Shareholder has no immediate mechanism for accessing the surplus

**Note:** Charts are for illustrative purposes
1. Unallocated Distributable Surplus; 2. With-Profits Fund

# Shareholder Annuities: Profit signature
## Illustrative example




| | |
|---|---|
| **IFRS 4** | Earnings are frontloaded as Year 1 includes release of profit margin in the premium; lower profits emerging in later years are mainly driven by investment and longevity margins |
| **IFRS 17** | Smooth profit recognition over time through the amortisation of the CSM |




| | |
|---|---|
| **IFRS 4** | Any release in longevity reserves is immediately and fully recognised as profits in the same period it is triggered |
| **IFRS 17** | The CSM absorbs the favourable change in expected future cash flows. The higher CSM leads to higher profit over the subsequent periods due to a larger CSM amortisation |

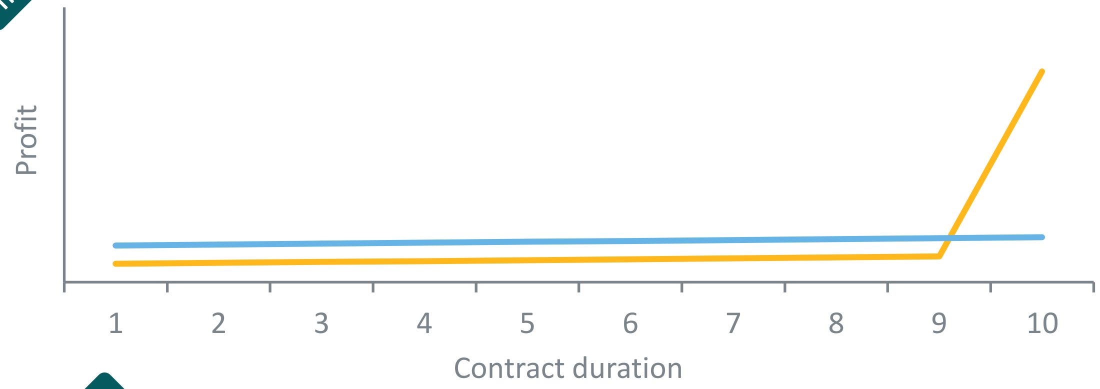
1. Longevity reviews can also be negative

# With-Profits (including PruFund): Profit signature

## Illustrative example

Illustrative

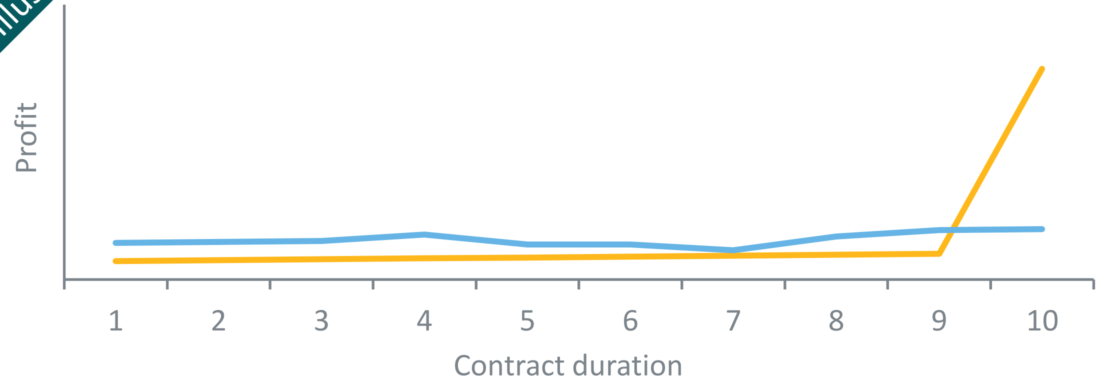
### With-Profits base scenario




| | |
|---|---|
| **IFRS 4** | Profits equal Shareholder share of distributions (Shareholder transfers) which emerge when customers withdraw their savings, either in part or fully (back-end loaded profit signature) |
| **IFRS 17** | Profits driven by amortisation of CSM over time<br>Profit recognition is spread over the lifetime of the contract and shows an accelerated profile compared to IFRS 4 |

Illustrative

### With-Profits scenario with market movements




| | |
|---|---|
| **IFRS 4** | The cumulative impact of market movements over the duration of the contract emerges only when customers withdraw their savings (being a primary factor in determining the quantum of SHT[1]) |
| **IFRS 17** | Applying the VFA measurement model, the impact of market movements is absorbed by the CSM in the year it occurs, and then released over time |

1. Shareholder transfers