PRUDENTIAL

2017 Full-Year Results

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Introduction

Paul Manduca

Group Chairman

Opening remarks

Good morning, and thank you for joining us for this results briefing. As you will have seen the Board has announced today our intention to demerge M&G Prudential, our UK and European business, from the Group. We have been clear for some time about the importance of creating optionality within our corporate structure. After a rigorous review, we have now decided to exercise one of those options in the interests of both business and of all our stakeholders.

As a standalone business, M&G Prudential has strong capabilities in the growing savings and wealth management marketplace. It will be focused on outperforming its UK and European competitors and will no longer compete internally with our businesses in Asia and the US. Following the demerger, Prudential plc will focus on the opportunities we have in the two largest insurance markets in the world, meeting the needs of the fast-growing middle-class Asian community, and Americans approaching retirement.

We are also enthusiastic about the progress we are making in Africa. The two independent groups will be headquartered in London which we regard as the preeminent city from which to operate global financial service businesses. We would expect both to be members of the FTSE 100.

The Board believes this demerger is in the best long-term interest of all our stakeholders. Customers will receive greater focus, employees will be more closely aligned with their businesses, and we are confident that this demerger will create market value. Today's strong full-year results demonstrate the positive momentum across all our businesses.

With that, I will hand over to Mike who will talk you through our results and provide some insight into the proposed demerger. Thank you.

Headline Results & Strategic Update

Mike Wells

Group CEO

Headline results

Thank you, Chairman. Good morning everybody. I hope you have had a slightly quieter morning than I have had. It has been an interesting set of results to try to prepare a summary for you today. I think one of the comments that a number of you have said earlier is, there is an awful lot in this pack, and there are a couple of takeaways. We are going to do our best to get through that. As always we will stay and answer any questions you have on the variety of topics and metrics and things that there are to report in this.

I want to start, if I may, at the top. If you look at the scale of what was done last year – another incredibly strong record year of earnings – the successful combination of M&G Pru. Some of the businesses we have increased stakes in, decreased stakes in, all the various dynamics. I said to a number of you when I first took this role that one of the things people underestimated about this Group is its bandwidth, its capability. And I hope one of the things you will take away from the sheer amount of material that is in here, and completed projects and workstreams in here, is the folks here in the front couple of rows, maybe back a third row, are capable of producing a tremendous amount for you as shareholders, and I certainly owe them my thanks. Another strong set of good financials.

All the key metrics: new business profits, cash, embedded value, earnings, dividend, capital. Embedded in that is a focus on quality of earnings, health and protection focus. Asia, you have IFRS up 15%, health and protection NBP up 26%. The US, increase in the fee level. The UK, record net flows into M&G at over £17 billion, in the with-profits fund, as well at £9 billion, IFRS earnings up 10%. And the dividend up 8%. And again, all of this while maintaining a very robust solvency level. Very pleased with the strength and breadth of the financials, and some of the optionality we will talk about later today simply comes from the fact that we have the strength to do this from and that we are doing this from businesses that are all working well, that we are not solving for anything as we get to some of the more strategic conversations today.

All 2017 objectives achieved

Not to be lost in our discussion, all of the 2017 objectives have been achieved. We go back again to my 23 years here: we have run three sets of objectives over time through Asia primarily with some Group metrics in them. But I think it was fair to say they were to demonstrate proof of concept. At various points, there was tremendous debate about the resilience and the validity even of our Asian assumptions.

Asia: 2017 objectives achieved, improving quality and positive momentum

I will date myself with this number, but when I started in 1985, the IFRS earnings in Asia were £11 million. Yes, I have been here that long, and they have done that good a job. Both reasonable takeaways from that, but it is incredible the job the teams have done, and the resilient and the percentage of that earnings now that is recurring regular premium. Health and protection focus lately, but that recurring earnings stream. Less dependence on new sales, more dependence on us doing the right thing for the existing clients. Giving us cohort after cohort of profitability for our shareholders.

While Asia was growing, while they were meeting those objectives, you also saw material changes, active management of the portfolio. That is everything from the businesses we chose to exit, the products we chose to exit, to businesses we entered, new marketplaces. In this period of time you have Laos, you have Cambodia, you have our Africa expansion. You have product expansion, new distribution relationships all taking place, so this was not just a chase a handful of public metrics sort of exercise; the overall quality and capability of the businesses improved throughout this period of time and again put us in a position capability wise, not just financially, that we can do things that we could not do in 2012. As I travel the region, it is very clear some of the capabilities that the Group has that are new; some of the stuff that is emerging in the sense that it is more forward looking. It is yet to hit scale. Some of the things that are actually benefits of scale. All coming through, so tremendous financial metrics but also I would appreciate if you would look at some of the other attributes that are included in there: automation there at the top. 90% of the applications now are auto-processed. 50% under, auto-written. We have entire markets now as Nic highlighted in November, where almost the entire process is digital. We are getting better and better and better at what we do each year.

Continued transformation of Group portfolio

Structurally, if you go back a decade, the Group mix and its scale has evolved. If you go back to 2017, the embedded value of the Group was about £15 billion and half that was the UK. If you bring that forward to this year, embedded value is £45 billion, and 72% of that is international. So the nature, currency, kind of earnings, what those earnings react to in the marketplace: all that has changed. When we are looking at some of those strategic decisions this is one of the lenses. It is not just the absolute scale of these businesses; the interdependence financially is reduced. It is what attributes do they share, what capabilities they have has changed. From a market point of view, how we look at the Group is nothing more than a reflection of what the Group has actually become, and then a view of what we think the next ten years out looks like.

You all have your own, I know, various views of that, but if you take this out another decade, the international component, if left alone, would be even larger, and we would be having a very different conversation about structure.

We have been very active managers through this period of time of the portfolio. We have entered and exited markets, entered and exited products, distribution channels; sold non-core businesses; de-emphasised businesses. This has not been a 'run it for top line' decade; this has been improve the quality of earnings, improve the resilience, improve the recurring earnings, and I think that comes across in our performance.

Intention to demerge M&G Prudential from Prudential plc

Now, we are in a situation where both the UK and the international business have scale, I think, by any attributes. Which brings us to the announcement on the demerger, so what are we trying to achieve?

Better alignment

If you think of the time, you will see the capital allocation in alignment, you will see resource allocation, that we want the people's focus, the governance focus on the markets that are closer to their consumers and where they are. The amount of time that John and Anne spend on the Plc Board would be spent 100% on a UK/European focused board. Just a simple example. The choices on how we allocate capital. Right now, the UK competes internally, as it should, for opportunities we have around the globe. Those may or may not be higher rates of return that we get in the UK, and those returns may have different characteristics in how they react to the pound, or news here, or news in emerging markets or news in the US. Political news anywhere now seems to be endless. Those factors all are changing.

So what we know is M&G Prudential is large enough to compete domestically with any firm in its space; it has the breadth of product, capability, management team, technology. It has everything it needs to succeed domestically. The value of it being part of the Group, that the Group brings to it, is diminishing. So you look at the strategy, you look out, and say, 'Are we the logical owner?', the conclusion of the Board is, maybe now, but certainly not over the next decade. So this is the right time for us to do this. Right decision, right timing. And we think it will unlock benefit for all our stakeholders.

Target structure: two separately listed companies with distinct investment prospects

What you will have: a shareholder today will have the same economic interest if they do nothing and just hold the two shares when the demerger takes place. You will have one, as the Chairman said, FTSE listed Prudential plc which will focus on the United States, Africa and Asia; and you will have one share of M&G Prudential which will be a national champion on the savings, retirement space and investment space here in the UK and Europe. If an investor said, 'I want to keep what I have,' you can. The choice goes back to the owners of the company on how they want to allocate their capital between the two businesses, what they think is the right mix, or if they want to do absolutely nothing. The ability to this, the dividend policy in the interim, remains unchanged. We cannot comment on a dividend policy of a future entity that does not have its board in place; let us be very clear that's not our gift. But the divestment itself does not affect the dividend capability of the firm in either structure. So it is not an economic decision. I got asked earlier a couple of times, what is the dividend policy going forward. We are only responsible for the dividend policy of the entities we govern. Until that is done, obviously that is up to the new board, but both entities should be competitive in their market places on all financial metrics.

What stays the same? Same risk, same governance. Both based here, both headquartered here. Again, listed here. Primary listings. We believe from the metrics they would be FTSE 100 included, so from an index point of view they would still be in the FTSE 100. From an execution point of view, from a tools point of view, it is the same people. It is the same cultures. It is the same execution that you have seen to date. It is just split into two teams. So all of those things that produce the results that got these businesses here remain intact. That includes the risk management, governance, all of the elements that control the quality of those earnings, quality of those sales. We think it is a great combination of changing the piece that gives greatest optionality and greatest benefit to our stakeholders, and keeping in place the piece that produces the most consistent results, the most consistent outcomes, again for those same stakeholders.

Creating a market-leading savings and investments business

What is M&G Prudential's space? Where is it going to go? Well, we envisage it as a market-leading savings and investment business, again delivering very attractive returns on equity. Its ambitions are clearly to take some of the things that are working well in M&G, in Asia, some of the things that are working well with the UK Life side with M&G. There are already workstreams in place to share distribution. There are workstreams in place to share their digital platforms. We have taken the investment that shareholders made last year, and I will give you some updates on this in a second, but the progress made is towards a single model, not two, as we committed to you. There are synergies coming out of that and the market place from a consumer and institutional point of view has not only accepted the logic of the business model, it has embraced it. You see that in the strong financial performance, you see that in the net flows, and you see that in the operating income. We did not lose clients because we merged the entities; we did not lose mandates.

Attracting strong net flows

Both sides of the house had record flows, and as a percentage of flows in the market, tremendous market share. We think this is working and we think it is a unique set of portfolio skills, a unique set of balance sheet products, a unique set of with profits products that the business brings to bear. Again, benchmarks nicely against competitors. Those flows in particular. You see on the M&G side on the left here, £17 billion in net flows, and on the Pru Fund a record £9 billion of net flows, combining with the expense management and all of the upgrades and technology and operational models are doing that at a 10% operating profit for the year.

Headline numbers are great; performance for the consumers, institutional and retail, have been excellent. 90% of the institutional products at M&G has now a three-year return over the median for their sectors. These businesses are performing well; they are not distracted. It is business as usual while they are getting integrated and while they are finding synergies, as we committed to you they would, and the outcomes are manageable.

