# Shareholders and Investors Meeting

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# Shareholders and Investors Meeting

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## Introductory Remarks

Good morning everyone and welcome to our 2017 results update, which we are hosting in Hong Kong today for the benefit of our investors and analysts in the region. It is great to see so many familiar faces from our November Asia Update Meeting.

*Meeting agenda*

I will quickly skip past the usual cautionary statement and move straight to the agenda for this session. The objectives for today are to firstly provide you with an overview of our 2017 Group results and the demerger announcement we made last week; to then deep dive into the Asian business and cover the progress that we are making in the region; and finally, to give you an opportunity to ask questions on any of the aspects that we are covering today.

## Group 2017 Results

*Strong performance*

I can start with the Group's 2017 headline results. Firstly, on growth, new business profit increased by 12% to over £3.6 billion, while IFRS operating profit attained a record high of £4.7 billion, with both metrics driven by Asia's strong double-digit growth. Secondly, on free surplus – which is our proxy measure for cash – we generated £3.6 billion, with Asia contributing strongly, up 19%.

As a result of our strong overall performance, we increased the full-year dividend by 8% while maintaining a robust solvency position with a cover ratio of 202%. Finally, our embedded value continues to compound strongly, up 15% to £45 billion.

*Delivering against financial objectives*

2017 therefore adds another year to our enviable track record and highlights the strength and the quality of our delivery across our global business portfolio. 2017 also marks another milestone for the Group and in particular Asia, as we delivered all of the financial objectives that we set ourselves back in 2013. This is the third set of objectives that the Group has achieved since 2009, objectives that were predominantly Asia-focused, providing proof of consistency, sustainability and durability of our profitable growth in this region. As I said back in November, having proven this concept, we are not setting new targets other than to reiterate our belief that our Asian business can double in size every five to seven years.

*Evolution of Group performance*

Stepping back from last year's results and taking a look at the progress of our Group over a longer time period, you can clearly see that both the mix and scale of the Group have evolved considerably over the last decade. In 2007 the Group's embedded value was £15 billion, with over half coming from the UK, while today it is over three times that figure at £45 billion, with an overwhelming proportion of 72% coming from the international businesses in Asia and the US.

Through this period we have been active managers of the portfolio, exiting UK annuities, our broker-dealer business in the US, our life businesses in Korea and Japan and our agency channel in Taiwan, while at the same time increasing our participation in health, our presence in Thailand through Thanachart and our bank distribution across the region by tying up with UOB and renewing our agreement with Standard Chartered Bank. Over this period, in addition to growing the contributions of Asia and the US, we have seen a reduction in the financial interdependencies between the businesses, with the international operations no longer reliant on cash from the UK.

How we view the Group is really a reflection of the clear direction of travel shown in the chart. As a result, we feel that the structure needs to evolve to acknowledge the change in mix and scale of the Group, and to foster greater agility to act with pace and conviction as markets develop and change.

**Demerger Announcement**

Last Wednesday we announced our intention to demerge our UK arm, known as M&G Prudential, from the rest of Prudential plc. The reason for this is simple: we believe that, as two separate groups, the respective businesses will be better positioned to deliver long-term success.

*Distinct strategies, separately-listed companies*

The demerger will enable our businesses to pursue distinct strategies aligned to their respective opportunities and to maximise their potential, thereby unlocking benefits for all stakeholders. Our international business will focus on Asia, the US and Africa, and is extremely well-positioned to lead in these markets – markets where the structural fundamentals remain compelling and represent a significant source of value for our shareholders.

M&G Prudential, as a separate entity with its own capital allocation framework and strategy, will be able to compete more effectively against its peer group, rather than compete internally with our international businesses. Therefore, by enabling better alignment, greater agility and speed of execution, we will be able to enhance long-term value creation.

Once completed, the demerger of our UK business will result in two separately-listed companies. At the point of demerger, shareholders will hold the same economic interests as before, but in two separate entities, each members of the FTSE 100 Index and headquartered in the UK. From an investor perspective, this demerger will allow you further choice on how you allocate your capital across these two companies.

As highlighted last week, we anticipate that M&G Prudential will remain subject to PRA supervision and will continue to apply Solvency II requirements. After the demerger, we expect Prudential plc's country operations to continue to be regulated locally, but the parent company is not expected to be subject to PRA supervision or Solvency II requirements.

*Management changes*

Regarding the day-to-day running of the businesses, very little changes; it is the same people and the same execution capabilities you have seen to date. The endgame here is to create more upside, delivered with the same quality and discipline that you expect from Prudential.

## M&G Prudential

Moving to look at M&G Prudential more closely, as was highlighted at the November Investor Day, the combination of our two UK entities to form UK M&G Prudential creates a market-leading savings and investment business that has the brands, scale and capabilities to capture the clear market opportunities shown on the slide. As a standalone business, M&G Prudential will be more aligned and focused on capturing this opportunity, unshackled by the present need to demonstrate returns equivalent to those achieved in other parts of the Group when vying for investment. This demerger comes from a position of strength, as evidenced by the 2017 record net inflows in both M&A and PruFund. Aided by supportive markets, this has translated to earnings growth of 10%, which is as good as any of our UK peers.

*Ownership transfer of Hong Kong business*

In addition to the demerger, we also announced the ownership transfer of our Hong Kong businesses from the UK to Asia and the reinsurance of £12 billion of our UK annuities, which represents about a third of the annuity book. The former aligns the legal entity structure with our management structure, while the latter partially de-risks the UK. These actions materially reduce the capital requirement of M&G Prudential and are a major step in transforming this business into a more capital-efficient model. The capital benefit of the annuity transaction will be retained within the Group to support the demerger process.

