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Group Strategic Overview

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Welcome

Good morning, everybody. Welcome to Singapore. We are excited to have you here. It came up last night a couple of times – and it does not feel this way to us – that we had not been here in a while. Obviously we are here on a very frequent basis, but it has been a number of years since we have been back. And I think one of the things about Singapore as a proxy for all of Asia – there are massive differences obviously between the different countries we are in, and markets – is, you cannot replicate the energy, you cannot replicate what it feels like on the ground. We were just talking before the meeting, we helped sponsor a major fintech event here that has grown in just a few years to over 40,000 people. We were just asking Will if he will get you a little clip of what that looks like tomorrow.

But the level of energy in something like that in this part of the world, it is contagious. You just walk out of there, like, you have had nine cappuccinos and need to take a programming class. But the amount of innovation, the amount of new ideas, not just in the tech space, and the alignment between the various stakeholders to see those actionable, are unique, and it is part of the reason we wanted you to come here.

For us, it is a business we started in 1931. It is one of our most successful in terms of one in three households in Singapore have our products. In fact, someone asked me, and I said we are a little over about 2.8 products per household here, and so you would think it would be one where we were mature, we were peaking. And yet as you will see over the next few days, it was by choice that we decided to put some of our most advanced technology and some of our best and most modern ideas, and there are an awful lot of reasons for that. And I think those will be clear to you in the next few days.

Everything we are doing here is exportable to everything we are doing elsewhere. So there are a lot of things the Group is learning to do better and I hope you will see that in the next few days, and I am obviously very proud of the folks whom we are going to put up in front of you.

Context of demerger

But there are a number of folks that are new that are joining us, and welcome for your first time. One of the questions they had is, can you give me a little bit of the logic on the demerger and what is the purpose of that and how do we see that. And so I just want to recap for a couple of minutes this journey we are on and where we are going. And I am going to keep my comments today fairly high level, because you are going to get a deep dive on almost all of these subjects from my colleagues, as you would have seen from the agenda, for the next couple of day. So let me start with why.

So if you look on the left, you see the shape of the Group in 2007. And we were disproportionately a UK-based firm, and the size and scale of the firm meant that the business units were interdependent on each other for capital and resources, and often talent, and even for strategic work and things. And it was a very successful model, relative to its

peers and the international businesses were starting to really come online. Again, if I back this up to 23 years ago when I joined, as I have told you before, it was basically a UK firm.

If you fast forward to last year, and I just use these numbers to be consistent on the slides you have seen before, you now have 72% of the business international. And if we look at other metrics like new business profit or some of the other dynamics that might measure future value, it skews even more so.

And it is not that the UK businesses are not successful. They are, but you see a difference in characteristics now. One is, each business unit has scale in its own right, and different attributes of scale. They are not all the largest in the world, but they certainly have the ability to self-fund their organic production. They have the ability to compete at the top of their markets in almost every market they are in, and they have the ability to reinvest in their own entity to provide a level of technology, operational expertise, design that is competitive with anybody in their space.

Now, that does not mean there are not capital synergies in things like M&A and some of the stuff, the capabilities you will see we have added, but the scale of the businesses has reduced interdependency.

So why break them up? The UK businesses now compete internally for capital, and just given the objectives that we have been very consistent about, on how we want to allocate capital, that means they compete against the US and our international businesses in Asia and Africa, instead of against their peers. Their business plan is defined by their role in the Group instead of what would maximise the opportunity for our shareholders in the UK, European markets and their international capabilities, as well. And again, they are getting less and less from the Group, given the success of M&G and the success of Prudential UK.

So we got to the conclusion from that that by breaking them up, we will get better alignment, and that is everything from the focus of the management teams, the currencies, the likely investor bases over time. We are definitely seeing now enhanced execution. We have two of everything in the UK, you have seen our objective to get to one. Any process like this is cathartic. You look at everything you have done and why, and what is a better way to do it and how do we want to look in ten years, and what is the leading technology in that space. And we are going through 170 years of decisions, so there are quite a few things to look back and say, why are we making that decision? But it is going very well and very fast. We will give you updates on that over the course of the next couple of days, but the gist of it is, you get focus, you get alignment, they have plenty of scale, and we think you will get value creation.

We think you will get a better alignment between the various stakeholders of each entity. That could be anything from currency-based, to investment thesis-based, to shape of earnings, shape of financial results. So that is the logic, and that is how the Board to came to the decision it came to.

Group

So I am going to spend most of my time this morning focused on the international business. John and his team will present later in the programme, so he will give you an update on where they are, and Mark is going to give you an update on the project itself and how it is progressing. In the presentation tomorrow there is a finite amount of things we can say

given the period we are in, and I hope everybody respects that in the Q&A, but we will give you a good update on the progress, and things are going very well with M&G Pru.

But this is what the international business looks like and we think it is a very complementary portfolio of businesses. And let me tell you why I think that statement is true.

If you look at the strategy and the ambition for the Group, and the operating principles that we intend to govern it by, it is looking at the international opportunity of the businesses we are in and saying, let us follow the structural growth. And I think courtesy of the people that came before us, the actual footprint this business has is unique. We are in a material part of the world's markets. There is not a market that we wish we were in, for example, that has structural tailwinds that we do not have some presence in.

Clearly, we would like to develop every market we have further, but we have a footprint that we think is unique. We intend to operate the business with discipline, and I think we have demonstrated that, and I am going to give you some examples of that in a second. But this is not a growth-at-all-cost, top-line-at-all-cost, market-share-at-all-cost business model. I think, personally, we are too big and too successful, and we have too profitable existing relationship with consumers to start doing things that show a lack of discipline on margin or add risks we do not necessarily need to take, or expose us to market factors that challenge the counter-cyclicality that we want from the earnings. So this is a quality of earnings play.

Ambition and operating principles

Now, what does operating with discipline mean? It means from allocating capital, we have strong views of risk-adjusted return expectations, of payback periods, and that gets us into some of the product sets that we have been very successful in. But it is key.

It also means we continue to have to enhance our capability. It is not just, again, about a single metric. I was at the fintech event yesterday, and when you are speaking to thousands of entrepreneurs in the tech space and you are standing there representing a firm that is 170 years old, they think they actually have met a dinosaur. They are looking at you like, my firm is 17 months old or 17 weeks old, and all of them are looking at us saying, we are going to challenge you. And the one-on-one conversations were fantastic afterwards.

And what they do not get is the capabilities and the tech investment, and all of the things you are going to see over the next couple of days that are inherent in the success of the company.

What they do get, correctly, is if we did nothing, that at some point, it would make us uncompetitive. We would look like a slow non-growing insurer that may or may not be a player in the market. There is no reason we cannot innovate at the pace to compete with anyone and we will show you some of that innovation. But it does require us keeping a very sharp eye on how dynamic the firm is and how capable the firm is, and we have to look at not only our traditional competitors but our non-traditional competitors in doing that.

So it is an honest assessment of where we see gaps in the firm and where we need to grow, and we will show you some of those we have addressed. But it is continuing to enhance the capabilities of the firm, and that has multiple dimensions to it.

And then if you have done those things correctly, it should produce very high-quality, resilient outcomes. And we define that again by quality earnings, recurring earnings, recurring across

the cycle that are not necessarily correlated to any equity or interest rate scenario, and good diversification of those earnings.

Capturing structural opportunity

Unrivalled access to world's largest and fastest growing markets

So, structural. Let us go to tailwinds for a little bit. So why do we believe any of that is true?

So I do not believe that we have a competitor that has our geographic footprint. We are in the largest and most successful markets for the businesses that we want to pursue, and I am going to walk you through a variety of metrics on why we think there are structural tailwinds.

The reason we like structural tailwinds other than the obvious benefit, is the investments often to capitalise on them take years. So this is not a short term, 'Let us time this market, let us try this promotion and get this out for 90 days'. We are capable of that sort of behaviour, but it is not sustainable behaviour and it is reactive behaviour.

The strategic view here is, what are the dynamics of the markets that are changing and what do we need to do about it and what do we need to look out ten years? We had our leadership team together just a couple of weeks ago, or not even that, and the thematic things that we go through in that to look at the next decade and see what our clients' needs are, are effectively demographics, they are AI and GI intersects, they are language changes online and they are connectivity with customers. They are all these sorts of macro themes, because basically, if we do not figure out how to connect with clients in this footprint, shame on us.

We have incredibly strong structural positions in terms of geography. All of our markets have multiple sector drivers. They have multiple tailwinds, not a single concept. So we think that is unique, we think that gives us a very successful platform to approach the business with.

Superior growth markets with further upside

Another view of that would be GDP growth and penetration levels of products. So this goes to where we start getting into strategy. Can we produce business plans that grow faster than the economies we are in or faster than the segments of the economy that we want to capture? So it is a mix. Again, if you are looking for a portfolio that complements each other, you want different characteristics, different dynamics, different risks embedded in that portfolio, and we think we have that.

And you approach those markets differently. Our Africa and Asia businesses have immense potential in just sheer growth and a variety of attributes that come with that. Our US market is seen as mature. It can be mature, it has certainly had regulatory noise lately, but also, there is no denying the structural demands for the retirees in that market. So it has scale and it has structural demand.

So we approach the different markets differently. In Africa, it is a build. It is a medium-term option for us, it is something to get a presence in. I will give you a little more on that in a second, but it is something to make sure that as that market grows, it does not get away from us.

In Asia, we need to leverage the scale position we have, because as large as we are in Asia, the demographics and the tailwinds are growing at least as fast as our business is growing. So we have to make sure we capture the share of that that we think is appropriate for our stakeholders. A key part of that is expanding health and protection. We have been saying

this to you for the last few years. It is a key, key driver in this market, and I will give you some statistics here just quantifying the need there.

And then penetrating the wealth market. As clients are getting more money here and being more successful and moving further up the career ladders, they are making decisions faster and more effectively about savings and that savings will lead to wealth products and we have to be in that space.

Operating with discipline

So the operating with discipline expression I am sure you have heard at a lot of conferences and a lot of meetings, and I think it requires a bit of proof. The way we allocate our capital, I think is going to define our long-term success and our short-term strength, our short-term resilience. So it is the key driver in this.

So in a sense, you have to think of us as, are we willing to be an active portfolio manager? Are we willing to be agnostic about businesses that have been a part of the Group for a given period of time, or a business line or a distribution relationship, and look at that on a frequent basis and say, is that still the right or wrong thing to do? Are you willing to walk away from something and are you willing to invest in something? Those are two different decisions, and they need to be taken independently.

So if you look back, I think we can make a pretty good argument that we have struck a good balance between growth and returns. We have done a number of things: we have exited markets, we have exited channels, we have exited countries, we have exited entire businesses. We have also entered countries, channels, businesses, product lines.

The goal here is not to run every business till its last viable relationship. The goal is to reallocate the capital away from things that we think have a risk or a return signature that is different than the opportunities we have elsewhere, or is not sustainable over a ten-year time horizon.

Proof statement: there are buyers for the businesses we exit. It is not a quality issue; it is not an operational excellence issue. Some people in the market are just at a different position than we are; it does not mean for them it was the right or wrong decision. But it is core to the capital allocation that you be willing to leave a business as well as you are willing to reallocate capital to a business.

The other element in that that is absolutely key is, none of our successes come evenly, regardless how good our teams are. There tends to be a sort of lumpiness to them. Some market factors, when we have done a good job, and our team has built everything they should build on product and distribution and regulatory relationship and consumer proposition, and all of a sudden it takes off, we have to be big enough to absorb that success, and that means if one of the businesses is having an unusually good year or two or three, that again, the size of the Group, the scale of our financial metrics, is such that we can capitalise on all the work that came before that. And I think we can demonstrate that we have that, as well.

So equally, we think that this adds to our performance and our capabilities. If you look at the resource allocation, where we move things around, there is capital efficiency in there, there is risk management in there, there is growth of earnings in there, there is investing in new

markets. The Thai Military Bank: that is expanding our fund capability in Thailand, and also comes with some distribution; John Hancock, the recent bolt-on in the US, there is efficiency in balance sheet and earnings, and growth in general account. These are all actively managing the business.

Now, funding. This is the kind of thing I get the question all the time that, could the businesses not stand alone, anytime they wanted, go the market raise equity, raise debt? You could. But together they can do this in the normal course of business without showing our hand to a competitor who wants the same resource, without having to go through a formal process to do anything about debt or equity or structure, simply from the financial scale of the business. That makes us a very credible and efficient and fast counterparty in a negotiation, and that is not a currency we are looking to give up.

Enhancing capabilities

Have we expanded the capabilities of the group, and how do we look at that? So, capabilities is probably a little too broad a term, but let us define what that looks like for a second. So, we are agnostic to these being developed in house, incubated, JVed or even acquired. Obviously, our preference is a bit on an internal side, but we will trade capital for time if we think something has emerged as a technology or capability that we want.

But if you look across, these are the key capabilities, what should we be good at. And start with the idea that insurers historically feel like everything they do should be built end to end in house. That is not us. We are fine partnering with whoever is best in class in whatever it is they are good at. And the more we are advancing our skills in that, the better we are getting at that, the more partners we have available to us.

I will tell you, the single most interesting thing about announcing the demerger is the number of non-obvious traditional firms that have approached us and said, we like what you are doing in this market, we have an idea that would help. Yesterday, at the Singapore fintech event, I did a presentation to the group, and we have our booth there, and it is doing incredibly well. It shows a lot of the new technology in Singapore. And the number of people coming up and saying, 'You know that small business platform you have, we have an idea that would be an incredible enhancement to that'.

Somehow, when you are in motion, people view you as being more open to new ideas or easier to find, or our business plan is more obvious to them. And they know they can look at this and say, this is a firm that is willing to work with other firms.

Now, another way to do this would be to incubate, to invest, to build these from scratch. That is not our primary goal. We are not looking to spin out some of the technology the teams have built out to the market. It works, we have one competitor in particular that is good at that, but that is not our model. Our model is to be able to work with the best and to have technology that links quickly with whatever the most advanced idea on distribution, on customer services, on operations, and digital is, and continue our core business.

So again, you can go down this. If you look at the distribution, the banker deals in Asia, the Hancock deal, and 158 selling group agreements now in the fee-based space in the US, those are expansions since the last time we talked. There is technology here from IBM to fintechs here in town that the employees could fit at two of these tables. It is a unique capability to be able to work with a variety of people, but you see, this is our lens, this is how we are

looking at it. Is the firm better than it was last year? What can we do now we could not do last year? What are we going to be able to do in 24 months that we could not do a year ago? You are going to see a lot of that over the next couple of days. We are starting with a position of strength, and to maintain that growth, to maintain that strength, we have to continue to add capabilities to the firm.

Complementary portfolio

Balance: are they complementary? So if you take a look at the growth profiles, again, this is US, Africa and Asia only; this is what the geographic balance and the product, really the risk balance, if you will, looks like. So is there diversification, are they correlated, those sorts of things.

So you see, we have 30 businesses here in 20 countries, so I would argue that is geographic distribution. That is measurable, and you can see it from the metrics. New business profit to free surplus generation, just as a couple of proxies. And the earnings characteristics obviously, when you go down to the lower boxes here, how the product is coming in, it is diversified, the types of risk profile, from investment to insurance, to spread, are well balanced. We are not looking for this to be a third, third, third, let me be very clear. It is not that we will not do spread products, but it inherently has more capital strain and has different risks to it, and we like the earnings but we would value them less than we would similar earnings on products in the insurance or investment space.

Upper right-hand corner, you have businesses that are coming online that were nascent in some of our emerging market business that are growing at a very rapid pace now. Again, you are talking compounding rates of growth of 24% over the last decade. There were meetings, not the last one here, but the one before that, some of you were at in Asia, where we were arguing about our new investment in Indonesia. So I would suggest to you not to underestimate some of our up-and-coming markets. The demographics on those markets, our alignment with national policy, our brands, our capabilities, they are are growing nicely and we are getting better and better at moving our capabilities across markets.

So the cross-fertilisation piece is something that historically we probably should have been a little better at. We did it with people, now we do it with a much more sophisticated playbook, and we still use people, but we also use systems and distribution models and relationships across region, and now across geography, across continents. And you will see with a few more slides coming up here, that has some real leverage to it.

High-quality, resilient outcomes

So that should produce then, if that is all true, measurements of quality of earnings, not just scale of earnings. So obviously, the combination of that strategy, the portfolio and execution.

So 70% of the first half of this year's earnings came from insurance, up 61% in Asia, despite the fact that those operating earnings have more than doubled.

In the US, the fee income has doubled in the half year, again, the same period, and again, the fee income in total plus the insurance income for the combined entities is now 83%, taking into account the growth. So we think that is incredibly high-quality earnings.

Could we have done more in the spread space? Yes. Does the accounting favour that a bit? Yes. It is not the objective.

Asia – accelerate

Driving global growth

Demographics: going through Asian demographics always feels like I am preaching to the choir when I am up here, particularly when you are here in Asia, but as we get more and more accurate or more and more current research – I would not say more and more accurate research – more and more current research, we are seeing every key metric on demographics that is important to us improving. Let me give you some examples of that on just global growth now.

Asia is growing five times faster than the balance of the world, on the chart on the left there. Between now and 2023 – so not that far out – it is projected to be 39% of global growth. And again, if you look at our footprint in Asia, we are in the markets where just a portion of that is measured and intended to be.

Large and growing population with low levels of penetration

Another dynamic: our core skill has always been emerging middle class. We are getting better at segmenting markets and working below and above that, but that has been the core historic capability of the business in Asia. That is our sweet spot. And again, we are getting very good at other things but that has been the one that I think we are the undisputed champion of.

The rise of middle class in Asia is expected to head to 3.5 billion, representing two-thirds of the world's middle class in the couple of the current reports out there. So what does that mean? It means we are probably going to have a lot more agents. Lilian is thinking half of that 3.5 billion, right Lilian, somewhere around there?

The urbanisation of the populations, this trend has a variety of dynamics that are in our favour. Raghu is saying more than half. Okay, we will work on that in the plan discussion.

Why does urbanisation matter? On the health side, it is better access to healthcare. It is more efficient for us. Now, the expectation of every government we do business with is that we do not focus simply on cities, and we are very good at going up country and working in a variety of markets. It is one of our core capabilities.

But the urbanisation is changing the way people work. It typically changes the amount of free time they have, and again, it drives them towards products and services we have, and it gives us different distribution options. So this trend is very valuable to us. And again, you have 2 billion people moving into cities in the next 15 years, roughly six times the population of the US, just to put some scale around this.

And then finally working age, another tailwind. 181 million people entering the workforce in the same time period. So again, by comparison, that would be Italy, France and the UK combined. These are massive, massive demographic tailwinds for us, and these are into markets where we are licensed, market-leading, scalable, and we think have the right products and services.

Large health and protection gap

One of the last two I want to show you on demographics in Asia. So, are they insured, what service do they need, mortality gap, how much insurance they should have? This is relative to western markets. But I had somebody ask me the other night about this, in the airport,

and he said yes, but that is because they self-insure. It is a good observation. On average, cash position in Asian households is 40%; it is materially higher than you see in the west.

There is no policymaker that we ever deal with that would not rather see people pool risk, reinvest that excess capital in the real economy and pull it out of cash. There is complete alignment with what we do, and the governments in the jurisdictions we do business with. Even Singapore, with very sophisticated state-sponsored health and retirement, here we do supplemental around that on savings and health and other services, because some of the demographics on the individuals, which I am not going to get into today, on longevity, advancements in medicine and those sorts of things, everyone is looking at the fact that these consumers are going to need more assets longer, better, more sophisticated healthcare models, all those sorts of things that we are bringing into the market.

But again with the health gap at $1.8 trillion in Asia, that is about 7% of GDP. The states in most cases, there are a few exceptions over here, are not interested in stepping in and providing a national health safety net. They are looking to the private sector to provide those services, and they view the private sector as a more natural owner of the administration of those services. So structurally, these are good alignments. Again, tremendous demand.

New opportunities

And the one we have not talked about that I want to finish with on the tailwinds side. So I have gotten the question a few times this year, is there a retirement opportunity in Asia? Now, this is more complicated here. The answer is, absolutely. The answer is, it is now. One of the current pieces of research says by 2050, there will be an additional 450 million people over 65 in Asia. There was some work done showing the savings gap for India and China for its population to fund retirement. By 2050, you will have 700 million 65-plus-year-olds looking for retirement, health solutions and things in retirement.

On the high net worth, this comes up a lot. It is the largest market now in the world and it is projected in the next decade to grow to about $40 trillion. This is key for Eastspring and some of our more sophisticated product offerings that we continue to grow into that space.

I get the question, are you going to do a Thai baht variable annuity, and the answer is no. When we sit down with governments and they know our expertise in the retirement space, and they want to know what we can do with pensions, they see that in the UK and they see that in the US as well. In some of these markets, where you lack a proper yield curve and the maturity of securities, it is very challenging to come up with a risk-appropriate product or service, but there is no lack of interest in the leadership of these countries to solve this quickly.

So I do not think it is any surprise that our China team is one of a handful of firms on a pilot, on a pension product in China. The expertise we have, the technology we have, the risk management skills we have from our UK business, from our US business in individual pensions, will be applicable in Asia quickly, because this is a structural need that has to be solved. So it is a dynamic that you will see come online over the medium term, but again, the numbers are there now.

Market-leading positioning and capabilities

I would argue we are well placed to capture some or all of these opportunities. Scale: why does it matter? It matters in not only the risk management of success, the risk management of failure, the ability to invest in those innovations, the ability to be key to a market. In practice, I would tell you with 3.5 years in this role, it means you are a part of policy decisions, you are not a taker of policy decisions. That is a material difference. We have a chance to be a part of key conversations on what products and services, regulation, capabilities need to be in the markets we are in.

It is important, it is exciting, and it positions us as a trusted ally in the markets we are in. And again, it is trust that is ours to lose. It is a key currency I think of the brand, and I think as a management team it is one of the most important things for us to be stewards of.

But what you see in Asian markets is, the firm is viewed as a place to go for solutions by policymakers, and we are going to show you a lot of that over the next couple of days. We are dealing with some fairly complex issues with them, and I think we are well positioned to do that. And those require scale. If you are giving us anything from your individual pension to your corporate plan, to the first product you have ever bought, you have to believe that with Prudential's logo on the policy or on the digital policy, that whatever that outcome is you are afraid of, we will pay. You have to believe if you are the government, the partner, that if we say we are going to do something, it will happen and will happen in a way that will not embarrass you and it will actually enhance the social model.

Those are all true, and they occur day in and day out, and they are a function of our size, our scale, our success in multiple markets, and they give us a chance to participate in this sort of structural growth.

Compounding growth underpins resilience to market volatility

It also produces resilience. So, if you take all of these points and combine them, so as we have shifted this business towards recurring relationships with consumers that have a regular premium – that means products where the consumer each year has a payment to continue the benefit, just to make sure we are all on the same page – becomes very, very important to the resilience of the earnings and premium income of the firm. With a retention rate now of 90%, again, these are by industry standards excellent numbers. Think of it as a satisfaction score with your consumers, and think about, it is not particularly unusual for 10% of the consumers to have something happen in their lives that they cannot anticipate, that could be a death, loss of a job, some other major event in life. So 90% is an outstanding number.

94% of that premium is recurring, and again, the business growing in customer account. I have used the MSCI Asia ex Japan here, just to give you a sense of stability of earnings, or lack of correlation of the earnings to market. That is what we are driving towards. That is the responsibility of this part of the book. And what it should look like in practice is, you take very successful correctly priced client relationships like this, and every year you add another cohort of successful client relationships that are profitable, correctly priced to this, and this grows and grows and grows.

Growth across all metrics

This structure is one of my favourite slides. So what does it look like for Asia? If you do all this correctly, the outcome should produce very good financial metrics and they should be balanced. Again, we have the ability, theoretically as a management team, you could drive any one of these metrics a little bit. Again, at this scale a little so; there is some base effect in here. But the reality is, you should see the outcome you want in these metrics and you should see it across cycles.

So, new business profit, IFRS profit, free surplus generation. And to continue that obviously requires the effort and the agility and speed to market we were talking about. So, that is Asia.

US – managed growth

Grow in advisory market and enhance market-leading position in brokerage

Let's go to the US for a couple of minutes. What are we trying to do in the US? Well, the US has had an undisputed leadership position in an industry with a lot of policy noise in the last 36 months. There has been policy noise on the DOL, on President Obama's watch, there was policy noise with the NAIC on capital; there have been tax changes. And we have had competitors distil their businesses, for lack of another term, where they have failed to execute as they originally intended and they have spun them off. And again, that is a consequence of decisions made decades ago; these decisions have tails.

So it has been an interesting time for the US. So that said, Jackson's quality has not changed. What has changed is the market around it, what has changed is the policies around it. So it still leads in terms of market share, technology, cost of administration, client quality, all of the key variables; risk management. It is market leading in all of those dynamics, and I want to talk a little bit about the market in a second.

But you are at an inflection point in the US on policy, and Chad is going to get into some of the financial metrics. I am not going to spend a lot of time on the resilience, so I will give you a little bit of a look in a second. But you are seeing an end to the DOL workstream; you have seen the NAIC stuff finally come through, and what you have not seen is any change in the structural demand for retirees. It is about the only thing I can find democratic politicians, and Barry's here, he can give you chapter and verse on this later, but it is about the only thing people on both sides of the aisle agree to right now in the US, is that there are a lot of people going into retirement and they are grossly under-protected. And private solutions again need to step up, and they need to step up in a way that provides the client some sort of assurance they will not run out of money in retirement.

Long-term retirement opportunity

Now, there are a number of demographic keys in this that define the structural piece. 61% increase in people over 65 between now and 2035; a 73% reduction in defined benefit plans, that is starting to look the same in our UK business; 50% of consumers with no private plan or coverage available to them. Just think of the scale of this market, the scale of the assets, the scale of the households.

And the retirement gap here, we defined differently in this one. I did this on purpose, because I do not think it is always clear to people outside of the market how people retire. So US retirees get a pension from the state, social security. It is theoretically self-funded.

There is a lot more demand on those funds than there has been historically for other purposes, but historically it was set up as a federal pension fund in 1934, or '35.

And one of the interesting things you should know is, the retirement age at which you were allowed to participate in it was also the expected mortality in the US, so your first payment was due when you were dead, was sort of the math in the actuarial world. Obviously, longevity has improved and they have not moved that date, it is very political. But this is what an average retiree in America would see. So they would expect about 40% of their pre-retirement income to come from social security benefits. So they are not destitute, there is coverage there, but it is quite a gap. And 70% is about what they need to retire comfortably.

Also, in every piece of research I have ever seen in my career, Americans spend more in their first year of retirement than they did in their last working year, and they have a variety of justifications for that. But it is a lot of things: they buy boats and new golf clubs and all sorts of things if they can. But that gap is critical.

So defined-contribution plans have worked well in the US, they are growing. But current language in the law makes it very difficult for you, if you are at the head of your company's plan, to provide a guarantee. Without getting into too much detail, it is the Safe Harbour language. So only about 5% of the new pension plans that most Americans have, have any form of withdrawal guarantee. So they are exposed to the market. And if you look on the right-hand side, that is not what they want. Consumers do not say, 'Get me the number-one-performing growth account or value account year after year.' What they want is their individual situation solved and de-risked. They want to know they will not run out of money in the extremes: exactly the services Jackson provides.