Merger & transformation progress

A quick update on merger and transformation progress. We committed to £145 million of shareholder cost reductions at the end of the programme. That is on track. You have seen the combination, the shared services. We announced the TCS project where they have replaced Capita, and we are working on that transition. This is technology that is available now, up and running. Agile. The kinds of tools that we want in the business immediately. It is also consumer-facing service capability that we want to upgrade, and can, very, very quickly with their capabilities. M&G is ready for Brexit, regardless of the shape. The CSSF platforms we need up in Luxembourg, almost everything we need done there is complete. There is one minor project left; I do not want to put too much pressure on the team to have it done by later today, but it is coming soon. We are in a position for anything the political environment can throw at us, within reason, on that front.

Capital profile of standalone business

As we said before, the Group is not particularly sensitive to Brexit, but we were sensitive to M&G's relationship with European clients and distributors, and so we have addressed that with fund structures. Now we are seeing the teams work together on what more can we do. What are the synergies in distribution, in relationships. What do your clients think of the products that are held more broadly by what was the other side of the house before? Some very good progress there, and that is just going live now.

Then finally as of very early this morning, the £12 billion annuity transfer to Rothesay. It is part of a larger capital management transition if you will. We committed to actively manage the capital on the balance sheet, particularly in Pru UK. We are announcing today the transfer of part of the back book to Rothesay. That is a reduction in credit risk immediately. We are also moving Hong Kong, which was originally discussed with you as we will be earned out of it. We are pulling that project forward. Instead of an earn out we will transfer it, we think, through the middle of next year as the current timeframe.

Then the last piece on the Rothesay transaction will be the part VII, the full transfer. That is subject to court approval. We anticipate from the current information we have – again, this is outside our gift – that that will occur sometime late in 2019. When you are looking at milestones and what we need to do to be ready for a demerger, it is not a set date on the calendar. It is complete the work here that produces independent balance sheets, strong balance sheets, well-capitalised firms. Then we will go off the half-year or full-year results that follow that, so we do not incur additional shareholder expense for the demerger. The back-book transaction with Rothesay released a little over £1 billion in capital, and that is going to be retained in the Group to maintain the structural and strategic flexibility we are talking about here today.

A pre-eminent global insurer, capturing structural growth

The international business. We are well-positioned, we think, to lead in the markets that that entity will compete in. An interesting stat that came out of the work going into this was Asia now has a million people a month entering the working population. We have looked at the demographics in Asia multiple ways, but as successful as the team is there, as successful as our market positions are, as well-received as the products are, the demand and the structural elements are still growing as fast as we can produce solutions and distribution to address them. We think the structural demands in Asia remain unique. There is a variety of different ways to measure it, but we think it still has tremendous up-side. And we want to capture that. We think the new structure better aligns us for that, focuses execution, and should create value for everyone.

The US as well, you have more clarity now on DOL; you have more clarity on the shape of marketplace, on who distributors want as partners. Jackson's capabilities are up in that space. They have already launched the fee-based product. They have over 100 firms. We will come back to that in a second. They are learning how to be effective wholesalers of a different product, a different structure and a different space. So they are very well positioned to compete. I will come back to some of the dynamics on them in a second.

I want to give you a slightly different look at the success in Asia.

Asia: high-quality, diversified growth

We have talked about number of countries where we are top three. It is nine. Eight countries with double digit growth: you have seen that before, but here is a different cut on the absolute size of the businesses we have in Asia now. This goes back to scale and this goes back to, we do compete with new competitors. Their ambitions in Asia are X amount of countries versus necessarily profit per country and things. That can be challenging, and it is one of the many things the local teams have dealt with for as long as I have been here, but I thought this was a really good cut at what you own in Asia.

The sheer size of these businesses now, the individual entities, continue to grow, continue to grow profitably. The focus of the teams is on profit; it is not on top line. They are limited in some of the products that we will not let them compete with. It can vary by market, based on the irrational behaviour of competitors or the credit risk we perceive there or the capital intensity or all of the above, but we think that the quality of the earnings we have in these businesses continues to improve as do other key metrics around it. The absolute scale of them, I think, is something the team there needs to be very proud of. Then, of course, as you would expect, new business profits at £2.4 billion. The IFRS operating profits up 15%.

The free surplus generation up 19%. We just keep adding profitable cohort after cohort after cohort to this business, and that is the right way for us to build it. You see the new business profit number, health and protection up 26%. A great metric for the team. Then again, the margins continue to stay healthy. There is quite effective utilisation of the brand. There is much more learning cross-border as this business gets bigger. If you almost went down the size of these businesses, the issues that the CEOs and their teams deal with get more similar, and so the relationships and the sharing gets more enthusiastic. Nic and the team have done a very good job now and each successive management team is bringing a slightly different style to it and getting them to work closer and closer together, and share more and more, as these businesses get more mature.

Significant long-term growth opportunity

One more Asia demographic slide. Why health and protection? Upper right-hand corner, there is no material change in the amount of money that Asian consumers are spending out of pocket. If anything, it is up. In my travels there, it is generally one of the earliest conversations they bring up on personal concerns. Education tends to be the second for family members. The changing demographics and the markets we are in is driving a lot of that. If you are in mainland China, the one by-product of the one child policy is a young couple is concerned about helping fund retirement for four adults, and that is true in multiple other markets where historically, family was the retirement plan. There is quite a focus by the parents and the working children on the viability of that model and how you fund that. We are in front of social need, consumer demand, and aligned with political and regulatory models with the products and services we are bringing in. You see that in a variety of markets.

On the working age piece, we just talked about the number of people entering the market. Penetration stays low. On the upper end of the market you are seeing a very, very fast growth, and you hear this from competitors that own advice platforms there in wealth management and wealth solutions. As the consumers there get more sophisticated, as in every market, they are looking for ways to diversify, participate in markets globally, and we have Eastspring well positioned to capture that. The pace of that market and the resources being thrown at it by banks and advisory firms is dramatic, and we intend to play a material role in that, and we have, to date.

US: superior customer proposition, generating high-quality earnings

Shifting to the US for a second, the US success can be summed up: 2017 was again, another great year for the US business. It was a great year if you were a consumer and you own the product; again, you own the top performing product in the industry. The volatility and everything that went on in the market in the early year, your short-term volatility and all the dramatic stuff that was in the headlines. There were a few political headlines in the US last year. These consumers know that when they retire they have X amount of income coming and it is no different than a with-profits client in the UK looking to smooth the edges on the market.

Now, that said, the amount of exposure, the value of the guarantee if you will, to our consumers, from their market positions, the value of their accounts has never been lower because their accounts have done very, very well. They have participated in the market.

These were not forced allocation models; these were not vol-controlled models. These consumers got to own the underlying funds of some of the top asset managers in the United States. They participated about 70/30 in equities, disproportionately value funds. Very good fund managers. Again, actively selected, actively added and deleted based on performance. The balance of it is in bonds and guaranteed funds. They got a very good return relative to the market and they own the product for accumulation until it is time to retire. Exactly as it was designed to perform.

With that, with a quality product, you get some very good outcomes. You have a profitable business that generates a lot of cash. I know there has been a lot of discussion about competing models in the US and for those of you that have not been sitting here a long time, we never believed in the GMIB product; we never believed in some of the distribution models competitors took. We took a lot of heat for that for a number of years because we would not do it. The difference is, you own a company that has produced 4.4 billion in cash to the centre, which by any public metric I can get, is more than all of our competitors combined. It is a very differentiated company than some of the other firms that it competes with. It is not that there are not good competitors in this space, but this is the best competitor in the space.

Delivery and resilience

How does that position it for what is coming? Well, if you are a consumer, you have the best return. If you are an advisor, it is also rated highest in service, including the mutual fund companies in the United States, so your reputation for service, the time you spend interacting with your clients because they are with Jackson is appropriate. That matters to advisors; they hate service issues in companies. It has performed as they suggested it would. We have trust with advisors. It also has the top-rated wholesaling teams, the support for the advisors in the United States. That is good, and that is retroactive in its measurement. Why it matters is as the landscape is changing and the emergence of the fee-based products and the emergence of post-DOL platforms where a brokerage firm has to decide who they are going to invest millions with, to link up technology-wise with a company, they have to believe the firm is committed, they have to believe they have the technology on the other side, and they have to believe they can actually add enough value to warrant the investment and manage the risk in a way that will not damage the reputation of the firm. Product approvals in some of these firms go all the way up to the General Counsel's office; it is no longer a head of insurance or head of asset management that makes the call.

Jackson's reputation, historical success, client orientation, wholesaling capability. Technology suddenly put it at the front of the pack if you are running a brokerage firm and saying, who am I going to put on my new post-DOL platform. Now, we will manage capacity on that as we have managed risk exposure on that as we have in everything else in Jackson. We cannot be everybody's product. It is a little different structure that way. However, that is a capability the firm has as well. Jackson is incredibly well-positioned to deliver on where the US business is going. It has a very profitable existing back-book and, again, very happy clients. They are staying longer than we thought. Depending on the accounting metric, that is good or bad. On an economic basis, it is only good. These are very profitable relationships for them and for us.

Long-term track record

All right. I am going to get Mark up here in just a second. I have argued with you since I took this role and with some of you before that. I think this is the fairest cut to look at us. At any point in time, an insurer, just because of the nature of our business and some of the accounting, can move one of these needles for a period of time, if they choose to. Pretty hard to move all of them consistently. Again, I think this is the best report card on the Group. I think it shows the growth is not only in earnings, but it is future earnings. It is also in cash That should translate to, and it has, a consistent growing dividend. Again, today, we announced an 8% increase in our dividend. It is well-supported.

Delivering cash

We think again, if you have owned the shares well and if you go back to 2006, it is £8 billion now in distributed dividends. It is a high-quality dividend. It is a highly predictable dividend. I think that it should rate at the upper end of its peers. There is a lot to go through today. I think with your indulgence, I will hand it over to Mark. Then, I will come back afterwards for Q&A. Again, we will bring the whole team up here and go through any part of those materials you want, at the end of Mark's presentation. Mark?