## Prudential plc

*Overview*

I will now move to cover the international businesses of Prudential. After the demerger, Prudential plc's footprint will offer access to the most attractive opportunities in the world – in other words, to the US, which is the world's largest and most valuable market, and to Asian markets, which are the world's fastest-growing.

Each of our international businesses is market-leading in its respective geography. In Asia, as is well known to this audience, we have extensive access to the fast-growing middle-class population through our pan-regional life and asset management business portfolio. In the US, Jackson leads the market in providing retirement solutions to baby boomers, the richest customer cohort in history. And in Africa, we are building a presence in the world's most underpenetrated markets. These businesses are highly complementary, with differentiated products at each stage of a customer's saving and investment journey, with an earnings and product mix that provides significant economic diversification and with the opportunity to share experience, expertise and the scale benefit of operating a global platform.

*US market*

In the US, Jackson has an enviable track record of delivering a great product for consumers and sustainable earnings for shareholders while outperforming its industry peers. Jackson continues to make great progress in the post-DOL world, with agreements now in place with 113 firms to sell its fee-based variable annuities. Product propositions for customers remain market-leading, and with a high-quality offering we continue to see strong new business flows, driving fee income 15% higher.

Over the last decade, Jackson has quadrupled its IFRS operating profit and remitted $4.4 billion of cash to the Group.

*Asia markets*

Moving next to look in some detail at Asia, having spent some time in November articulating the regional structural growth trends I will not dwell on this topic for too long, other than to reinforce the fact that these are significant multi-decade opportunities which provide unique tailwinds for the industry. I set out on the slide the multiple compounding growth curves that we see in the Asia region. Of particular note is the sizeable opportunity which stems from the levels of out-of-pocket healthcare spend in the region, which is 42% on average in Asia compared to 12% in the US. I believe that Prudential is extremely well-positioned to benefit from all these structural trends.

I have already highlighted the achievements of our 2017 financial objectives, but what is less apparent from just looking at these numbers is the phenomenal underlying transformation of the business from both a capability and an execution perspective. In addition to doubling these KPIs, over the past five years the Asia team has continued to invest for growth and has focused on improving the quality of the franchise. In this period, we have invested in expanding our distribution capabilities, both growing our agency force by over 250,000 people while broadening and deepening our bancassurance partnerships, where we remain a pioneer in driving value.

We have continued to automate our business and invest in technology, improving both our efficiency and our ability to serve our customers 24/7. In China, we continue to execute with focus and discipline, building one of the largest foreign JV footprints, giving us access to 940 million Chinese. Not to be left behind, we have more than doubled Eastspring's funds under management from £58 billion to £139 billion. I do not need to remind you that Eastspring remains a unique asset within Prudential Asia compared to peers in the region, with £56 billion of external assets.

Our focus in Asia remains undiminished and we continue to actively manage our business portfolio and allocate our capital to the highest return opportunities.

**Asia Strategic Priorities**

Our strategic priorities for Asia are clear and are summarised on this slide, which I first shared with you back in November. These are to enhance our core businesses, create best-in-class health capabilities, accelerate Eastspring and expand our presence in China. I would like to update you on the progress that we have made in each area.

*Core businesses enhancement*

As you can see, we have been very active in enhancing our existing businesses across multiple dimensions. Our distribution reach keeps growing, with a 9% increase in agency count to over 650,000, accompanied by an improvement in quality with 7,900 MDRT qualifiers in 2017. Sales through bank partners have increased by 20%, and since speaking to you in November we have added five new partnerships to complement our existing bank relationships. Taken together, the new business profit generated from these two proprietary channels was 17% higher than last year. A total of 1.4 million new customers were acquired, while repeat sales to existing customers accounted for 43% of the total, underlying the value we provide customers in protecting their health and wealth.

In the course of last year we launched 175 new products across the region, introducing numerous new and innovative features, many of which were first to market, such as the next best offer in Hong Kong which, using IBM Watson AI, offers pre-authorised life cover to new-product applicants; the launch of Anugerah in Malaysia, a first-to-market non-linked Takaful savings and protection product tailored for Millennials; and a new simplified investment-linked mass-market product, Hebat, in Indonesia.

Our focus on increasing automation and embedding digital capabilities in our business remains paramount. Examples include our ongoing investment in e-point of sale technology, with 60% of all new business submitted electronically and 51% auto underwritten. With the launch of our fourth-generation point of sale system in Singapore, capable of generating quotations in seconds and with the technology in place in China, Hong Kong, Malaysia and Indonesia to process clean, new-business cases straight through and to issue e-policies within two hours, if not in minutes. Our use of chatbots to handle agent and customer queries now extends to four markets, namely Hong Kong, China, Singapore and Vietnam. Our askPRU chatbot in Singapore – again, a first in this market – is already making a significant impact, driving higher efficiency and lower costs by handling over 80% of our agents' queries.

*Health capabilities*

Turning to the next priority, Prudential is a leading health and protection player in the region, growing sales by 13% to over £1 billion for the first time and increasing new business profit by a very healthy 26%. We're now adding serious heft to this business. Andrew Wong, who is here today, joined us as Chief Health Officer in January. Andrew comes with a wealth of experience in this sector and, working with Lillian, is already driving our efforts to accelerate the growth and broaden our participation in the health space across the region.