Operating with discipline

The structural demand in the US is absolutely there, but so is the opportunity to act in an undisciplined fashion. The US industry is brilliant at this. Jackson has been disciplined the entire time. There are some trades in there. On the left, you see that we manage the volumes in new business. We have talked about this years ago, and actually even put gross sales caps in place at various points. However, what it ends up with is a book well diversified across various cohorts in the S&P 500, as a proxy. You see very consistent pricing, and so does an advisor who has been recommending the product for a decade or more. It is still basically the same quality of product that they started with when Jackson was a much smaller player in the market. There is an integrity issue in that, and there is a trust issue in that. Usually the top ranking in any sort of advisory polls is the quality of the firm.

It is a model on risk where, even though you can customise the product individual benefits are individually priced and risk-managed. Certain combinations of benefits are not available to you. That is a technology issue. It has always been conservatively hedged and Chad is going to come up and give you some updates on that later. Then it has always been a view that protect the tails economically. What would the actual economic impact be? We have got multiple regulatory and accounting statutes that go across our US business and the goal is the economics first and take the noise that comes with the various accounting regimes.

Then on credit right now it has a balance sheet. 97% of that is investment grade. It is underweight risk sectors. It is diversified across 650 issuers. A way to reduce risk is to not have major positions. Its average holding $53m. In the US presentation you will get more

detail on risk but just to give you a feel for the conservative nature of it; not stretching for yield, not stretching for pricing risk, staying consistent to the tenets that got the firm the success it has seen.

High-quality, risk-managed capital generation

How does that look relative to peers? There have been a couple of slides with hypothetical data used in the marketplace last year. I thought we would actually give you one with real data. This is historic. Jackson's return on statutory capital pre and post the tax reform is 19% or 16%. The industry reported 10%. Total adjusted capital before dividends and regulatory impact you can see in the middle chart, and the consistency of the RBC ratio, including all of those changes to policy and dividends we discussed, is on the right.

When competitors were talking about major assumption changes, major capital infusions, at over US$5bn apiece, this is a business that has produced $5bn of dividend over the same period of time, is well capitalised, and the assumptions have been consistent across its life. It is in a different quality space than its competitors. I appreciate on valuation that gives it some challenges, but this is a high-quality business with structural demand, correctly priced, well positioned to capitalise on where we are going next.

Now, in the market in the US, the space that we think has the most potential and, I can tell you from my recent trip to New York, the space our recent distribution partners think has the most potential is that movement into the advised or fee-based space. It does not mean we have to give up anything from the commission-based success that Jackson has had and the consumer who chooses to pay a one-time fee for the product. However the advisory, the pay-as-you-go model, as we discussed, Jackson entered that space about a year and a half ago. It is about 3% of the overall market and growing quickly because you will need that final language from the SEC to clarify what is or is not proper ownership for all the firms to be online. There is a technology component that the US will tell you about, but in the less than 24 months since they have launched into that space, they have 50% market share. The feedback I get from people running firms in New York is, 'best wholesalers, best service, great technology', all the things we would expect people to say about the firm on a new endeavour.

Africa – build

Building a presence in one of the world's most underserved life markets

This is a medium-term opportunity for us. Part of our responsibility as managers of the company, stewards of the company is to make sure there are always additional new J-curves and growth engines. This is a new continent. This is a J-curve continent for us. We have had some success from our 2000 foreign entrants with our traditional capabilities, which is agency and bank. I think if you looked at what the team has done there, they are punching well-above their weight. They are winning mandates and relationships that established players in the market would have thought they would be the winners of.

We think we have a footprint in the parts of Africa that we think have the most value and the most leverage going forward and give us the greatest optionality on the continent. It is the single largest most underserved insurance market in the world. It is the youngest continent in the world. It is where we are trying new technology. This is where we have done our first mobile pay micro-insurance product successfully. You are seeing it skip technologies. You are seeing it move at a different pace and it is a part of our future. We think it is our

responsibility as a management team to continue to invest in things that will be a part of our future.

Delivering sustainable growth

I will finish with this. A slightly different look to my favourite slide. What do you see in this when you split the UK businesses and the international businesses? You see different financial characteristics. This goes back to part of the logic in the demerger. All good. You see stability, value, cash flow, and you see growth. We think we end up at the end of the day with two very high-quality businesses, two highly competitive businesses in their space and two businesses that can compete with anybody with a similar portfolio or skillset; with a very good proven track record on new business profit, IFRS operating profit and the ability to generate free surplus leading to cash.

Conference agenda

You have the agenda in your deck. Mark is going to follow up with a financial update. I could not help but notice when I did the agenda slides that you have this afternoon and you have tomorrow, so drink your coffee at pace. We have a long couple of days ahead of us. We have loaded a tremendous amount of content into the next couple of days for you. I appreciate it is demanding schedule, but we have got you here. There is more we want to show you than we have time for even at this pace, but you will see there is time for Q&A at various points in the session. We are going to run you through as much as we possibly can while we have you.

Again, I want to thank you very much for giving us this much of your schedule, flying to Singapore and staying with us through what is going to be a pretty heavy agenda. Thank you.

Group Financial Update

Mark Fitzpatrick

Chief Financial Officer, Prudential

Opening remarks

Good morning to you all. In my presentation today, I will aim to cover four main areas. Firstly, an overview of new business performance in the nine months to September this year. Secondly, I will provide a brief analysis of our risk profile and our credit positioning within that. Thirdly, I will update you on our progress on the actions needed to execute the demerger of M&G Prudential. Fourthly, a more detailed look at how the quality of the business we are writing is driving sustained growth in both Group value and cash generation.

Group 3Q 2018 update

Starting with our performance for the first nine months of 2018, the Group continues to make good progress in each of our key geographies. In Asia, the US and in the UK we are demonstrating a high degree of resilience against the more challenging backdrop of volatile markets, disruptions to global trade and the ongoing political change and uncertainty across multiple countries. In our Life businesses, we have delivered growth in new business profit of 17%. This strong result reflects our focus on value. We achieved this through favourable

changes in mix, and in pricing actions, whilst continuing to offer products with good outcomes for our customers.

We have also benefitted from lower US tax, worth 3pp of growth, which will unwind at year-end. We have also seen rates rise over the period, accounting for about 4pp of growth. In Asset Management, external funds under management are slightly lower than at the start of the year, reflecting weaker market conditions and the redemption of some large but low-value institutional mandates. The Group performance remains underpinned by a strong and resilient capital position, with solvency cover of 205% at the end of September. This reflects positive underlying capital generation in the third quarter and is stated after the acquisition of TMB Asset Management and the payment of the 2018 first interim dividend in the same period.

Asia 3Q 2018 update

In Asia, our portfolio of Life businesses has delivered 15% growth in new business value in the first nine months, up from 11% at the half-year stage following a stronger performance in the third quarter. The year-to-date result remains broad-based too, with double-digit growth in seven markets and in both bancassurance and agency channels. Our focus on value has also generated further improvements in quality, with new business profit from Health & Protection growing by 19% in the period as a result of an increase in sales and a shift towards higher-margin products within Health & Protection. The consistent addition of recurring Life premium income also benefits our Asset Management business, generating persistent net inflows from internal insurance business. In our external Asset Management business, funds under management increased to £49.8bn, driven by additional assets from the acquisition of TMB. The full benefit of this was reduced by the impact of lower gross flows into retail funds given volatile markets and redemptions from institutional business.

US 3Q 2018 update

In the US, Jackson’s underlying new business performance at the nine month stage is largely consistent with the first half of the year. New business profit was up 22% reflecting the positive impact of two factors. Firstly, lower tax rates following the reforms at the end of last year, worth 12pp of growth and secondly, the benefit of the continued rise in interest rates which have seen ten-year treasury yields increase 73bps over the prior 12 months to reach levels last seen at the end of 2013.

Although overall sales were lower, primarily due to reduced participation in the wholesale market, sales volumes in variable annuities excluding Elite Access continued to track the run rate of the last two years, demonstrating the strength of Jackson’s position in a market that has been impacted by regulatory uncertainty since 2016. Separate account assets, the main driver of fee-based revenues, are up 5% since the start of the year, mainly due to asset appreciation but also reflecting positive net flows. Looking further ahead, our Jackson team continues to position for opportunities in the advisory market which should drive additional sources of new business over time.

M&G Prudential 3Q 2018 update

In our UK business, PruFund has continued to see strongly positive net flows in the third quarter, building on the performance of the first-half, leading to year-to-date net inflows of £6.6bn and resulting in funds under management of £42.9bn, 19% higher than at the start of

the year. This strong result for PruFund-backed products was a key driver of the overall rise of 18% in new business profit which also benefitted from the impact of higher rates worth 4pp of the total increase. In Asset Management M&G's external funds under management declined by 4%. This primarily reflects the redemption of a single institutional mandate of £6.1bn which although large was very low margin and was therefore only making a modest contribution to revenue. Excluding this mandate net flows were positive in the first nine months.

In summary, across the Group we are continuing to add value through the strength and diversification of our businesses, with disciplined execution demonstrating that our focus on quality is undiminished.

Group risk exposure

Balanced profile

Moving to my second topic, that of risk exposure, we continue to take a conservative but active approach to the Group's balance sheet, maintaining a good balance of risk across all of our businesses and managing shareholder asset exposure for quality and resilience. Our active approach has seen continued de-risking of the balance sheet and investment mix, more recently demonstrated by the sale of a part of the UK's annuity portfolio which has reduced exposure to both credit risk and longevity risk. As shown on the right-hand side of this slide, the share of the Group's risk profile contributed by credit under Solvency II would have been 17% at the end of 2017 without M&G Prudential. As the international businesses continue to focus on new business with a low credit risk attached, for example through higher concentration of Health & Protection business, we would expect balance sheet exposure to the credit cycle to moderate over time and lead to additional improvement in the resilience of our financial position.

Managed risks – Jackson

Our cautious but active approach to managing risk is a key point of differentiation for Jackson. By carefully managing risk through pricing, portfolio management and hedging, Jackson has been able to absorb periods of material market volatility, historically low interest rates and, more recently, significant impacts from regulatory reform, while making healthy dividends to Group and maintaining a strong statutory capital position. Now, the Jackson team will provide a lot more detail on this tomorrow, so I do not what to steal any of their thunder, but one area I want to touch on is that of how statutory reserves are impacted by movements in equity markets.

Now, given that only a very small proportion of our variable annuity customers have policy guarantees that are in the money today, our economic reserves are currently significantly lower than the minimum that is permitted under statutory accounting rules. In a truly economic accounting regime, a rise in equity markets would lead to a reduction in the reserve since the policyholder's guarantee would be further out of the money. However, because our reserves are effectively already floored out to the minimum, they cannot go any lower. If equity markets rise there is no recognition in Jackson's statutory reserves of the positive economic benefit that this creates. Conversely, the value of the hedged portfolio that protects against equity market declines will fall in value. The combined impact creates a headwind to capital formation, which is a trend we have seen in recent years.

However, this dynamic also provides an important capital buffer in the opposite scenario. If markets were to fall the economic reserve would need to increase up to and above the minimum reserve floor before Jackson has to post any additional statutory reserves. The ability to absorb the early stages of a market correction in this way is a material benefit to statutory capital and provides a meaningful degree of financial resilience to the RBC ratio in times of market stress.

Group credit exposure

De-risked investment profile – US and Asia

Continuing on this topic by turning to the quality of our investment portfolios, starting with the US on the left-hand side. Jackson's investment portfolio has been significantly de-risked since the financial crisis. Our modest exposure now remains in the categories that were most impacted in the 2008 market downturn, such as residential mortgage-backed securities and high yield, which combined accounted for 20% of the portfolio but are less than 4% today. In addition, Jackson has built up a material holding in US treasuries and cash, together representing 13% of total assets and providing a high degree of security and liquidity. In corporate debt too the portfolio is defensively positioned with good diversification by sector and by issuer, and low relative exposure to high-risk sectors such as financials.

In Asia our focus on unit-linked and Health & Protection means that there is less exposure to credit risk, with assets primarily backing regulatory capital and surplus. The debt portfolio is almost entirely government bonds or corporate bonds of investment grade. Again, the emphasis here is quality and resilience.

De-risked investment profile – M&G Prudential

In the UK, our credit exposure is driven by the annuity portfolio where assets are closely matched to liabilities and generally held to maturity. The business has consistently maintained a well-rated and diversified portfolio with a good track record. There have been no defaults since 2011 and even in 2008 they were limited to around 15 names amounting to just £93m. Following the sale of a part of the UK annuity portfolio, the assets backing shareholder annuities have been reduced by over a third to £24bn, significantly lowering exposure to credit risk. In addition, there has been an improvement in the rating profile of the portfolio with securities rated double-A or above now at 47% versus 44% previously, predominantly as a result of asset trading which has improved the overall quality of the bonds held. With 86% of the asset portfolio currently rated at A or higher, and triple-B exposure heavily weighted to the upper notches of that range, this too is a very high-quality portfolio.

M&G Prudential demerger

Process steps on track

On to my third topic, that of the demerger, as you will appreciate there is a lot to do here. However, much has already been achieved and we are progressing with pace and with dedication. For simplification, I have broken the process down into four main areas. The go-forward corporate structure of the two businesses is taking shape. We have created the new HoldCo for M&G Prudential, and we are engaging with regulators to ensure the legal transfer of the relevant entities to sit under the new HoldCo, including the transfer of Hong Kong from UK to PCA. Mike Evans has been appointed chair of M&G Prudential, and he is leading the process of appointing non-executives to that board. We are working closely with the Hong

Kong Insurance Authority to define the regulatory capital approach for the Group, both transitional and longer-term. I will update you further on this once we have an agreed position.

Operationally, we are ensuring that M&G Prudential has an appropriate head office capability and are unwinding activities and infrastructures that are currently shared. For example, M&G Prudential need to set up their own consolidated financial reporting systems and processes as well as take on the Group Solvency II reporting. There are over 100 IT applications on shared infrastructure which we need to separate and migrate from one side to the other. Now, taken individually these are not overly complex but there is significant volume needing careful management.

As I have mentioned before, the transfer of Hong Kong to PCA and the Part VII transfer of the annuity portfolio are the areas that are least within our control but there is currently nothing to suggest that we cannot meet our expectation of completing these before the end of 2019.

Finally, on the debt management process we believe we have made a fairly good start on that. Particularly, we are pleased to have issued in October the sterling equivalent of £1.6bn of subordinated debt at Group, with the substitution clause that will enable the bond obligor to transfer from Group to M&G Prudential close to the point of demerger. In summary, we are on track with our expectations of where we would be at this stage of the process and remain very focused on the job in hand, noting that for all other than around 200 people it is very much business as usual.

Capital update

Following on from my last slide, I wanted to repeat the additional disclosures we made at the time of the debt issues in October. Although there is quite a lot on this slide I wanted to point out three key aspects. Firstly, we expect the debt rebalancing to result in M&G Prudential holding around £3.5bn of debt at the point of demerger. Secondly, M&G Prudential is expected to have a Solvency II coverage ratio of around 170% at the point of demerger, assuming current market conditions and assumptions. This is after further adjusting for operating capital generation in the period before demerger, and payment of a pre-demerger dividend to Group to enable partial redemption of existing plc debt. Thirdly, the rating agencies have now published their assessment of M&G Prudential's financial strength, reaffirming its credit strength with strong ratings from each of Moody's, S&P and Fitch, and a stable outlook across all of them. We believe both M&G Prudential and Prudential plc will have the appropriate level and mix of capital at demerger, with a buffer above regulatory requirements, and sufficient liquidity for essential needs and shock events.

Group embedded value

Consistent growth

I will now move on to my fourth and final topic, the drivers of growth in value and cash. Those of you who were in the room in London at last year's Conference will recall, I focused on our approach to the management and deployment of capital and how that differentiated Prudential from the peer group. This time, I want to demonstrate how that same approach is driving favourable outcomes for shareholders through sustained growth in both value and cash generation. As this slide highlights, the dynamics are powerful and positive, with Group embedded value more than doubling in just 5.5 years, adding incremental value of £25bn in

that period. The red bars are particularly significant, representing the discounted value of the future profits of the in-force Life portfolio. While both net worth and value of in-force have both doubled over the period, it is the value of in-force that has made the largest contribution to the uplift in the period, accounting for roughly two thirds of the total build and demonstrating the benefit of strong compounding new business, as I will discuss further.

Consistent growth, led by Asia in-force

Looking at the movement on a regional lens, you can see on the left that all of our businesses have made a material contribution to the increase in Group embedded value over that period. However, it is clear that the contribution from Asia has been the largest, accounting for half of the total movement. That Asia contribution is even stronger in the context of the red bars from the previous slide, representing the value of Life in-force business as shown here on the right. In this case, the high level of growth from Asia's insurance business drives two thirds of the total increase. The largest drivers of growth in the Group's embedded value are the value of the in-force book and Asia within that. My next slide looks at these components in more detail.

Consistent growth, led by Asia in-force, driven by new business contribution

Taking the increase in the value of Asia in-force from the previous slide, shown again here in the top left of the corner in red, this page demonstrates the benefit of adding new cohorts of profitable business in building future value. A true growth business should not only increase the level of earnings that are reported in each subsequent period, but should also grow its stock of future profits. Put simply, a real growth business is adding more each year than it is taking out. To illustrate this point, I want to draw your attention to the components in the dotted box. The red bar represents the amount of additional future profits that have been contributed by new business written within Asia since 2012, totalling £10.9bn. The blue bar shows the amount of in-force that has emerged into the current year profit over the same period.

Therefore, to achieve sustainable growth in the overall stock the red bar needs to consistently exceed the blue bar and on this measure the Asia business is truly outstanding. The strength of contributions from new business mean that Asia has added to its in-force stock at more than twice the rate that it has extracted and thereby has been continually building the stock of in-force future profits. This highlights the impact of capturing the Health & Protection opportunity and the benefits of increasing our scale in this region. The speed of growth and the extent of the differential between the two key components represent a highly distinctive characteristic of Prudential's insurance business and a major driver of the earnings outlook.

Asia embedded value

Compounding high-quality new business

Now, my next few slides cover Asia's new business contribution, given its prominence in the sustainability of the Group's earnings growth profile. Breaking out new business into separate reporting periods on the left highlights the consistency of Asia's delivery and the rate at which this has grown. The chart on the right shows that the increase is driven by our ability to capture the growth opportunity, together with active management of the new business portfolio, which includes adjustments to pricing or shifts in mix towards higher-margin products and channels. Economic effects, while positive, have delivered only a small uplift in

comparison. This shows that the factors that have generated Asia's growth are overwhelmingly those that are within our control, evidencing our ability to execute on what remain sizeable, structural opportunities.

How do we determine the quality of the new business that has been written, and does the value that we place on new business come through as we expect it to? To be able to answer these questions, we can look at the assumption set that drives the calculation of new business value at the outset, on the left, and on the right, the differences we have experienced against that assumption set in subsequent years. Our assumptions follow European Embedded Value methodology, considering all of the capital constraints on the business and reflecting the prevalent operating environment. As a result, the rates we use for projections and discounting move with the bond yields currently available in the market. The approach makes a separate and explicit allowance for the time value of options and guarantees, and the cost of capital, which is distinct from traditional embedded value where an allowance from these items is implied rather than explicitly reported. Therefore, you would expect a traditional embedded value discount rate to be higher than that for an equivalent book under EEV.

Moving to the right-hand side, the chart illustrates that our initial assumption set has proved to be highly robust. Changes in assumptions and the variance against our experience have been both positive and largely immaterial, equating to combined average annual impact over the last five years of less than 1% of the opening in-force. This therefore underpins confidence in our assumption set and the methodology used to calculate the value of new business in Asia.

New business drives attractive cash generation profile

Our disclosures also provide detailed analysis of how new business converts to cash and the timeframe over which that is expected to emerge. The chart on the top-left of the page shows, for a single year, the new business profile of the business written by Asia in that year and in this case 2015. There we invested £413m of our free surplus in writing new business, which had a future expected payback period within the first three years and a total undiscounted payback of £3.9bn over 40 years. Taking this on a combined view across the last five years, Asia new business has added a combined £21.7bn to the stock of expected free surplus, seeing it more than double in value since the end of 2012.

However, whether the cash generation actually emerges as anticipated rests not only on the quality of the business at the point it is written, but also the ability to successfully manage and retain the business. It is only through effective management of our in-force portfolio that we can have confidence that returns will be delivered to the level expected and that the payback is achieved within the anticipated timelines.

The analysis on the right-hand side shows how our actual experience of cash has emerged over the last five years in red, against our expectations at the beginning of the year in grey. That the experience is consistently positive validates the conservatism in our assumptions and demonstrates our ability to manage both the high-volume growth engine of new business and the back book, generating value and rapid recycling of invested capital.

Group embedded value

Consistent, attractive returns

Bringing this all back to a higher level now, what this all means is that the growth and quality of Asia's new business and its emergence as profit, when combined with a capital-efficient balance sheet, has generated strong and stable returns over multiple years. This translates to attractive sustainable returns for Group shareholders. Now, it is worth noting that the Group returns are consistent at the operating level and the net income level over the five-year period at 17%, highlighting that while there may be timing differences from year to year, movements below the line have effectively been neutral over the medium-term.

Growth in value and cash, driven by new business

In concluding this section, there are three key messages which I would like to repeat. Firstly, for Prudential, the key driver of value and cash is new business, centred on Asia's high-quality compounding contributions. Secondly, we are adding more to the stock of future profit and cash than is emerging from the in-force each year. Thirdly, this provides a powerful, positive dynamic that underpins the outlook for earnings and cash generation.

Summary

To wrap up my presentation this morning, our businesses have continued to deliver strong and good performance, reinforcing the resilience of both our business model and our capital base. The combination of management actions and our organic mix effects is driving improvements in the Group's risk profile, enhancing our ability to perform through all stages of the cycle. The demerger of M&G Prudential is progressing as planned with some key milestones already achieved. Finally, as a management team we remain very focused on building the drivers of value and cash across the Group.

With that, I will now hand you over to Nic and his team. Thank you.

Asia Strategic Overview

Nic Nicandrou

Chief Executive, Prudential Corporation Asia

Opening remarks

Good morning, everyone, and welcome to Singapore, the home of Prudential's second-oldest Life business in Asia and Eastspring's regional headquarters. Let us talk about business. In Singapore we currently employ 1,900 people. We have nearly 5,000 financial consultants and, as Mike has said, we look after the savings and insurance needs in one out of three households. We are also Singapore's largest fund manager, managing assets with a value of over $100bn. Our local Life entity is undergoing a significant business transformation and it is fast-gaining the reputation of being Singapore's most digitally savvy life business.

Tomorrow afternoon you will have an opportunity to visit our new offices in the Marina Bay area, meet our local team and hear directly from them about the transformation journey which forms the blueprint for our other businesses across the region. In today's sessions we will provide you with a detailed regional update on our strategy, performance, current initiatives and future priorities. I am joined by 22 of our senior leaders from across our main businesses of Hong Kong, Singapore, Indonesia and Malaysia, who stand ready to share their progress with you and answer your questions.

Dynamic landscape

I will start by acknowledging upfront that the operating landscape in Asia continues to evolve and change rapidly across multiple dimensions. You only have to look at the news sections of your devices to know that the external environment remains volatile and unpredictable. We have seen many examples of this in 2018 alone. Perhaps the defining change over the last year is the pervasive impact of technology on customer expectations and behaviours and how this is shaping the business capabilities that are needed in response. Prudential Asia is well accustomed to dealing with many of the changes shown here. In relation to technology, it is our response that will determine whether this is a headwind or a tailwind.

Significant long-term growth opportunity

Against this backdrop, it is somewhat reassuring that the industry's mandate remains well aligned to the growth and prosperity agendas of both consumers and governments. The region's long-term structural trends, shown here, will be very familiar to this audience. In essence, Asians are both underinsured and under-saved during their working lives, and are inadequately prepared for their retirement. These multiple growth curves underpin a strong demand for savings and protection across this region, and provide significant tailwinds for our industry.

Rising underinsured middle class and a rapidly aging population in this region…

Let me give you some more colour which brings these trends to life. Continued economic growth in this region will see wealth creation increase by some US$5tn each year for the next few years. This rising affluence will in turn mean that by 2030, two thirds of the global middle-class population will be in this region. That is 350 million in China, 380 million in India and 210 million elsewhere in Asia, compared to 130 million for the rest of the world. Entering

the middle class is typically the trigger for individuals to consider protecting both their wealth and health.

At the same time, we will see a near threefold increase in the number of Asians who are over 65 years old to around 700 million people by 2050. The fact that the ratio of workers to retirees will be around 3:1 is a major area of focus for many governments in this region. Improvement in living standards over my lifetime alone has significantly extended life expectancy in this part of the world. In China, for example, average life expectancy increased from 43 years in 1960 to 76 years today. There are now over 200 million senior citizens in China, a number that is expected to almost double by 2050. Similar trends are evident in other markets across the region.

Even markets with smaller populations are facing challenges. We recently commissioned a study in Singapore to establish how prepared people are from a health, wellness and a fiscal perspective to live to 100. This is relevant in Singapore, as it has one of the fastest-growing aging populations in the world, with more than 1,100 centenarians as of 2015. Unsurprisingly only 23% said that they were ready health-wise and 26% said that they were prepared financially. The study found that even the most devoted saver will struggle to meet their needs from 62 to 100. There is structural demand at both ends of this spectrum. The younger, more educated, more affluent middle class will look to both grow their wealth and to protect their health and that of their families. The older, more established population wants to ensure that they live longer and healthier, and be financially prepared for any health crisis that they may face.

…create significant challenges for both public policy and individual planning

These trends and needs pose significant and unprecedented challenges to both policyholders and individuals across Asia. The challenges span several dimensions, ranging from how to finance income in retirement, which maintains individual standards of living at an appropriate level, to how the rising demand for healthcare consumption is met and paid for, and finally, to how the elderly are cared for. While these areas overlap, the sums involved are astronomical. The pensions funding gap is already sizeable in Asia's largest markets and is set to rise to US$119tn in China by 2050 and to US$85tn in India. Today, there are no US or UK style accumulation products in any of our markets so retirement solutions represent white space. The health protection gap remains large and continues to expand. Last month, we resized it at US$1.8tn in 2017. The growing cost of elderly care is similarly underinsured.

Structural demand for insurance

These drivers are putting significant pressure on both individual and public resources. Ultimately, this pressure can only be alleviated through close cooperation between governments and private enterprise. This hopefully demonstrates why the opportunity set for our industry is one of a kind. The near six-fold increase in premiums since the turn of the century primarily reflects population growth. Despite this increase the absolute life penetration levels across the region remain low at 2.7%. The lack of a social safety net, rising consumer awareness of the need for protection and a growing appreciation of the importance of inflation-proofing savings means that our sector is set fair for decades to come.

Significant country-level opportunities

Finally, the opportunities are present across all key markets in this region, underpinned by both size and projected population growth, rising household wealth and the prevailing low levels of insurance and health coverage.