FY17 Financial Performance

Mark FitzPatrick

Group CFO

Opening remarks

Thank you, Mike. Good afternoon to all. It is understandable, of course, that our strategic announcement today has drawn most of the interest, but hopefully, not to the complete exclusion of our financial performance in 2017. This set of results adds another period in a long-established trend of growth in scale and in quality. This really underlines that we begin the M&G Prudential demerger process from a position of strength right across all our businesses. With this in mind, I will cover three main areas. First, an overview of the key financial highlights. Second, a more detailed look at each of our major metrics and the drivers of the performance in the year. Third, I will provide some financial commentary on our plans to demerge M&G Prudential.

Group FY 2017 results

Key financial highlights

Starting with the overview of the Group's financial performance for 2017, we have delivered good financial progress with increases across our main profit metrics, alongside higher levels of cash remittances, and 8% growth in the ordinary dividend. Our performance has been led by continued positive momentum in Asia, although all of our businesses have made healthy contributions with asset management, in particular, having a standout year.

Turning to our key operating metrics, IFRS operating profit increased by 6% to £4.699 billion. New business profit was 12% higher at £3.616 billion. Free surplus generation at £3.64 billion on a headline basis, and was up by 9% on an underlying basis before variances.

Throughout the year, we have continued to enhance the mix of our businesses by growing fastest in the products, geographies and channels that offer attractive and sustainable returns through efficient allocation of capital. This continues an established progression that speaks to the absolute and the relative strength of our products and distribution platforms in our chosen market segments and the disciplined focus with which we execute our strategy.

Our fee-based businesses have also benefitted from favourable investment market performance, delivering good outcomes for both our customers and our shareholders, as I will reference in due course. Currency effects have added between three to five percentage points to reported growth rates in 2017. Although with sterling strengthening over the year, this is likely to reverse in 2018, based on current spot rates.

As in previous years, we continue to reference constant currency movements as a better indication of the underlying financial progress of the Group. Our healthy balance sheet and Solvency II surplus remains key to our ability to successfully absorb movements in macroeconomic and other external factors.

Group IFRS

Key drivers of earnings momentum

Moving on to each of our key metrics in turn, starting with IFRS operating profit, up 6% to £4.699 billion. Now, the trends here are consistent with those I have flagged you at the half-year stage. In particular, those are that:

1. Asia remains the fastest-growing part of our business;
2. Each of our businesses in Asia, the US, and UK and Europe have delivered growth in earnings across both life and asset management;
3. Consistent with our strategy, in the areas that we are looking to grow, we are growing.

As you can see on the right-hand side of the slide, the largest contributions to IFRS growth are coming from our Asia businesses, followed by Jackson's US fee earnings on variable annuity business, and a significant uplift in the underlying profit from M&G Prudential.

These operations underpin the Group result for 2017 and remain the focus of our growth ambitions and capital investment. We have also indicated in the past that there are some areas that we expect to contribute less in 2017. These include the spread-based earnings in the US, where reinvestment yields remain below the portfolio return.

Outside the business unit results, operating profits also include the investment we have made in systems to improve our capabilities across the Group, the cost related to M&G Prudential's merger and transformation we announced in August, and the higher interest costs from the debt issued in 2016. Overall, another good year of profitable growth based on superior strategic positioning, disciplined execution and a very distinctive and attractive mix of earnings.

Asia IFRS

Strong and consistent growth

Turning now to the IFRS performance of each of our business units, starting with Asia. Both insurance and asset management have contributed to a strong result, with growth of 15% and 18% respectively, highlighting the positive momentum across our regional portfolio of 26 businesses. Fundamental to our progress across our life insurance platform is our continued focus on higher quality earnings. This is evident through the compounding benefits of the growing renewal premium base and a clear preference for insurance risk by writing health and protection business.

On both of these metrics, we have achieved growth of over 20% in 2017, which drives the overall result. It is by continuously improving our scale and enhancing our business mix that we are able to show such broad and repeated levels of growth replicated across country, channel and product.

In asset management, Eastspring has had another good year. Their 18% earnings growth reflects a significantly higher asset base, which was up 20% on an average basis due to net inflows and positive markets. Although this was partially moderated by a slightly less favourable mix of client AUM, as you can see in the slight reduction in revenue margin, the overall result benefitted from a stable cost/income ratio and a healthy contribution of £17 million from performance fees. With combined IFRS profit of £1.975 billion in 2017, our Asia businesses have exceeded their 2017 objectives and continue to generate high levels of growth with increasing quality and breadth.

US IFRS

Driven by fee earnings from variable annuity business

In the US, the accumulation of variable annuity assets continues to drive Jackson's earnings. Average separate account assets increased by 17% to £125 billion primarily due to strong investment performance, consistent with the rise of the US and international equity markets in 2017, and another year of positive net flows. Average separate account assets increased by 17% to £125 billion, primarily due to strong investment performance, consistent with the rise of the US and international equity markets in 2017, and another year of positive net flows. The remuneration choices of our commission-based distribution partners continue to move away from upfront structures towards trail. As a result, the level of separate account assets under management is expected to have an increasingly direct relationship with trail commission costs. Currently, roughly 40% of our commission-based VA is on a trail basis. However, excluding these commission, Jackson continues to lead the industry on administration expense efficiency, highlighting our cost discipline and lean operating platform. Overall, fee-based earnings increased by 12% to £1.788 billion. Earnings from spread-based business decreased by 6%, reflecting the impact of the anticipated reduction in spread margins. This move down in spreads is due to both lower reinvestment yields and lower positive contribution from duration-management swaps as they continue to roll off. We would expect these trends to persist, although continued upward movements in US yields may help to reduce the speed of the decline.

US

Impact of US tax reform

The recent US tax reforms are relevant for all of our major financial measures, but do not fall evenly across years or reporting metrics. To help you, I have tried to summarise the major impacts together on this one slide. These changes are ultimately positive for Jackson, as they should result in higher levels of retained earnings and capital generation, all else being equal. The 2017 year-end balance sheet impacts relate primarily to a lower level of deferred tax assets. For IFRS, this reflects a lower corporate tax rate on the net DTA balance. For EEV, the reduction in DTA is outweighed by the positive effects of the more favourable tax rate on future profits. On Jackson's statutory capital position, the impact at year-end includes a combination of DTA calculated at the lower tax rate, and the removal of the carry-back of net operating losses previously allowed. Notwithstanding this, Jackson's RBC remains in excess of 400%. The stated year-end capital position does not take into account any estimate of the impact of required capital, as, at this stage, the NAIC is yet to make public how it intends to incorporate tax reform into its assessment of capital. We expect a period of engagement between the NAIC and the industry to follow over the coming months, likely incorporating some of the other outstanding reform areas such as the C1 asset risk charges. We will of course participate fully in these discussions, and update you once this position is clearer. Going forward, we expect Jackson's effective tax rate to improve by roughly 10% from around 28% to approximately 18%. This decline in ETR incorporates a new headline corporate tax rate of 21% and a continued benefit from the DRD, which is worth about another three percentage points under the new tax regime. At a group level, we expect the effective tax rate will also benefit, and reduce to around 16-18% going forward. This lower effective tax rate will be beneficial for earnings and capital generation over the long term.

UK & Europe IFRS

Stable core life profits and strong asset management growth

In the UK, our newly combined business have delivered a very encouraging performance, with IFRS up 10% overall, to £1.378 billion, emphasising the benefits of its scale, distinctive investment capabilities and well-seasoned in-force Life portfolio. M&G Prudential continues to work towards its transformation to a modern savings and investment business, and is on track to deliver the £145 million annual savings we set out in August. In Life Insurance, core earnings remained in line with our expectations at around £600 million per annum, with a 7% increase in the transfer from with-profits, ofsetting lower in-force annuity profits following longevity reinsurance transactions in 2016 and 2017. The higher transfer from with-profits includes a rising contribution from PruFund business, which now accounts for 15% of the total at £42 million, compared with 10% in 2016. Given the fast-growing scale of the PruFund assets, we expect it to become increasingly material to the UK result. Other movements in the Life result are slightly higher overall than in 2016, and these comprise three main elements. First, a lower level of contribution from management actions, as I flagged at the half-year stage. Second, a one-off impact of £204 million as a result of moving the basis of our longevity assumptions from CM14 mortality tables to CM15. Finally, an increase of £225 million in the provision we set aside for the review of past annuity sales following confirmation from the FCA on the approach for assessing the cost of redress. Our provision does not include the benefit of potential insurance recoveries of up to £175 million.

In asset management, M&G has had a great year, with external net inflows of £17 billion at record levels, and external AUM finishing the year up 20% at £164 billion. IFRS operating profit has moved up with these underlying drivers, benefiting from higher revenue, a small improvement in the cost/income ratio, and higher performance management fees of £53 million. We have seen good results in both retail business, where Europe continues to lead our progress, and in institutional, where we retain a healthy pipeline of future capital commitments on top of the net inflows that exceeded £6 billion in 2017. With this performance and a positive outlook, M&G Prudential is well positioned for the ongoing transformation process, and to begin the path to demerger.

Equity shareholders' funds

Operating profit remains key driver of growth

Moving to the rest of the P&L account and covering the remaining items outside the business unit results. Included within IFRS operating profit, there are three main items to note. Firstly, the additional restructuring costs of £44 million relating to the M&G Prudential merger and transformation programme. Secondly, the £50 million cost of implementing the Aladdin platform across the Group. Thirdly, the additional interest costs of £65 million related to debt issued during 2016, together with currency effects. Within the non-operating result, investment variances primarily relate to negative marks on derivatives used to protect against downside equity market risk in the US VA portfolio. These are in line with expectations, given the appreciation in equity markets, and consistent with the movements we saw in the half-year. On an EEV basis, the positive offset of higher future fees from higher account values results in an overall gain, which is a better indication of the full economic effects. 2018 has been a more volatile year in the investments market so far. Throughout this period, our hedging programme has performed as expected, generating positive below-the-line movement at the low point of the S&P, and we have no reason to change our approach in light of these recent market fluctuations. Including the impact of tax reforms already discussed, the gain on the sale of our US broker-dealer NPH, currency effects on sterling strengthening, and the dividend payments in the year, shareholder funds has increased by 10% on an IFRS basis, and by 15% to £44.7 billion on an EEV basis, driven by operating returns.