We are continuously evolving our health offering. Across Asia, we are actively extending coverage of more conditions and bringing new innovations to market. This has lead to a multitude of firsts across the region, including:

- Singapore, where we launched gender-specific new critical illness plans and introduced claims-based pricing and co-pay options for private hospitalisation writers;'
- In Indonesia, where we launched our first as-charged product, offering benefit reset options and overseas hospitalisation cover, and in Hong Kong, where we were first to introduce a protection benefit reset feature that allows customers to reset their protection coverage after the payment of early stage major disease claim;
- Working in partnership with Prenetics, Asia's leading genetics testing company, we have offered the myDNA health and wellness programme to over 69,000 new customers in Hong Kong, Singapore, Malaysia and Vietnam;
- Our new partnership with Doctor2U in Malaysia offers our customers online medical consultations and outcall services 24/7;
- In Malaysia and Indonesia, we have established and expanded our hospital panel networks, numbering 93 and 45 respectively, as we seek to enhance customer service and control costs;

- In China, Indonesia, Hong Kong, Malaysia and Singapore, we have in place AI-based technology to auto review and assess simple health claims in seconds and to settle them on the same day;
- In Singapore and Malaysia, we are now offering simplified life and medical products online;
- In Malaysia, we have launched a new employer benefit insurance offering, targeting the 900,000 SMEs in this country. Similar initiatives are in train in Indonesia – where there are 5 million SMEs – in Singapore and in Thailand.

As you can see, we are addressing this opportunity at pace and we are achieving strong results.

*Eastspring*

I mentioned earlier that Eastspring is an asset that is going from strength to strength as we add new capabilities and evolve the business model to be broader than an Asia-focused value-style asset manager.

The partnership with BlackRock that we announced in November is helping us bring new products such as factor-based and thematic strategies to market, while our collaboration with SGA in December enables us to add growth strategies such as global growth and US growth to our stable of successful value products.

We are also broadening our in-house capabilities under Virginie's leadership by hiring a number of senior investment professionals in multi-asset solutions, infrastructure and alternatives, as we look to develop and deploy these capabilities to meet the strong third-party demand for such assets.

We were pleased to announce in July our cooperation with the IFC in Hong Kong to source some $500 million of infrastructure loans. We are making good strides operationally in the business as we standardise and streamline processes back to front.

Our rollout of BlackRock's Aladdin system across the business is well advanced, and by the end of next month some 72% of Eastspring's assets under management will be managed on this platform.

Our JV with ICICI in India is a market leader, with a 13% share of the rapidly expanding Indian mutual fund market. It is also the only asset manager in India to offer instant paperless onboarding technology through IPRUTOUCH, which now has 147,000 registered customers and handles 30% of all customer transactions.

We are excited by both the potential and the prospects of Eastspring in the years to come.

*China*

Turning to China. No company is going to win in Asia without winning in China. We continue to build out our presence in this market, working in partnership with Citigroup. At the end of 2017, our life and asset management joint ventures grew their respective asset bases to $10 billion and $17 billion on a 100% basis. In the course of 2017, we have broadened the life business's footprint and have been effective in growing into it. We entered the Szechuan province to bring the total number of branches to 18, the largest amongst foreign JVs. Since we last updated you, we added three more cities in the Hainan province, an important step in penetrating a province with 95 million people and the fifth-largest contributor to the Chinese economy.

We have grown our agency force by a third to 44,000 agents and have improved their productivity by 17%. In bancassurance, we now have access to over 4,000 branches across China which we support with over 1,000 wholesalers. Both channels have grown sales by more than 45% last year.

Our focus remains on delivering disciplined, high-quality growth with over 40% of sales coming from health and protection and with a 94% regular premium content. This shape of sales is completely aligned with the direction set by the Chinese authorities for insurance to return to its core, provide genuine de-risking products and be a source of long-term investment in the economy. Our discipline is being recognised externally, with our JV being awarded the highest SARMRA score in the industry by the CIRC. This is a tremendous achievement for our business.

In asset management, you may have seen our announcement on 5th March that, in addition to our current JV, Eastspring now has established an investment management wholly foreign-owned entity in China which will enable us to tap into the significant opportunity in the private and institutional space.

**Overall Results for Asia 2017**

Turning to the overall results for Asia in 2017, our strategy is clearly working and the initiatives that I have just covered are contributing significantly to our progress in the region.

We are delivering high-quality, broad-based, consistent growth at scale. This is our eighth consecutive year of double-digit growth across our various profitability and cash KPIs. Taking new business profit as an example, this has increased fourfold from £511 million in 2009 to £2.4 billion in 2017.

Our IFRS earnings over the last four years have also compounded strongly, with all markets posting meaningful increases and five businesses now contributing profits in excess of £150 million, evidence of the strong momentum of our business.

Our growth is high-quality, as it is predominantly driven by our emphasis on health and protection and by our focus on adding valuable regular premium new business cohorts each year. Both elements are essential underpins to our highly reliable recurring earnings in this region and will drive growth in this metric for many years to come.

**Update by Geography**

I would now like to provide a brief update on our main markets in Asia.

*Hong Kong*

The strong performance of our Hong Kong business is testament to the efforts of Derek Yung and the team in targeting a value over volume strategy. Here, our market-leading agency force is over 19,000 strong and accounted for 40% of all sales from this channel in this market, producing 1.4 times the volume of our closest competitor.

As we de-emphasised the broker channel last year, it is appropriate to measure our progress by reference to our proprietary channels, agency and banks, where NBP grew by 16% in the year. This reflects a greater emphasis on agency-led health and protection sales, which in 2017 accounted for 28% of our agency sales mix compared to 25% in the previous year.

It should not surprise you that our Hong Kong business remains exceptionally high-quality, with 97% regular premiums and 98% customer retention ratio. These factors combined to produce a 38% increase in IFRS earnings to £346 million.

This business is highly digitised, with over 90% of cases being submitted electronically. In addition, 27% of our 1.1 million customers have registered on the MyPrudential portal, allowing them to self-service their policies online. AI technology is now used to settle simple health claims on the same day.

*Singapore*

Our Singapore business also delivered a strong performance last year, leveraging its sizeable market position. During 2017 we accelerated our agency recruitment rate, closing the year with 4,600 agents, the highest number in our history. Combined with improved productivity, this has seen us maintain our number one position in regular premium sales with a market share of 23%.