Leading pan-regional franchise

As I said before, what will differentiate the winners from the losers will be discipline and quality of execution. Here Prudential has a number of clear advantages and I will repeat some that Mike has already flagged as these are worth reinforcing. The first is our footprint, which is well-aligned to the opportunity set and gives us access to over 3.6 billion Asians. We are in all the right markets with scale presence, unparalleled distribution reach and have significant capabilities everywhere. We retain top-three positions in nine out of our 12 Life markets. Meanwhile, Eastspring remains the largest pan-regional retail asset manager in Asia ex-Japan. In addition to our strong agency credentials we have more than 300 distribution partners across Asia, 100 on the Life side and over 200 in Asset Management. Our local and regional bancassurance agreements give us access to a branch network in the region which is twice the size of our nearest competitors.

Prudential's quality, resilience and diversification

The second advantage is our disciplined approach to execution. We have always prioritised regular premium paying products which meet real consumer needs for savings and protection. This customer-centric approach has delivered strong business retention and an optimal earnings mix. Our focus on recurring business also underpins the sustained growth and resilience of our premium income, which has not been unduly impacted by the unpredictable and volatile external environment. This resilience is also due to a very well-balanced portfolio viewed through a channel, product and geographic lens. Our diverse platform gives us the freedom to opt out or withdraw from product lines where we see uneconomic competitor behaviours: something that we have done on several occasions in the recent past.

Unique asset

Our third advantage is that we have a number of unique assets. These are summarised on this slide and include a valuable individual medical reimbursement business which sits alongside our other insurance products. Today we provide medical cover to over five million customers across 11 markets, accounting for 23% of our Health & Protection sales. As you will see later, this is an important gateway to accessing a significant business opportunity across the region. The fact that Eastspring has supported all our Life operations across Asia has given us broad region-wide reach and has allowed us to expand into third-party business. Today we have more top-ten positions in retail fund management than any of our peers in Asia, allowing us to participate in the significant demand for mutual funds expected across the region. At the same time, our deep local investment market expertise has enabled Eastspring to deliver above benchmark performance over a long period, particularly in relation to our large participating funds which underpin our savings offering in both Hong Kong and Singapore.

Other unique strengths include our market leadership in Sharia business, which is projected to be the fastest growing segment of the population in both Malaysia and Indonesia. Furthermore, in India, where we participate through a 26% and 50% JV with ICICI in Life and

Asset Management respectively, our strong market positioning in a country which is still new to savings and protection represents a valuable engine of future growth. Finally, in China, we have built out our market reach to 18 provinces, the largest amongst the foreign players, giving us access to all the important parts of this country. You will see later that the benefits of this expansion are yet to fully come through.

Meeting customers' lifetime needs

Our fourth advantage is the breadth of our product offering, which today is primarily directed to the mass and affluent segments. Our propositions are frequently upgraded, so much so that 30% of this year's NBP comes from products launched or refreshed since the start of 2018. We stand to benefit significantly as the current population cohort of under-30s comes into our sweet spot. At the same time, we have the opportunity to stay with the customer as our current 30-50-year-old cohorts mature and look to us for broader health and income in retirement solutions.

Strong brand appeal

Our fifth advantage is the Prudential brand, which maintains very broad appeal across all of our main markets. In the minds of Asian consumers, our 170-year-old British heritage is an important business attribute, as it conveys fairness, security and trustworthiness. We continue to invest in both brands in line with our brand ambitions, and are constantly testing our positioning.

Talented and highly diverse workforce

Finally, in a region where the opportunity size outstrips the available talent pool, our proven ability to attract, develop and retain talent is a key source of competitive advantage. Across PCA we have a high quality, young and diverse workforce with strong retention trends. What I have come to observe in my time here is that Prudential is a favoured destination for top talent amongst insurance professionals. Now, as we branch out into new areas, particularly in relation to our digital aspirations, we are taking steps to broaden the gene pool by sourcing people from a wider set of sectoral backgrounds. Almost half of our new hires this year came from outside financial services. Our Singapore business is a prime example of this trend and you will have an opportunity to hear more about this tomorrow.

Strategic assessment completed

On taking the CEO role last year I carried out a strategic review of the business to identify any gaps, confirmed that we remain well-positioned going forward and inform investment prioritisation decisions. We did this by reference to current and projected profit pools, which are analysed separately for the traditional Life, Medical and Retail Asset Management segments. We also considered broader consumer trends and preferences to identify other addressable opportunities. The work is now complete, and I would like to briefly share with you the insights and actions that emerged from it.

Life insurance opportunity

Starting with traditional Life the profit pools shown here represent one year's new business profit based on 2017 production. The review confirmed that we have a dominant share in the addressable part of the traditional Life segment in the six markets shown. This should not surprise you, as we have top-three positions in five of these markets with a heavy bias to regular premium protection-oriented new business. In the next five years, we expect these

profit pools to grow at a double-digit rate, led by protection, driven by the many factors that I outlined earlier. Our presence, scale and broad product and distribution reach in these markets position us well to participate strongly in the expected growth of this profit pool.

Health opportunity

Moving to Health, which for the purposes of this exercise comprises medical reimbursement business, hospital cash and similar types of products. The contribution from critical illness insurance is included in the traditional Life segment, so it is not here. The profit pool of the Health segment is expressed as a multiple of 2017 earnings and it is comparatively smaller, reflecting the much lower levels of market penetration. Our overall share in the addressable part of this segment across these six markets is estimated at 9%, and comes primarily from Hong Kong, Indonesia, Malaysia and Singapore. We expect to see strong growth in this segment over the next five years, reflecting a rising demand for medical consumption, which is why we are increasing our emphasis in this area.

Wealth opportunity

Finally, on Wealth, the analysis shown captures the Asian retail investing into Asia mutual fund opportunity, which is where Eastspring is mostly focused today. The size of the opportunity here is represented by reference to the 2017 full-year profits from this segment for the markets shown. Eastspring has a 5% share of these profits, which represents a leading position in this segment, reflecting our region-wide presence and our strong operating credentials. Mutual fund penetration across Asia remains modest by Western standards so the expected strong rise in wealth creation will drive significant increases in AUM in the next five years. Higher growth rates are forecast for India where we have a market-leading position and for China and Thailand where we have taken action this year to strengthen our presence.

Life, health and wealth opportunities

Having sized the opportunity by market across the traditional Life, Health and Wealth segments, we evaluated their relative attractiveness versus our market positioning. Through this we establish where we will seek to extend our leadership position, where we will target greater participation and in which new areas we will direct more of our efforts.

Life, health and wealth business initiatives

Our business plans now reflect the output of this work and include specific business initiatives for each market. This slide sets out the top level summary initiatives. For those markets where we are seeking to extend our leadership our initiatives are geared towards pushing our advantage forward by deepening customer engagement, increasing the number of touch points and expanding into adjacent product and customer segments. For those markets where we are looking to grow our share and presence, we are targeting greater participation in several areas, through product, channel and customer segment initiatives. Under new opportunities, we are adding services which are complementary to our core offering and pursuing retirement solutions. Technology investment is required across the piece and while this aspect of our annual expense budget is rising, we are extracting greater value from this spend through a modular build-once-and-reuse approach.

Varying in-country demand drivers

Now, the rest of the Prudential Asia section of this conference is entirely dedicated to bringing the output of this strategic work to life. I would like to start this by covering our progress and plans in a few of our key businesses. The drivers of growth are different in each case, requiring a tailored approach by market.

Hong Kong

Market-leading business

Hong Kong is our most valuable business, testament to the work of Derek Yung and his team over the last decade. The business has built a strong organic growth platform, with scale, quality and high levels of automation. It leads the market in agency and has a 28% share of the mainland China segment. Sales momentum has accelerated through 2018, with a 15% increase in APE in the third quarter, boosted by a 23% rise in sales from mainland China. Our systematic approach to extending our Health & Protection offering has increased the protection proportion of our sales to 26% in 2018, driving overall NBP higher by 19% year to date. While our withdrawal from the broker channel last year precipitated a drop in mainland China sales from the 2016 peak level, the volume of the more valuable protection sales from China has continued to rise throughout this period, and is now at an all-time high. This is a great example of where focusing purely on top-line trends risks missing the real underlying value story.

Strong growth momentum across all profit pools

This last point is more clearly demonstrated on this next slide, which shows that Hong Kong's NBP has maintained its strong forward progress, notwithstanding the recent sales trend. Furthermore, the compounding effect of sales, which are 98% regular premium, has sustained a significant rise in premium income and IFRS profits.

Drivers of demand

The prospects for the Hong Kong market remain strong, and we are exceptionally well placed to benefit. Continued immigration, rising wealth levels, higher healthcare consumption and a fast-aging population are expected to drive future domestic demand, supported by government stimulus in both health and retirement. Visitor numbers from the mainland seeking financial products remain sizeable, and are expected to rise further, aided by the new train and road connections established in recent weeks. The Hong Kong Government is also actively promoting the benefits that can be unlocked through a closer business collaboration across the neighbouring regions of China, as it seeks to cement Hong Kong's role as the main financial centre across the Pearl River Delta. Meanwhile, the most recent surveys of mainland visitors confirm that Hong Kong remains a preferred destination for their savings and insurance needs. The positive sales trends in the most recent two quarters evidence that the strong buying intention trailed by these surveys is translating into actual new business flows.

Business initiatives

Our business initiatives here are well-aligned to these opportunities. We are targeting higher customer holdings through continued product innovation and value added services. We will drive further distribution efficiencies, address the mainland China demand and respond to the government's initiatives for closer South China regional collaboration. We will also participate in the government's plans to stimulate greater adoption of health and retirement solutions.

Finally, we will continue to digitise customer fulfilment, building on our work this year which you will have the opportunity to see for yourselves in this afternoon's showcase sessions.

Singapore

Strong performance leveraging its market position

Our Singapore business continues to leverage its sizeable market position. It has the largest agency force in the market, ranks first for both regular premium business and shield medical products. It also has the highest policy per customer attachment rate of any of our businesses. We achieved a 24% increase in new business profits this year, driven by an expanded individual protection offering and a sustained demand for its high-performing savings products.

Drivers of demand

This performance was delivered alongside an ambitious modernisation programme which is fast transforming this business into a highly digitally enabled operation. Despite the more developed nature of this market, spiralling healthcare costs, aging population and a rising wealth pool held principally in bank deposits are expected to drive future demand for protection and longer-tenured savings.

Broadening our capabilities

However, Prudential's opportunity in Singapore is broader than this because our success to date has been concentrated in the mass market segment. Under Wilf Blackburn's leadership the business has launched a number of initiatives to drive a much greater participation in the high net worth, affluent and corporate segments.

Business initiatives

As a result, over the last year, Singapore has refreshed its individual protection offering, created more flexible savings solutions, launched employee benefit and high-net-worth propositions, and has innovated in the management of the Medical business. You will hear a lot more about these new capabilities during the course of today and tomorrow. The work which has already started here will continue to frame our near-term business initiatives in this market with the retirement solutions coming next.

Indonesia

Strong structural drivers

In Indonesia we remain positive on the attractiveness of the market given the well-known structural fundamentals. With a population of 267 million, 80 million of whom are middle income, the segment that is growing at a rate of nine million each year. With only 18 million policies in force in this market insurance in Indonesia has a very long runway. For a variety of reasons, which Lilian will outline later, market growth has been muted over the last five years, with the most recent uptick driven mostly by sales of products with high early-year guarantees and, to a lesser extent, by group business. Rightly, we chose not to participate in the trend to offer early-year guarantees, opting to maintain our focus on the higher-value agency linked protection business, where we enjoy a 38% market share. However, with consumer demand for linked business sold through agency levelling, we were slow to innovate and diversify distribution in response to some of the emerging market trends. While this is

disappointing, it is fixable and our local team led by Jens Reisch is hard at work to turn the situation round.

Unique credentials

My optimism for our long-term prospects in this market is grounded on the many unique attributes of our Indonesia business. As shown on this slide, we maintain an unparalleled scale and market presence. We have the largest agency force in the country, and our 403 sales and GA offices across 165 cities provide us with an unrivalled reach. We have 2.3 million customers, the largest by some margin in the market. We are also the biggest medical insurance provider in Indonesia, a market where out-of-pocket healthcare spend is amongst the highest in ASEAN. Finally, in a country where 87% of the population is Muslim we are the leader in Sharia business with a 30% share of premiums and 70% of registered Sharia agents in the Indonesian market. Our sales from this segment of the market grew by 18% this year. Of course the business remains highly valuable, generating significantly higher premium income and profits than our local peers.

Re-tooling the business

We have kicked off a number of initiatives to retool the business and improve its operating credentials. We are busy refreshing and extending the product range with the first step being the launch in September of an upgraded version of our flagship mass market product, incorporating many new customer-centric features. The new product is performing well, and we are seeing an uptick in submissions, case size and rider attachment. The development pipeline for next year will see us launch new products in every quarter, including a lower-end, non-linked traditional savings product and an employer benefit proposition for the SME market. We are also upgrading our agency on-boarding, training and sales management tools, which are now being deployed on a more segmented basis.

Business initiatives

We will continue to push the automation envelope and will look to access new retail bank distribution. We will also launch health-related value-added services next year, in collaboration with non-traditional partners. These business initiatives should drive our future momentum in this market, and you will hear more on these from Lilian later today. I would, however, caution you from projecting a fast business turnaround, but I would reassure you that we are on the right path.

China

Significant opportunity and strong footprint

The drivers of demand and opportunities for our sector in China should be very familiar to this audience, so I will not repeat them today. We continue to build out our presence in this market, working in partnership with CITIC. In the last 12 months we have extended our Life business footprint and have been effective in growing into it. We started doing business in Szechuan, bringing the total number of provinces in which we are present to 18 and have started preparations to enter Hunan. Today we operate in 85 cities, up from 74 this time last year. This footprint gives us access to over 75% of China's population and GDP. We have a well-balanced channel and product mix and have adopted a quality first approach focusing on regular premium savings and protection business. We have also applied a strong risk mind-set. Our operating model 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.

Benefits starting to come through

The benefits of our approach have only just started to come through. New business profit doubled last year and despite a market-wide disruption to sales in 2018, our quality focus has enabled us to build on the 2017 high base, delivering a 16% increase in NBP this year. Our regular premium buyers and high customer retention has sustained a strong compounding growth in total premium income, which has continued this year at a rate which is above 2018 market-wide trends. Our growing scale and value-driven approach is now starting to translate into strong earnings momentum. However, the benefits of our expansion in China are yet to fully come through. The reason for this is set out on the next slide.

Expanding contribution to sales

The slide depicts the contribution to annual sales from provinces that we entered in four different time periods since our launch in 2000. This analysis shows that 49% of our 2017 sales came from the two provinces that we entered at the start, with another 24% of the sales coming from the seven that we entered between 2004 and 2006.

The key point here is that it takes time to be fully deployed in a province, which is not surprising given their sheer size, particularly when we are consciously safeguarding quality. Entering Anhui is akin to saying that we have come to the UK and opened the sales office in the city of London. It may be obvious, but it is only after more offices are opened in multiple cities that you begin to reap the rewards of the initial entry.

So our nine most recent entries since 2007, and the seven between 2004 and 2006, still have significant growth runways as we expand our presence and reach within each. The good news is that we have secured the licences, we are up and running, and that our expansion-led momentum is building. Of course, this momentum is compounded by the significant underlying market drivers.

Areas of focus

Going forward, our first priority is to grow into our footprint and expand our reach to other central and western provinces. We will also drive productivity gains from our existing channels and look to add new ones. Our proposition will continue to evolve in line with emerging consumer needs, and our engagement with them will remain fully digitised. The asset management licence that our Life JV has secured this year will allow us to invest directly in securities, giving us greater investment flexibility. We have taken actions which will enable us to participate in the retirement opportunity, including applying for a pensions licence. In light of all this, I remain bullish about our long-term prospects in China.

Asia

Create best-in-class health capability

We will cover the progress that we are making towards our ambitions in the health space more fully this afternoon. This is an important area for us, and one where our credentials and capabilities are strong. It is also highly relevant that many governments in the region have moved healthcare to the top of their policy agenda. Alongside evolving our propositions to cover more conditions and multi-stage events, we are enhancing our offering to include

broader health and wellness digital services, which will allow customers to take control of their health and better inform their healthcare decisions.

Babylon's AI is the centrepiece of this digital health services offering, and very soon our customers will be able to use a single app to check symptoms, find a doctor, record health and lifestyle data, even see their digital twin. Our work is at an advanced stage, and later today, you will hear from Andrew Wong, who is our new regional Chief Health Officer, on our implementation approach for Malaysia, where we plan to roll out these services first.

Indonesia health value-added service features

Launch plans for our other markets are also being developed, with Singapore and Indonesia next. To bring this more to life, this next slide summarises the types of health services that we will make available in various phases by reference to our implementation plans in Indonesia.

We believe that by putting this technology in the hands of our customers, we will be driving a step change in health services in many of our markets, making it simpler and more affordable for customers to manage their health. The benefits for us from enhancing our core offering are significant, spanning new customer acquisition, increased customer touch points, higher customer loyalty and retention, reduced claims frequency and lower cost severity. It also has the potential to expand the insurable population and accelerate the take-up of medical insurance.

Retirement opportunity

I referenced earlier that improvements in life expectancy across Asia are creating a new opportunity in the region. In many of our markets, both the number of people and the proportion of the population that is over 65 years of age are set to rise significantly. None of our markets in Asia are financially prepared for this demographic transition. Even in Hong Kong and Singapore, the two markets where the situation is more pressing and which already operate mandatory provident funds, the level of provision is below western norms.

Hong Kong is actively looking to provide fiscal stimulus to encourage product innovation in the market and incentivise people to top up their retirement plans. Consumers are expressing concern about their ability to maintain their standard of living in retirement, and governments are starting to formulate the necessary policy underpins. We are supporting these efforts in several markets. The current product set in the region is heavily skewed to accumulation, providing a lump sum payment at or after retirement. There are no US- or UK-style annuities or decumulation products.

Corporately, Prudential has the longevity and the investment expertise to participate in this emerging opportunity. We have started to develop propositions in Hong Kong and Singapore, where investment markets are deeper and insurers are free to hold foreign securities.

In China, we are one of only two foreign JVs to be granted a licence to participate in a tax-deferred pension pilot in Shanghai, Suzhou and Fujian. Furthermore, the goal-directed Robo Advisor tool that we are launching in Taiwan can also be used to provide a decumulation solution. While it is early days in this space, the needs are real and our capabilities are second to none.

Eastspring

Benefiting from reliable Life flows and third-party demand

Eastspring has been a little below the radar in my view, operating in the shadow of the much bigger regional sister Life company and a larger UK cousin. However, having doubled profits in the last four years, Eastspring was the fourth-largest contributor to the region's 2017 IFRS profits.

The business has three distinct advantages, which are often overlooked. The first is its broad regional presence, allowing Eastspring to participate in the fast rising demand for wealth solutions across the entire region.

The second is the reliable and consistent annual flows from our Asian Life businesses, which are sizeable, largely uncorrelated to market factors, and growing. This in turn provides Eastspring the opportunity to develop investment strategies that can be subsequently deployed to third party retail customers and institutions, once the performance record is in place and external demand develops. This is a third distinct advantage.

Multiple sources of future demand

Eastspring is therefore well placed to benefit from the expected rise in local, regional and global demand for Asian assets. While our core focus to date has been the Asia retail into Asia segment, many of our capabilities are transferable to the other three opportunities shown, which represent further potential sources of future flows.

Expanding offerings and capabilities

Now to fully participate in these opportunities, we need to evolve our capabilities to be broader than an Asian-focused, value-style manager. Under Guy's leadership, the team has done a lot in the last year to expand its offering, address portfolio and market gaps, as well as leverage technology to enhance efficiencies and service quality. You will hear and see more about all these later.

Asia

Building for the future

So our strategic priorities, which I first shared with you last year, are clear and unchanged. The review that I referenced earlier validated these priorities and guided our decisions on the specific market initiatives that sit behind these.

Execution of strategic priorities

The words and images on this next slide cover some of our achievements this year, as we:

- Drive for greater efficiency through automation;
- Add new products and services which broaden our customer appeal;
- Establish new partnerships which extend our reach;
- Deepen our engagement with customers.

A number of these will be covered in later sessions.

2018 performance

While we are doing all this work to improve our efficiency and create future revenue streams, we remain steadfastly focused on delivering performance. Our year-to-date new business profit grew by 15%, having benefited from improved volume and value momentum during the third quarter. Raghu will provide more colour on the year-to-date performance, which is broad based by market, channel and product.

Summary

So, in summary, our priorities are clear. We have a strong operating platform, an attractive strategic roadmap and a proven execution track record. Alongside improving what we currently do, we are working hard to unlock new customer segments through a broader set of propositions and channels, underpinned by digital technology capabilities and tools.

Prudential Asia

Agenda

The agenda for the rest of the day is summarised on my final slide. After the break, Lilian will update you on the various country initiatives to improve distribution efficiency, broaden product offering, digitise the onboarding process and enhance fulfilment at critical points of the customer journey.

Guy will update you on Eastspring's progress and will be joined by Michelle Qi and Colin Graham, who will respectively cover our plans for the China WFOE and our new capabilities in multi-asset solutions.

After lunch, we will showcase our recent innovations, starting with health value-added services. We will then split you up into smaller groups and take you round four innovation showcases.

Raghu will round off the day, covering the drivers of our financial performance, and we will then hold the Q&A session for Asia.

Thank you for your attention.

[ADJOURNMENT]

Asia Insurance

Lilian Ng

Chief Executive, Insurance, Prudential Corporation Asia

Consistent resilient delivery

For the next 45 minutes, I will take you through the delivery journey for PCA Insurance. As mentioned before, we have achieved 15% growth on value generation and 14% value delivery from the in-force management. PCA is a portfolio of businesses across 12 markets, each one contributing to this result. Allow me a few minutes to give recognition to each of them:

- In Cambodia, we celebrated a fifth anniversary and are already a US$20 million business, so we are expanding a multi-distribution business, partnering with ACLEDA Bank and a full-time agency force;
- In the Philippines, we doubled the active agency force in three years and crossed PHP5 billion for the first time in 2017;
- Now with the robust growth in Vietnam, we are the first insurer to achieve over VND 600 billion in a month, while shifting to a more capital-efficient product portfolio;
- In Thailand and Taiwan, we operate a multi-partner platform, offering engagement and position to align with our partners' ambition;
- Our joint venture in India is the number one private insurer, with strong contribution from ICICI Bank and segmentation to drive agency productivity;
- True to the spirit of our Prudential song, we are number one in Malaysia for Life and Takaful combined, and the only insurance group to exceed MYR1 billion in APE eight times in a row;
- In Indonesia, we are recruiting three times more than our next player, and are the market leader in the agency space with 22% share;
- Here in Singapore, competition for distribution is fierce, and we focus on our preferred space and sustained the number one position in regular premiums and improving Health and Protection mix;
- In China, our award-winning health and protection solution generated 15% growth in NBP: we are the only foreign insurer with an integrated risk rating of 8;
- Momentum is accelerating in Hong Kong, with 15% APE for the discrete Q3 and H&P mix is standing at 26%. Our productive agency force has just crossed 20,000, the first in the market.

So together, we are serving 15 million customers and servicing 17 million policies, and we just added 1.7 million policies for the first nine months of 2018.

Re-imagining and redesigning the core

Delivering from a position of strengths

Moving from a markets lens, let us look at the delivery from the capability lens. In today's connected world, consumer expectations are changing; they look for simplicity, on-demand

information and unique solutions. We are consolidating, from a position of strength that include delivery of customer excellence, investment in digital capabilities, end-to-end redesigning for process efficiency and fit-for-growth execution culture.

Delivering ahead of customer expectations

To sustain delivery in the next decade, we need to look at the value chain and re-imagine from the customer's perspective as we look to delight them ahead of their expectations.

In addition to value-for-money products, the customer looks for ease of doing business and to develop an affiliation with the insurer. I would like to use proof points from the business to showcase how Prudential in Asia innovates and differentiates across the value chain to better meet the needs of customer, sales force and our partners.

Underserved health-conscious consumers

Drivers of demand

Hong Kong topped the global rankings for the highest life expectancy, with men living to 81 years and women even longer to 87 years. One of the many reasons that people in Hong Kong are living longer is universal healthcare for hospital treatment.

While there are good hospitals for everyone, the downsides comes from excessive usage, leading to crowded facilities and long waiting time. Those who can afford to tend to resort to private facilities for treatment, bearing out-of-pocket expenses. Early this year, the government introduced the Voluntary Health Insurance Scheme to recalibrate healthcare funding between the public and the private sector.

While there is universal healthcare, this is not the case for primary care. The health protection gap in Hong Kong is over HK$20 billion, while the mortality gap is 23 times larger.

Consumer needs

The cost of diagnosis and treatment of serious illnesses are escalating every day. Acute illnesses mean loss of income, change of lifestyle and at times permanent disability, so people look beyond just paying medical bills. They also look for compensation to cover everyday expenses and to fulfil dreams.

These needs and concerns from Hong Kong consumers are also relevant to Mainland Chinese visitors. 85% of those surveyed said they are likely to purchase insurance in Hong Kong for legacy planning and health protection.

Narrowing the health protection gap

We have adopted a region-wide approach to narrow the protection gap and support the customer to lead a more financially secure life. This integrated approach has four pillars:

- Refreshing and upgrading the protection offers that are relevant to customers based on ongoing research;
- Value-added services to enhance the appeal as well as allowing more frequent engagement;
- Equip distribution through advisory training and channel marketing to raise awareness and structure reward to motivate desired behaviour;

- Last but not least, provide delightful customer experience especially at the moments of truth.

Always new and compelling propositions

Continuously innovating Critical Illness (CI) offerings

Let me illustrate using the capabilities built in Prudential Hong Kong. Recognising the needs for financial freedom during difficult times, Prudential Hong Kong went back to evolve its range of Critical Illness offering since 2010, to combine protection and long-term savings. Since then, we have the leadership position in the CI space in Hong Kong.

The business consistently conducts extensive customer and distribution focus groups to ensure propositions are relevant and reflect the evolving medical advancement. We also have an established infrastructure on distribution training and have embedded health and protection as part of their reward system.

Leader in health and protection segment

To drive awareness, integrated marketing campaigns are designed to create engagement and increase activity. The number of diseases covered under the single-pay solution has increased from 59 to 75, and we introduced reset benefits that was a first in the market. We are also the first in the market to offer multi-pay critical illness and disease-specific offerings. There are bespoke solutions for children, a unique feature of covering benign tumour and female-specific illnesses.

Let me show you the journey of our CI innovations over the year.

[VIDEO]

We have improved the health and protection mix to 26%, but what is more pleasing to see is how we have supported our customer to narrow the protection gap. Our Critical Illness new business Sum Assured grew ten times over the past seven years, compared to five times for APE, demonstrating that we are not just offering protection to more customers, but also a higher level of coverage per customer.

To enhance appeal, we are also engaging customers with a range health and wellness value-added services. As you know, life insurance by nature does not have frequent transactions with customers, so this value-added service platform also allows more frequent engagement and drives loyalty.

Actually, the concept of value-added services is not new. Our PRUlady CI plan, which was launched a decade ago, already offers regular medical check-up. We are always listening to our customers, and the services that they value most are post-hospitalisation treatments, medical check-up and daily support in managing disease.