Group new business profit

Focus on value driving higher-quality new business

Moving now to new business. New business profits increased 12% to £3.616 billion, with a broad mix of growth across each of our businesses. This was higher than the 6% increase in APE sales, and includes the benefit of continued improvement in Asia's mix towards better-quality business, with higher returns. As I flagged at the nine-month stage, the tailwind seen earlier in the year from the rise in yields was no longer a significant contributing factor in the rate of growth by the year-end, although the higher level of yields remains a positive for the overall economics of the business.

In Asia, NBP has increased by 12%, with Health & Protection contributing growth of 26% as we continue to pivot the business towards protection income, in line with our strategic focus. In Hong Kong, NBP was 8% higher, and outside Hong Kong, NBP was up 20%. Both agency and bancassurance channels recorded double-digit growth. Reflecting the progress we have made in this regard, the economics of the new business we wrote in 2017 are at their highest level ever. Behind the sales performance remains our focus on improving quality and economic returns, attributes that we continue to emphasise across the business.

In the US, sales were largely unchanged on the prior year, with growth in NBP mainly the result of the lower assumed tax rate on future cash flows. Jackson continues to make good progress to position for the growth opportunities in the advisory market, building fee-based platform arrangements with many of its major distribution partners. New business from these sources remains low by comparison to the traditional commission-based business, but is accelerating, and we are encouraged by the early progress made to date.

In the UK, new business trends remain favourable, with stable economics and sales driven by individual pensions and income draw-down within the retirement account wrapper, which now stands for 81% of APE in these segments. The success of this business means that sales for the retirement account are nearly 2.5 times the peak volumes of retail annuities that we wrote in 2008. This demonstrates clearly the strength of our product proposition, and the ability to adapt to external change and to capture the opportunity that this brings.

Group free surplus generation

Growing contributions from in-force life portfolios and asset management

How and where we invest our capital, and how we manage that business once it is on our books, has a direct correlation to the conversion of in-force value into cash and capital generation. To capture the underlying progress, I have analysed out the expected return from the in-force Life portfolios and the contribution from the asset management businesses. This highlights that each of our businesses had generated growing contributions, as expected, given the growth in the Life portfolio and the strong year for our asset management operations. After investment in new business, the underlying movement in 2017 before variances and restructuring costs was an increase of 9% compared to 2016.

Moving to the break-out boxes on the right, contributions from assumptions and experience variances were in line with 2016 after adjusting for the one-off contribution from the contingent reserve financing in our US business in 2016. We continue to reinvest a significant proportion of our free surplus in new business, given the returns and growth potential that our superior marketing position and capabilities provide. Asia remains the primary destination of our new business investment, accounting for over half the total in 2017, reflecting the relative scale of the opportunities there. In the box on the lower right of the slide, you can see the increased investment in the UK and Europe. This is primarily due to the higher level of new business written in the period, and remains highly efficient, given the attractive returns available. Under Solvency II, this includes an amount that relates to the with-profits business, reflecting shareholders' participation in the downside scenarios of some 1 in 200 stress events at current interest levels. In the context of PruFund having gross inflows of £11.8 billion this year, this is a fraction of what would be incurred in writing new annuities, with a payback that is over three times faster, and returns that are over four times higher. The benefit of the recent strength in PruFund flows is now starting to emerge more significantly in earnings, as I covered earlier, and validates our strategy to prioritise growth in this area.

Holding company cash

Growing contributions to cash from business units

My next slide shows how cash and capital generation moves through to central cash. The strength of the organic capital generation comfortably funds new business strain, with the majority of what remains remitted as cash from the Life operations to the group, and the balance used to reinforced the capital position of our local businesses as they continue to grow in scale. The chart on the right shows how cash remittances of £1.361 billion from Life operations, and £427 million from asset management, were used to cover the growing dividends and corporate and other costs, such as the net retirement of debt in the year.

Solvency II

Strong solvency capital position

We continue to run the group to a robust solvency capital position, with the shareholder Solvency II surplus of £13.3 billion at the end of 2017. As expected, given the growth in the business, both own funds and the SCR have increased over the period, but the scale of the surplus has also increased, and the cover ratio remains largely in line with the prior year at 202%. Our strong group solvency position is replicated at the local regulatory level, too, with capital well in excess of regulatory requirements. The impact of US tax reform is the main reason for the reduction in the US RBC ratio, which I have already covered. However, I would also remind you that our US RBC does not include the benefit of swap gains from use of the Permitted Practice, which, if included, would add another 45 points to the year-end ratio.

Underpinned by organic capital generation

My next slide provides you with the usual bridge between the 2016 surplus and the 2017 position. Operating capital generation of £3.2 billion remains the key driver of the change, which has helped to absorb the adverse day-one impact of US tax reform, as well as funding the dividend payments and sub-debt redemption. In addition, management actions relating to the UK have added £0.4 billion. The sensitivities on the right-hand side on the slide continue to demonstrate that our Solvency II position remains resilient to market stress, while retaining the upside potential from favoured market position. We continue to hold significant levers within the group, and at business unit level, to manage external market effects combined with appropriate headroom in our solvency surplus to act as a buffer when required. It is a strength of our operating capital generation and the risk management practices that we have in place around this that have enabled our businesses to successfully navigate external economic stresses without disruption to the underlying businesses.

Financial profile

Increasing scale and quality of long-term value drivers

Now, my final slide on the 2017 results, I just wanted to take a step back and provide a view of the major drivers of earnings growth and the quality in the period. It is truly these measures that generate the consistency of the group's financial progress, support the resilience and sustainability of earnings through the economic cycle, and provide the scale which benefits our operational and strategic delivery. In Asia, our growing base of recurring premium business means we start each year with a clear earnings base, which compounds with each subsequent year of new regular premium business. As I have already highlighted, our strategic emphasis on Health & Protection is also increasing the proportion of earnings derived from insurance income: another indicator that our growth is a high-quality growth. In the US and in the UK, it is the distinctive structure of the product proposition and the performance of the funds available to customers that continues to underpin net inflows and appreciation in asset values on which our fee earnings are based.

Across each of our businesses, these key drivers are growing well. Taken together, the combined effect of continued and consistent operational delivery is highlighted in the 15% uplift in embedded value to £45 billion at the end of 2017.

UK annuity sale

De-risking shareholder annuity exposure

Now, stepping away from the FY17 results and turning to the UK annuity sale for a couple of moments, this is a major step in the continued de-risking of the UK Life business, representing the transfer of around a third of our shareholder-backed annuity portfolio. This is a positive development, with attractive terms achieved. It validates the quality of our UK annuity portfolio, and is another example of our ability to execute well. This sale will ultimately see a reduction in capital held against both credit risk and longevity risk. Credit risk is the larger component of this, where we have reduced credit exposure for UK PAC on a Solvency II basis by around 30%.

On completion of the Part VII transfer, we estimate that the sale will lead to a £1.3 billion reduction in the SCR and a £0.2 billion decrease in own funds, resulting in an increase that impacts capital surplus of £1.1 billion. Of this, we expect to recognise £0.6 billion at 30th June under the reinsurance agreement. The capital benefit from the sale will be retained to support the UK demerger process. It puts the solo UK-regulated insurance entity on an extremely solid capital footing at the outset of the demerger, with a pro-forma cover ratio of 150%, as if it was all completed at the 2017 year-end, including the transfer of Hong Kong subsidiaries. In reality, we would expect organic capital generation over the period before completion to build this number further. This provides us with maximum flexibility as we work to optimise the capital structures of both entities prior to separation.

While the impact on EEV is less than 1%, on an IFRS basis we expect to incur a loss on sale of up to £500 million in the first half of 2018. Going forward, your estimates for M&G Prudential's IFRS profits should recognise that the annuity portfolio being sold contributed approximately £140 million to the 2017 UK Core Life operating profit of £597 million. This transaction is a significant milestone for M&G Prudential as it continues to transition towards a de-risked business model and an appropriate balance of risk exposures.

M&G Prudential demerger

Separation process – next steps

Now, it would be remiss of me not to share with you some of the high-level steps we will be taking to effect the demerger of M&G Prudential. Although many activities and actions will run concurrently, as you would expect, the exact timing of each will be the subject of various factors, including regulatory approvals, the Part VII process and, for the debt management operations, suitable market conditions. We will look to minimise any associated cost during this period and, looking ahead, we will provide you with updates as we move through this process. To position the businesses for separation, we will optimise the capital structure of each entity to ensure they are both appropriately and robustly capitalised. It will necessitate the creation of a new holding company entity for the UK operating companies and the realignment of the group's debt capital position across the Prudential plc and M&G Prudential entities. This may include redemption or debt liability management for issued debt. As you will be aware, many of our Asia businesses started life as branches of the UK with-profits fund, which provided a highly effective approach to launching in new territories. Over time, as they have grown in scale, and to align ownership with operating and regulatory structures, these operations have moved under the ownership of the Asia business as subsidiaries. The last of these is Hong Kong. As the largest and by far the most complex, it has been more appropriate to adopt a two-stage process. We completed the first stage in January 2014 with the domestication of the Hong Kong branch, and for the second stage, as part of the M&G Prudential demerger process, we will now accelerate our plans to transfer ownership from the UK life business to our Asian entities. At this stage of the process, we have had very close engagement with all stakeholders, many of which are firmly in motion.

Summary

In summary, a very encouraging financial performance during a year of significant change for the group, alongside continued positive progress in the key earnings drivers of our business and 8% growth in the dividend. These results are a demonstration of the outcome of the strategic decisions over many years, the scale and positioning of each of the businesses and their chosen segments, and the discipline with which we execute the growth opportunity and proactively manage our existing business portfolios. By both growing and enhancing the quality of the business that we write, while remaining and maintaining a robust capital position, we are simply reinforcing our confidence in the financial outlook for the group. This resilient underlying position, with all of our businesses performing well, shows that we begin the demerger process from a position of strength, following which both Prudential plc and M&G Prudential will be better placed to maximise their value creation potential. Thank you.

Wrap-Up

Mike Wells

CEO, Prudential

Summary

In summary, again, strong growth in Asia. The balance of the business. The US continues to deliver, and proudly, the UK has a strong performance underlying the rationale for creating a simpler, more focused strategy there, and again, adapting the structure to maximise the opportunities for all of our businesses. We will now go to the Q&A and address any individual concerns or questions you may have.