We achieved double-digit sales growth through our longstanding bank partnerships with SCB and UOB, complementing our strong agency presence. As a result, total sales in this market increased by 21%, while new business profit rose faster at 22%.

Singapore is at the forefront of creating a digital business model across the end-to-end customer lifecycle, spanning acquisition, on-boarding, servicing and claims. There are numerous initiatives here, some of which I have already covered. With 100% of sales through e-submissions, 50% of customers on e-contracts and 88% of PruShield customers opting to receive e-renewals and e-statements, Singapore comes closest amongst our businesses after China to achieving my ambition of being a paperless fully-automated business.

*Malaysia*

In Malaysia, we are the market leader in both the conventional and the Takaful space and hold number one positions in the bank channel and for linked business. Sales increased by 13% last year, outpacing the market, with both agency and bank channels delivering double-digit growth.

The business is actively creating new products to meet evolving customer needs. In the last year alone we launched 12 new products, which contributed to a quarter of the sales and drove the productivity of our 22,000 agency force 17% higher.

Innovation and automation are also a core focus here. Nearly 88% of the business is electronically submitted with customers being able to opt for e-policies, cutting down issuance and delivery time from 17 days to one. Customers can also opt to have their medical claims settled cashless by using our network of 93 hospitals.

*China*

China had an exceptional year. The business benefits from the compounding effects of an expanding geographic footprint and a growing distribution reach that I described earlier. As a result, sales increased by 43% while NBP more than doubled, a testament to both the momentum and the quality of our business. China is adding customers at a rate of over 600 a day which is now the highest rate amongst our markets, outpacing that of Indonesia for the first time.

We are pleased with the good balance of our China operations when viewed through a distribution and a product lens and with the high regular premium content of our sales. This shape is fairly unique amongst foreign JVs in China and is a key underpin to the quality and momentum of our business.

China has the potential to be a material contributor to Prudential. For all the reasons that I have already outlined, IFRS earnings grew by 38% to £91 million, which means that on a 100% basis China is now the fourth-largest contributing business to PCA. Finally, China is our most digitally advanced business, with 100% agency e-submission, policy issuance in 30 minutes, a fully-automated claims submission process through WeChat and 17 customer self-service activities offered online, accessible via mobile phone. Our business is therefore more than keeping pace with the way Chinese consumers want to engage us and do business with us.

*Indonesia*

In Indonesia, we remain positive on the attractiveness of the market given the well-known structural fundamentals. With a population of 260 million, 80 million of whom are middle-income – a number that is expected to rise to 140 million by 2020 – and only 18 million policies in force in this market, insurance in Indonesia has a very long runway.

We face into this opportunity with a business that has unparalleled market presence, scale and reach. We are the leaders in agency with 22% market share, a channel in which we continue to push our advantage forward by recruiting four times more agents each month than our nearest competitor. Our 277,000-strong agency force, which operates through 393 branches across 169 cities, has an unrivalled scale and reach in this market. We insure 2.4 million people who between them hold 3.3 million policies, again the largest by some margin amongst our peers.

We continue to improve the operating credentials of the business through further automation of the agency recruitment process, which is now down to two days; through extending the product offering to appeal to mass market and affluent segments; and through continuing to invest in back-to-front business automation, including e-submissions, AI-based auto decision claims assessments and cashless claim settlements.

All of these actions should drive our future momentum, and there are early signs that this is starting. Our business has returned to growth in 2017, with higher sales across all channels and particular success in bancassurance sales, which were up 18%, and Sharia product sales which were up 16%. We remain therefore very confident of our future prospects in this market.

*Eastspring*

Finally, Eastspring continues to also compound strongly, with funds under management growing 20% to a record high of £139 billion, cementing our position as the number one retail and number two institutional asset manager in Asia ex-Japan and Australia.

2017 was our third-best year for third party net inflows, totalling £3.1 billion, and our second-best year ever for total inflows including those from our captive life businesses, which totalled £11 billion. This has been delivered on the back of strong fund performance, with 63% of funds in the top two quartiles or exceeding benchmarks over the last three years. Fixed income performance remained particularly strong. IFRS profits last year reached a new high of £176 million, up 18%. As I mentioned earlier, we're adding significant new capability to the business across multiple dimensions.

**Concluding Remarks**

In Asia, our priorities are clear. We are making strong progress against these and, in doing so, we are significantly enhancing our capabilities and improving our performance. In 2017 we outperformed our peers in a number of places, as we grew market share in seven of our markets and maintained top three positions in nine out of 12. Our strong 2017 delivery is therefore impressive on both an absolute and a relative basis.

To wrap up, our Group has delivered another strong set of results in 2017 that bear testament to the strength of all of our businesses. This performance is underpinned by Asia, which alongside delivering the 2017 objectives and achieving another year of double-digit growth, has made significant progress in shaping the business and investing for future growth.

We set out last week our plans to evolve the Group structure. We view this as a natural progression of our strategy and an opportunity to enhance long-term value for our stakeholders.

Finally, I would like to remind you that we will be hosting our Investor Day in Singapore later this year, on 14th and 15th November.

With that, I will now open it up to questions. I would like to invite Lilian, Virginie and Raghu to join me on the stage.

## Q&A

**Kailesh Mistry (HSBC):** Firstly, on the demerger, just on Prudential plc, what is the working assumption for any additional capital requirement at that Group level? Are you anticipating some sort of SIFI charge or something along those lines?

Secondly, in the London presentation you highlighted a local Asia solvency ratio of 244%. I think you talked about it on a local minimum basis. Is this consistent with your big peer in the region? If not, what do you think are the main differences?

The last thing is around the £5.8 billion holding company debt. If you could share your thoughts on how this could be split between Prudential plc and M&G Prudential?