Engaging with value-added services

Holistic healthcare platform to engage

Based on this feedback and to make delivery more efficient, we deployed the health and wellness platform digitally, partnering with health-tech and healthcare institutions to offer services along the themes of Prevent, Postpone and Protect:

- For Prevent, we look for services to improve health and identify risk factors in genetics and lifestyle that is unique to each;

- For Postponement, the focus is on managing existing conditions through lifestyle coaching. This service proved to be very popular with our customers when we introduced myDNA;
- For Protect, according to a survey by Swiss Re, the most valued service is the actual treatment, including prescription, triage and consultations. We offer choices in terms of doctor discovery and second opinion.

This platform creates affiliation with our customer and has improved our customer satisfaction score by five points.

Simple and seamless customer experience

We look to reduce anxiety at each point, with seamless customer experience across their lifecycle. To do this, we have leveraged application of data analytics and advanced technology. We constantly and consistently collect data, and these are aggregated and analysed to guide the development of solutions and next best action we offer to customers.

Next best offer

At the point of purchase, we provide up-sell decisions to address the customer protection needs with real-time best offer based on their profile. For the Critical Illness product launched in Q3, acceptance rate was as high as 26%.

Smart underwriting

At the point of purchasing, smart underwriting using reflexive method enables instant underwriting decisions with confirmations of terms. Our auto-underwriting rate is at 62%, and our ambition is to get to 80% over time.

Frictionless claims

At the point of claim is when our customer needs us, and these are times that we could either please them or annoy them. In Prudential Hong Kong, we have introduced eClaims with paperless submissions, VIP service, PRU-preferred hospital network and also auto-claim adjudication for instantaneous approval. The 15% Jet Claims rate that you saw there only two months ago has now moved to 24%, and Prudential Hong Kong will showcase this seamless customer experience later this afternoon.

Protection for all

Alignment to government's vision

Moving to Malaysia, the Malaysian government is keen to improve penetration for insurance. The recent budget announced increased allocation for healthcare and expanded Life and Takaful solutions for the underserved segment. To fulfil the government agenda, it is critical for both public and private sectors to work together, whereby the public sector sets the key policies and the private sector drives innovation.

Mass affluent

At Prudential, we have a two-pronged approach to expand Life and lead in the Takaful sector as our foundation for growth. As you can see, we have a comprehensive range of Life insurance and Takaful solutions to suit various wealth segments. Our market-leading protection-linked solutions offer a choice of protection riders, including medical, critical illness and term. On average, our customer adds five protection riders per base plan.

Underserved

We are also at the forefront of the government's agenda to cover the bottom 40% of the households. Our Microtakaful product offers the B40 segment simple, affordable protection.

Value-added services

For the health platform that we have mentioned earlier, Prudential Malaysia will be the first to introduce Babylon for all Malaysians, but we are also on-boarding local services such as prayer times for the Muslim and a Dengue Outbreak Prediction platform. This strategy has improved our Linked Protection mix by five points to 78% and provided over £1 billion of coverage to our customers in Malaysia.

Target segment opportunities

Health and protection

Singapore is the top global financial hub and recognised as a premier wealth management centre. Although it has been called an established insurance market, there is significant room for growth, driven by domestic demand. Singaporeans have wealth, one in 30 Singaporeans being millionaires. However, they like to keep their money close to their hearts with a saving rate of 48%. Singaporeans are also very health-conscious; they spend over S$600 million in vitamins and health supplements in a year.

To tap into the growth potential requires target marketing, and this involves breaking the market into segments and concentrate our efforts on the key ones with highest potential. The size of the health protection gap is US$23 million in Singapore with a mortality gap 17 times higher and growing. According to a poll, eight out of ten Singaporeans are underinsured by industry standard, so it is natural that providing relevant solutions to narrow the protection gap and the relief of financial burden is definitely a space to play. Potential from the high-net-worth has been mentioned. There are 184,000 millionaires in Singapore, which represents a tremendous opportunity from a large, addressable market.

99% of businesses in Singapore are small to medium-sized enterprises and they employ two thirds of the workforce. This is an underserved segment and half of the SME owners said insurance is low on their priority list. The protection gap is applicable to everyone, so solutions need to reflect the diversity of the different groups.

Health-conscious millennials

The Millennials are the most health-conscious generation ever. This is because of better education, social media awareness and also tracking devices that proactively monitor their health. Being digitally savvy does not mean they are financially savvy. They look for peace of mind and financial independence. The solution needs to be simple and simplified.

Families with dependents

Singaporean parents are willing to spend whatever it takes on education, with 70% of parents sending their kids for expensive tuition. However, only six out of ten Singaporeans believe they are financially prepared to cope with a life crisis and only 20% have sufficient basic cover. So whether you are young and free-spirited or settled in life, they are all looking for tailored solutions for specific milestones, as well as financial independence at the time of need.

All-inclusive solution

Prudential Singapore has designed a highly customised saving and protection plan for customers to reach their specific goals, because every dream has its day. Let me show you how this works.

High net worth

The advanced affluent wealth is generally the provenance of brokers and private bankers. Insurers are seen as product providers only. But the high-net-worth individual already demonstrates an ability to make money, so what they need is an advisor that goes beyond simple investment advice. They are looking for a financial professional that will add value to the relationship and address their full spectrum of needs.

OPUS from Prudential Singapore is a platform for high-net-worth with personalised expert advice. Beyond offering tailored insurance solutions, our private wealth consultants tap into a panel of experts, including wealth transfer, business protection and international medical, depending on the customer's requirements. OPUS customers also receive preferential treatment at purchasing and servicing, as well as loyalty rewards and experiences.

Since the launch of this integrated programme, we have seen 13% growth in APE from our high-net-worth clients and if you are joining the office to Prudential Singapore tomorrow, you will see this come to life.

Small medium enterprise

Similarly, we have built a one-stop shop PRUworks to delight the servicing experience for business owners and their employees. PRUworks goes beyond just offering competitive and comprehensive insurance solutions.

Given the small size of the SMEs, their HR solutions tend to be manual, eating up valuable time with low-value administrative tasks. To address this pain point, PRUworks comes with a 24/7 digitally enabled HR solution with access to employee benefits and services. The platform also provides a range of value-added services for employers and employees, such as lifestyle perks.

PRUworks has enabled our agency force to increase activities with business owners and has added 2,200 schemes this year.

Replicable model to build and expand in Asia

This SME market opportunity is not just in Singapore but across Asia. SMEs contribute to 70% of GDP in Asia and account for 98% of total employment. The desire to penetrate this segment by insurers is not new. Approaches have been fragmented, more as a hobby.

Therefore, at Prudential we are taking this seriously by building an all-inclusive platform and to position PRUworks as the go-to solution for SMEs in Asia. We have a replicable model to leverage as we continue to roll out PRUworks across the relevant markets. PRUworks will be a showcase later this afternoon.

Fundamentals still intact

Indonesia's retail sector is one of the most promising in Asia and being retail based, this is relevant to insurance. We mentioned about low penetration, sizeable protection gap and growing middle class. Opportunities are plentiful.

The growth of the industry is also encouraged by regulators. The new regime of OJK launched the programme 'Infinity' to drive innovations in financial services. The insurance association has set a mission to build 1 million agents to serve Indonesians across the archipelago, reinforcing the importance of face-to-face advice.

However, the market is facing some headwinds. Consumer confidence is somewhat muted, reflected by a decline in FMCG consumption. Competition for our agency recruits is not just coming from within the industry but also from new-economy industries that offer fast cash in pocket.

The recent growth in insurance was driven by bancassurance and single premium. Such strategy to buy market share could backfire, as one local insurer has failed to pay maturity claims to customers due to liquidity issues in October. The same insurer collected a total of US$1 billion of single premium in 2017.

Prudential continues to build upon this solid platform. We have an extensive reach, servicing 3.3 million policies. Our ability to drive expansion and provide long-term protection makes us a clear market leader as we deliver twice the profits as our nearest peer. To expand our quality market leadership, we need to keep moving, to innovate and to invest for growth.

Innovating for growth

Prudential Indonesia is always reshaping the business model to address the evolving distribution landscape and customer preferences. We are moving from one size, to differentiation and segmentation, enabled by data and technology. This will span across agency management, customer excellence and managing the in-force book.

Progress has been positive so far. As we see, our productive agency segment of MDRT-qualifiers growing 17%. We have transformed PRUforce from a point-of-sale digital tool to a workbench that covers tracking and monitoring of every aspect of agency lifecycle. We launched our new flagship product, PruLink Generasi Baru, with case size being 19% higher since launch. We pay special attention to the Shariah agency with relevant training, resulting in 18% growth in Shariah business. This has been encouraging as the business continues to innovate.

Investing in growth & innovation to expand market leadership

To deliver operational excellence across each customer episode, we have developed capabilities to serve the entire chain. At the initial stage of research and engage, customers seek information on insurance, but given the nature of life insurance, we need to drive awareness through online and offline platforms. There are big and small niche social networks to promote insurance on blocks, and we host a range of customer events with two-way dialogues to engage customers on their needs and design of insurance solution.

Next is the seamless buying experience. We have accelerated our transformation to enable our customers to pay and complete a purchase in just 20 minutes. This requires the front end and back end to be in sync. We do instant underwriting, and our customer, after e-paying the initial premium, can walk away comforted that their families are protected instantly and adequately.

In order to fulfil our promise, we ensure each touchpoint is frictionless. We provide options for them to get in touch face to face through our agents, branch office and bank branches, as well as online channels via mobile apps and chatbot.

At the end of the day, we will be judged more at the time of claims. It is important, as mentioned, to remove anxiety at the moments of truth. Using advanced technology, we pay valid claims swiftly in minutes.

We continue to build out our Pru Medical network and extended the care footprint with 186 partner hospitals. Just yesterday, we signed up the first overseas preferred medical partner covering Malaysia and Singapore. Prudential Indonesia launched the first protection-linked product in the market. This product, together with our agency force, propelled us to be the leader in the market. Over the years, we have continued to expand the range of protection benefits attachable to the linked chassis, from term to critical illness, from hospital cash to medical reimbursement.

As part of our DNA to be always listening to the needs of our customer, we conducted a focus group to survey what are the customers looking for as we upgrade the linked chassis. The feedback from customers emphasised their concerns for retirement, hospital fees, children's education and protection against serious illnesses.

The solution that gives more

In September this year, we launched our new flagship unit-linked product, PruLink Generasi Baru, which literally means 'new generation', and the PruLink Syariah Generasi Baru. This brand-new product has many first-in-market features, an upgraded range of protection benefits. Given the richness of this product, it is best to show you through a video.

[VIDEO]

The launch was delivered via an integrated campaign and within the first month of launch, we have digitally certified 35,000 agents to sell and onboarded 43,000 cases. The mass recruitment model and the early-mover advantage to second-tier cities have allowed us to build breadth and depth and have created the most widespread agency network and the number-one agency force in Indonesia. However, with the changing distribution landscape, we have moved to segmentation since 2015, with a focus on building up the core agency and nurturing the elite agency, our top segment.

We have transformed PRUforce into an agency workbench. PRUforce empowers the sales force to track and monitor the activities when selling, recruiting, learning, racing for rewards and managing. It covers all aspects of the agency lifecycle, from onboarding, client management and performance management to integrated learning. This is an agency activity wearable in a pocket, accessible any time, anywhere. New agents are licensed and onboarded in five days.

Within the launch of PruLink Generasi Baru PRUforce, we were able to conduct 650,000 man-hours of training on demand, with nearly 100% e-submission and 81% of our customers adopted an e-policy. As we innovate and we invest for growth, we have seen the numbers of our Pru Elite increase by 80%. We also have the most MDRT-qualifiers in the market and rank 20th globally. Our agency market share is 22%, at par with number two and number

three combined. The Prudential Indonesia agency is future-ready to take on the next wave of growth and Prudential Indonesia will showcase PRUforce later this afternoon.

Re-imagining partnership distribution

From agency, let us move to partnership distribution. At Prudential, we operate a multi-distribution platform, with tied agency and partnerships, mainly bancassurance.

The term partnership distribution was first adopted by PCA 20 years ago. That demonstrated our ambition and approach at that time. Partnership distribution is core and fundamental to our growth, contributing to at least one-third of our new business. From working with eight partners in 2010, we are now working with 100 partners, with access to over 10,000 outlets across Asia and the number-one Bancassurance franchise in Asia.

We treat each of our partners as unique and deploy dedicated resources. We have co-created and innovated distribution products and marketing tools with a track record of fast activation and integration, targeting retail and mostly walk-in customers. As customer behaviours change in a more connected world, they are looking for interactions that are still human and personable through digital means. We are re-imagining the approach and engagement with new ways to partner and with new-wave partners, moving from segmentation by wealth to segmentation by customer persona.

Optimising strategic partners

Our strategic partnership includes multi-national banks, regional banks and prominent domestic banks in China, India, Thailand, Vietnam, Malaysia, Cambodia and Laos.

With the large customer bases from our strategic partners, there is still plenty of room to grow. Penetration in the priority segment is promising, with tremendous potential in personal and mass segments.

New way to partner

We are celebrating the 20th anniversary with our partner, Standard Chartered Bank. Throughout the years, our entanglement strategy has enabled us to reach in-branch customers, offering a range of savings and protection solutions. With the integration with their global platform, we are now able to co-create digitally and offer simple health and protection products online, targeting the personal bank customer. Just yesterday, SCB China became the first in Standard Chartered Bank Group to launch a life insurance product in their mobile app, partnering with CITIC-Prudential. Hong Kong is next, in December.

Our partnership with Vietnam International Bank started in 2015. This is a progressive bank as they have been named the digital bank of the year, with the best retail mobile banking services. We have co-created an offline-to-online model, with the insurance specialists offering advice and using Prudential's mobile point of sales for issuance and servicing, and our growth has been nearly 200%.

To win in the partnership distribution space going forward, we need to reinvent new ways to partner and new types of partners. We are engaging with partners as category-killer providers to serve and identify segments. The core ingredient is to have a market-leading product.

In Thailand, we were one of the first insurers to be granted a license to offer investment-linked in 2011. Since then, we have continued to upgrade our offering with end-to-end

servicing. When Siam Commercial Bank was looking for an insurer to serve their wealth segment, we won the RFP because of our reach capabilities. The partnership was launched in February and is already contributing to 17% of Prudential Thailand's new business.

New-wave partner

O-Bank is the first digital bank in Taiwan, with a 30% share of digital bank accounts. They are rapidly accumulating young customers, adding 10,000 to 20,000 a month, with an average age of 34. Our exclusive partnership with O-Bank is to grow new customers, by offering tailored solutions, leveraging their in-house analytics and the customer lifestyle attributes.

In Indonesia, we are working with Eureka. Eureka is a big data management and analytic platform, equipped with advanced analytics. They have exclusive access to Indosat, a telco with 110 million users, and experience of developing tailored offers and executing campaigns based on insight.

Structural growth drivers

Moving to China, the opportunity demand for insurance in China is undisputed, and the rapidly aging population, low penetration, protection gap of US$805 billion is contributing to the growing demand for insurance. This demand is also fuelled by the continued flow of rural Chinese moving to the urban areas. The CBIRC introduced its '1+4' supervisory policies to foster the sound development of the industry. The four underlying policies revolve around risk management, market conduct, asset liability management and expanding capacity riding on the One Belt, One Road investment facilities. This policy promotes disciplined behaviour from the players in the market.

For any company in any industry to succeed in China, it is important to align its own strategy to the economic and social goal set by the Party and the government. The State Council has the ambition to double insurance penetration to 5% by 2020 and has stressed the protection nature of insurance.

[VIDEO]

Advantaged platform for value creation

CITIC-Prudential is a powerful franchise with two prominent shareholders. CITIC, being an SOE, has an influential brand in China. The crux of our advantaged platform is the extensive footprint across China, accessing 76% of GDP and 1 billion residents. We have a truly multi-distribution platform as we build capabilities, both technologically and infrastructurally. Our agency force is digitally savvy with a strong, disciplined foundation. Training for our agency leaders is institutionalised to ensure that only those capable to build a quality team are promoted. Leaders that have been certified increase the average monthly APE by 26%. Our refreshed new agent recruitment and training programme improved new agent activation by 6%, and our top-tier WFOEs grew 8%.

CITIC-Prudential devises bancassurance strategy based on the nature of the partnership. The overall focus continues to be driving quality business, with NBP growing 23% from this channel. This is a testament to the first-mover advantage of regular premium.

We continue to leverage on the extensive reach of CITIC Group of Companies and bank partners to offer group solutions, and already delivered more than RMB500 million of APE in the first nine months.

We have an online broker called Yijiu. We partner with an AI actuary to offer affordable protection products. That has had a positive start, with 10,000 policies on board.

These impressive results are also supported by key propositions: a premier critical illness product and health management platform, as well as a wealth management solution that provides wealth transfer, trust and legacy planning advice. For all of this to work, CITIC-Prudential simplifies customer experience through digital innovation.

Multi-dimensional delivery

CITIC-Prudential is now 18 years old, starting in Guangzhou in 2000. In 2013, CITIC-Prudential installed local leadership, with Prudential taking up the chairmanship. The board at the time gave the mandate to management to accelerate value creation. The CITIC-Prudential management team has built scale and quality over the past five years, with delivery above expectations.

From a scale perspective, CITIC-Prudential is the third-largest business within PCA. APE grew 4.5 times and NBP even faster, at nearly six times. Pre-tax profits grew four times to RMB1.4 billion and crossed over 1 million customers. In terms of quality, the regular premium mix is now 94% compared to 77% in 2012, with persistency at 93%. Total assets now stand at RMB6 billion. Above all of that, we have developed a best-in-class management framework, with A rating from CBIRC, the only foreigner to receive this for ten consecutive quarters.

Expanding presence

Going forward, CITIC-Prudential is building a comprehensive structure to provide the best insurance and wealth management solutions to customers with four business pillars.

The life insurance continues to be core and to drive value creation as well as capital efficiency through protection products. We have seen an impressive growth in protection of 33% per annum over the past five years and £60 billion of sums assured.

We have set up health insurance as a separate vertical, and built infrastructure to provide end-to-end healthcare solutions.

We also have approval from CBIRC to establish an insurance asset management company as a subsidiary to CITIC-Prudential Life. This will enable wider investment activities and create investment optionalities for customers and CITIC-Prudential Life.

We are also looking at the opportunity arising from the ageing population, and look to provide enterprise annuity and tax-deferred pensions. We are one of the 12 insurers granted approvals to offer tax-deferred annuities in selected cities and provinces. We will consider seeking a pension licence at the appropriate time.

The business is working towards being an integrated insurance company that provides a full range of solutions and services for customers across China.

Seizing the growth opportunity

We have a robust set of strategies to grow. The key is to execute and to reach more customers. Our principle of geographic expansion is to firstly identify the talent, then set up

the institution. With our experience of setting up 80-plus sales offices, we employ a replicable model to start up a branch office.

Using Henan as an example, Henan branch was established in late 2015. It is China's third largest province with a population of 95 million. With the replicable model and disciplined execution, the branch achieved triple-digit growth in APE and NBP to date, and is highly recognised by the local CBIRC.

We are also investing to future-proof our multi-distribution system, enabled by advanced technology, using analytics to support our agency to recruit, train and conduct performance management for efficiency and productivity. We also look to explore partnerships with e-commerce platforms and implement online to offline models with our bank partners.

The proposition-led solutions are to be expanded. For education, this is built on the safety theme for children and adolescents while leveraging experience from businesses across the two shareholders to develop our retiree proposition.

Last but not least, the key is to delight our customers when they engage with the business at every touchpoint. Let me show you what good looks like.

[VIDEO]

Ready for the next wave of growth

So we embarked to transform our operation since 2014 across the businesses. Now, this allowed us to redesign processes before automation for efficiency gain but more importantly, priming for scalability and flexibility. So our obsession to deliver customer excellence and empower distribution to reach, attract and retain customers is our differentiator, and we continue to build capacities to analyse data to drive customer decisions. So with our future-ready business platform and people, our ambition is to deliver ahead of customer expectations and moving our portfolio of businesses to a network of businesses to execute for growth.

Thank you very much for your attention.

Eastspring

Guy Strapp

Chief Executive Officer, Eastspring Investments

Agenda

Thank you, Lilian, and good morning: just. In the next 15 minutes, I will provide an update on the successes we have delivered at Eastspring over the past 12 months. I am also delighted to have two of my team here today with me to share the excellent progress that has been made in two strategic areas, capturing the opportunities in China and building a world-class multi-asset solution offering in Asia.

You will get the opportunity to hear from Michelle Qi, who joined Eastspring in June. Michelle is known as a first-generation China-Asia investor. The average investment experience of China-Asia mutual fund managers is less than three years. Of the several thousand portfolio managers, fewer than 30 managers have more than an 11-year track record, and Michelle is one of them. Michelle's appointment was a strong hire for us, and her understanding of the China market positions us well to serve professional investors both in China and globally.

Following Michelle, you will hear from Colin Graham, CIO of Multi Asset Solutions, who has 25 years of investment experience. Colin joined in January from BNP Asset Management, where he was managing about US$55 billion in a team of about 20 people. Prior to that, he was at Blackrock for about 15 years also running multi-asset solutions.

Leading player in Asia

Eastspring has been operating in Asia for more than 24 years, beginning in 1994 by establishing offices in Singapore and Hong Kong as the Asia Asset Management business of Prudential Plc. As at September 2018, we had a record US$195 billion in assets under management. We have been ranked the number one retail asset manager in Asia by Asia Asset Management in five of the past six years and additionally, Eastspring has been awarded Asia Fund House of the Year by Asian investor in three of the past four years.

350+ investment professionals in Asia

Today, Eastspring employs more than 3,500 people, twice the number of people we had ten years ago. Now, over half of these people sit in our India JV where direct-to-customer sales is a key driver of success. We employ more than 350 investment professionals, investing across global, regional and single-country equity and fixed income strategies. We also have significant global asset allocation capabilities, serving the outcome-orientated needs of our life client. Additionally, we are building our teams in multi-asset solutions, quantitative solutions and alternative assets.

Eastspring is in the enviable position of having investment professionals in all locations. The only exception being Japan equities, where our highly rated Japan portfolios are managed in Singapore. Unlike some of our peers, who have retreated from maintaining a local presence, we continue to invest in Asia in local investment talent. This differentiates us as a truly Asia-based asset manager, servicing the global needs of our clients with deep insights into the region's most important emerging economies.

We continue to focus on capitalising on this by developing investment capabilities and products to capture a larger, higher-quality share of assets across Asia.

Unrivalled footprint in Asia

We have an unrivalled footprint in terms of breadth and depth of our presence. We now have offices in 11 countries in Asia following this year's acquisition of TMB AM, which gives Eastspring a major presence in the important Thai market. We also have distribution officers in the US, UK and Europe. At our LBUs, we have sizeable on-the-ground presence, including investment and non-investment professionals, all led by local CEOs.

This footprint gives Eastspring a very unique peer advantage. We have seven top ten positions in markets across Asia, namely Indonesia, Malaysia, Singapore, Vietnam, India, Thailand and Hong Kong.

Eastspring Profile

To put this into context, this slide shows a geographic breakdown of where we manage money. Singapore is our cross-border hub and the centre where we manage our large life portfolios. We have strong geographic diversification, which is shown on the left hand of this slide, with more room to grow in key markets, including China. On the right, I have lifted out the Singapore book of business, which rein-forces our strength in equities and fixed income, and also shows the importance that GAA overlays play for our life companies.

AUM has doubled in five years

Over the five years from 2014 to September 2018, our assets under management have increased by US$95 billion. Nearly 60% of the increase in AUM has been driven by flow, with US$41 billion from Asia and UK Life and US$26 billion from third party clients.

On the right, our source of funds has remained relatively steady with approximately 60% sourced from Life and 40% from third-party clients.

Immense opportunity – strong structural growth story

Asia represents an immense opportunity and a strong sustainable structural growth story. Large populations with a rapidly emerging middle class, combined with strong economic growth, sees the amount of private new wealth creation rising even faster at 5 trillion a year. However, Asian investors hold 65% of their wealth in deposits compared to about 14% in North America. In addition, across Asia, mutual fund penetration expressed as AUM as a percentage of GDP is extremely low at 13% compared to the US of 114%, and Europe at 92%. As a result, McKinsey estimated that the Asia asset manager revenue pool is set to double over the next five years, from US$66 billion to US$112 billion by 2022. The opportunity for mutual fund providers in Asia is evident. Our scale and strong product platform means we are well-positioned to capitalise on this opportunity.

Progress made against key priorities in 2018

So last year, I showed you this slide with our strategic priorities, and here is the summary of the 2018 highlights. We have hired 18 senior investment professionals in key growth areas, including alternatives, emerging market debt, multi-asset solutions, quant and our onshore China equity WFOE team. We also became a signatory to the Principles of Responsible investment, and we are now the largest signatory in Singapore and the third largest in Asia, ex-Japan. We take this commitment seriously and it is simply the right thing to do.

On enhancing distribution and coverage, a highlight this year has been the progress we have made in China. Eastspring was a relatively early mover in China with the establishment of our joint venture, CITIC Prudential Fund Management Company, back in 2005. Today, our JV is the 29th largest fund management company in terms of non-money-market AUM, and as at 30th September manages US$17 billion. In March, we established our investment management wholly owned foreign enterprise, our WFOE in Shanghai. That is established as a private fund manager with the Asset Management Association of China. Our WFOE is now a regulated entity capable of managing onshore investments for high-net-worth institutional clients in the Chinese market. Michelle will talk more to this in a moment.

In terms of transforming the way we work, we are in the third year of the target operating model project, affectionately known as TOM, which is investing in processes and infrastructure to enable rapid growth, enhance risk management and arm our investment professionals with the best-in-class tools for portfolio construction and risk management. This is part of a broader digital transformation programme, and later today in the showcase sessions, you will have the opportunity to hear from our Head of Strategic Transformation about our partnership with Alkanza, and how we are launching our robo advice platform in Taiwan to augment our D2C sales business there.

Deepen investment capabilities – strong platform

One of our key strategic priorities is to depend our investment capabilities, although I am sure that many of you are not aware of the depth and breadth of our current platform. We are well recognised for our strong value offering in Asia and Japan equities, and our award-winning fixed income team. But here I show the broad range of investment capabilities, which provide solutions for our Life and third-party clients within country, pan-Asia and globally. We have been investing in multi-asset quant and alternatives to expand our offering.

To put this in context, this slide shows where we currently have institutional and retail clients and where we have identified potential. In these areas, we are accelerating our go-to market efforts. This year we have launched 44 new products and created six new bespoke solutions to alleviate capacity-constrained funds in Malaysia, Indonesia and Singapore. We are also working on new products to launch in Thailand. An example is the first TMB AM Eastspring product, the TMB Eastspring Asia Pacific Property Flexible Fund. The fund will seek income and low volatility from REITs, and complement this with the growth characteristics of property developer stocks. This product is still subject to regulatory approval.