Q&A

Jon Hocking (Morgan Stanley): I have three questions. First, thinking about the go-forward Pru plc business, i.e., the US, Africa and Asia, how should we think about the binding constraints on capital for that business? I assume you are going to be trying to get it out of the Solvency II framework, but I suppose the advantage that Solvency II did have for the Asian business, was that you could get diversification benefit and you could zip up some of the VIF for the Health and Protection business. I guess I am asking, how you harvest the diversification benefits across the go-forward growth business?

Second, looking at Jackson's capital, there are a lot of moving parts in that business and that market at the moment. Regarding the 400% or so number you have on a headline basis, you have a few things to come through there; you mentioned the C1 changes and I guess we still have not seen the impact of the new VA framework. Could you give some colour, please, in terms of where you think the RBC ratio will settle down for the market, and then what impact there is on the ability of Jackson to remit capital back up to the group going forward?

Finally, I would be interested to see your views on what is happening in China. There are obviously a lot of moving parts at the moment with the merger of the regulators, etc. The regulatory environment seems to be quite fluid. Could you talk a little bit about how you see your business evolving and how well positioned you are? Thank you.

Mike Wells: On the binding constraint on capital, we have always said that outside of the UK, the binding constraint is the local capital regimes. If you think of dividend fungibility of capital, that is the driver and where the other jurisdictions recognise Solvency II, their primacy is their own regulatory regime and how we treat it. The second thing I should remind you of is that we do not run any of the businesses to regulatory minimal capital. There is not a business we do business in where they do not look to us to maintain what is almost a AA level, if you were going to put a rating agency's mark on it. If you want to have long-term relationships in these markets with the regulators, they are much more holistic and much less resolution-recovery focused than you see in Western markets, particularly in Asia. They want to see reinvestment in community, they want to see how we treat clients, they want to see our charitable activities and they want to see a well-capitalised foreign entity, because you are competing with domestics in almost every market. We probably could bring some of them down closer to regulatory, but if you want a long-term, 90-year position in a market, they have to see you as committed and not as a foreign player that comes in and strips as much as they can out every year. There are a lot of reasons to maintain well-capitalised firms on a local basis, and then those roll up to Solvency II.

We never set – as we discussed and was debated early on – our dividend policy on Solvency II. I still do not believe that is the prudent metric for it because it is not a cash metric, it is a capital metric. It does not affect us on dividend and it does not affect the financials if you think about it from a dividend point of view. The intent is to maintain a very well-capitalised international business with capital levels that rival anyone that we compete with. You can look on that from the perspective of whether the regulatory college and our key regulators get together and adjust, and that is just starting now. They are aware of it, but that is work that is in its early days, so I am not going to commit to what the final model is going to look like. However, our intent as the board and management of the company is to maintain a highly capitalised, highly rated entity, similar to our current position, that is effectively in compliance with all international capital standards, because we are just too big to not be. I was asked earlier this morning, for instance, in the media, does G-SIFI matter? It does not matter. It has not been a binding constraint for us. We understand the framework and we understand that the framework is changing. This is not about adjusting an ownership model to adjust to a regulatory or capital model. We will maintain well-capitalised businesses and heavy liquidity. Our in-house bias will still be cash not capital, as we have discussed many times, so cash-flow testing, and we will share with you more and more metrics on how we do that, as I think we are pretty transparent on how we stress the businesses. Mark, did you want to add anything to that?

Mark FitzPatrick: The obvious point is that we are going to continue to be subject to Solvency II until the point of demerger, so we will continue to run the business and be very focused on that, and then over the course of that period, as we discuss with regulators what the new capital position and capital model will be, we will be in a position to communicate that through.

Barry Stowe: On Jackson's capital, you are right, Jon, that there are a lot of moving parts. The principal impact that we had this year was tax reform, and I think Mark called that out in his comments. That is over $600 million of impact on free surplus generation. That is a one-time hit, so I would say to you broadly, at the risk of being too forward-looking, that you should be optimistic about Jackson's ability to continue to generate cash.

Chad Myers: I would say that there are a couple of things that we know are coming down the road. What we do not know yet is the timing or the magnitude. We do have the NAIC. They will presumably react with respect to the denominator portion of our RBC. We do not know yet what the magnitude of that will be, or the timing. They have not actually formed a group yet to do anything about that. They already have an ongoing process with respect to the C1 factors that are expected to come in 2019, or so our hope would be, and we will have this conversation with them when they have the appropriate folks in place. We think those two are best put together because there are interactions between their view on long-term default rates and the taxation and recoveries that come through there. Hopefully that will come together. If it does, that would be better. That would be in 2019, if they came together; if it does not, you have the potential for a 2018 denominator and a 2019 C1 factor, and we think 2020 NAIC Oliver Wyman project. There are things coming down the pipe that will presumably – although again, we do not know the number – put downward pressure on the RBC ratio. That said, I think that everything we have seen suggests that we are generating capital. We do not have anything at this point that would imply that we cannot continue to support the dividends at the level we have been remitting them.

Nic Nicandrou: On China and regulatory developments, we have seen the creation of a new regulatory body to regulate both insurance and banking. We see this as the out-working of the decree, if you like, at the October Party Congress which effectively set the objective for the industry to return to its core, in other words, go back to its de-risking purpose, play a role in the financial development of the economy as well as financial stability, and in time improve the provision of health services and also care for the elderly. I think it is step one. I think the other reason this has come together is to outwardly implement the liberalisation of the sector as well. Now, the regulators need to build up their regulatory capacity in order to regulate a sector where potentially more than 49% can be owned by foreign companies. This is pretty much in line with the direction that was set back in October. We do not think it will impact our business in the short or medium term. If anything, that kind of stronger regulation is good for businesses such as our own.

Shall I give a business update on China more broadly and the opportunity? Again, with the benefit, I guess, of having spent more time there since I addressed you at the investor conference, I am even more excited about the prospects in that market, both on the life and asset management side, and our ability to actually harvest those prospects. You have heard me talk about the opportunity. I can put some more numbers on that now. China is now officially the third largest market in insurance. In terms of premium income, it has got to the $500 billion level. If you look at the insurance assets that are managed in that market, it has got to the $2 trillion level. $2 trillion is 20% of GDP and in most developed markets, the penetration of insurance assets gets to be something of the order of 270% of GDP, so that is yet another indication of growth. Out of the 1.4 billion Chinese people, today only 115 million have any form of savings or insurance. Typically, they would hold about 1.5 policies per individual. Again, if you contrast that to Japan, which is the world's second-largest market, where people typically hold seven policies per person on average, that just talks to the opportunity there. One final statistic for you: a lot of the development of the sector has been focused on savings. Health is becoming a big part of that market. 32% of expenditure is out of pocket; you can compare that to low single-digits in Europe.

Another developing statistic is that one-quarter of the world's diabetic population, which is around 114 million, is based in China. The spend just for diabetic treatment is about $110. All these are opportunities for companies like ourselves, who are in both the savings and the health space, to play a role. On the asset management side, the market at the end of 2017 was $1.8 trillion. That is about 15% of GDP. Again, in the EU, retail asset management is 75% of GDP, so a six-fold increase. I think China, when it comes to asset management flows, will just dominate those in the next few years.

What have we done in the course of the year for our business? I think we continue to broaden our footprint on the life side and to grow into that, and that has a compounding effect on the numbers and the financials of our business. We expanded. We added another branch, another province, so we now have 18 in total. We added the Szechuan Province and we are delighted to have such a broad footprint across China, because even though China may be liberalised in terms of shareholder ownership, there is nothing to indicate that the rate at which they are approving new licences in new provinces will change. At the same time, we added three more new cities, so we have gone from 74 when I spoke to you back in November, to 77 as we expanded our presence in the Henan Province, which is an important province because it has 94 million people and it is the fifth largest economy in China. We are growing out our agency distribution. We have increased the recruitment rate by 48% since last year. We now have 44,000 agents; that is twice as many as two years ago and four times as many as four years ago. Sales are increasing at 46% on the agency side. On the banking side, we are increasing even faster at 51% as we leverage more the 4,000-strong branch network that we distribute across that business.

On the quality side, we are building the Health and Protection piece very fast, given some of the statistics that I mentioned earlier. 41% of our sales in China are Health and Protection. In fact, an even bigger, richer proportion of the mix in health was written in the second half in terms of Health and Protection, more than 50%. This is driving the new business profit up, and you have seen that double. Building up the digital capabilities, it is one of our most modern businesses both at the point of sale, where eight out ten policies that are issued are in 30 minutes. A lot of work on claims; 99% are processed digitally, 17 services done on an e-basis. A lot of the queries are now being dealt with by chatbots generally; 20% to 30% of all traffic from agents and customers are now going through these chatbots. It is important in a country like China, given that it is leading the digital economy. I can give you two more stats on that: 35% of all financial services' customers will use digital means to transact, and the payments that are made using digital platforms in China are 50 times the level that you see in the US. Unless you are highly automated and digitised in this market, and this business is pretty much leading the way within our portfolio; very excited about our prospects. Thank you for your question.

Blair Stewart (Bank of America Merrill Lynch): I have three questions on China. Number one, is the demerger contingent on completion on future UK annuity deals – you still have two-thirds of the book – and do you have the bandwidth to deal with multiple processes? Secondly, if those future annuity transactions do take place, anything like the one you have just announced, would that imply that excess capital would build up in the UK business and, if so, what would be the plan? It may be too early to talk about that, but the main point is would there be excess capital emerging in the UK businesses if those annuity books were to go as well?

Thirdly, just a quick one on the US RBC, Chad, can you remind us of the organic rate of build in RBC points; given that you have just seen a significant drop, what is the organic rate of build, let us say before paying any dividends to group? Thank you.

Mike Wells: On the demerger, no, it is not contingent on any future management actions. It is, to Mark's point though, we need cooperative debt markets is probably the – if you said what is the variable – we need a court system to approve a Part VII; those two are outside of our control. We are confident on the debt side and we are reassured, I would say, on the Part VII. I do not think there are any obvious barriers, given the process and the regulatory support.

John, do you want excess capital?

John Foley: On the question of will we do more, we will keep that option alive, but we have nothing on the table right now. It was a big deal and we only closed it 03.00 in the morning, and that is why David is snoring away up the back there, but it is the biggest that has been done and I am very proud of the team for doing it.

In terms of capital, we have to remit our capital to group, so they tell us what to do with it. We take this, the annuity book, like the rest of our business. We will evaluate it; what is best for shareholders, what is best for our business in the longer term? For the moment, there is no plans.