**Nic Nicandrou:** Okay, nice simple questions to start with. Thank you, Kailesh; I expected nothing less. I will answer the first and third, and maybe Raghu, you can comment on the second.

Yes, at the moment Prudential plc is a globally systemic financial institution. It remains to be seen, but I think that once we separate the two businesses it is unlikely that we will retain that status, so in relation to SIFI, no, I do not anticipate additional requirements. Clearly, you have the international capital standard that is going to be introduced at least for internal reporting in 2021. It will run privately for a number of years. Clearly, that will apply to the top 50 or so global insurers, and we will have to comply with that. That is our expectation of Prudential plc at that point.

The solvency?

**Raghu Hariharan:** I think you are right: the solvency ratio for Asia was at 242. I think it is a very strong ratio. I cannot do a compare and contrast with peers, but it is a very strong ratio, very stable across the years. As you know, there is not much balance sheet risk that we take in this region, so it is a very strong position.

**Nic Nicandrou:** It is a kind of old-style Solvency I aggregation of the various solvency regimes. It is a minimum. For example, in Malaysia the minimum is 100. The regulator expects you to run the business at 130; we run it at a higher level than that. It will be expressed as a fraction over 130, for example, so that gives you an indication. Others in the region may well do it differently. I don't know for a fact how AIA do it – I can guess, but I would not like to do so.

In relation to the debt, maybe the best way is to illustrate it with an example, to frame your question. The IFRS equity of Prudential plc today is £16 billion, roughly. £8 billion of that relates to the UK business, M&G Prudential. The other £8 billion relates to the international businesses. We have roughly £6 billion of debt that is at the plc level that is held at the top co level. As we said last week, there will be a debt restructure exercise to effectively share out that debt between the demerged UK business and the rest of the Group. Suffice it to say that now both Prudential plc and M&G Prudential are sufficiently well-capitalised, having reached a very good position, a very good point in the maturity of those businesses. You saw the indicative ratings that our three rating agencies issued late last week which confirmed the very strong capital position not only of the existing Group, but also of what will be the demerged Group. We have broadly seen ratings maintained and the UK coming down a notch, but the businesses remain AA.

As we then move forward into exiting the demerger, yes, there will be an appropriate split of that debt. We will, at the appropriate point in time, share that with the market. But at this stage, beyond giving you those financial facts, there is not anything to say more than that at this point.

**Lloyd Xu (CLSA):** If I may ask two questions, both about Hong Kong. The first one is, after the demerger and the transfer of Hong Kong business to another legal entity, does it mean that the Hong Kong operation will only be subject to the local regulatory regime? Could you give us an update on the RBC development here in Hong Kong, because we know that the industry did an impact study last year?

The second question is, we were talking about more health and protection business in Hong Kong and also China, and we know that we have Chinese customers coming from the mainland to Hong Kong to buy their life insurance policies. If I were in mainland China, what is the consideration for me to choose Prudential Hong Kong or Citic-Prudential?

**Nic Nicandrou:** Thank you for your questions. Our Hong Kong entities already have to comply with local solvency requirements. On a company basis, the solvency of our Hong

Kong business is in excess of 600%. That does not change. The fact that it was previously added with the UK is a UK reporting matter. As I said, on a standalone basis it was very well-capitalised and there is no change there.

Do you want to say something on the RBC?

**Raghu Hariharan:** Sure. As you know, we are going through a RBC exercise in Hong Kong. We participated in the QIS1 calculations with the insurance authority here. I think there's no firm conclusions to draw as of today because there are many moving parts.

For example, to give you a feel for what is going on, on the reserving side you move from a Solvency I type of calculation net premium valuation to a gross premium valuation that moves your reserves to a more best-estimate basis, and so that gives you an upside. On the capital requirement side, you move from more of a factor-based model to a more stress-based model which is more Solvency II-like. But as I said, there are many factors here to be determined. For example, what will be the risk margin? What will be the liquidity premium on the reserves? What will be the calculation on TVOG, and indeed, how will diversification be calculated? This will all be part of the next round of testing, which we expect by midyear this year.

As you know, we are already compliant with Solvency II, so we are very alive to all the components that go into an RBC-based model. In fact, our processes are fine-tuned, and the teams are very alive to these kinds of calculations. I think, if I might say so, we have some advantage here because we are already Solvency II compliant.

The last thing I would say is that the intended date for the regime to come through is 2022, so there is still time available for this to land, but we are in good shape, we are very alive to the process and we are participating in the regulatory calculations.

**Nic Nicandrou:** Thank you, Raghu. Lilian on the differences between health products that are sold in Hong Kong versus those in the mainland?

**Lilian Ng:** Maybe I will start off with the Mainland Chinese customers we have in our Hong Kong business. I think we have highlighted this before: predominantly our customers are mainly business travellers who come to Hong Kong more for managing their wealth and finances and for portfolio management. When we sell insurance products to them, it will be across a range of wealth management type products, savings products, as well as health and protection. That is what we focus on, whereas obviously if you are a Chinese consumer in China and you purely reside in China, your protocol should be going through our Citic-Prudential franchise.

In terms of the type of product differentiation, actually in terms of the benefits that go to the customer, I think China recently has actually advanced and upgraded the way they offer medical products – I think Nic mentioned including services thereafter, how you actually can automate claims and so on. I think in terms of the product offering, it is actually fairly similar. Obviously, there are still some differences in terms of pricing and that is more driven by regulations.

**Nic Nicandrou:** The other reason a Mainland customer may choose to buy a product here is that, certainly for private hospitals, there are shorter queues. Sometimes it is almost as practical as that.

There is a lot of innovation in the Hong Kong market. The product that we offer, as I said in my presentation, covers 113 different conditions. The benefits get reset. Although we are seeing better products in Mainland China, they are not yet as innovative as we see them in Hong Kong; for example, in Hong Kong you will get multiple payments for cancer, but that kind of feature is not yet prevalent in Mainland China.