This chart highlights how we have been organically building our business and the time it takes from product inception to institutional acceptance and ultimately full commercialisation. Today, we are one of the region's largest Asian bond managers with US$60 billion in AUM. In Singapore, we have 19 investment professionals, eight of whom are credit analysts with a particular focus on China given that renminbi denominated debt is the world's fourth largest bond market according to the bank for international settlements. Our fixed income team were recently upgraded by Mercer for our local currency bond capabilities. We are now importantly A rated by Mercer in Singapore bond, Singapore credit and Asian local currency bond. We have a well-resourced team that has delivered strong performance through challenging market episodes and is consultant rated. This will enable us to benefit from deepening Asian bond markets and rising Asian demand for fixed income assets. In addition,

we are accelerating our product capability to also cover global emerging market debt. In the fixed income capability, the product shown here is first quartile over three years.

In Japan dynamic equities, which is a flagship capability for us, we have a strong, stable team and a highly disciplined investment process, which we actually soft-closed three years ago to protect alpha for our clients. We are now one of the most recognised Japanese equity providers, with clients in Asia, Europe, US and LATAM. Now, despite difficult markets for value managers, our Japan equities are ranked in the second quartile over the past three years.

In global emerging market equities, our patient, high-quality build has recently been recognised by a German pension fund, who awarded us a mandate for €175 million. This is our first major separate account win in Europe. Our GEM dynamic fund is ranked in the top decile over three years. In fact, it is ranked in the top decile over one, three and five years. With 95% of our GEM peer group portfolios biased towards investing in growth shares, we have a compelling proposition of potential upside and diversification of risk. Quant is a new capability, grown in house, and we have assembled a high-quality team with diverse backgrounds and industry experience. We now have several externally sellable strategies with good track records, and are making traction in the retail market in Singapore via retail and private banks as well as platforms and IFAs. We observed that there is a large potential for quant with institutional clients. The quant team are also playing an important role in helping the Life client diversify investment styles and solve some of the difficult capacity issues in the region. The key message here is that it takes three years at least to build a track record before an institutional client, or for that matter a gate-kept intermediated client, will engage in a meaningful way. Importantly, our investment in new capabilities will give rise to six new strategies with the three-year track record by 2022. Those being Asia small cap, quant multi-factor in both Asia and the US, emerging market debt, multi-asset solutions and China-Asia.

Enhance distribution and coverage – TMBAM acquisition

Last year, I noted at this forum that Thailand was a conspicuous gap in our footprint. In July, we announced the acquisition from TMB Bank of 65% of TMB Asset Management with an option to increase our ownership to 100% in the future. We received FCC regulatory approval in September of this year.

Eastspring was the winning candidate in a competitive bid, chosen for our excellent reputation, expansive footprint in the region, strong global product offering and client-focussed culture. The acquisition further cements our unrivalled presence in Asia. TMB AM is the fifth largest asset manager in Thailand, with AUM of US$12 billion and an 8% market share. Furthermore, the business has grown its AUM at 26% CAGR for the last three years ending March of this year, which is more than double the underlying growth rate of the market. We manage assets on behalf of more than 1,000 corporate clients and more than 160,000 retail customers in Thailand.

Our presence in Thailand also enables us to provide on-the-ground support for Prudential's Life business there. Thailand is an underserved market for asset management. The growth prospects in this market are immense, with an expanding middle class, rising affluence and

strong savings culture, albeit significantly skewed towards deposits. Thailand is the largest and fastest growing mutual fund market in ASEAN.

Now, Eastspring is experienced in growing businesses through acquisitions. We acquired our businesses in Taiwan and Korea in 2000 and 2002 respectively. In both instances, we invested in local talent and built strong, successful teams. Similarly, we have a proven track record of working with joint venture partners to take them to the next level of sustainable growth. We are confident that this partnership with TMB AM will deliver exceptional results.

Transforming the way we work

As I mentioned, target operating model is an important strategic initiative, which has given us common operating platform and the ability to scale at pace and allowing us to introduce new agile ways of working, enabling greater collaboration, more purposeful cross-functional teams and new tools. We are seeing improved data quality, richer investment oversight and more transparent risk reporting.

Through the successful execution of TOM this year, we have been able to decommission systems with a total of 33 decommissionings to be completed by the end of next year. This creates a more simplified and de-risked business. TOM is not only about new systems, processes and tools. It is also about cost reduction and it is also part of the broader digital transformation agenda, scaling Eastspring for future growth.

With that, I am delighted to introduce Michelle who will share with you our ambitions for China. Thank you.

Enhance Distribution and Coverage – Capture Opportunities in China

Michelle Qi

Chief Investment Officer, Eastspring

Introduction

Thank you, Guy. Good afternoon. It is my pleasure to come here today to represent Eastspring China WFOE and to share with you the opportunities and our plans in China.

My name is Michelle Qi and I joined Eastspring China WFOE as CIO for China Equities in June. I have over 17 years of experience in China equity markets. Before joining Eastspring, I was head of QV and QDI Investment at BOCOM Schroder's joint venture fund in Shanghai where I spent nearly 13 years managing QV and institutional mandates.

So, why did I join Eastspring? Firstly, the attraction of the opportunity to join Prudential, who has a strong brand name and reputation in China. While I decided to leave my previous firm, I had peers and friends call me, asking where I was going. When I said I was joining Eastspring, the Asian asset management firm of Prudential, people said to me, 'Wow, I have a Prudential policy, what a phenomenal company.' In China, Prudential is viewed as a trusted and well-respected company with global capabilities and high-quality people.

Secondly, the growth potential of the China funds management industry. The industry only turned 20 years old this year. I believe there are two key opportunities for future growth: MSCI inclusion of China in Global industries and the low penetration of mutual fund products in China. Currently, Chinese households only allocate 5% of their total asset to China Asia equities and other onshore fund products.

Finally, the opportunity to be one of the original team members, building Eastspring's WFOE in China. It is a fantastic platform for me, as I can bring my investment experience to build an equity investment team and practice that I hope can better serve local and international investors.

Our presence in China

As Guy said early, Eastspring has a strong presence in China. Eastspring and Prudential were early movers, having established our joint venture CITIC-PRU Fund Management back in 2005. In Singapore, we have a dedicated Greater China value equity team with an average of 13 years of experience. We have eight investment professionals in our regional fixed income team who are focussed on China bonds.

Last year, Guy talked about enhancing distribution and coverage and capturing opportunities in China. In less than a year, we have made great progress. We established our WFOE in Shanghai in March and we registered our WFOE as PFM with AMAC. Our registration only took nine business days, one of the fastest PFM registrations, reflecting the approving authorities recognition of prudential. To out this into context, such a process usually takes months. Our WFOE is now capable of managing onshore investment for qualified investors in China.

I often get asked by clients and investors where I see the growth opportunities. Let me take you through the three key market segments of the fund management industry in China.

Number one, local investors invest in China. In a report published in March 2018, Oliver Wyman estimated that local-to-local AUM for the broader asset manager industry in China will increase from US$18 trillion in 2017 to US$30 trillion in 2020, representing a CAGR of 10%. Growth will be mainly driven by accumulation of household wealth and increase of allocation. Number two, local investors investing overseas. Local to global AUM is expected to increase from US$194 billion in 2017 to US$711 billion in 2023: according to Z-Ban, representing a CAGR of 24%. The growth is driven by internationalisation of the RMB, capital account liberalisation and diversification demand of Chinese investors. Last one is the global investors investing in China. With the inclusion of A shares and RMB bonds to global and regional indices, global-to-local flows are expected to increase as well. Reuters reported that incremental inflows into Chinese stocks driven by the full inclusion of China Asia into MSER indices are estimated to be US$300 billion. Incremental inflows from inclusion of RMB bonds into bond indices are estimated by HSBC to be US$286 billion.

Eastspring Shanghai WFOE

So in my view, the growth story is strong but how will the Eastspring WFOE team capture these opportunities? First, the joint venture. We are focussed on energising and fully capitalising on the CITIC-PRU relationship. CITIC-PRU currently has US$780 million of QDI quota, allowing it to sell overseas products to investors in China. We are discussing with CITIC-PRU regarding the usage of the QDI quota for the clients to invest in Eastspring funds.

Collaborations. Eastspring already has a strong China investment capability, with a value equity team lead by my colleague John Tsai, who has 20 years of experience. The Eastspring investment culture is anchored around candour, debate and challenge. Having a China value team based in Singapore allows for collaboration and sharing of investment knowledge.

Third, our WFOE. In addition to existing China strategies, our WFOE will focus on building onshore China-focussed investment teams. As a PFM, we can now sell onshore private funds to qualified Chinese investors. We will also be able to provide research advice to other Eastspring entities for offshore China mandates. We have established a QDLP entity as a subsidiary of our WFOE. We are applying for a QDLP quota, which is similar to QDI quota, and a successful registration with AMAC will allow us to set up private funds investing overseas to be distributed to qualified investors in China.

For our WFOE, we started the regulatory application process in October last year. Our general manager, Michael Lu, joined us in February from Robeco where he led the China business for more than ten years. Currently, we have 11 employees, of which five are investment professionals. We will launch our first onshore private fund product within the next six months. By the end of next year, we expect to have around 20 professionals in our WFOE. Subsequent private fund products are expected to include fixed income, thematic equities and multi-asset solutions, where Colin will touch on in a moment. After fulfilling local regulations, the WFOE will also seek to secure some advisory mandates for offshore funds investing in China, and importantly, will be able to manage China fund strategies for our lifelines across the Group.

Since joining Eastspring, I have been focussed on building a high-quality and credible team. Our investment philosophy is anchored around a belief that the China Asia equity market is inefficient due to the short-term nature of many of the market participants. We run macro

and policy analysis using top-down approach to obtain insights of the economic cycles and industry trends. With an onshore research team, we are able to conduct on-the-ground sector and company analysis, focussing on medium- to long-term growth potential. Sector and company analysis will be based on active fundamental research with bottom-up stock selection approach. With these, we will be able to generate offer over the long term for our investors. We look to invest in companies with strong growth profile, equity earnings, quality earnings and credible management. We also specifically integrate ESG considerations into our investment process. I believe that this approach is competitive in the marketplace as we can leverage our best-in-class global risk management controls in place. A well-positioned investment approach and process supported by a strong credible team, and the commitment made by Prudential and Eastspring to China's market, which is evidenced by our commitment to build one of the biggest onshore WFOE teams in China.

Over the long term, we see structure opportunities in sectors such as healthcare, technology and consumer sector driven by demographic changes, rising household wealth and a technology innovation in China. To ensure that we can capture these opportunities and we have built a team of high-quality investors, we have a macro strategy analyst, Jingjing, to help from the top-down view and analyse sector cycles, where the sector analysts focus on company fundamental analysis in the various sectors. Our sector analysts have industry experience and strong academic background to capture the key trends of their sectors. Our healthcare analyst, Xiang Xu, has a background in neuroscience and life science, which enables him to spot opportunities arising from the disease spectrum shift in China along with the ageing population. His previous onshore analyst experience helps to better interpret fast-changing government policies in this area. Technology is another key sector, and Zach's distinguished semiconductor engineering background helps provide incisive prospective on technology investing, which features high growth potential driven by AI, cloud computing and 5G.

First private fund – launching in Q1 2019

Before I talk you through the key details of our first product, I would like to give a backdrop of the private fund management industry in China. The industry is highly fragmented with over 8,700 PFMs, and consolidation is expected under the new stringent regulatory framework. As a result, PFMs are expected to have a more institutionalised investment process and framework while qualified investors are seeking equity returns with capital preservation. We are well positioned to capture the market trend with set up of our growth team and our underlying investment approach and process.

Our first onshore product and absolute written equity strategy will look to capture the long-term growth opportunities with lower volatility. Our product will be distributed by domestic security firms and third party wealth managers, which we believe will be competitive given my long track record in investing A shares, supported by a high-quality and credible team.

This is just the beginning for our WFOE in China. We have an immense opportunity and I am proud to be one of the founding members of the team. For 2019, our key priorities are: first, building a stable track record with full execution of our investment philosophy and to promote them to long term investors; second, to establish market reputation of Eastspring as part of Prudential brand name in China; thirdly, getting prepared to fully embrace the market opportunity when the WFOE is qualified.

With that, I am delighted to introduce my colleague, Colin Graham, Chief Investment Officer of Multi-Assets Solutions. Thank you.

Expand investment Offering – Multi Asset Solutions

Colin Graham

Chief Investment Officer of Multi-Assets Solutions, Eastspring

Agenda

Thank you very much, Michelle. I am delighted to speak to you today about the opportunity in the multi-asset solutions space. I am just going to take up the next ten minutes talking to you so you better understand the opportunity we have in front of us.

Firstly, I am going to talk about why the market is so interesting. Secondly, why Eastspring is well positioned to take advantage of that. Thirdly, what we are doing further to enhance our position in this market.

As you have heard, my name is Colin Graham. I have been brought on board Eastspring, in January, to build the external multi-assets solutions business for Eastspring. This is a core part of Eastspring's investment plan of the next few years. This is going to offer global solutions to Asian investors.

Strategic update

So over the last two decades, there has been significant change in investor behaviour globally. Investors are seeking outcomes rather than relative returns. These demands have driven the multi-asset portfolio management AUM to around US$10 trillion of assets, and that has been growing at about 14% annually. Of which, only about 6% of this has actually been sourced from Asia. So you can see that Asia is underserviced. According to the Spence Johnson report, looking at Asia, which is the largest market and is growing the fastest, it is China. China is going to grow its multi-asset funds in three years to around US$450 billion. This very much ties into the vision that Eastspring has, our plans for China, and Michelle and Guy have both touched on that earlier.

Now, the multi-asset solutions space is not a new market, but it is highly competitive both in terms of what is going on in the US and what is going on in Europe. You can see this slide demonstrates the immense competition in these markets. However, if you move to Asia, you can see there are very few asset managers with multi-asset solutions teams on the ground in Asia. So Asian clients are underserviced in multi-asset solutions. Our competitive advantage is our investment and distribution footprint in Asia, plus the strength of our parent, Prudential.

Now, many global commentators have talked about how Asia will be the investment centre of the 21st century, and we expect or we have seen reports talking about 2027. Now, 2027, it is expected that Asia will become the largest equity market in the world, overtaking the US. Also, Asia ex-Japan bond market is going to grow to be in line with the JGB market. So huge growth in assets. Also, the Pan-Asia mutual fund business is set to grow around 9% per annum to around US$13 trillion. Even if these numbers are only half true, you can see there is an immense opportunity in Asia. However, trying to understand this growth, what is happening on the ground in Asia can be very challenging. The information is hard to come by, hard to access, hard to interpret. So in our business model, we are going to use that to our advantage and we are going to attract wealth management clients and third-party clients.

Asian assets in this area are expected to reach US$40 trillion by 2025, nearly doubling in the next eight years.

One of the structural shifts we are studying is the enormous inter-generational wealth transfer between the baby boomers and the new millennials. Today, in Asia, in particular China and India, there are 415 million millennials. This is bigger than the entire workforce of the US and Western Europe. So you can imagine the enormous potential we have here. As mentioned, Eastspring has unrivalled access to Asia, which will enable us to capture this opportunity for our clients. Personally, I joined Eastspring to be part of this huge and unique opportunity.

How are we different?

So you might be asking, so how are you guys different to all of your competitors in Asia and the rest of the world? Well, there are similarities. I am not going to get away from that. We do do some things the same way. However, what is unique about our capability is that we manufacture equity and fixed-income products across Asia. So not just in Singapore, not just in Hong Kong, not just in Japan. We have access in Indonesia, Malaysia and most recently our acquisition of TMB Asset Management in Thailand. Trust and alignment between the investment teams and the local clients is essential for partnership and long-term success. Being based in Asia, we are better positioned to understand the unique needs of our clients and benefit from this informational inefficiency. Ultimately, clients in Asia are looking for global products which diversify away from their home markets. We are focused on building and offering global products that are tailored to our local market.

Capturing opportunity

So your next question might be, well, how is Eastspring planning to capture this opportunity? Well, Multi-Asset Solutions is well positioned because of the four Ps. That is people, process, platform and products. So let me start with the people aspect of the team. As you know, I joined in January and in the middle of this year, we welcomed Jason Hepner and Mary Nicola. Jason has 20 years' investment experience and was one of the founding PMs on Standard Life's GARs product in the UK. Mary joined us from AVIVA investors in Singapore. She has also worked on the multi-asset absolute return product. I think you might notice that there is a bit of a deliberate theme here, and I will touch a bit on that again later when we talk about products. Most recently, we welcomed a dedicated client portfolio manager, Adam Matthews, who has 20 years' experience in the industry. Jason, Mary, Adam and I were attracted by the immense opportunity in Asia and at Eastspring. We are also in the process of hiring a senior macro-strategist and also the search is underway for a volatility portfolio manager. In addition, our next member of the team will be a graduate who is joining in December.

As you heard from Guy, he has already talked about our strategic priorities of expanding Eastspring's investment offering, and expansion of our multi-asset capabilities to external clients.

In less than a year, we have made phenomenal progress and we have in place a strong team of five members each with over 17 years of experience on average. Collectively, our team has invested and lived through the global financial crisis, and sadly to say, Jason and I had also been investing during the TMT bubble. Do not know how many people remember that but I remember it very well.

Secondly, if we move on to the second P in terms of the process. We have a robust investment process focussing on delivering the outcomes that clients desire, with a proven track record at other firms. The multi-asset team also leverages the investment-talent across Eastspring as well. Think about our platform, the reengineering of our investment technology platform by moving on to Aladdin has provided us with scalability to grow assets, not costs, and secondly, world-class risk analytics that enhances our PMs' investment toolkit. Also, we are able to leverage the skills and knowledge of our global asset allocation team who have a 15-year track record of managing asset allocation requirements of our Life clients.

Product

So moving on finally to our product, well, we are designing the next generation of multi-asset capabilities. We have a strong product offering to build on. Let me just talk you through the products we have on the shelf at the moment and what we are planning to do.

So currently, we run about US$1.8 billion across our multi-asset funds. Our flagship fund is our global market navigator fund. It is four-star-rated by Morningstar, first quartile over one and three years and has a ten year track record.

Our next product we have is the global equity navigator. So this has a slight growth theme. This, again, is three-star-rated by Morningstar, and first and second quartile over one and three years, with a seven-year track record.

Our monthly income plan here in Singapore. This is one of our flagship plans. It was cutting edge when we launched this 13 years ago. One of the other differentiators we have here is we were able to offer, within this product, clients in Singapore an active Singapore equity sub-portfolio. So again, this differentiates us from the global products that we are competing against. We have recently launched a global income fund and with the three-year track record on the horizon, next year we will be able to monetise the track record and be able to raise assets in this portfolio, because three years is very important when talking to the distributors.

Now, if I think about the ratings we have achieved on these funds, they are very important because they independently show that we are consistently outperforming our peer groups. This is majorly important when we are talking to the wealth management platforms and prospective third-party clients. We are committed to delivering competitive performance and grow our AUM in this space.

What are we going to do next?

So you can see we have a strong platform from which to build. So what are we going to do next? We have some exciting products we really think are going to fill the pipeline and capture those external products.

The first one is the multi-asset absolute return fund. Again, you see the theme with the people that we have been hiring onto the Multi-Asset Solutions team. This is a large and growing area. We can see client demand for this growing significantly, because as the business matures, the business cycle matures, you are going to see the demand for more absolute returns in investment solutions. This is also an investment solution which can underpin the development of Prudential's retirement solutions, as well.

The next product we are thinking about is the multi-asset income in Asia. Asia is in our DNA for our stock pickers and our bond pickers. This is a product that has had huge traction in Asia. Asian clients are seeking regular income. Now, every client's reasons for seeking that income may be different, but we think it is linked to the wealth transfer to the millennials that I have been talking about.

Global market navigators, sustainable. This represents huge opportunity for us. Eastspring became a signatory for the PRI earlier this year. This focus on sustainability is not something that is just happening in the UK, it is not something that is just happening in Europe, not something that is just in the US, not something that is just in Australia. It is happening here in Asia as well. ESG is becoming an increased focus for investors in Asia. So this strategy will be focused on sustainability and this allows us to target a wide spectrum of clients, from millennials to institutional clients, sovereign wealth funds to family offices.

You cannot go through a presentation about products without mentioning China. So what are we doing in China? This is a longer-term project. We are working out how to integrate our current offerings, our current China investment capabilities with our new WFOE investment capabilities into one strategy. As with anything in China, the potential is enormous, but the execution is a key to success.

So whilst it is early days, I am delighted to have the opportunity to share with you the progress we are making. Our ambition in the multi-asset solutions capability is to grow AUM faster than the multi-asset market here in Asia.

Key messages

So the three key messages I would like to leave you with today are: client preferences have changed. Asian clients are demanding more global investment products with a clear home-market bias. The structural growth story is clear. Asia will become the epicentre of the 21st-century investment world. We have limited competition and we will have a compelling global proposition. We have a strong team in place with the right experience. We have the right platform through Aladdin, and we have the right processes. Finally, through the multi-asset solutions area, we can enable Eastspring's transition from Asian manufacture to global asset manager of scale.

Thank you very much for your time, and I will hand you back to Guy.

Summary

Guy Strapp

Chief Executive Officer, Eastspring

Closing remarks

Thank you, Colin and Michelle. Whilst these initiatives are very much in their infancy, hopefully after hearing from them both you have a deeper understanding of two of the opportunities we have identified for long term growth. Our plan is to capitalise on these opportunities, how we are different to our competitors and that we have a long-term vision for success.

In closing, I would like to leave you with three clear messages. The structural growth story and supporting trend for long-term mutual fund growth in Asia are sound. Our unrivalled footprint across Asia and global distribution capabilities will enable us to capture this opportunity. We have a clear strategic roadmap, and are successfully executing against these priorities. Thank you very much.

[ADJOURNMENT]

Asia Innovation/Partnership Overview

Nic Nicandrou

Chief Executive, Prudential Corporation Asia

Prudential Asia agenda

As I explained this morning, the bulk of the afternoon will be dedicated to showcasing our new capabilities and innovation. Now, I said at the start of my presentation that a defining change over the last year was the impact of technology on customer expectations and behaviour, and I went on to say that our response is what will determine whether this is a headwind or a tailwind. In this afternoon's sessions, we will show you how we are turning this potential risk into an opportunity.

Rising underinsured middle class and a rapidly ageing population

The first showcase will be on health value-added services, but before we go into it, I wanted to provide you with a brief context on why we are looking at this and why embracing HealthTech is a natural extension of what we currently do.

We covered the demographic trends using this slide earlier, so the only point I will make here is that clearly people living longer increases healthcare consumption, which, combined with a declining dependency ratio places a huge burden on public resources, resources which of course also have to stretch to cover infrastructure investment, retirement provisions and broader welfare needs.

Now, the situation in Asia is even more acute, and not just because of the population size. The consumption of healthcare goods and services across the markets in which Prudential is present was estimated at US$941 billion in 2017, having risen at a double-digit rate over the last five years. Remarkably, some 43% of this spend, roughly equivalent to $400 billion, is settled out of pocket, so that is what that 43% translates to in monetary terms. This level of personal outlay far outstrips what is paid by individuals in the West, and can be readily defrayed through insurance and risk pooling.

Rising healthcare demand and consumption due to chronic diseases

Now, behind this rise in healthcare spend has been the upsurge in chronic diseases, somewhat abetted by the more sedentary lifestyles. Asia has not escaped this global trend, which is set to drive medical consumption higher for the foreseeable future. By 2020, 60% of ailments like heart disease, cancer and diabetes are expected to occur in emerging markets. Specifically, at a count of 216 million people, Asia has 47% of the world's diagnosed diabetics today. This condition is both a major cause of death, and a key driver to medical consumption.

Pressure on public and individual resources

The current and projected levels of healthcare spending in Asia are putting significant pressure on both individual and public resources. Millions of people are pushed below the poverty line every year by unplanned healthcare expenditure.

Across Asia, public health resources are stretched – Lilian was making the point – which is already translating into longer waiting times to access medical help and into public hospital bed occupancy rates, which are above the 80% threshold recommended by the World Health

Organisation. With medical consumption expected to rise faster than GDP across the region, the burden on the public purse is set to increase. And across the board, authorities are forecasting significant shortages in medical resources. And as I said this morning, ultimately this challenge can only be addressed by close cooperation between governments and private enterprise.

Health & Protection is an important business priority

Turning to our credentials, Prudential is today a leading health and protection player in Asia. Last year we grew sales by 13% to over $1 billion for the first time, with sizeable contributions from all our major markets. This product segment accounted for 27% of our new business APE and was the largest component of the sales mix in Indonesia, Malaysia and China. Our capabilities when it comes to providing a very broad spectrum of health insurance cover are second to none, and we are continuously evolving our health offering.

As you heard from Lilian earlier, we are constantly extending coverage to more conditions and we are bringing many first-to-market innovations. We continue to invest heavily in simplifying our customer-facing processes and in removing friction points. This investment spans the adoption of reflexive underwriting to personalise and fast-track the new business acceptance and the use of AI technology to accelerate claims settlements. It also includes establishing hospital panels which provide upgraded services to our customers and speed up the process at the point of discharge by settling claims directly with hospitals.

Despite our considerable success, the fact remains that today we provide medical reimbursement cover to only just 5 million customers, collecting premiums of around US$1.6 billion. When you bear in mind that nearly US$400 billion is paid out of pocket across Asia, the opportunity to pool risk more widely and in doing so deliver reductions in medical cost to millions of consumers is fairly self evident.

To close the healthcare gap we need to increase awareness

Ours and more broadly the sector's key challenges therefore is how to raise consumers' awareness of the availability, affordability and value of insurance cover. In our minds, this has to start with engaging consumers on how they can improve their health and live longer. Today's current service model for insurers is principally focused on paying for clinical care. Yet 90% of the drivers of healthcare consumption are genetic, lifestyle and environmental related. So we have to evolve from being pure providers of cover to partnering with customers on wellness, guiding them on how to improve or preserve their health as well as supporting their treatment and recovery from adverse health events.

Prudential's expanded health and wellness offering

The advancement of technology is a real changer here, and the 5 billion mobile phones in the world provide a readymade engagement avenue. Mobile technology is the medium that we have chosen to adopt. We believe that HealthTech is key to delivering affordable and accessible healthcare for all. So alongside providing core protection, we can now play a part in helping to prevent and postpone the onset of disease.

This more holistic approach to healthcare has the following key components: Shifting from sick care to wellness; identifying and working with partners who have complementary capabilities; empowering customers with intelligent self-help tools; and using machine learning to provide personalised guidance to customers. The convergence of medicine and

technology is a natural playground for HealthTech service providers who have proven tools that can enhance our offering.

Exclusive Prudential & Babylon partnership

In August this year, we signed an exclusive multi-year partnership with Babylon, a UK-based healthcare and technology service company. With this unique collaboration, Prudential is combining its leading capabilities in insurance, broad market footprint and wide range of products and services, with Babylon's market-leading AI platform and experience in partnering with governments. We plan to offer consumers 24/7 access to a comprehensive set of digital health tools featuring genuine AI. Once launched, this scalable digital platform will be accessible to millions of consumers across the 12 Asian markets covered by our agreement.

Babylon's AI platform is comprehensive, spanning from sick care and healthcare cycle. It draws on a vast pool of medical knowledge which it applies to a person's medical history, lifestyle data, test results and even their genetic profile. The platform has a huge number of features which Dr Ali will cover shortly. These features provide patients more and better access to medical information and help reduce the overall cost of healthcare.