Mike Wells: Blair, on bandwidth, I think if there is one thing we demonstrated this year it is bandwidth. I think we tell the teams endlessly it is business as usual first and all these projects are nights and weekends. I think, if we chose to do another tranche, we could, but it would be more about optimising the capital for the new entity, and then if it is excess it is excess and we would look at distributing it as we always would.

Chad, on RBC capital generation?

Chad Myers: Yeah. Blair, the underlying tends to be, on stat basis, around $1 billion, I would say, is the underlying capital formation that we typically would see. That said, we are in a position right now where stat reserves are floored out, so we get a little bit of an asymmetric dynamic going on now, in terms of no economic offset going on in the stat reserves for the hedges that are coming through, which has tended to drag, call it $300 million, right now, run rate. The underlying run rate is closer to $1 billion, $1.1 billion, but there is a drag right now because of where the markets are. It is actually a good problem to have but does not look as good on the numbers. $1 billion would be equivalent to about 100 RBC points. I would say that it is an equivalent number right now.

Oliver Steel (Deutsche Bank): I am going to try again on the UK. Is the £1.1 billion release, or improvement in surplus, an approximate figure that we can take for future tranches of £12 billion, if that happens? Secondly, within the solvency ratio of the UK insurance business, how much debt is effectively injected down as, presumably, tier one capital from the centre? Then the third question is one M&G's capital position. What is M&G's current capital requirement and how much capital has M&G got within the business?

John Foley: No, Oliver, you would not be able to extrapolate the capital release from the book across the whole book because what we would, I think, have loved to have done would have been to slice the book vertically and sell components of it. You cannot do that. We have broken the book into various cohorts, if you like, and they have been sold all to one counterparty, but they could have been sold in different blocks to different people, and they will attract difference prices. The other thing is that it depends on the market, as well, at the time. If you look at where we have done this trade, it is a different price to where other trades have been done. There are that combination of factors, so I do not think there is any ability to read across directly.

Mark FitzPatrick: In terms of the UK debt, at this stage what we are going to look to ensure is that each of the businesses are well capitalised and well set up for success in the future. We will be able to share with you, in the future and due course, more information about what that capital structure will look like, but at this stage it is too early to say.

Oliver Steel: Any debt objectives in the UK business?

Mark FitzPatrick: At the moment?

Oliver Steel: Is it still 1% to 2%?

Mark FitzPatrick: No. It is all equity.

Mike Wells: Then M&G capital. Anne, do you want to do that or Mark?

Anne Richards: I have the number, I am just not sure what we have actually said publicly on the number before.

Mark FitzPatrick: It is not a particularly material number at all, actually.

Anne Richards: No, not in the grand scheme of things.

Mark FitzPatrick: Yes.

Anne Richards: No.

Mike Wells: That is a no.

Greig Paterson (KBW): Three questions. One is, if you look back over time, as I was discussing earlier on, the Asian bancassurance deals have been financed by the centre of the group. Top of my head, it is about £3 billion over the last five years. Going forward, you have to renew deals, possible new deals. In terms of us thinking about free capital generation in Asia, including that item what sort of number do you think we should be budgeting annually for that number? I have something like £300-400 million per annum, might be wrong. Intertwined with that question, are there currently any contingent loans between Asia and any other parts of the group, because there used to be?

Second question, Old Mutual heavily incentivised their management to do a separation; I think, cumulatively, this year got £9 million, something like that.

Mike Wells: Can you show me that later?

Greig Paterson: Are you going to modify your LTIP schemes, in any way, for the separation? Contingent financing in the US, I am just wondering what the contingent reserve funding, what capacity is there to do, how much extra capital can be released into the RBC ratio through further tranches of that?

Mike Wells: Let me do the first couple. I think most the bank transactions have confidentiality agreements around them, so we would not go into the specific numbers and we do not give forward-looking capital creation statements in Asia. Although, you can see from the metrics on here, our expectations on the back book and the percentage of recurring earnings, which I think gets you a lot of way to your question from the materials we have distributed.

There is no management incentives tied to the structural changes in the group. We will have to adjust our LTIPs. Obviously, there are awards that would go past the separation date. We will have to work with our board and our Remuneration Committee to have those deliver the arguably probably the dual shares, but there is no financial incentive for anybody sitting up here to do this outside of the normal responsibilities as stewards of the business.

Then US intercompany, which I do not think we have done yet. I think that is probably best if we would come back with it with all this once for you and the dual look in the pro formas. I think that is probably a fair look at it, but it is not material.

Greig Paterson: In RBC, you used to benefit from this increase…

Mike Wells: The contingent financing. Not much. We have to get last year result yet, so there is nothing else there on contingent financing in the US.

Arjan Van Veen (UBS): If I can ask two questions, please. One is on the timing of the transaction and what are some of the key hurdles that you need to overcome to make it happen. I know you had a slide up before with some of the key things. I suspect the main one is the Hong Kong transfer of ownership, and I think I saw your release has more data around, which is end of 2019. Actually, UK Part VII transfer is within the UK, so I would not necessarily that is a show stopper unless you want to move capital out of the UK, so just maybe a bit more colour around where you really need the approvals to make go through in some sense of timing.

The second one was, Nic, on the Hong Kong, RBC, quantitative impact study that came out recently, my understanding is your portfolio would be quite benefitted by proposed changes, so if you can maybe talk a bit about that and how material it could be for you.

Mike Wells: You are correct. The transfer for Hong Kong is actually, we have discussed that with all key stakeholders and we have got to work through all the granular details, but we do not anticipate any barriers. It is a lot of work to get the regulatory models and all of the various stakeholders sign off on it, but everyone is aware of the transaction. We are not surprising anyone with this. We effectively precleared the activity with all the key regulators, so again, we are responsible for following their processes, but we think that is a work stream, not an approval issue.

The Part VII UK issue, it is dependent on PRA bandwidth and court bandwidth. We do not want to try and anticipate in front of you that we can manage, the PRA we have a good relationship with. We know how that would go and they have been briefed all the way through this process and supportive. The court side, we know what is best practice. We know it is very hard to adjunct councils here at the right way to do that. However, we are getting into a different space and I think we have to be conservative on our estimates with that, but those are the two long ones.

Then again on the regulatory front, we have got to get all the regulators on side briefed ready to go in their normal course of meetings, right? You are probably a couple of meetings each. That has got a good nine-month plus window to it too. That gets you to the timing.

On the financials, as I have mentioned earlier, we anticipate we would go off of a half-year or full-year results, so we have audited financials to basically materialise off of, so we are not incurring any unique cost to do that. We are trying to keep the frictional cost to this to a minimum. That would define timing as well when the next window would be. Okay. We will keep you briefed on those as they occur. We will keep the releases. We will be very public on that on the work streams, but it is work dependent, not an ambition calendar-wise.

The other question on Hong Kong. Thank you.

Nic Nicandrou: Well, it is too early to draw any definitive conclusions. The QIS that was undertaken kind of was only partial, not all the parameters were tested. For example, they did not test the allowance for diversification. They did not include any risk margin, so that is all to come in subsequent QISs and of course their level of illiquidity premium that they included in the QIS on matching adjustment for want of another expression may well change.

There will be another QIS in the course of 2018 and probably another one after that. We are looking at implementation in 2022 sometime away, so aligned with the potential introduction of IFRS 17, so we got those two changes to look forward to.

As to your point, whenever we move to a more risk-based regime in any parts of Asia, given the nature of what we do which is a regular premium with a very heavy health and protection content, then we see that providing tailwinds. We saw that in China as we moved to C-ROSS with our solvency level increasing from the kind of 150, 160, 170s to the high 200s, to 290% at the end of 2017. Too early to say, but directionally, it should be positive.

Andy Hughes (Macquarie Research): Three questions per company. First one is just on the standard debt structure because that seems to more complex, what was going on. If you place some securities in the UK, would you still get the grandfathering or are you saying that any new debts raised in the UK would have to be Solvency II qualifying, you would lose the grandfathering to switch?

Second question on the holding company for the remaining business, presumably all the debt stays in the remaining plc business, which is no longer under Solvency II, so presumably any future debt you raise post the demerger will be senior debt. Does that kind of mean there is an incentive for the sub-debt holder to kind of switch and that is one way in which you can get people to move from the plc into the UK business?

The third question is on Malaysia. Obviously, because you have plan in by the end of June sold out 30% of the Malaysian business, which I guess could be £1 billion. How much do you think it might be? Are there tax implications from that? Just comments on the issues on that, while we are on potential disposals. Are you still fully committed to the two Indian businesses given the valuation there?

The last question, maybe on the US. I just wanted to check on how to diversify the product mix a bit through M&A as a result of the demerger process, so whether you are going to keep that as it is. Thanks.

Mark FitzPatrick: In terms for the first two debt questions, and I am not really in a position to say much more than what is said in our release in terms of the debt because we want to be able to have a conversation with everybody, we want to be able to have conversation with the market in terms of what we do and how it is that we are going to do it. We have not had any conversation yet in terms of the regulators in terms of what we might do around grandfathering Solvency II components. I think we would look to have those conversations and be able to give you an update in due course around that. Therefore, that would also be the answer to the question in terms of the future debt and the senior debt.

I think we will be able to give you a lot more colour about that in due course, but at this stage, I just wanted to give you a sense of the fact that the underlying position is what I have been ensuring that both entities are going to be well-capitalised, strong set up for success.

Mike Wells: Nic, you want to discuss the conversations in the bank regarding Malaysia?

Nic Nicandrou: Okay, as you know, Prudential today enjoys kind of 100% of the economics of our conventional business even though kind of the law suggests that for an ownership, for an entity ownership is limited to 70%, that is not unusual. We are not unique in doing that. Our ability or otherwise to continue to operate on this basis is under discussion with the authorities. We do not have an update for you at this point, but we hope to be able to update you shortly.

I would go back to what Mike said, look, one of the things that is great about this group is our ability to adapt to new situations and whatever happens in relation to the level of ownership that we would have, we will remain very focused on driving value for you, our shareholders.

Mike Wells: Do you want to discuss India, as well?

Nic Nicandrou: We like India. I gave you lots of stats earlier for China. I could do the same and I will. For India, you have a sizeable population, 2.8% penetration. On the insurance side, it is predicted to increase to 3.9% by 2025. Protection gap of US$8.5 trillion. 62 per 63% of healthcare costs are paid out of pocket. You have a billion out of the kind of 1.4 billion Indians not being covered from a health perspective.