**Scott Russell (Macquarie):** The first question is on Hong Kong, just sort of stepping back and trying to understand the growth outlook. It is obviously a very mature market, but yet you are still investing in growing the distribution, so I am interested to understand where you see the growth coming from. There are more policies than people in Hong Kong. Is it now shifting towards an offshore strategy, or are you agnostic as to the customer segmentation? Maybe if you could be a bit more specific about where you are focusing your enlarged distribution to grow in the next couple of years.

The second question is about Malaysia. You have produced great results there for a long time, so it is a little disappointing to be asked to sell down a stake. Maybe for the benefit of everyone in the room, could you give us some background as to why Pru and others are being asked to sell down, but others such as AIA are not? Thanks.

**Nic Nicandrou:** Okay, thank you. On the Hong Kong outlook, what are the areas that we are targeting, Lilian?

**Lilian Ng:** In terms of the Hong Kong outlook, obviously our strategy is actually to optimise our business, whether it is local policyholders or offshore, which are the Mainland Chinese visitors predominantly. If I am just looking at the local customer in Hong Kong, I think the recent budget announced by the Hong Kong government has actually encouraged the sales of insurance or encouraged more penetration. Finally, after ten years, they finalised the voluntary health insurance scheme where I think it is raising awareness of the general public to purchase health insurance. I think that is a plus for us and we see a lot of encouragement in terms of growing our H&P sector there.

Secondly, they are also now allowing tax deductions for annuity retirement schemes, and that is an area which we also see as very positive. Recently there has been a lot of discussion by the Hong Kong Insurance Authority to see how best we, as an industry, relaunch those products. Again, I think that is an encouragement to say there are still a lot of opportunities in terms of growth prospects in the Hong Kong local market.

In terms of the Mainland Chinese customer, as we have highlighted before, we will continue to work with Mainland Chinese customers in Hong Kong who have a preference to buy insurance products in this part of the world.

**Nic Nicandrou:** We are not going to give you a prediction for sales in 2018 – you would not expect us to – but as Lilian was saying, we are highly encouraged about what we are seeing. Yes, we have come off a cyclical peak in terms of the Mainland Chinese flows that are coming into the market, but we have retained a market share of those flows of about 27% and that has been relatively steady over the years. We still think those flows will continue because many of the drivers that are bringing that money into Hong Kong continue to be in place.

What are those? There are a lot of visitors each year and they continue at around 4 million a month. Clearly not all of them are here to buy wealth products, but those that are, when we survey them, 74% say that they see Hong Kong as a very attractive destination for wealth planning, including buying insurance products. They like the diversification that comes from investing in Hong Kong dollars or US dollars and, as we said in response to the earlier question, they can get medical cover or access to richer medical care and faster access to a hospital.

On the local market, I did not put it in my presentation, but we grew by 9% last year – and this was after pulling back from brokers. Our bank and agency channels were double-digit in the local market. We see a continuing demand. The two examples that Lilian gave are two areas where there is no market. There is no retirement market; everything is about accumulation, savings and health. No products across Asia at this point look at the retirement or the de-cumulation piece. It is very encouraging to see Hong Kong is taking a lead in terms of providing tax incentives to get us and others to provide de-cumulation products. When I referenced earlier the complementarity between the US business as part of the demerger and Asia, this is an example. Our US business are experts in the de-cumulation space and we are seeing that come in Hong Kong. Vietnam also has an ageing population and two weeks ago our head of regulatory affairs was in Vietnam having high-level discussions with the authorities about what Prudential can do to create products in that market and in the de-cumulation space and we know that there are similar discussions in Singapore, so that is a new area.

On the hospitalisation incentives, that is not a market which we have been in. It makes up between 1% and 2% of our sales, and it gives us an opportunity as one way forward not only to be high-end, which is where our products tend to be, but also to play in the lower end of the market.

We are excited, and at the end of the day what matters in Hong Kong, as is true everywhere in our business, is if you keep on adding valuable cohorts of new business, then you get a compounding effect that translates into higher profits, hence the relevance of 98% customer retention and 97% regular premium business. All of that, plus our focus on the health and protection, is getting the profit to compound very strongly, 38% up £346 million. That is nearly five times what it was only six or seven years ago. We are very, very happy with our flagship of business in Asia.

The second question was on Malaysia. I got that question last week also in London and I will give you the same answer as I gave back then, that yes, today we enjoy 100% of the economics of our business in Malaysia. This is notwithstanding the 70% foreign entity ownership limit which was introduced in 2009. We have been able to maintain those. As I can tell from your question, we are not the only ones to operate on that basis. We cannot speak as to what others are doing from this point on, but we what we can say is that yes, we are in discussion with the authorities to see whether we can continue to operate on that basis. Those discussions are ongoing. Nothing to report at this stage, but we anticipate being able to update you and the rest of the market soon.

What I would say is that, as a business, we have done a very good job as a Group in adapting to new situations as they evolve. These results that are showcased today are not the results of a Group that has not changed through that period, so we are very good at adapting at pace to new developments and our business in Malaysia – and thank you for acknowledging their performance – remains focused on driving value for our shareholders. That is what I said last week and that is as far as I can go in this Q&A.

**Thomas Wang (Goldman Sachs):** I have two questions, one for Nic. Specifically, the five-year plan you used to have for 2012 to 2017 was very helpful. Would you have something similar that you can share with us now in terms of your growth target in Singapore? That would be really helpful. If you do not have that now, if I use an 80-20 rule, what would be your focus for the next three to five years, the one or two key issues you will be spending the majority of your time on, from your perspective?

The second question is specifically on China. You grew your agency force four times over the last four years, so quite huge momentum there. What is your target in terms of the size of the agency force or the size of the China market that you have in mind? Thank you.