Putting AI in the hands of the consumer

The Prudential-Babylon partnership represents a step change in health services in Asia. Alongside promoting financial inclusion by making this available to both our existing and new customers across Asia, we will afford them ease of access to health services and information, drive engagement, and improve the awareness of the importance of wellness, build trust through personalised medical interventions and drive high-quality medical outcomes.

As I said this morning, the benefits for us from enhancing our core offering span new customer acquisition, increased customer touch points, higher customer loyalty and retention, reduce claims frequency and lower cost severity.

We also expect that it will allow us to provide cover to previously uninsurable risk groups such as diabetics, subject to adhering to specified lifestyle changes. Research has confirmed that insurance companies are set to be the future number one distribution channel for such health apps. We are convinced that this extended approach to health care provision will deliver significant benefits to all.

UK learnings – lower medical consumption and improved customer experience

This next slide sets out how technology has impacted service delivery in the UK. As part of efforts to care for patients with chronic obstructive pulmonary disease, Harrow CCG trialled a wireless monitoring service linking patients to nurses. Results showed that in the three months that the wireless remote monitoring service was used, admissions fell by 50% and hospital bed days by 63%.

In addition, an app recording health data of COPD patients allowed these patients to monitor their health, reducing GP calls by 83% and GP visits by 57%. In short, technology helped deliver lower admission rates, better adherence, more efficient use of resources and higher patient satisfaction.

Investing in broader health and wellness services

Returning to Asia and to Prudential, our partnership with Babylon is just one of several value added health services that we offer our customers. In 2017, we invested in Prenetics, a start-up that is Asia's leading genetic testing company. Working alongside them, we launched myDNAPro, which is a DNA-based personalised health programme, specifically designed to help customers identify and reduce their risk to Type 2 diabetes, high blood pressure and high cholesterol. The programme provides nutrition advice for optimal diet and fitness, as well as health coaching for 12 months.

Customer response has been extremely encouraging, with 70% of users making positive changes to their diet and lifestyles and 94% using it to help them lose weight. The services have been made available in Singapore, Malaysia, Vietnam and the Philippines. We are also working with health providers to offer our customers in Singapore, Malaysia, China, Indonesia and Thailand, access to doctors and other health services tailored to their broad and fast-changing needs.

With that, it is now my pleasure to invite Dr Ali Parsa to the stage who will introduce and demo the technology. He will be followed by Andrew Wong, who will cover how we will integrate Babylon into our health offering, and share with you our implementation plans for Malaysia, the first country where this new service will be rolled out.

Asia Health Showcase, Babylon

Dr Ali Parsa

Chief Executive Officer, Babylon Health

Overview

Thank you, Nic. Nic just described the awful situation that healthcare globally is facing. We have spent $10 trillion a year on the delivery of healthcare and yet 50% of the world's population has almost no access, zero, to any kind of healthcare. The 50% who do have access often get very bad access. If you live in a second-tier town in Southeast Asia, or in a second tier city in China or in India, your chance of getting the right diagnosis even after you see a doctor is less than 50%. For those of us who live in a developed country, we sometimes often have to wait; it is inconvenient to get healthcare; when we get it, it is expensive.

And that is only for physical care. If you think about mental healthcare, the situation is significantly more dire. 50% of all our emergency access now in the western countries is because of mental health issues that start it. And you know what we do with you, if you are a child of somebody who is not middle class, and has mental health issues at the early age? We ignore it and we lose it, until that child develops an addiction or another problem and we will end up putting them in jail. 70% of the people we have in the western societies in our prisons are people who have simple mental health issues.

And while the problem is significant in the delivery of healthcare worldwide, I believe it is possible to make healthcare accessible and affordable and put it in the hands of every human being on earth.

In that mission, we share the same values, the same beliefs as the leadership of Prudential. We are delighted to work with them, because at the core, they believe also it is possible to change the life of ordinary people on the streets of the country in which they operate.

Demonstration of the technology

When I say it is possible to make healthcare accessible and affordable and put it in the hands of everyone, people often think that that is a dream in too distant a future. What I am going to do today is show you what can be done today. I am going to show you how the future is already here, it is just badly distributed.

I remember when I was a student, I chose my university to learn physics almost on the size of the library it had. Only 20 years ago, it was impossible to access the information of the world. For those of you who are younger and do not remember a world without Google, you do not remember that it was impossible to get access to information unless you had a big library at your fingertips.

When I was a child growing up by the Caspian Sea, if I wanted to get music I had to wait nine months after the publication of that music to go to the capital city of my country to buy a tape, bring it up to the north, pirate it and sell it to the rest of the kids, so they can also get that music. Today, it does not matter if I live in Kabul, Connecticut or Turkmenistan or in Singapore or in Malaysia, I can download the music almost instantaneously as it comes out.

We can do the same with healthcare, and we can do it because four things have happened in technology that were only a few years ago impossible to imagine.

One, diagnosis has become almost free. Before Babylon, I used to own and run a chain of hospitals. Ten years ago it would have cost me $1 million to do a tip to toe diagnosis of you. Today we can do that with $10,000 and we can throw in your genome sequencing. There is a 99% reduction in the cost of diagnosis in a single decade: double the rate of Moore's Law.

But that is just the beginning. We are now going from hospitals, from clinics into your apartments, to your homes. The other day I was at the offices of Google X and they were talking about the nano-molecule that they are working on that you digest in a pill that it circulates in your vascular system and it will monitor your blood for abnormalities and it communicates with your mobile phone.

Whether that is a five years away or ten years away, what matters is that we are in places that we never imagined to be in before. We will soon do with you what we are already doing with your car: monitor you 24/7 all the time, predict what is going to happen to you next.

Second, the information in healthcare is already free. I have access now to almost the entire humanity's knowledge on medicine on my mobile phone. The problem is, that knowledge is doubling every 18 months. Fundamentally, what that means is that the sheer amount of what we are inventing now is so huge that it is impossible for any human brain to capture.

Last year alone, 11,000 papers were published on dermatology. Which doctor can memorise all of that? Next time when you see a doctor and they say I know it all, just be careful how much we are learning in the last few years. Almost two thirds of everything we know in medicine we learnt since 2010, in this single decade. So we now need different tools to be able to analyse, to get on top of what it is that we are dealing with.

Thirdly, we do not need hospitals, we do not need clinics all the time, in order to reach people now. We now have a mobile phone in the pocket of almost every human being on earth and we can do with these mobile phones what Google did with information. We can put most of the healthcare most people need and deliver it to them on the devices most people already have. We already do that in Rwanda, one of the poorest countries in the world, where we look at the 2 million population not just in Kigali, but in some of the most remote regions on earth, paid for courtesy of Bill and Melinda Gates, but now the government of Rwanda.

And what is amazing is whatever it is that your phone does today is only half of its capability next year. It is a third of its capability three years from now. Five years from now, whatever it does today is only 3% of what it can do. In 10 years' time it can do a 1,000 times more. Can you imagine what a phone that can do a 1,000 times more will do? It is important.

What I love about the leadership of Prudential and the conversations I have with them is that they are not building a business for today, but they are building a business for what the world is going to be. Their thoughts, their thinking is not just to look at what they have now but where it is going to go. When Reed Hastings did the business plan for Netflix, it would have taken four months – yes, you are right, four months – to download a single episode of Game of Thrones. But he knew always that the technology is going to get there, and it is important to know where the future is going to be and build for that.

And finally, and fourthly, everything you and I know about medicine is melting into air, and we are creating new models of delivery. It really does not matter if you are an evolutionist or a creationist. It is neither God nor evolution that is creating new models of life. Just go to the Synthetic Biology department of the Imperial College in London and see what we are doing. Whether it is the creation of new nano-molecules or new organs, whether we are creating new laser treatments or ultrasound intervention, everything we know in medicine is changing.

So what we are going to do with that is to show you why some of this, none of this is a dream and why much of this can be delivered today. There is not one thing I mention now that is not a reality.

I am going to show you Babylon. I am going to show you a quick demonstration of it.

[VIDEO]

So when you just want to do that, you just make an appointment with the doctor and then a doctor will show up and you just have a face to face. So the artificial intelligence deals with the parts that you need and then you have a conversation with the doctor face to face. This doctor will have the result of that conversation, so you can reduce the amount of time you spend together. And then you rate the doctors, they rate very well, so anything less than 4.7, we part company. And once your conversation is finished they have the video of your conversations for years to come, so the doctor can use it. Or if you need to pick up a prescription we either send it to your home or you collect it at a pharmacy near you. It actually just figures out where you are. I am hoping this is where we are and you can just send it to a pharmacy right next door and you are done. You just go and pick it up.

And so all of this is up to you. Just think about now what we have done. We have collected a significant amount of information from you through our interaction. We actually can do more than that. We can actually run a consultation that is done for no other reason but to create a health assessment of you.

For those of you who live in London, and I just met a few who have travelled from London, we just did last week with The Evening Standard a big health assessment of all of the city. Tens of thousands of people participated, and we just asked them about ten to 15 minutes of questions like this. Interestingly, over 50% of people who started the flow finished the flow, and we gave them a full health assessment.

So the results we get, this is what I have, is a digital twin of yourself. This is a rather flattering digital twin of me, but it shows everything item by item about my health, and including from my biometrics to my behaviour, to in future, my environmental and also my genetic data. And then by adding to that, having all of that data in one place, creating a graph database of every human being on our system, we could do amazing things. We can for instance try and simulate your future. And just see in this particular case, it knows everything about me, it does not know if my parents have had diabetes. If I say no, it will tell me that my risk of having diabetes is very low, and otherwise it will give me a plan to manage it and so on and so forth.

So what we could do is we could get to a place where we can monitor you, if you want us to monitor you, all the time. We can be with you not as a doctor who comes when an

emergency happens, but a doctor who can tell you things are going wrong before they go wrong.

So for instance, in my country, UK, today we will lose 15 wonderful human beings to suicide. For every one of them, about ten will attempt and fail. We will have 10,000 people sitting at home today with clinical depression, who are not leaving their bed. If they stay in bed for three days or more and they look at their mobile phone more than normal by 50%, we will know that they are 80% more likely to commit suicide. So we can come in, we can intervene when the problem becomes too expensive.

[VIDEO]

So I am going to show you now something that not that many people have seen, which is the brain behind Babylon. We need to do it because we showed it as part of Amazon's Worldwide Developer Conference. The CTO of Amazon, Werner put that on and we did an experiment where we turned Alexa into a real doctor. Now, unfortunately today we cannot do it in real life because Alexa is not HIPAA compliant yet, so the backbone behind Alexa does not have the level of security we need. But Alexa is working on it, and soon we will launch it on Alexa. But I want to show you a real-case instance where we ran a consultation on Alexa.

[VIDEO]

What you see in the back is the real brain behind Babylon. 530 million strings of knowledge.

It happens in a fraction of the time of a real doctor. And what you see is the machine is constantly calculating the probability of what could or could not be wrong with you.

This is an indication of the full data graph of the patient in the same that Facebook will have a full data graph of you, or Netflix. No healthcare company in the world has a graph of its patients in the way that we have created now.

So then what we did is we moved that on to the second, real time consultation with the doctor and what you will see now is what would the doctor see. 40% of our patients just do a consultation with the AI and will decide that they are reassured and do not need to do more. Of the ones who come in, now we can do a consultation with the doctor. Just watch this consultation. It will go on for 2.5 minutes, but you already feel satisfied, you feel that I got enough out of my doctor. Remember, the costs in healthcare, 70% of all costs in healthcare are salaries. What we need to do in order to reduce the cost significantly is to minimise what our doctors can do, so they can see more patients more effectively.

[VIDEO]

So what you see on the right-hand corner is a full summary of the AI consultation for the doctor. Below that everything the doctor and the patient are talking about is being taped, so there are no legal issues about what has been told or not told. You see on to your left hand side, a medical history of the patient, all pulled out and the bits that are most relevant to the doctor, and you see the digital twin of the patient that the doctor can touch and highlight the parts of the patient they want to know about.

The machine is suggesting questions for the doctor to follow if they wish to. In some countries, this is very important, because the quality of the doctors needs cross-checking, and the machine is constantly improving its analysis. If you look at the face of the patient, we are

using facial recognition, so when there is a problem the doctor would be able to cross check. So if they see patients are worried or the patients are stressed, they can be calmer on that.

[VIDEO]

When he saw the patient was worried, the doctor can immediately ask does that sound okay, how can I reassure you. And also what you are seeing now is that the machine has heard enough, the doctor presses button, it starts writing the notes, so the machine can write extensive notes for the doctor. It is in no rush, it has perfect handwriting, it can write what needs to be done.

So think about what is happening now. To make healthcare accessible, it is almost simple. As long as we can now put most of the healthcare most people need, as Nic quite rightly said, on the devices most of them already have, that is highly accessible. In Rwanda, I do not need to build clinics anymore, I can just deliver services to people wherever they are. In the United States, we could do exactly the same.

But there is no such thing as accessibility without affordability, and the costs in healthcare sit in two buckets. As I said, two thirds of all our costs sits in the salaries and about 70% of those costs sits on preventable predictable disease. All we do in Babylon is to create technologies that allow us to minimise what doctors can do and maximise the value on what matters and to try and predict people's problems before they become expensive.

Through doing that for the National Health Service today we can deliver services to 4% of the young population of London for instance on NHS, who within three months switch their NHS GP to Babylon, and we can do so at three times more value. We can provide 24/7 services to the NHS for the same price they pay a GP for eight hours a day.

We do that in Rwanda. We are now doing it in the United States. We are just launching in Canada. But Southeast Asia is one of our most important markets. That technology has just been embedded inside Tencent, for WeChat, for people in China to be able to do their primary care with AI in the first instance.

But in here, our partner is Prudential. This is one of the most important markets in the world. We are delighted to be partnering with a leadership that does not just stand for what exists today, but looks at where the future is going to be and creates the capabilities of tomorrow today, so we can make healthcare accessible, affordable and put it in the hands of every human being on earth. Thank you for giving me the time to talk to you.

Prudential Health Value-Added Services Implementation Roadmap

Andrew Wong

Chief Health Officer, Prudential Corporation Asia

Opening remarks

Good afternoon all. My name is Andrew Wong. I am the Chief Health Officer of PCA. I just joined the organisation in January this year. Following on Nic's and Dr Ali's presentations, I would like to recap our ambitions on health value-added services and the regional implementation approach to go live for Babylon AI and other value-added services in the region, and also the progress we have made so far in Malaysia.

Prudential's ambition

Our ambition is to protect the health and wealth of our customers by the use of artificial intelligence to enable access to affordable and quality healthcare. We are a life and health insurer, and given our customers' increasing needs in healthcare, we need to transform ourselves from a health payer to a health manager. And we would like to take the Prevent-Postpone-Protect concept against illnesses to the market, as mentioned previously by both Nic and Lilian. We would like to work with different partners and introduce the following five areas of services to our customers.

Lifestyle and wellness

We would like our customers to keep track of their daily activities, sleep and dietary patterns, and to provide coaching to encourage our customers to improve their health by maintaining a healthy lifestyle.

Risk factor identification

Our customers will be able to monitor their current health and identify future risk factors through the use of the DNA testing and health assessments.

Disease management and recovery

And if our customers unfortunately are suffering from chronic illnesses, the use of chronic disease management programmes can help them to maintain or even improve their health conditions by improving adherence to medications diet and exercise regimes.

Triage and symptom diagnosis

And the use of triage and symptom diagnosis can direct our users to appropriate and timely treatments based on their interactions with the AI backed chat bot, or data collected from various devices.

Telemedicine, e-prescription and physical doctors

In the event, if our users they do require to see a doctor, we can obviously arrange consultations with doctors either through video or physical visits. We can also arrange medication to be sent to the user's home or office address.

Implementation roadmap

So, with Babylon Health as our exclusive partner in Asia, how do we maximise the capabilities of Babylon and integrate it with other value-added services in the region? So our goal is to do the regional rollout and initially we want to go live with the core features of Babylon AI and

local telemedicine services in all Asian markets to be supplemented by additional features such as wellness, rewards, chronic disease management programmes and other services to be progressively delivered over 2019.

The first country of the rollout is going to be Malaysia, where we have started the programme three months ago and the project team is very busy in collaborating with the Babylon team and local medical experts to localise the content with the aim to launch the Pru Health app to our new and existing customers in March next year.

Other than Malaysia, we will also initiate implementation programmes in Indonesia, Singapore Hong Kong following the same approach and playbook, and of course, other markets will follow within 2019.

Malaysia rollout

So, Malaysia is the first country we are going to roll out, and it has very young and digitally savvy, and increasingly affluent, population. 88% of the population has a smartphone and this is likely to increase in the future. And the economy of Malaysia is going to perform strongly, as well. It is on its way to achieve high income status by 2021, in accordance with World bank.

As such, we do think there is a big opportunity to extend our presence in Malaysia by tapping into the digital consumer base. Our health platform will benefit local Malaysian communities by improving further the awareness of health and wellbeing, drive more digital innovations, and also reduce health cost in that particular country. And customers will have better access to affordable and personalised health services, and they are empowered with the necessary health information and data.

Go-to-market regional playbook

So what are we going to do in terms of the regional approach? So we are going to implement Babylon Health and other value-added services in four phases, i.e., pre-launch, pilot, launch and accelerate.

Pre-launch

During the so-called pre-launch phase, we need to localise the Babylon AI content in terms of language, epidemiology data and culture. So the localisation is more than just translation of the language. We need to take a lot of other aspects into consideration which I am going to explain later in another slide. We also need to obtain the relevant approvals and support from regulators and government departments, and also ensure full compliance with data privacy. Other value-added service providers are going to be identified in order to complement Babylon Health and to provide more holistic services to our users.

Pilot

We will enter into the pilot phase once the localisation of Babylon Health and integration with telemedicine service is complete and the applications will be made available to our employees, agents, distribution partners and subject to further rigorous user testing and feedback.

Launch

With the core features in place, the health app is now ready to launch and go live in Apple Store and Google Play Store, and made available to our new and existing customers. And

there will be press releases and various marketing promotion activities associated with the launch.

Accelerate

And once we have additional features such as wellness, reward and loyalty programmes, we will be able to accelerate the launch and address to the general population of the market by empowering the users everything they need in order to improve their health. We will of course coordinate with additional distribution partners such as telecommunication companies, retail chains and large corporates in order to increase awareness and absorption of the applications with more repeat engagements.

Users are also encouraged to link with their contacts and affinity groups and set their own challenges. Personalised and optimised notifications will be sent out to encourage users to progress with new goals and also use additional services. Appropriate rewards programmes will be created to incentivise achievements and continue engagement with the applications, which is very important for the success of the launch. Of course, more viral digital marketing campaigns will be carried out at the same time. These can be supported and promoted by incentivising users to promote app through the use of discount or another rewards, and specialised social media content will also be used to promote sharing and sign-ups.

Malaysia rollout

So we have this regional playbook, this regional approach in mind, so what have we done so far in Malaysia?

We kick-started the rollout programme in Malaysia in September this year, and we have been very busy undertaking the following activities during the pre-launch phase. Firstly, we engaged Bank Negara, our regulator in Malaysia, and also Ministry of Health and explained to them our ambitions on Babylon Health and health value-added services, and obtained their support and approval wherever necessary.

We also localised Babylon AI services, and it is going to be available in both Bahasa and English. As I said before, it is not simply just a translation of the applications; special attention has been given to ensure the use of appropriate tone and express sensitive and alarming topics in a suitable manager. Local culture and habits and diets of Malaysians are also taken into consideration.

There is another important element of the localisation, which is the incorporations of the local epidemiology data into the software, such as some of the tropical illnesses like dengue; it has to be recognised by the AI. The triage is also adjusted in accordance with the local health infrastructure, and medical doctors hired externally, and also from our local business units, they are also heavily involved in this localisation process. We also think engagement with other stakeholders is important as well and that is why we engage continuously with various hospital groups and Malaysian doctor associations. A medical advisory board for this Prudential Health app will be set up, and members of the advisory board will include medical directors from reputable hospitals and senior physicians. At the same time, the number of local value-added service providers such as Doctor on Call and AIME are identified as the supplement to Babylon AI services.

So who is Doctor on Call? Doctor on Call basically provides online consultations by local physicians and, if necessary, electronic prescriptions are issued and users can choose to have their medications delivered directly to them instead of collecting from the pharmacies. AIME is a start-up company that makes use of AI to analyse weather and data in the current domains of public health in order to predict the probability of dengue outbreak in Malaysia. As a result, this helps prospective users to take necessary precautions against the outbreak of Dengue fever.

As we are making great progress in Malaysia, the localised core Babylon AI service together with the useful health content will be released internally and made available to all our 2,500 employees in Malaysia next Monday, 19th November.

With vigorous user testing and feedback, and full integrations of Babylon AI with Doctor on Call telemedicine services, we anticipate to release the enhanced version in February 2019 to our 20,000 agents and destructors. In March 2019, the Pru Health app will go live in App Store and Google Play Store. It is going to be available to all our new and existing customers, government agents, affinity groups and corporates. In total, the addressable base is going to be more than 2.5 million. Packaged not only with the core services of Babylon Health and Doctor on Call, but it will also come with other features such as dengue protection from AMIE and electronic payment, whereas distribution, promotions and marketing campaigns we have carried out in order to bring awareness and excitement around the users. We target to accelerate the launch starting Q2 2019, where we are going to expand the features of the app to include wellness and lifestyle, rewards, DNA testing, chronic disease management programme, and of course we will work with additional distribution partners and undertake viral digital marketing campaigns to target the entire population, which is 32 million.

Localised platform for easy access to health value-added services

So with all this great work being carried out, now it is time for us to look at what the application is going to look like.

Once the application is downloaded and you can see the application's landing page with the four splash screens of different designs to attract different groups, end users and required to register the account by the use of his or her email address, or Google or Facebook, and provide some personal information as you would normally sign up with other accounts or applications. Once the registration is complete and the users log on, the user will arrive at the application homepage, which you can see at the right-hand side of the screen. So the homepage is in the browser, and I will take you through some of the functionalities in detail later on. You can see that the home page has a few icons and quick links which allows users easy access to the core functions.

Prudential app home page

So the next slide I am going to show you is the detailed functionality of the applications. So let us have a closer look at that. It basically serves as a portal for easy access of all health value-added services, and also the potential insurance-related services.

So on top of the home page, there is an advertisement slider where we are going to deliver targeted information and news to the user, and then in the middle of the screen, you can see there are four functional icons. On the left, you can see the Pru4U icon, which will enable

user to have access to all Prudential insurance-related services such as the change of address, policy statements, claim submissions, enquiry, premium notice and other policy-related services. Next to the Pru4U icon is getting treatment. This is where you can have access to Doctor On Call telemedicine services. Next to it is the heart-shaped icon, 'staying well'. So when you click the icon, it will allow you access to a range of wellness services, including Babylon Health and other fitness tracker activities. On the right-hand side is 'my rewards'. It will allow user to check the reward balance and provides health-related gamifications and rewards to keep the user engaged on a regular basis.

Then at the bottom of the home screen, you can see there are a few static icons. They basically provide users very easy access to the core functionality of the Pru Health app. So the home icon is self-explanatory. Next to the home icon is the check symptoms. This is where the user can have access to Babylon symptom checker to initiate a dialogue with the AI-backed health chatbot about any medical conditions the user may have. So this function will provide the user, as explained by Dr Ali earlier, the access to health advice from anywhere at any time, 24/7, which is very handy and useful, particularly in Malaysia and also other Asian countries where access to healthcare sometimes is challenging. On the right, you can see there is an 'access health' icon which will allow the user to use the Babylon health assessment programme and to undergo a series of health self-assessments through the interaction with the chatbot, as well.

Lastly, in the middle of the screen just below the advertisement slider, you can see there is a quick navigation pulldown menu which will allow more frequent users to jump straight to the desired applications directly from the home screen.

So as you can see, this is a very simple but yet feature-rich home screen which will provide our customers easy access to all the necessary health value-added services as well as Prudential insurance-related services all in one place.

Featured Prudential app healthcare services

As I mentioned earlier, the user can click directly on the corresponding static icons at the bottom of the home screen to get direct access to Babylon AI services. So if you are unwell or you are familiar with the app, you can click the 'check symptom' icon, which will take you directly to the Babylon symptom checker service. Of course, it is localised to the Malaysian market and through the interactions with the chat bot, the user can get useful information and advice about the conditions anywhere anytime, and they can equip themselves with better understanding about their conditions to make conscious decision about what are the next steps. Whether they simply need to take a rest or they need to go to the pharmacy to buy some Panadol or they need to see a doctor, have a video conference or call the emergency hotline. By clicking the 'assess health' icon, the user can have access to the Babylon health assessment service, and that service will assess the user's current health based on the questionnaire interacted with the Babylon chat bot. The health assessment will focus on four areas, as Dr Ali described: body, nutrition, activity and mood. It is all based on the information provided by the user. It will also help the user to predict the future risk for some of the most common illnesses such as diabetes and heart attack.

So based on the outcome of the health assessment, a digital trend of the user will be generated to illustrate the user's health conditions, and is available in three formats, organs, muscular and skeletons, which is shown on the right-hand side of the screen.

So this is the end of my presentation, and I hope that that gives you a good understanding of Prudential's ambitions on Babylon and health services, our current implementation ad localisations in Malaysia and also the roadmap for the rest of Asia.

So now I will hand over the stage back to Nic for his closing remarks. Thank you.

Closing Remarks

Nic Nicandrou

Chief Executive, Prudential Corporation Asia

Unprecedented demand for healthcare provision

Thank you, Andrew. Thank you Dr Ali. I have seen the demo a number of times, but every time I am very, very impressed.

There is a reason why Babylon chose us. It is not just because we happen to share the same vision in the healthcare space, but because working with a single company, working with Prudential, we can give them access to 12 markets and ultimately we have a warm customer base of around 15 million. So we can make rapid progress working together.

There is a reason why we chose Malaysia to launch this first. Malaysia is a market where 85 of the population is unbanked, and actually in our discussions with regulators and authorities, they are asking us, what is it we can do to help accelerate financial inclusion, and we think this can support that. Of course, we have 2 million customers in that market. We already have a big health business. We are connected with Doctor on Call, who can provide real doctors and dispense medicine, and of course, we have a 50-odd medical network hospital.

There is a reason why were are going to Indonesia next. Again, 2 million health customers, we are working with Halodoc, which is a doctor network, and we have a 90-plus hospital network as well. Of course, in places like Indonesia, if you are living in some of the outer reaches of that country, it can take you up to three days to travel to go and see a doctor. That is not unique to Indonesia. The same is true in the Philippines, parts of Malaysia. In fact, in Cambodia, if you need specialist help, you need to get a visa to travel to neighbouring Vietnam or Thailand.

Why have we chosen them? Well, because of the quality of the AI, the track record, the fact they are using this in a number of markets. The second reason is this is real AI. There are plenty of similar-type services available but in a lot of cases, they are backed by physical doctors literally keying in the text reply. This is really, really scalable. Ultimately, and we believe this research shows, that a customer is more likely to trust a company when that company has been there in a real crisis. That is why this technology is important. So AI-driven health tech disseminated through personal devices in a way which compliments the provision of insurance would play, in our view, a pivotal role in making healthcare affordable and accessible. Prudential is now in a position to leverage such technology, deliver cutting-edge consumer outcomes and then create a win-win environment for all.