On the asset management side, retail funds, I mean, that is even more nascent, it is US$350 billion, but 12 million kind of people in India own retail asset management funds is 12% of GDP. This is both sides are likely to grow.

We have a good presence. In the life company, we have a player which has around 13% market share. It is growing its sales. It grew its sales last year by 26%. It is growing its market share. It is well-balanced by reference to both product sets and distribution. Growing its distribution first and doing more through the 4,000 or so ICICI branches.

On the asset management side, we have the number one player there. Again, 13% market share today managing of the order of, I want to say, £17 billion on an AUM on 100% basis, so very strong distribution platform and many very highly performing funds. The good thing about the asset management side is we can own 50% which is a great place to be. We like the country and the opportunities to do more are obvious.

Mike Wells: I guess, Andy, what I would add to that, I have been down there, we were down there together earlier this year, and 20th anniversary for us there, when we talk about being active managers of the business, it is not trying to time a share price on the public piece of the life. It is, the decision is more, is it a market we want an earnings and capability position and over the long haul and if we do, what structure can we own that in and then how good are we at managing that structure; and that is more of the lens. Last time I was there I heard some of the multiples that people are throwing around on asset managers, what it tells you is everyone is trying to get what we have. Either someone is going to pay these quite impressive multiple, they are paying a fortune, at this point in time, for an entry point because they believe of the future.

Now, do we have the same view? We actually think as a group, we think as a board, that India is a part of our future. The question is, from an earnings point of view, from a capability point of view, from a products distribution, how do we want to do that. Not, do we think this is the best share price for the Life co. Again, there are restrictions in what we can and cannot do there. The market favours a bit the domestics, so it is a balance, but we like India and I would say, if you are looking at it, we are long.

Andrew Crean (Citigroup): You were talking about concluding or the Board concluding that the plc was not the logical owner of the UK business or would not be fairly soon. Can you go through the parts of that decision and why the thinking would not apply also to the United States?

Mike Wells: Yes, I think, again, it is multi-dimensional. That was not the reason that we are, sole reason we are divesting it. If you look at it and go back to the other comment I made about what is the business unit getting from the group is a fair lens? What is the shape of our earnings going forward? What is the capital allocation to earning? I mean, all these lenses are applied and the things we thought that had the most leverage, management focus, the alignment of the capital as you see moving Hong Kong and getting the quality of capital, the quality up, the quantum down, therefore the return on capital metric is better, and how does that look in the overall group and how does it look it its relative market? It looks fantastic in its relative market. It is still has to compete heavily with the other business units in return and it is just a function where it is. It is a more cash-centric earnings, which is a good thing, given it is the UK and the dividend demands of a listed entity here. The market is more mature so the earnings characteristics of stability, currency, things, they have a different appeal.

One of our views is, as investors, you might want to choose those characteristics, not just the absolute return on the earnings. That may be part of your decision that you want pound-denominated, you want less impact from a political statement in Asia. Whatever happens. Or you are an emerging market portfolio manager and you want more emerging market earnings and the characteristics that come with that and the weighting in the UK diminishes that. All these were part of the decision. The best part of the decision was there was nothing to solve for and probably the most difficult part.

There is not anything broken. We do not need, there is not a part of the asset management business that is not developed. There is not part of the distribution, there is not a part of the skill set, there is not an issue on management. It is the 'why now' was one of the most challenging because it is working very well. If you think, as stewards of the shares and the capital, that is the right time then to do it, right? We should not wait until something is not the way we want it and let somebody else fix it. I have seen that argument dozens of times. You have seen it play out in the US recently. This is not a good bank, bad bank. This is two good businesses and we think that that is, from a stewardship point of view, the right time to make that call.

This is a long strategic process that started a dozen years ago and it has evolved and the look has been the US at various times. I think the fundamental on the international businesses, because, do we believe their sharing of skills, capital, diversification benefit, the answer is yes. Do we believe what the US knows about asset liability management, retirement, those things can benefit our Asian business where they are going? Yes, retirement will be the next frontier in Asia. It is already emerging in certain markets in Asia. There are capabilities. However, we will come back to you in Singapore with a more clearer look at some of the things that we want to do together with them, but I would think of it as good diversification benefit, good capability sharing and future product, if not, format capability-sharing.

Even in some of the, we have a few markets in Asia where there are pretty robust retirement plans and the government of Singapore is a good example. Still get asked about supplemental retirement plans when you start to talk to people there. They are savers and they want to see. They like some of the products they see elsewhere. There are a lot of markets that we can do to things we have not done yet with the capabilities we have in Jackson. Andy asked the question about diversifying Jackson. There is not a US life company Board CEO that would not kill to diversify into Asia with the footprint we have. I think that is a fair statement. This gives us a great diversification. The US exposure, leading position in retirement income market and growing in the US, leading positions in the majority of our markets in Asia and we like the combination. Yes, there is more we can do in the US and we keep looking at different things.

Ravi Tanna (Goldman Sachs International): I have three questions, please. The first one is on the Asian business and the strategy there. I think you have alluded to some of it just now. However, I guess, there are a lot of competitors that you have just referenced both in the US, in Europe, and also very large players in Asia who are looking to expand their scale in the Asian markets and looking for good-quality franchises. Can you talk to us a little bit about the thought processes around were one of those companies to approach how you would think about that as an eventual outcome given the demerger that is currently going on, please?

The second one is on the M&G Pru go-forward strategy. I suppose, one of the areas that the business is perhaps arguably subscale is on the distribution side and you do not have the retail investment platform where many of your wealth peers do. I was just wondering if you could comment about whether there are any ambitions to expand product or distribution capabilities, please?

The third one was just, not to put that belaboured, the debt questions, but maybe, what would be quite helpful, I suppose, is to understand the leverage capacity and so in that context, I know you have talked about 500 million write-down to equity following the annuity sale, but could you just remind us what the IFRS equity for the UK entity is, please?

Mike Wells: Okay, so the housekeeper sort of question. Again, without putting a number on what we think the two businesses are worth, we think in their markets they are pretty large. Is there any greater risk of Pru plc being acquired with or without M&G Pru? The couple of firms that might be capable of doing it, I do not think the additional value of M&G Pru in the model would have made that big a difference in that question and the ones that, I think, are not known for doing hostiles. It is always incumbent on us as a management team to demonstrate we are the best stewards of the business and that is what we get up everyday having to recognise. Can we run it better than them is, first cut, are we getting returns that are competitive with anybody globally? Are we growing in a way that produces quality results that are sustainable? All those things are, the things that make you attractive also would be the defence. At the end of the day, it would be the Board's decision if someone came with an obscene amount of money for the business, then that is something that the Board obviously has to consider but it is by no means, you can back in to the likelihood of it, I think these business are competitive and I think we hold our own with anybody globally and when they have plenty of scale so we do not need to do any sort of other M&A with someone to get attributes that we do not have now.

It was on one of the slides, and I probably would not buy it too fast but just given the amount of information, there is no, the resources we need to do new things. We are not talking a lot about today just because of the time. However, from the smallest, most innovative start-ups to the largest tech firms you could think of in the world, we are a really good partner and they want to do business with us; they want our brand; they want our data; they want our scale; they want our market positions. We do not lack, I mean, it is an interesting test, I think, of our relevance. They see us as someone, if they commit resources and in some cases their companies too, the smaller firms, that we are going to be there, that we are going to succeed and I honestly, from a personal point of view, I think it is one of the more, it is one of the things I have learned in this role, it is one of the more fascinating looks at the business because it is very much about, because they have to front-load so much of their work and they tie up bandwidth much than it is to us and it is a very interesting sort of affirmation of how we are as a business. We have to be good enough. We have to be good enough to partner with them. We have to have tools they can connect with, data models they can connect with. We have to be modern enough, but I think you will see us over time, you will see more partnerships laterally and things that are different than the model now because we can and because to them they see us as a good business prospect for their long-term plans. Again, it goes back to, is this a viable business? Is it the right ownership structure? Is this the right team? I think all of that is embedded in there.

However, we really have some interesting projects coming and again they are not on a pure financial basis. People are bringing us their newest and best stuff and a lot of cases we are putting it right to work which is really great. So I do not worry about a hostile. We have procedures around housekeeper that we look at all those combinations, partials, full, everything and we will continue those diligently on those work streams, as well.

UK retail platform, John?

John Foley: The go-forward strategy, thanks for the question, I feel a Nic-type answer coming on, because I think we have a fairly big opportunity here. I mean, Mark put up a slide earlier on about how we see about how we see the opportunity. The issue, I think, we have right now is two-fold. First of all, we are spending a lot of money to build the right platform for our business and that is happening as we speak. We are very confident about the outcomes there.

The other thing I would point out to you is we have recently signed this administration partnership with TCS. That puts us in a fantastic position to do far more with a partner who is already digitally enabled, easier to do than say. The last thing is, look at what is happening. We have 36% increase in PruFund. We have got £17.3 billion of inflows into M&G. One of the issues we have is deployment of capital. Anne will give you an idea of what that looks like at the moment.

Anne Richards: If you look at the level of capital that we have, I will not give you precise number, but the assets that have been awarded are not yet funded or awarded that have not yet been invested, probably got the largest capital queue we have ever had. And if you just so roll back and look at the last 18 months or so we have launched more than 20 different investment strategies and capabilities and funds of different, all of which have are net inflow if you like. So the range of capabilities and the distribution of those capabilities that we have already achieved in the flows that we got there is pretty comprehensive.

So I think there is a lot that we can do on the digital channel as John has mentioned. But actually first and foremost have you got the capabilities in the marketplace that the market actually wants to buy and that is what the marketplace across all of the channels, institutional, wholesale across Europe as we have seen as well as in the UK.

And the evidence suggests that we probably do if you look at infrastructure what we have been doing stuff alternative credit, private assets as well as the go-anywhere bond funds, the multi-asset funds. I mean, the range of what we have that the market is interested and is quite compelling. So I think there is a lot more than we can do and in bringing the two businesses closer together will help accelerate that. But we are doing it from a position of strength.

Mike Wells: And then the debt question, is there anything more yet?

John Foley: We will have more to say in Singapore on that as well. I think we really want to showcase what our strategy and what way we think we are going when we get to Singapore.