**Nic Nicandrou:** The objectives that we completed in 2017 were the third set for Asia. Starting back in 2005 we said we would double NBP by 2009, and then it was doubling NBP and IFRS between 2009 and 2013 and actually doing it in a way that delivers quite a lot of cash. Of course, in the last five years it was about doubling again IFRS and cash generation free surplus.

I think we have proven the concept. If you like, we did this at the very outset when certainly a lot of our investors at the time in 2005 just did not believe the potential of Asia. We felt it appropriate to effectively establish the guide rails to get the market to see that and understand. Having proven that concept really, I think now is the time to remove those guide rails and therefore give us the flexibility to invest at the pace that we want to invest with a view to securing higher returns in the future.

The loose target that I am going to use to assess our performance, even though that we are now a £2 billion IFRS profit producing company, yes, we want to be able to double that between five to seven years, so again at a CAGR which is double-digit. In terms of the areas of focus, really it is the strategic priorities that we outlined. We want to do everything that we currently do better. There is a huge opportunity in the health space where we are already one of the leading companies, and we want to continue to be that and do more, play a bigger part in the value chain. You should expect to see news on that every time we report.

On Eastspring, Asia will account for 50% of global flows in five years' time and in Eastspring we have an asset that can attract quite a lot of that, having been present in all of the major markets where assets are being managed. Then on China, again it goes without saying that the contribution of our Chinese business will become material to Prudential long before we become material in China.

Those are the things that you should expect to be updated on every time we present our results. Do you want to say something about the direction of travel of agency in China?

**Lilian Ng:** Yes. As you have seen, we have grown our agency force four times over the last five years and I think the way the business is doing it is we want both scale and quality. So we are not just doing it for the sake of scaling and actually CIRC commented that we actually continue to have a quality agency force. I think CRC recently has actually launched special projects to go and look at the discipline of the sales force around China. I think it is important and critical to understand that it is not just because we are in 18 branches, it is not just growing the number, it is growing the right number. We strongly believe that with the model we have there we can continue to double; if you look at the number we have, I don't see why we cannot continue with that trajectory in terms of doubling our sales force every couple of years. At the same time, I think we also continue to introduce new tools, new skills, using digital to support the activity of our agency force in China as well.

**Jennifer Law (Haitong International):** I have just got one question here regarding the Indonesian business. I wonder whether management can share with us more colour on the latest trends and growth outlook for the market. In particular, you mentioned that the company is recruiting more new agents, four times more than your nearest competitor, even as a market leader. That is a really impressive number. I wonder if you can share with us some numbers on the agency turnover? Thank you.

**Nic Nicandrou:** Lilian, would you like to add some additional colour to what I have already covered?

**Lilian Ng:** I think in the Indonesian market there are still a lot of opportunities. With 250 million people there is only 18 million policies, so you can see the opportunity is there. I think for our business there, we continue to use a dual model; obviously we are scale and big on agency, but we also continue to work with our bancassurance or partnerships model.

In terms of agency, we have what we call a mass agency recruitment model. With this type of model, obviously the attrition rate comes hand in hand. What we do is once they go through the first year in terms of attrition, by the time they get to the second year that is when we really call them a full-timer, wanting to be part of the agency. You see quite a high attrition rate and that is a typical model in Indonesia in the first year, but once you get to the second or third year it becomes more stable. That is the model we have. At the same time, we are also looking at building a more professional full-time agency recruiting the Millennials, so we are segregating that and doing that as something that hopefully will build a more full-time agency model in that business as well.

**Nic Nicandrou:** The size of the agency force is already big enough. We will hire to maintain it and maybe it will grow to a little more. Really all our efforts – and what the examples that Lilian gave are all about – are around how we get them to increase their productivity.

I think that starts with, in the first instance, trying to segment that agency force into the very top agents. We have around 1,700 of very, very top agents and we will give them the best tools. We are now beginning to give them differentiated products; the as-charged product that I referenced in my talk, for example, is a little more sophisticated than our other products. We will give them both technology and products that will look after effectively the higher net worth. We will also create products – and the Hebat product is another example – which are lower case and much more simplified in terms of the investment options and some of the coverage that we give for different conditions. That is going to be given to the rookies, for example. Then the big number of agents in the middle will have access to a few of these products. So, our efforts are on segmenting that agency force, equipping the very best ones with better tools and better products and then reflecting that on the way down.

We have started that process through the innovations and through the products that we have issued this year, and already we are seeing that the very top agents are increasing the contribution to the total. In 2016 the top agents contributed around 15% of the sales, and that went up to 25% in 2017.

That is where our focus is and there is other white space for us which we have not played in historically where we have an opportunity to do so, and we will be putting quite a lot of effort in doing so. For example, all our products are investment-linked with riders. We have not played in the traditional space. There is an opportunity to do that. Again, we are looking at that. We have not played in the SME space. I referenced earlier in my talk that there are 5 million small and micro enterprises which we can produce product for. Although we are getting some traction on the banking side, there are still opportunities to set up new relationships there and we have done that; a couple of the five new agreements that I referenced were in Indonesia. So, there are a number of opportunities across both distribution channels.

**Kailesh Mistry (HSBC):** Just picking up on a few other comments that you made about the countries, firstly on China. You talked about increasing the contribution to the Group and Lilian talked about focusing on quality and scale of the agency. Do you have a target in mind for the growth in the agency on an annual basis? Secondly on China, how is the competitive landscape developing in 2018 following Document 134 and the raft of product launches? Have you seen a pick-up in for example feature competition or price competition?

On Hong Kong, what is the proportion of new business value from Mainland China and what do you think a steady state is? Because that is going to continue being an enduring part of the market.