Showcases

So if we can now move to the other four innovation showcases, where we will display some of the new technology-based capabilities and solutions. All except one of these are currently live across our business and are being used at scale to support our day to day operations.

In distribution efficiency, colleagues from three businesses will showcase how new technology is supporting agency training, prospecting and client servicing. In customer fulfilment, you will see four new technology innovations, which are currently deployed in our Hong Kong business and are transforming and digitising customer fulfilment. In customer segmentation,

you will be shown our new digitally enabled employee benefit proposition currently on offer in Singapore and soon to be rolled out in other markets across the region, you will see how we are making that work. Finally, in the direct-to-consumer section, you will see our new robo advice D2C wealth offering, which is about to go live in Taiwan, and which will also be deployed in Malaysia next year. I hope that you will enjoy them.

[ADJOURNMENT]

Asia Financial Update

Raghu Hariharan

Chief Financial Officer, Prudential Corporation Asia

Opening remarks

Good afternoon, everyone. Welcome back. So I have the privilege of wrapping up the presentations from PCA today. So if you cast your mind back to the morning, I think Nic set out the strategic context for PCA and the initiatives that are in train, and Lilian and the showcases after gave you the operational context, and they helped you understand the how. What I will attempt to do in my presentation is the why, i.e., how do you translate a strategy into financial value? So I aim to cover four areas in my presentation. The first is, recap the strength of the operating model of PCA. Second is providing some proof points on selected market performance on three dimensions, growth, quality and cash, and how they underpin the delivery of value. The third update would be on our Q3 results, go beyond the headlines and give you a bit of flavour around what is going on in each of the business. Lastly, I will attempt to offer a financial assessment on some of these strategic initiatives you have seen today.

Translating strategy into value

So the performance context for PCA and the execution is anchored by five very clear levers. Some of these are enduring and some of these are things that we put more emphasis on.

Long-term orientation

The first one is long-term orientation. It seems very obvious but this is in our DNA. This is a long-term business focussed on providing protection products to mostly underinsured and/or uninsured Asians. As you will see soon, this produces very resilient and compounding economics for the business.

High-quality growth

The second is around quality growth. Given the vast opportunity set, we had to be very clear about where we allocate our capital, and you have seen Nic talk about a focus on health and protection. So there are two areas where we have chosen to allocate our capital, which is protection products, which as you guys know are uncorrelated to investment markets, and asset management products, which are capital light. Now, these produce good consumer outcomes but they also deliver attractive shareholder economics.

Portfolio management

The third one is around portfolio management, and Mike referred to this in his presentation. This is where we spend a lot of time. We have finite physical capital and financial capital, and we had to be very clear about where we allocate capital, whether it be across products, across geographies and across channels. You will see some examples in the Q3 financial update of some movements that have happened this year but this approach is very integral to delivering our financial performance, and often an underrated attribute for PCA.

Capability build

The fourth one is around the capability build. You heard about the strategic initiatives which are in train and planned for PCA. I call them the two Rs. The first one is reinforcing and

expanding our current propositions, and there is a lot of work going on in this space. The second one is reimagining the delivery and scope. So what I will try to do in my presentation later on is give you a financial dimension to the strategical and operational dimension that you have seen today, and that will hopefully complete the picture.

Multi-metric KPIs

The fifth one is really the measurement of success, and Mike referred to this again saying, our definition of success is very, very clear and it is a high bar. PCA and the Group, we pride ourselves on growing three metrics in tandem: new business profits, IFRS operating profits and free surplus generation. That is because we believe that underpins the delivery of sustainable value.

Now, as many of you in the room will know, maximising any one of these metrics is perhaps easier, but it is certainly delivers sub-optimal outcomes to customers and shareholders. So PCA in this context has a very unique financial signature, and this underpins our execution.

Lastly, if you do this well, these levers have a multiplier effect and deliver very good outcomes to the company.

Long-term orientation

So I am going to canter through these levers really quick.

The first one, as I said, this is dead obvious, but it is not clear that the resilience, the long-term orientation for producers for the business, although compounding, is that well appreciated in my view.

So our raison d'etre is to collect small contributions regularly from first-time consumers over a long duration. Now, what that produces is just very compelling. You see these small premiums coming in, they aggregate over time and then they start compounding producing the blue bars. They overwhelm anything that we might do, any premiums that we might collect in any one year shown by the red bars. As you can see, that produces the resilience and the compounding across economic and market cycles. Now, this resilience is clearly very attractive for shareholders because it produces a smooth progression on revenue and then that flows through in the profits, but it also gives piece of mind to our consumers who, at the end of the day, are depending on us to pay claims.

Taking a quick look at just the blue bars, the renewal premiums, the shape here is excellent. You see that they compound and they compound at scale, they have been very consistent and it is very diverse. You see businesses getting bigger. You have four businesses now who deliver more than a billion of renewable premiums as compared to none ten years ago. So this is a very attractive financial picture. So far this year, the picture continues. You see renewable premiums are up 16% to £9 billion, with eight markets delivering more than 10% growth.

Now, new premiums are very critical over time to delivering this compounding. So indulge me here a bit. This is a bit of a lesson. So last year, we collected about £3.7 billion of new premiums. About 95% of that was £3.5 billion, was regular premiums, first-year regular premiums. Now over time, they compound, accumulative premiums, as small contributions come in from our customers, compound to £18 billion on a discounted business. As you can see, that is more than five times the initial amount of £3.5 billion. Now, that only works if

you can hold on to these consumers and we tracked these metrics very aggressively, and you can see the retention rate, as Mike said, is very healthy at 90%, so gives you comfort that these premiums, expected premiums are actually realized.

So what this tells you is that it is not the level of premiums that are important, it is actually the duration and the mix that actually drives value for both customers and for shareholders.

So going on to the mix. So what this picture shows on the left is really a critical piece of our execution. We have a very conservative product set that offers low-risk exposure to policy holders and very complimentary economics for shareholders. So there are three points to make here and I will stick to the left-hand side chart, which shows you the economics of our products, the right-hand side chart just shows you the cash signature.

So the first point to make is of the returns, as you can see from the red bar for PCA are very attractive on a margin basis. You can see across products if you scan through the columns, the diversified product set produces great returns. The first point.

Second one is around the differentiation between volume and profits. So if you look at our 2017 picture of volumes, you see that about half of our sales carry in from participating products. Participating products, as many of you know, have a very unique financial signature because we have very little or zero initial shareholder capital investment due to the unique funding model. Clearly, that produces long duration cash flows which underpin our earnings. For consumers, it allows them to take or get exposure to a diversified asset base producing higher returns than otherwise.

If you skip to H&P – and we talk a lot about H&P today – you can see that they contributed almost a third of our 2017 sales. What the NBP makes is clearly high, at 70%. So what is going on here? So you can see that H&P premiums are less than a fourth of the participating products. Well, the margins are about four times higher, illustrating the higher risk that we take on behalf of consumers, and this is underwriting risk which is uncorrelated to markets. But this dynamic produces a very attractive financial picture for shareholders delivering high-quality NBP growth over cycles. Therefore, I would urge that to gauge our revenue progression, NBP is probably a much better metric to asses our financials.

High-quality growth

So that brings me to the second point, which is around our high-quality growth and our protection bias, which I referred to earlier.

So the compounding revenues that are produced by a high regular premium mix and the attractive shareholder economics of H&P products produces this kind of progression. So you can see that NBP has consistently grown, and I have also shown you the proportion of NBP that is contributed by health and protection, which has clear ticked up over time. Mark alluded to this in his presentation, NBP is really critical to driving future value for the company. So here, you can see that NBP contributed over the nine years shown, about 70% of the increase in EEV for PCA.

I would like to make two other points here. First is the operating variances and assumption changes were a very small amount, a mild positive, which reflects the conservatism of our assumption set. If you concentrate on the small blue bar, with the £1.3 billion number on it, this shows you that the impact of markets which includes 2009 is awash. It is a mild positive

but it is a wash. This illustrates that our business is more structural than cyclical given the capital allocation choices.

The last point I would make on this slide is that NBP is very critical in driving the stock of future value. So you can see that the value of in-force, which is just the discounted value of future profits, has gone up 4.5 times from £3.7 billion to £16.8 billion over this period. So the question really is, how does this convert into cash, at what time and at what pace.

So let me try this on you. So I will take the £20.9 billion of 2017 closing EEV. That has a discounted free surplus emergence, i.e., future cash on a discounted basis of £18.7 billion. If I had to convert it into an undiscounted number, and this is what you see in our 2017 end financial statement, that is £37.8 billion. That is the cash signature of the £37.8 billion. It unwinds till 2057. There is about more than 6 billion of cash expected to be released over the next five years.

So the unwind from the in-force is pretty steady. Now, what I wanted to show you is the accretive nature of new business, given that NBP is such a driver of future value. So for that, I need to roll a year back. So if you go end 2016, your in-force cash flows are £32.3 billion compared to the £37.8. The bridge is just new business returning to 2017. So you can see on the right that the undiscounted cash from new business written in 2017 was £5.5 billion pre-new business investment, and the new business has returned a very attractive shareholder economics with a payback of three years, 40-year total of £5.5 billion, and our cash 10, which is our internal measure of what proportion of cash is released to shareholders within the first ten years, is 26% of APE.

This is what it does to your cash, to your future cash. So in one year, new business increased your future emergence of cash by 17%, from £32.3 billion to £37.8 billion.

Significant stock of future value

So that sets the context for the next slide, which is to show how does this cash emerge into profits and earnings over time, which is the real question. So on the left-hand side you see the stock of future value on an undiscounted basis. So what is this showing you? So you recognise the £37.8 billion of undiscounted cash at the end of 2017 and in six years, from the end of 2011 to 2017, you have seen it double, primarily because of the stacking of new business. The blue bars are every year's new business; cash expected on discounted cash from new business. So far so good.

So the stock initially added at inception was £25.1 billion for these six years. So going from the left to the right, you want to see how this unwinds and at what pace. So clearly the in-force unwinds in line with the red bars, but what is really interesting is how the blue bars unwind. So you can see that the blue bars unwind over time, and here you have an interesting dimension where not only is the pace right but the duration is long, so it gives you the steady progression that we are all accustomed to seeing.

Compounding value and cash

The point I wanted to get across was that to deliver this 14% growth in cash or in-force free surplus generation, we had only utilised 8% of the undiscounted cash that six years of new business have provided. So, of the £25.1 billion, you have just utilised £1.9 billion to deliver a cash growth of 14%. Said another way, you have got another £23.2 billion of cash from six

years of new business that will unwind over the next 40 years. That provides a great underpin to your future cash generation and this converts into earnings. Clearly, this creates a flywheel effect because every year you add a new business you are going to see the left-hand side power grow higher, and it does not need to unwind at a huge rate to produce this double-digit growth on the right.

Operating model drives long-term value at attractive returns

So that sets out the financial model for PCA. Very simply, we write high-quality new business at very attractive economics. This leads to compounding value that converts into earnings and cash.

Portfolio Management

So that kind of sets the construct for what I am trying to do next. So you will see a bit of new disclosure here, so we will show you, or I will take you through, a few of our select markets and illustrate how the compounding effect of new business and the conversion of cash comes through into our reported financials. So the duration I have chosen here is five years to both reflect recent trends, but also to take a long enough duration so that it is representative of our business.

Hong Kong

EEV shareholders' equity

So this comes under portfolio management, so let's skip through. So let's take Derek Yung's business, which is Hong Kong. You should all be familiar with the stunning progression of this business. Embedded value has quintupled over the five years, over 60% of the growth has been delivered by new business. I would also note that variances and market movements, which are captured under non-op, is positive.

NBP

So if you look at new business, new business has gone up 8 times, reflecting volumes, which have gone up 4 times, and the rest is reflecting a richer H&P mix. Not only has H&P content gone up, but we have also been selling, as Lilian alluded to earlier, richer products. You can see that, within the mix and quality bucket, H&P NBP has actually gone up 12 times, and volumes here went up 4 times, which means that you have the rest of the upside from this richer protection mix. The customer mix, which I know is a great point of interest, has provided diversity to our financials. So if you look at the domestic business, that has gone up 5 times, the NBP has gone up 5 times, and that has been aided by faster growth from the mainland Chinese business, which obviously has grown from a very low base, aided mostly by higher H&P growth.

IFRS operating profit

This growth has converted into IFRS operating profits. So IFRS operating profits have trebled over the period, and you can see the insurance margin has actually grown faster, so you have seen higher-quality, fast-growth earnings from the business. The IFRS progression in Hong Kong is interesting, given the unique mix of products we sell, par and H&P. Par produces a steady underpin to your profits, while shareholder business reflects the profitability from the high H&P content.

Quality of new business

So that is all about growth. How do you assess the quality of the growth that you have seen, when embedded value has gone up 5 times over the last five years? The first one is to look at the premium mix, and the chart here shows you two things. One, it shows you that the premium mix has been getting richer, so you can see that H&P content which is shown in the first half in the last line, where you have seen MCH business is 27%, has gone up 7 points, domestic business has gone up as well, and over this five years H&P mix has gone up 6 points.

Quality of in-force business

It also has significant regular premium bias, so about 98% of our business is regular premium. So that is on an absolute lens. You can see from a relative lens – and these are statistics published by the IA – PHKL, or our Hong Kong business, direct business, has a 30% share of the regular premium market. So that is what is going into our EEV, so this is our premiums.

In-force free surplus emergence

The second one, the other lens that I would use to judge the quality of the business, is really the experience in our in-force. So, first, the value of in-force, as you will remember, is the stock of future cash, has a protection bias – no surprises here given that NBP growth has been led by protection growth – and our customer retention ratio remains excellent, and this unwinds into cash. So you can see the cash profile and it has the characteristics that I outlined to you earlier; a steady underpin from the par book and a richer shareholder mix coming through the blue bars.

Indonesia

EEV shareholders' equity

Let us do the same one for Indonesia. This should get easier as I go through these markets. So I know a lot of debate around Indonesia and the financials, but you see very similar dynamics here. EEV shareholders' equity over the same period has gone up 2.6 times, led by a growth in the value of in-force, which is up 1.7 times. We know that NBP progression has slowed, but that has led to VIF growing at a declining rate and still driving value, because you are adding new stacks of new business, albeit at a slower rate. This new business has very good economics, so you can see the payback on the slide.

IFRS operating profit

So the question is how does it convert into IFRS profit? You can see that IFRS profit has doubled over these five years; again, insurance margin has outpaced the overall delivery. So the IFRS profit here has two dynamics. What you are seeing here is the stacking effect of new business, has allowed fee income to grow on a growing in-force, but, more importantly, you are also seeing growing insurance margin from the stacking of new business.

So those are numbers you know. You can see from here the undiscounted cash that is expected to emerge from Indonesia over the next 40 years, and that is a handy £4.7 billion. This will provide the earnings and cash underpin as we take the actions that Nic and Lilian alluded to and as we pivot this business to growth. So the message here is that there is a sturdy financial cushion giving the teams the headroom to fashion a turnaround.

China @ 50%

EEV shareholders' equity

I am going to do one more. So China, internally we call it a start-up business – we just started in China in 2000 – and it exhibits exactly the same dynamics. You can see that EEV growth, EEV has quadrupled over these five years, led by new business but also led by scale effects, which is in the in-force growth and variances bucket, and positive experience. So as we have grown the business, we have seen expense leverage come into the business, and some of the assumptions that rightfully were very conservative in a start-up, as we get more experienced that gets released into the EEV.

NBP

Very familiar picture again; you can swap some of the names here. The NBP has gone up 6 times over this period, volumes have gone up 4.5 times, so the rest of the growth is just richer H&P mix. Viewed through either a profit lens or a premium lens the progression is just excellent. So you have seen H&P APE mix go from 28% to 42%, and the H&P NBP mix going from 39% to 62%, and you will recall that, at the PCA level, H&P is 70% of our NBP. It is a highly regular premium business, so it is a high-quality business, with 98% regular premium.

IFRS operating profit

So the same dynamic again, IFRS profits have followed this progression, quintupling over the period, led by insurance margin outpacing the overall growth, which should not be surprising again, given the high and growing H&P content within the business.

Asia excluding Hong Kong, China and Indonesia

I am not going to do this by every market, so I will do a consolidated view for the rest of the markets, and apologies to Wilf if I am not calling out Singapore separately. You can see that the rest of the businesses have seen similar dynamics. You have Malaysia, Singapore, Philippines, Vietnam, Thailand, India and Taiwan here.

India has doubled, with NBP leading most of the growth. You can see that NBP mix for Singapore and Malaysia is dominant, given that they are older businesses. EEV growth is translated into IFRS profit, nearly doubling over the period, and you would expect that the more nascent businesses – Thailand, Philippines and Vietnam – have grown at a faster rate.

Eastspring

Moving on to Eastspring, Nic referred to the synergistic appeal of the asset. You have seen how the structural Life flows give us the opportunity to incubate a very successful and growing third-party business. You can see that the flows almost match each other, producing a compelling proposition for both shareholders and customers.

Value growth translating into earnings

So, at a portfolio level for PCA: we have a collection of high-return businesses, which have compounded earnings at scale, both in Eastspring and in Life, with diversity. As shown on the right, there are businesses getting real scale, and these earnings have been high quality. As I said, this is a pretty high bar.

Financial update

Q3 2018 performance

Moving on to a shorter-term period looking at Q3, you have all read the press release and you have seen that the sequential momentum has improved. Q3 sales are up 9% compared to the 6% in Q2, leading to a flat outcome for the year to date.

Drivers of growth

You see some similar dynamics that I outlined earlier. It remains a regular premium business – 94% of our business is regular premium – and H&P mix has actually ticked up one point. NBP progression is faster. I urge you to remember the earlier slide around the relative sizes of the premiums and the richness of H&P products and NBP. NBP growth is 15%. Most of it has been driven by improving mix; positive variances, so positive effects on our existing business; and some management actions around pricing in Hong Kong.

Markets

The mix effects by country remain very, very healthy. Here you can see that seven out of 12 markets had positive mix movements, so we have taken significant action again in these markets to change mix. China, Hong Kong, Singapore and India saw improving H&P mix producing high-quality NBP growth. Malaysia, Vietnam and Thailand have seen a shift into linked: in Vietnam from par, in Thailand from non-par and Malaysia into linked Protection. You can see that the product level NBP growth has followed as a result of these actions. So, that completes the Life picture.

Eastspring

On Eastspring, you can see that the structural and cyclical dynamic play-out this year, given what markets have done. You have seen £5.7 billion of internal flows which have offset the external net outflows, which have mainly been led by our institutional business, which has seen outflows of £1.5 billion because of mandate and regulatory changes. The retail business saw £0.5 billion of outflows, mostly in the third quarter, due to lower inflows in India and China.

As a result, our average FUM is up 11%, with our closing assets under management up 7% reflecting the acquisition of TMB Asset Management, which contributed £9.3 billion of assets. That is the absolute picture.

Balanced portfolio and strong relative performance

Multinational/regional peer comparison of NBP/EV Equity

The relative picture remains very strong. If you compare our relative growth profile measured by NBP as a proportion of EV to a select group of multinational or regional payers in Asia, you see that our EV compounds at a higher rate, because of NBP growth. It is 50% than the peers who remain unnamed on this chart.

IFRS operating profit and market position

On the right-hand side, I want to talk about the portfolio. This shows a regional portfolio of businesses, and as Nic alluded earlier, we have top three position in nine out of 12 markets; Eastspring investments is the leading asset manager in Asia. You can see the earnings mix. The earnings mix across our markets is very balanced, and they are growing at pace and high quality.

So, that gives you a sense of the portfolio effect within PCA. This allows our local teams, our market teams to deal with cyclical effects, and while dealing with those cyclical effects, not compromise our value delivery, or indeed the regional delivery.

Capability build

Value generation

I promised a financial assessment of some of the strategic initiatives that have been outlined today. You saw our strategic initiatives today were in two groups. One is leveraging existing capability, and the second is to build new capability, to drive three strategic outcomes:

- One, to extend our leadership position;
- Second, to access new revenue pools, which will accelerate our business;
- Third, to pursue new opportunities.

The financial outcomes of these initiatives will be driven by the performance levers listed on the left-hand side.

Financial impact of performance levers

The bubbles which will come up soon is an estimate of the financial impact, which show you two things: one, the relative scale of each of these initiatives and their impact on value, and the shading will display the variability of these outcomes.

Core business

Actions in our core comprise actions across distribution, products and operations. As you can see from the positioning of the bubbles, these have near-term impact and leverage existing capability. You should not be surprised they have the most upside.

Health and protection

You heard about our focus on health and protection. From a value perspective, initiatives here span the entire capability and time dimension: 4 is the narrowing of the health and protection gap, which Lilian referred to around our deployment of products across the region; 5 is the implementation of Babylon, which you heard about in Malaysia and then later in Indonesia; and bubble 6 is the digitisation of our health platform over time, so that is sitting in the New Opportunities bucket.

Eastspring

Eastspring, actions to broaden our investment range and/or expand our regional presence is clearly a new capability to the Company, but they will have near-term value impact. Clearly the digital build-out which is bubble 9 future-proofs this business.

New customer segments

The last set is new customer segments. The focus on SME and high network propositions, which are already in flight, have a similar impact to the 7 and 8 on Eastspring. These are bubbles 10 and 11. They are creating new capability clearly, but they have near-term financial impact.

The last one is the retirement solutions, which, as Mike alluded to and Nic referred to it, is a significant long-term opportunity. We are taking some initial steps in Hong Kong and Singapore.

The key point of this slide is that PCA has multiple performance levers to generate both value and resilience, and this underpins the financial outlook for the businesses.

Multi-metric KPIs

Strong performance across KPIs

I am going to canter through these; these are very familiar pictures for you. The business has been compounding at scale across all the three metrics, and you are all familiar with the return profile.

What is not on the slide though is the strategic and commercial capability that the businesses have built, and these are enduring and will underpin our financial progress going forward.

Value accretion at attractive returns

All this slide is saying is that these financials have grown at good returns, and delivered value for shareholders.

Summary

In summary:

- The performance recipe for PCA is well aligned to the structural trends in Asia;
- Our business model construct business has long-term compounding, and it is uncorrelated to investment markets;
- The regional portfolio of businesses, which are high-return, very diverse and high-quality, produces a portfolio effect which allows us to take cyclical impacts in our stride;
- Lastly, the strategic choices and initiatives that we are undertaking at PCA underpin our resilience, our future financial outlook and will generate long-term sustainable value for PCA and for Prudential plc.

Thank you very much for your attention.

Q&A

Jon Hocking (Morgan Stanley): I have two questions on China, please. The slide you put up was very interesting about the maturity of the provincial licences and how the sales have a big lag. It is sort of striking you have roughly 50% of sales coming from the original two provinces. What can you do to accelerate the distribution rollout in the new provinces, and what are the capex implications of that? And how does that impact with your JV partner? Do they have the appetite for putting the capex into those provincial licences?

An associated question, what are the pros and cons of increasing the ownership in the JV?

Lilian Ng: I think if you look at where we have the two top, it is actually correlated to the premium of the top ten provinces. China is 20-something provinces, so it is depending on the economic growth of each. As I mentioned to you, Hunan is a rising province, and that is why we are able to make that APE grow faster. It is not that we are not investing in it; we are. I think it just takes time, depending on the economy of that place.

Nic Nicandrou: Just to rein-force Lilian's points, it is a speed and quality trade-off. It is China; it is easy to get things wrong unless you are careful. That is why I was very deliberate

in my statement that we have a quality-first approach and a strong risk-approach consciousness in the way in which we do that. The important thing is that we go in and we do it well, rather than necessarily fast.

Whilst the CBRC can license us to enter a province, often there are local province requirements that we have to meet before we can actually make a sale. In some places, not universally, there are multiple gates so again we take our time and do that right.

To your point on is there any misalignment between us and CITIC, absolutely not; both of us are very pleased with the performance. The meetings that I chair, they are very active in how they participate in the board meetings, pushing – like we do – management to do more and faster within the risk and quality constraints.

They are just as keen as we are if there are opportunities to accelerate and invest. The decision around setting up an additional asset management company underneath to give us the investment flexibility was joint. That will require some capital as we apply for a pension licence. Again that is a decision that was taken jointly, which we both supported very strongly. That will also require us to commit some of the capital. Now, some of the capital is present within the company. So, there is no difference between us.

The pros and cons of doing more, of owning more, we would like to own more not because we think alone we can do something different, better or faster. You saw on Lilian's slides, they have 80 million customers. The reach that they have within China is phenomenal as a state-owned enterprise and one that is involved in a whole host of other industries and sectors. We would like to own more because 70%, 80%, whatever the number is of the economics is more valuable than 50%.

However, I have said on stage before we do believe that in China, it is important that we operate with a respected partner who understands the system. It is a well-respected state-owned enterprise. It is not somewhere where I would like us to be there on a 100% basis.

Speaker: Two unrelated topics. First is, could you talk about how you are going to monetise Babylon, and what you expect the incremental free cash flow to be? How much moat is there on that value proposition?

Second on Indonesia, you mentioned that a competitor had liquidity issues in October. What impact is that having?

Lilian Ng: Indonesia? There is impact where the local player that we spoke of, obviously they also operate a bancassurance model. Obviously, there is some sentiment, from a consumer's perspective, to buy insurance products in the banking environment. I think that is where the regulator and the rest of the industry needs to address, so we need to work on that one.

From our perspective, we continue to focus on regular premiums. From our product delivery perspective, I do not think there is any impact; I think it is more from a consumer confidence that there are products like that, that are not meeting the maturity claims.

Lilian Ng: There will be, but I think at this point, there is nervousness, because this is a reputable insurance company, a local, state-owned company as well. It will take time for people to understand what has happened.

Nic Nicandrou: To Lilian's point, it validates the approach that we took not to participate in this particular type of business. Clearly, in the immediate aftermath of the liquidity issues that are being faced, this is not the time to be triumphalistic about it. We will let that issue play out, and at the appropriate point we will remind people of the benefits of our propositions and our approach.

On monetising Babylon, I gave you at least some hints in the presentation in the areas in the way in which it will deliver value. Clearly, our first priority is to deploy it to our many millions of customers that actually hold health policies with us; these are customers that are claiming. I said we had US$1.6 billion of premiums, so clearly there are a lot of claims that come with it. The ability to defray costs, reduce frequency and severity is significant. It will be used as a customer-acquisition strategy. Ever since we have made the announcement, there are numerous types of organisations that are interested in partnering with us and sharing their customer lists with us in the first instance.

I referenced it in my presentation, the other area that we are looking at, there are 216 million diabetics. Those people are uninsurable today, because they are diagnosed diabetics; they are not in a sort of pre-diagnosed basis. We have been talking with reinsurers about pricing a product in a way that makes it affordable for people to buy it, as I said, provided that they adhere to certain lifestyle behaviours.

We have many ideas, and I look forward to sharing more information on this once we are up and running.

Speaker: How difficult will that be to replicate?