Mark FitzPatrick: In terms of the IFRS equity position, I think you should work on about £6 billion is what is in the account for the UK annuities piece, so that should give you a sense.

Abid Hussain (Credit Suisse): Just two questions if I can. Firstly, on the UK, I am just wondering what sort of Solvency II ratio do you think is ideal for Pru-M&G going forward. Is 150% too low or is that the sort of worked-out level?

Secondly, on Asian distribution, can you just share your thoughts around the long term viability of the agency channel in Asia? Do you think there is a threat there from the rise of online distribution platforms particularly in China? How do you see that space evolving?

Mike Wells: So on Solvency II, I will let Mark comment on this as well. It depends on what the nature of the liabilities are and what the nature of the capital is. So one of the challenges of Solvency II is not all 150s are alike, right. And you cross jurisdictions, and they are even less so. But I think given the mix of liabilities to say then the other piece with M&G-Pru is you have the backstop of the earnings from the asset manager, as well. So it has a new source of liquid earnings, liquid capital generation. So we have not said what the ultimate number would be. But if you said to me is that a strong number for that firm given that the liabilities it has, what its capital structure looks like and what its earnings prospects look like to generate capital, I think it is a healthy number. Do you want to disagree with me now publicly?

Mark FitzPatrick: I would never do that. And remember, that I suppose 30% of the credit risk is gone. And when you move Hong Kong, an element of the interest rate risk goes with that as well. So the risk profile of the business is significantly reduced, significantly less volatile. And therefore you need to look at, in that lens what is the appropriate cover ratio.

Mike Wells: If you are in the UK, the first lens is Solvency II. Second lens is owner risk appetite. So if you think of that, that is everything from our sensitivity, interest and equity movements and it is all of the things that you say all right do we believe this is something we should be doing relative to everything else we are doing and it is much more personalised by company than it is the sort of the more standard metrics.

So both are important and both are certainly important in the governance model. But I think it is fair to say that the first lens is how does this fit with the risk appetite? So if you reduce the risk, the amount of capital you are holding theoretically should come down. Again, subject to market norms and all of the regulatory and everything else, the more risk you are taking, obviously the higher it should be. But it will be well capitalised and everyone will have the agreement we need on that from the key stakeholders before we let it go.

Asian distribution?

Nic Nicandrou: Clearly, we are alive to the trends. But where we have seen digital distribution gaining traction has been predominantly in the P&C space, and kind of very simple, low case size in the health space. Whenever it is come through higher case size or something more complicated. And when you are in Hong Kong about critical illness products, that cover about 113 or so different conditions.

Whenever you have seen it increasing complexity then they do not gain a lot of traction. In fact, we do. We have our own digital distribution. We have 1.6 million customers in Ghana alone just doing various low case size protection and health business on the phone, literally a couple of dollars a year. So our view is that digital channel is really complement kind of rather than replaced. What we currently do what is distribution? I think the winning strategy is ultimately will be the ones that combine both online and offline. Online, typically could be research and then offline we have to deal with queries on the telephone or face-to-face.

And we are developing the tools today and there are many examples I can give you pretty much across all our businesses to equip our agents, to equip the people that sell our products in the branches in a way that enables them to do as digitally as possible and fulfil ultimately what the customer wants.

Mike Wells: And parts of that I think at the consumer level are, they expect the paperwork, the forms of process is to be more digital. So if you are in Singapore, you take your ID card and our app scans it and pre-populates all the fields. The consumers expect that. It may be leading edge for insurance, but where they are elsewhere other people could do it. So part of our comparative set is the other experience the consumer has not necessarily what our insurance competitor does, and a lot of that is easy to use not necessarily purchasing.

In China, they are doing photos as well; it is all digitals on the app, and issued almost immediately. But facial recognition; they are taking a photograph because that is a more common way to access security. And so again, there are different dynamics so we have to follow whatever like we have to make sure we meet the client's expectations wherever they are and those certainly are more digital the further used to get.

Nick Holmes (Societe Generale): Just a couple of other questions on the US. First, are you thinking of moving away from variable annuity equity guarantees. I mean we may be at the top of the equity market who knows. Are you concerned that you are maybe putting on too much equity risk and you want to do more with products like Elite Access, etc. And then the second question is, could you tell us the size of the net amount of risk?

And Mike, I was very intrigued by your comment that policyholders are making very good investment returns from their variable annuity assets, which I am sure is true. But the net amount of risk is fairly large, I believe. And so there is an underperformance versus the guarantees, and I just wondered what your thinking was on why that is happening? Let me make this clear. I am not suggesting that the net amount of risk is an amount that can be exercised immediately at all. But as an indication of the performance of those assets, it does suggest that not all policyholders through that own selection of funds are actually achieving such great returns. Thank you.

Mike Wells: So I can do as much net amount of risk as Nic can do on China, if you want to do this. It is one of my least favourite metrics. If the clients have return, you see the appreciation on one of the slides we showed earlier and you know the guarantees are sub-five, right, the withdrawal guarantee after their money is depleted. So if you just think of the simple economics, if they are earning in the sevens net and the guarantee is sub-five, right, it is very difficult for the net amount of risk, if it produces a number that is negative to be indicative of them underperforming the guarantee. Okay, it captures variety of other metrics.

The less you sell the better it looks; there is a whole bunch wrong with it. As in the moneyness reviews before, I will ask Chad here in a second to comment on it.

But Nick, on the guarantee on, are we exiting the business because we are timing in the top of the market, no. I think we said before, we reset the guarantee level annually. So they effectively go up on the contract anniversary of the client, as does the fee for the guarantee. So if you and I created a variable annuity company today to enter the market right, and we sold the contract today at this S&P level assuming they only buy the index fund. They can buy an index fund. We would be the same pricing point as Jackson will be with the client renewing today on the guarantee fee. So the fees for the guarantee stay with the underlying exposure we have to the equity market. And as we said we are not trying to make money on the guarantee fees, but its plenty to hedge the equity exposure. And so no there is no intention. And the client behaviour has not changed. We have seen a per cent or two increase in their equity exposure. It is still nowhere near our pricing assumptions. You wish for the consumers for the retirement accounts, they were slightly less pro-cyclical, but it is the nature of US consumers. They are fairly cautious with retirement money. So we have not seen any material shift in the consumer behaviour. But Chad, do you want to fill in some colour around that?

Chad Myers: I would say, I would second what Mike said. The net amount of risk is probably the least favourite. We do not use it for anything for managing the book; something that others do not disclose, so we made disclosures in the past. The best example I can give is in terms of flaws of net amount of risk would be if you had somebody who had bought a policy with a $100,000 that had a benefit of $100,000 left. There is $50,000 of account value so that would be measured as $50,000 net amount of risk. If they were 95 years old and it will take out $5,000 a year out of an account that is going to show up as a negative indicator in terms of that amount of risk. The chances of them being able to actually access that for us to go on risk is roughly zero, so that is why we do not like the measure. And if you look at the overall moneyness, our average policy is basically at the money. And as Mike said, they step up annually with the market guarantee so we are at a position now.

Its actually the book is in the best position it is ever been. And even if you look at the net amount of risk which is a flawed number, you will see that is good as it is been over the years as well.

Mike Wells: So we are going to keep writing, Nick.

Chad Myers: Just one other thing I would say on that. The markets might look frothy from the equity side. Interest rates backing up were actually quite helpful in terms of the overall value guarantee, so that is a good indicator.

Marcus Barnard (Numis): Just a quick question. Just interested in where you are going to headquarter the international businesses in London when they do not have any operations in London. Out of those, Singapore, America would be a much better location. Is that something you will review over time or is that next year's announcement, or are you committed to London?

Mike Wells: No, we are committed to London. I think you have still got Africa. I think M&G Pru would tell you that however motivating visits are from GHO to the business units, they are not critical in the day-to-day operations in the current structure. So I think where the group is centred is not an operational issue. It is sovereign functions of the business. So it is everything from the rating agencies, the listing requirements, interfacing with you folks that capital allocation and preparation of financials, risk management, compliance side, those functions. And those are staffed and work well here.

I think another argument I would make on a practical front is with everything if you – so we are talking in the management. What we are saying is its business as usual right. And this stuff is done disproportionately by group and on the nights or weekends as I said earlier. The exercise to do a re-domicile would be massive. You would have heavy turnover. We are replacing people that you know are already good and you may or may not get cost savings or some new. I have heard the theory. I get new investors over that. We find Asian investors have no problem buying shares on the on the FTSE and they tend to gravitate towards our most liquid. We are on Hong Kong. We are on Singapore. We have an ADR in the US and we are here. The larger investors tend to gravitate to the most liquid market which is here. So we do not see any distinct advantages. We like the rule of law. We like the talent. We like living here. There is a lot that says London.

Alan Devlin (Barclays): Just one question. Is it Pru plc is not necessarily the best owner of M&G Prudential over the long term? And if someone else thought they were a better owner, would you consider a sale of the business or just a merger?

Mike Wells: It would be the board's responsibility to look at anything that came at us. But I think again given the recurrent success of the business, there are other businesses about the same size. In the UK, if someone was a buyer there they have different characteristics to each. I recognise this is the best one. But there is a question of we can manage if that process occurred, we can manage it.

But I think our preference and our intended model would be a standalone entity. When you are in the marketplace, you are subject to market activity, and I would not diminish that that can happen. But we do not anticipate that being the outcome.

James Turner (USS): Yes, back to the £6 billion IFRS net assets and annuities, is that for the entire UK annuity book or just the slice that you sold? And what are the equivalent numbers in EEV terms? Then the follow on to that, should I allocate the £300 million EEV loss on the annuity disposals as a frictional cost of the demerger. Should I be worried about your EEV assumptions?

Mark FitzPatrick: So the £6 billion is the overall, so the whole piece. Would you mind repeating the second question?

James Turner (USS): Is the £300 EEV loss a frictional cost of the demerger?

Mark FitzPatrick: That £300 million is effectively a loss of the result of the loss of future fees from the annuity piece. So I would not see it as a frictional cost of the demerger. It is a result of the sale of the annuity book, which is something that we closed today and is effectively a core part of the derisking of the UK business.

Mike Wells: Thank you for your patience and attention to a very long session and your support through the year. Our next meeting is Singapore, November 14th or 15th. We hope to see you all there and if there is any questions just follow up with our team and we will be back in touch. Thank you.

[END OF TRANSCRIPT]