Lastly, coming back to the demerger, your financial disclosure is excellent in the sense that you provide EEV/IFRS cash disclosure for all of the businesses. When you were thinking about the demerger ratio, or management is, what is the most important metric? Because that metric may be very different to how the stocks end up trading, because you have got one potential growth element and another value or dividend-paying element.

**Nic Nicandrou:** China, target for growth for agency; Lilian, what would you like to say on that?

**Lilian Ng:** I think obviously, as I said, we will optimise our growth and see where opportunities are building to scale. As I said, if you look at our past track record, that is the line of travel that we would like the business to get to. So, without committing to a number, I think that is where we would like to see our China business to grow.

**Nic Nicandrou:** It is not just about volume, let us just be clear. A lot of emphasis is on quality and some of the things that we look at in terms of quality is the proportion of business that comes in the regular premium format, or the proportion of business that comes that relates to health and protection. That first and foremost is what we are going to look at. We want to see the new business profitability compound nicely, and therefore it was particularly pleasing that, notwithstanding the 46% growth that we saw in AP, new business profitability doubled. I think that reflects a number of factors, not least the shift in mix, not least the fact that now we are operating at scale, not least because the C-ROSS process has also helped effectively sweeten the returns that we are getting there, given the mix of business that we have. So, we are pleased, but no forward-looking forecast.

What I did say at the November investor conference is that, if I stay in the job as long as Barry did, then at the end of that I would not be surprised if China on a 100% basis exceeded the contribution of our Hong Kong business, and Hong Kong is growing very fast as well. That just gives you the potential and the belief that we have that the business that we are operating in that market is capable of achieving good things.

Document 134 – these are the door-opener products.

**Lilian Ng:** Yes, so actually we have been quite well-prepared in terms of that. As you say, riding back what Nic was saying, our focus is driving NBP growth and we will sacrifice short-term volume to drive that.

**Nic Nicandrou:** I think the question was more have you seen a change in competitive conditions as that has come in.

**Lilian Ng:** China is a very regulated market and a lot of our competitors obviously stopped doing those products. From what we have seen, I think Citic-Prudential is probably more well-prepared relative to what we see in our competitors.

**Nic Nicandrou:** You may have seen the market stats that came out in January: the market is down overall in premium terms around 10%, 17%. We had some door-opener products and the vast majority were not impacted by Document 134. A very small percentage was, less than 3% of our annual APE and an even smaller percentage of our annual NBP.

Yes, for those that have the right capabilities, that will move the market to regular premium, that will move the market to more health-biased products. We think our offering is quite competitive; it is well priced, it is quite comprehensive, it is being offered in a very digital format. Candidly, the market is so under-penetrated – 2.3% penetration and only 114 million of the 1.4 billion population has savings contracts today or insurance contracts. Most of those tend to be in the saving space, so it is even less penetrated when it comes to the health and protection piece and with a 500-odd million middle class today that is predicted to be nearly 1 billion in five years' time, really there is plenty of runway. If we do not achieve what I hope we will achieve, it is not because we have been out-competed. It is just that we have not executed on our plan to continue to penetrate the part of China that we are already in.

**Lilian Ng:** On the mix of Mainland Chinese policyholders versus local, given the latest trends from an APE viewpoint and I think in terms of number of policies it was probably fairly stable the last couple of years. It has gone from the mid-70s to now below 70%, so it probably hovers around 65–69% in terms of our mix of Mainland Chinese business.

In terms of where we think we will end, as we said, I think we want to optimise both. We want to continue to grow our local business, and as Nic mentioned, we had a 9% growth in 2017 and we continue to make sure that we have the right product proposition, given what has happened in the latest regulatory environment, to support and encourage the growth of that sector.

On the Mainland policyholders, obviously that depends on the number of travellers to Hong Kong. I think on average what we have seen is the number of what we call real travellers – so people that actually stay overnight in Hong Kong, not the day trippers – has actually increased for the first time in 2017. It was dropping since 2015. With that pool, assuming that half of that actually comes to Hong Kong for wealth planning, wealth management, we see the opportunities there. They will continue to be our target customers for our insurance business.

**Nic Nicandrou:** The product mix that we see from Mainland China is no different to our local. The NBP follows, if you like, the shape of APE, which is 37% local this year, up from 29% in 2016/2017.

Finally, on the demerger, ultimately the market will determine what are the right metrics, but effectively we are going to have a very dividend- and cash-centric UK business and you are going to have a very growth-centric international business. The KPIs that we will use, and I am sure that the market will use, will be those that you do for those two types of entities.

**M W Kim (JP Morgan):** I have only one question. One difficulty analysing your company before was that your EBIT disclosure in Asia is actually on an aggregated basis, versus your competitors who actually showed a more detailed country-by-country. Under the new corporate structure, do you have any plan for further disclosures in your Asia business to be country-by-country?

**Nic Nicandrou:** I think that is to be determined. If I am honest, rather than put my Group CFO on the spot given that he is not here to answer the question himself, I think we will pass on that request. The reason we do it is we have asked to be judged as a platform. There are occasions where one market will grow faster than the other; there are occasions where we will take actions to do something that we just do not think is commercial, and we are saying look, we are now in enough places and have sufficient size to be able to take the rough with the smooth, smooth out if you like any other market-driven or any intentional actions that we take, which is why historically we have given at least the EEV disclosure on an aggregated basis. But yes, as we move forward, as we complete the demerger, then that will be a topic that we come to at that point.

Okay, I think we are there. It just remains for me really to thank you for giving us your time this morning. I hope you found our presentation useful and interesting. We would very much like to continue the dialogue, which is the reason why we are holding these sessions, and we look forward to seeing you all at our next update if not at the Singapore investor event later this year.

Thank you for coming, thank you for your questions and thank you to the panel.

[END OF TRANSCRIPT]