Nic Nicandrou: How difficult it will be to replicate?

Speaker: Yes.

Nic Nicandrou: We think, ultimately, the technology that Babylon has is unique. We did not partner with the first company we came across. We did some deep research in this particular area. We know pretty much everything that is happening, both in Silicon Valley and in other parts of China. As I said, we were very particular in the way we assessed who we work with. As I said in my presentation, we like the fact that this is up and running. We liked the fact that it has accreditations in the UK and in a number of other parts of the world. We liked the fact that it is genuinely scalable because of the AI nature. Ultimately, things can be replicated, but there are first-mover advantages. Your technology, Ali, is four years old. However, it already has, effectively, the experience and the knowledge of a ten-year-qualified doctor. The machine learning accelerates very, very fast. Some of the statistics are staggering. There will be other apps; there will be other devices but we are up and running and we are pleased to be partnering with Babylon.

Speaker: Mine is on you moving to the Hong Kong solvency regime. The current mindset is that is going to move to Solvency II, which would be great for you guys. However, I have heard some commentary that it will to a Solvency II-light regime. Does that there will be some kind of release on improving capital position?

And a supplement on the same question is: could you just talk about the back book on the Universal Life? I know you have exited that market. Do you not have a substantial back book with an ALM issue there? I do not know if you just want to update on that.

Raghu Hariharan: The Universal Life product is mainly in Singapore. We have about £1 billion of liabilities. These are within our portfolio of £87 billion, which is de minimis, and our capitalisation in Singapore is about 200%. I think, therefore, we are in a great position and it looks good on an RBC basis as well.

Nic Nicandrou: And we have taken some reinsurance protection.

Raghu Hariharan: Reinsurance, yeah. So we have taken some de-risking actions on the tail.

Nic Nicandrou: Yes, against adverse spread and interest rate movements.

Raghu Hariharan: Yes.

Nic Nicandrou: On the Hong Kong solvency regime, there is a QUIS exercise that is currently being undertaken. Like everyone else in that particular market, our Hong Kong team is busily running those numbers. They will be submitted later in the year. Then, of course, there will be a third exercise in the course of next year. I think it is just too soon to give you any messages as to the directionality, or otherwise, of where that regime may end up.

Speaker: Just on China, and following up on Mike's opening comments around capital allocation and deployment being a key differentiator here for the business. How does the risk-adjusted return on capital of China compare with the rest of Asia? Also, how does the risk-adjusted return on capital of the emerging Asia markets compare with the more established markets currently? Could you maybe give some colour on what exactly is the risk-adjusted return metric? I know in the US, returns were viewed on a statutory capital generation basis. In the slide pack for Asia, there is a new business profit over EEV equity. Could you maybe give just a little bit of colour on what that risk-adjusted return metric is in Asia and how China compares, and emerging Asia markets compare, with the wider Asia markets?

Raghu Harharan: In my presentation on the new business, you see the payback period is between 2–3 years. Primarily we write health and protection business, so if we were to use a cost of capital calculation, the beta would be quite low, given the local relation of markets.

There is another, external published metric, which would be an ROE, which is well north of 30%. The other way I would answer this question is to say look at our liability profile and there is not much balance sheet risk. That gives you a sense of both the R and the E.

On the capital allocation framework, we would like to have more. The opportunity set is significant. Our capital allocation framework, as I set out at the beginning, is very, very clear: we choose where to play and we choose where not to play. Gregg's question on Universal Life in Singapore is something that we walked out of. It hurt us for a year or two. Indonesia has been the same. We did not play in the traditional market when the traditional market was going gangbusters

Our capital allocation framework is very clear; we understand the risk-adjusted returns for each of these markets and I think you judge us by our delivery in terms of the growth in EEV, growth in NBP and delivery of profits.

Nic Nicandrou: The nature of the risks that we write in China are not really that different. The products, at least, are not that different to what we do elsewhere. We said it is 42%, it is

regular premium business, a lot of it is savings, par for the most part. There is some unit-linked but not a lot. There is hardly any, effectively, endowment spread-based business. We like that profile. It is in with the risk profile that we seek across our portfolio of businesses.

As I said, because we adopt a very quality-first approach, with a keen eye on risk, we do not feel that we have to carry too high additional risk margins over and above, say, some of our other similar markets that are in the similar phase of growth.

Andrew Crean (Autonomous Research): When will you return to growth in Indonesia, and what are the drivers which will lead that?

Nic Nicandrou: Well, the drivers are the ones that we kind of covered today. Firstly, you need a positive environment, and Lillian put up, in her slide, some of the reasons that have caused the environment to be a little subdued. However, the reality is, for all the stats that we set out, it is an underpenetrated market. People are getting wealthier. The demand for health and protection is just as big as anywhere else. Therefore, the flows will come into the market. At that point, then, can we secure an appropriate level of those flows in the same way as we have done before and grow it? Absolutely, we can.

You saw all the examples, all the initiatives that we are taking, be it in segmentation, be it in the products that we are offering. Yes, we are looking to enter new channels, including non-traditional because there are a number of companies now in Indonesia that have amassed a massive customer base, new-economy-type companies. It is, therefore, not just about banks. It is about partnering with some of those.

We are retooling the business. You saw in the showcases some of the work that is being done there, or indeed some of the work that is being done elsewhere that can be ultimately transferred, capability-wise, into Indonesia. However, no, I am not going to call the inflection point. You will see it when we report it.

Barrie Cornes (Panmure Gordon): My question follows on from the break-out sessions, where I learned that it takes about five days to recruit, train and license an agent, which is about the same time I am in Singapore. Can you just comment on potential misselling going forward? I know you have always had a robust position previously, but could you just reaffirm please?

Lillian Ng: Okay, so your question is about the Indonesia five days.

Nic Nicandrou: Yeah, the six days to train, but it was six, not five.

Lillian Ng: What is six days? It is actually training enough for them to get the licence. After that, there are other trainings for them. When they start selling, there is other training in terms of sales management and so on. That is purely for onboarding; that is why: licensing first and then onboarding.

I think in Indonesia, because of our scale, we have been able to hook up with OJK so that we can do the licensing directly with the OJK, whereas a lot of the companies may not be able to do so.

Nic Nicandrou: Yes. There will be additional training, of course, that follows. Remember, these are not sole traders; they will always come in as part of a general agency. They will be

appropriately supervised by a leader and there is a whole infrastructure within these general agencies. I am sure you have been on some of our Singapore trips and you visited some of the larger ones. There are a lot of support mechanisms, including buddying. Sometimes the sale will be done alongside an agency leader. So no, ultimately the quality of what we write and what we offer our customers is paramount. No, we do not just rely on the six days that it takes to effectively get the card from the OJK.

Abid Hussain (Credit Suisse): I just have one question on Hong Kong. I was just wondering: can you share your thoughts on the likelihood of the Big Bay Area opening up to Hong Kong insurers? In particular, do you think you will be able to service claims locally across the border for the mainland Chinese customers? Later on down the line, do you think you will be able to actually sell policies to the mainland customers across the border?

Lillian Ng: Currently our understanding is there are discussions, I am not sure, with our Hong Kong regulators here. I think there is discussion with the Chinese regulators. I think the concern is, when a mainland Chinese customer purchases a policy in Hong Kong and when it comes to the time of where there is surrender of maturities, that the money actually flows back to China. The negotiation is whether we can set up servicing offices in the Greater Bay Area, purely, actually, to service and to actually pay claims. I think that is where the discussion is. At the moment I do not think that we will be allowed to be selling in the Greater Bay Area. That is not the intention.

Nic Nicandrou: The ambition, ultimately, to allow free transfer of people, goods, services and ultimately capital has been there for some time in the minds of the authorities in Hong Kong. What is interesting is that Dr Moses, who you will get an opportunity to meet later and Clement Cheung have made that ambition public. That was not something that was receiving the amount of air time as it is doing now.

Again, with all these things they start small and who knows where it may lead. However, they are very clear that their ambition is to make Hong Kong effectively the financial services and risk management hub of that particular part of South China. Not least, it is to act as a gateway, whether or not it is through Belt and Road, into ASEAN, or indeed, in all other regards, into South-East Asia.

The way they are talking about this, they are using the term Insure Connect, I think. They are talking about at least initially allowing the servicing of policies, maybe even allowing payments to be made directly into China, or even premium collections. Then, over time, that will spread into more and more openness.

There is no timeline on it but the direction of travel, or at least the ambition of the authorities, is very clear. Also, it is two-ways, right? It is not just Hong Kong ultimately selling into the Pearl River Delta. It is also allowing insurers in that part of China to transact into Hong Kong as well.

Speaker: We actually have a question in from the web, which is, 'Can you tell us about your preparations for a new pension company in China?'

Nic Nicandrou: It is China; it is not instant.

Lillian Ng: I think we have the intention, as Nic said, and the board has agreed. So, firstly, I think we need to go to CBRIC to actually voice our intention. The receptiveness is there. I

think if we do that and actually do get a pension licence, we will be the first foreign JV to get a licence. We are still in discussions with the regulator. Firstly, they have to bless that you can submit for an application, so that is in discussion at the moment.

Nic Nicandrou: We are very active in that debate. If I can maybe add one or two peripheral points to what Lillian said, earlier in the year we signed an agreement, a memorandum of understanding, to work with the Development Research Centre Council. That is the state, if you like, research arm. This is to do a two-year study on the pre-conditions that need to be in place for a pension system to flourish. I think we were delighted that they selected us. We had previously done some work jointly on the role that insurers could play in terms of supporting infrastructure investment as part of the belt and road initiative. It is no coincidence that they asked us, given the expertise that we have, given the position and the standing that we have in China, certainly reputationally, to work with them on this particular topic.

A number of, if you like, official bodies are increasingly engaging us on that particular topic. I said we were delighted to be one of two foreign entities. It was us and Generali that were allowed to participate in that pension pilot in the three cities that I referenced. Why Generali? Because they are big in the group business.

There is a process to go through and we know how to do that, given everything else with which we have approached the CBIRC, or the CIRC, in the past.

Johnny Vo (Goldman Sachs): Assuming that the free surplus is a good measure of excess capital, I guess, how fungible is all this capital, given that some of the capital supports business locally? Related to that, do you centralise your capital and liquidity or do you keep the capital within the subs, particularly when you are making big acquisitions like the TMB Asset Management business?

Raghu Hariharan: I think our philosophy always has been to leave capital within the business units so that they have enough excess capital to absorb market shocks. Our philosophy also is that when you leave enough capital in the business, that actually allows, counterintuitively, capital to flow freely between the businesses to PCA and then onwards to Group.

Therefore, the free surplus construct, at a PCA level, just gives you an aggregate position, but that is not really an economic view. I think there are two or three pieces missing. One is there is no diversification impact because it is an artificial addition of all the surpluses within the business units. Clearly, on an economic view, the surpluses will be much larger, which really gets earned and supports the businesses because of diversification benefits within the business.

The short answer is, the upstream capital is required to service dividends. In terms of capital injections, if there is capital within the subs because of accounting considerations that is trapped, we can clearly look at efficiently using those for investments and/or smaller acquisitions. However, acquisitions depend on the scale. Something like the MBAM clearly will be funded out of central resources. That might be at a regional level or a group level. However, having said that, this is mostly an organic growth company and the capital velocity of this company is significant.

Blair Stewart (Bank of America Merrill Lynch): Thanks very much. Just on the PLC capital position, the Group today has a solvency ratio above 200%. You have said the UK will be capitalised at 170%, so I guess you could surmise that the PLC business has a Solvency II capital ratio of 250% or something like that. However, of course, Solvency II will not be the capital regime. Can you give us an idea of how we should think about the capitalisation of the PLC? Is it adequately capitalised? Is it overcapitalised? Is it undercapitalised? How do we need to think about it?

Nic Nicandrou: Okay. Thank you Blair for that question. I am sure Mark will look forward to answering it during the Q&A session tomorrow.

Andrew Baker (Citigroup): A question on retention, please. It is obviously key to the compounding of your business and it has been exceptional lately. What have you done differently versus your peers to maintain it at this level? Do you see it as sustainable at the current levels?

Lilian Ng: I guess it is because of our focus on regular premium. We have seen good persistency and retention of our products and as we explained earlier, by doing more value-added services that actually drives loyalty, drives persistency and that has helped us over the year. Again, I think because of our focus on regular premium, customer retention is part and parcel of that.

Nic Nicandrou: There are a number of other factors. Clearly, the quality of your distribution is a factor. Derek Yung addressed the question in one of the showcases, which Sam was leading on, that ultimately, yes, we put a lot of store by the people that we hire, the training that we give them and the tools that we deploy to allow them to do that. The financial needs analysis that we undertake is in many cases higher than the regulatory minimum. We set those standards centrally, and I think all these things contribute. The brand, everything pretty much that I covered earlier. At the end of the day, you have to deliver for customers, whether that is investment return or whether that is effectively a fulfilling or paying a claim. All these are attributes of our business that we do well. We have done that pretty much from day one. That is why we think that is one of the core capabilities and a strong underpin to the performance that you have seen us deliver.

Speaker: With the expansion of asset management-type products and robo-advisory and those type of services, can you talk about how you are guarding against cannibalisation in the channels away from the core insurance products that have investment-like properties to them?

Guy Strapp: What we have come across in the Alkanza presentation are the pilots that we are on the verge of completing in Taiwan, which is for our direct channel. The pilot that we are about to embark on for Malaysia, which is again through our direct channel, although there it is slightly different because in Malaysia we engage with some of the agents who have the capability and licencing to be able to have that level of conversation around a mutual fund with an end customer. We have obviously only just started our conversations in Thailand and will develop a roadmap by year-end for the engagement there. That is two-factor. That is both with the Asset Management's direct client base, as well as with the clients that come through Thai Military Bank. Beyond that, with those pilots and hopefully the successful embedding of those, we will look at other markets. There is a purpose in having one in China

and one in South East Asia, in that if Taiwan works in the way in which we want it, it is portable into markets like Hong Kong and China. We are already thinking about how we might use Malaysia, partly in Thailand but also in markets like Indonesia, etc.

We are not restricted with this tool to only thinking about either doing something in what you might call a wealth ecosystem with the Life agents, or where we have direct customers, which is limited except for India to those three markets I have mentioned: Thailand, Taiwan and Malaysia. However, we can also explore and we have had some discussions with some of the intermediaries, some of the banks, Indonesia for example, where a tool like that in partnership with us in a very open-architecture model is something that is of interest. We have had some preliminary discussions in a couple of markets around the intermediated channels as well. I think it has multiple applications but we want to start walking before we are running.

Nic Nicandrou: Thank you, Guy. We are alive to the risks, as you can imagine. The proposition in Taiwan is a very high-net-worth proposition. I guess what I am saying is that the robo-advise bit, particularly with the discretionary asset management piece, it is just a different segment, and it goes after a different share of wallet to maybe some of these traditional savings products that we sell through our Life operations. We think it can be complementary. Not least, as Guy said, that it can potentially give us access to channels, banks or indeed maybe non-traditional ones, where we have not had a foothold in the past. I would go back to all the structural trends that I opened the presentation with. The levels of penetration across traditional Life, Wealth, Health and Retail Asset Management are so low. It is a race for building out that penetration. The more tools we have, the faster we will sprint.

Scott Russell (Macquarie): Can I ask the question about Malaysia we have not really spoken much about today? As ever, Malaysia is a moving feast. Most recently, the budget announced an interesting initiative around healthcare, focused on the bottom 40. There is some talk that that will be funded by foreign insurers. To what extent should we expect Prudential and the foreigners to contribute to a B40 healthcare initiative, either as an investment or a levy on profits? Thanks.

Nic Nicandrou: We are clearly not at liberty to discuss. We have many conversations with the authorities and with the local regulator, and we do not typically discuss these in settings like this or in public. The position in relation to our ownership, which I think this is what your question is getting to, is at one level unchanged but it is a little nuanced. As you know, like a number of our peers, we have enjoyed 100% economic benefits from the conventional business, even though the law said that foreigners are limited to 70%. However, as I said, we were not alone. Therefore, our ability to continue on a 100% basis has been the subject of discussion with the local authorities for some time. Latterly though and certainly before the elections, those discussions were on a very narrow path of divestment. With the change of government, the discussions are now examining broader options. We will update you when those discussions have concluded.

PRUDENTIAL

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US Introduction

Barry Stowe

Chairman and Chief Executive Officer, North American Business Unit

Good morning. I hope everyone enjoyed yesterday, enjoyed the dinner last night and is looking forward to an informative and entertaining day today. That is what we aim to provide. I am Barry Stowe. I am the Chief Executive of Jackson and I want to provide some opening comments around our business before we delve into the details.

Who is Jackson?

Most of you I think are familiar with our US operations, which is essentially two entities: Jackson National Life Insurance Company and PPMA, our asset management business. Some of you maybe who are new to us some of this data is new but most of you have seen all of this before. It is a well-worn path. All of these attributes that we use to describe ourselves are all true.

The way I think about Jackson and about our North American business in total is that we are America's leading retirement company. We are the leading company in terms of our historical track record. We are the leading company in terms of our strategy for the future. We are the leading company in terms of our execution capabilities and we lead in a marketplace that is vast. Mike touched on this when he talked about the scale of the opportunity and as big as the retirement of the baby boomers has already become in terms of an economic and social dynamic, we are just at the beginning of it. It is growing by 10,000 new retirees every day reaching age 65. The opportunities are vast, and we are brilliantly well-placed.

Track Record of Success

Jackson's long-term performance is strong and consistent

I mentioned our track record. This is one of the evidences, if you will, of our leadership. Let's start with that. Again, this is a well-worn path. You are familiar with these charts. Pretty much every time we are together you see this data. What does it mean? I will tell you what it means to me, this track record of performance from every perspective. It means, and I am absolutely convinced of this, that variable annuities are a virtuous product with enormous social utility. Consumers who purchase these products under the right structure get fantastic market-leading returns with protection. There is no other product in the marketplace that does it. There is no other marketplace that is as important and necessary for retiring Americans.

Track Record of Success

I think what we have also proven is that this product is manageable; that our model for operating this, for addressing the risks entailed in this insurance product, is durable. That is based on over a decade of experience at scale through cycles, including some of the most complicated and volatile times in macroeconomic history over the last 100 years, including times or relative almost complete absence of volatility. In wide variety of cycles and environments we have consistently delivered for consumers and we have consistently delivered for shareholders with more than $5bn in dividends and a rapid trajectory of profit growth and capital generation.

Now, there is always a lot of excitement around our business, which is puzzling to me because I was thinking last night if you had to come up with a single word that describes our business, what would that word be, relative the marketplace in which we operate? The word I kept coming back to was 'dull'. We have never had drama in this business. It is like going to an amusement park and you walk in and you see a merry-go-round and you think, 'That might be nice to ride.' It is pretty, there is music and the horses go up and down. You pretty much know exactly where it starts and ends. You know exactly what is going to happen on a merry-go-round. Lots of people ride the merry-go-round but they might find it dull. Others, many others, prefer other rides, like something called Space Mountain or Trip to the Moon or something that has some very exotic name that may or may not describe exactly what it is. That ride feels great at first and then all of a sudden it is, 'Whoa, what happened? I have never been on a ride quite like this.' When you get off at the end of the ride maybe you do not exactly remember what happened and you might be a little sick to your stomach. You might be a little queasy. It might not have been exactly what you expected. We are the merry-go-round of the retirement industry. That is who we are.

Agenda

However it occurs to me that to continue to earn your confidence we have to work hard every year to reassure you that the merry-go-round is in good working order. That is what we aim to do today. We are going to spend most of the day talking about the mechanics of what we do, how we do it and why it is so durable. Then at the end I will come back and I will talk a little bit about the future, our strategy, why this opportunity is so immensely attractive and why we are so uniquely well-prepared to exploit the opportunity.

We have three people that are going to present to you today. Brad Harris is our Chief Risk Officer. Steve Binioris is responsible for ALM and of course Chad Myers, as you know, is our CFO. They are going to talk about a variety of different things. Some of them are topics that you have seen before, so it will be updates. Some of it is correcting perceptions that seem to have got in the marketplace over the last year or so.

One bit of it, by having Brad our Chief Risk Officer present, is something new. That is something we have not done before because what we also want you to understand is that in addition to having this incredibly effective quantitative risk management function with this fantastic track record of success there is also an extraordinary governance process in place that sits on top of that. That is Brad's responsibility. I want you to know that the questions that you think about with respect to the mechanics of our business we think about too, our Board thinks about too and we have governance in place that ensures that those questions are answered. That is a new dimension in terms of the presentations we have made to you in the past. What I would like to do now is begin by asking Brad to come and talk about risk management.

US Risk Management Framework

Brad Harris

Senior Vice President, Chief Risk Officer, Jackson National Life Insurance Company

Topics

Good morning. I am Brad Harris, Chief Risk Officer of Jackson. I have been in Jackson for three years in this role. Prior to that I spent nine years with our Asian operations. I was in the regional office in PCA in Hong Kong so I have been with the company for 12 years. There are three general topics that I am going to cover today. The first is going to be, what is our framework around the merry-go-round? How do we ensure that it continues to go around, that there are no events that we need to be worrying about and the governance and the controls around that?

The second piece that I want to cover today is taking you into a little bit of detail of how we use this framework, especially the limits that we have in place, to manage our equity risk and our credit risk. Then I want to spend a little bit of time digging into a little more and expanding upon what Mark did yesterday on our credit risk and give you a view of our portfolio. Then the last piece that I am going to wrap up with today is going to be walking through how do we look at our experience every year? How do we set our assumptions? What is the governance around that? Then, where do we expect to go in 2018 related to our assumption changes?

North American Risk Framework

Holistic Risk Framework

I am going to start with the North American Risk Framework. As Barry has said and as Mike has said yesterday, you hear a continuous conversation around the fact that Jackson has had a long track record of a very robust and disciplined risk management culture. However, as the business has continued to grow at the same time we have continued to enhance our risk management capabilities and culture.

What I am going to walk you through here are the four key pillars. This framework was what we use across all of North America. Not only do we use the framework within Jackson, we use the framework within PPM America. However, I am going to specifically dig into Jackson today. Out of the four key pillars the first pillar is three lines of defence. You have hear that many, many times from many companies. What that means is that we have got a first-line that owns the risk and manages the risk. We have a second independent oversight function, the second-line. The third-line provides assurance.

The key thing you need to remember is that when you implement a three lines of defence model you need to have a strong independent risk function with the right capabilities. At the same time what you need to ensure is that as you are building out the risk function you do not take away the responsibilities of managing the risk and owning the risk from a first-line perspective. They are the ones that are doing it day-in, day-out. The Risk function is truly a second-line providing oversight above the first-line.

The second piece I want to talk about is the governance structure that we have. Our governance structure is built around a proper board, the board committees, all of the risk policies that we have to support those and all the risk standards. So we have made some

enhancements in this space also. If we look at this particular area the item that we have enhanced in 2016 is that we have added non-executive directors to the Jackson Board. We have also added a Non-Executive Chairman. At the same time we have also reconstituted both our Risk Committee and our Audit Committee to ensure that the membership was 100% comprised of non-executive directors. It is a very robust governance framework that we have in place today and at the same time we have a full list of Jackson-specific risk policies across all the risk which we are subjected to and then standards and guidance underpinning those. Again, a very robust, mature governance process.

The third pillar of our Risk Framework is Jackson has a Jackson-specific Risk Appetite Statement and associated limits and triggers underpinning that Risk Appetite Statement. The Risk Appetite Statement within Jackson is owned by the Board and it has statements on economic capital and statutory capital. It looks at liquidity. It looks at external ratings. It looks at operational risk, just to name some of the components of our Risk Appetite Statement. At the same time we have a full list again of Jackson-specific limits and triggers. What we do is every year we map out all of the risks for which we are held accountable and all the risk that can impact our business. We will look at our Risk Appetite Statement and we do a mapping to ensure that we have the appropriate limits and triggers so that every single one of these risks are covered by limits and triggers to ensure that we will not have a breach of our Risk Appetite Statement. It is a very holistic process.

The fourth pillar that we have within our Risk Management Framework is risk monitoring and reporting. What this means is that we are continuously reporting and monitoring on all of our risk. We are showing reports to all the senior management on a regular basis. We are sharing all of our risk reports and the details when it comes to the Board and all of the Board committees so that as we are monitoring our risk we are understanding the risk of the business, that is being communicated in an open and transparent way across all aspects of the business, so that every single business decision that we make is made in a fully-informed manner in understanding all the risk entailed with making those business decisions.

One of the items that we also use within this particular pillar is we use risk deep dives. That is an opportunity for the independent Risk function to take a step back, look at a particular area, do the research, look internally, benchmark externally and really understand the way that Jackson is managing that risk. Then we can facilitate the conversations around that risk and how we manage it, both at the senior management level, at the Board and the Board committees. Again, this ensures that we are comfortable with the way that we are managing this risk and if there are any ways that we can improve it, this is the time that we can have those conversations so that we are continually making improvements in the way that we manage our risk on a day-to-day basis.

In summary, as you can see, not only do we have the proper Risk Framework in place, the right governance, but we have been building it out for many, many years. We started building an independent Risk function in 2013 and today we have a fully-staffed function that has expertise across all operational and financial risk to include hedging, pricing and investments. At the same time, not only do we have the structure within Jackson, but we are held accountable to the Group Risk Framework. We have the independent framework that monitors Jackson in Jackson and the Group has its own Group Risk Framework that we are

held accountable to. It has its Risk Appetite Statement. It has its limits. It has its triggers. It has specific limits on Jackson. So again, it is a belt and braces approach.

Equity Risk Limit

The amount of equity risk allowed is largely unchanged since the crisis

What I would like to do now is walk you through two of the risks to which Jackson is exposed. I am going to walk you through the equity risk first and one of key risk limits, the way we manage equity. Then I am going to walk you through credit next. On the equity side we have many limits which we utilise to manage our equity exposure. We have them on a statutory basis. We have them on an economic basis. We look at equity on its own. We look at equity combined with other risks, for example, equity, interest rates, policyholder behaviour at the same time.

However, what I want to focus on here today is one of the key limits that we use within our hedging programme. This limit is based upon the amount of capital Jackson is willing to put at risk in a severe, stressed equity environment. This is an economic view of our liabilities and the stresses are based upon an AA or roughly a one in 200 probability. The stress that we use is 40% instantaneous without any rebalancing. At the same time we have an increase in equity volatility on top of it, so it is a very severe stress.

As you can tell from looking at the historical amount of capital that we are willing to put at risk for this stress has remained relatively flat. Even though our variable annuity business has grown tremendously since 2007 you will see that the amount of capital that Jackson is willing to put at risk for an equity exposure over that same period has not grown at the same pace. You will see a slight increase in it. I am going to pause on that. I am going to tell you about that when I get to the credit, but you will notice that relatively it has been flat with a tiny increase over time.

Credit Risk Limit

The amount of credit risk allowed is lower than pre-crisis

Credit is the same as equity, meaning we have multiple ways to look at credit. I am going to focus on one of our limits here that again is very similar to the limit that we just saw on the equity side. This limit on credit is how much of our capital are we willing to put at risk in a stressed credit environment? Our definition of a stressed credit environment is ten times the expected annual default rates. Again, as what you saw in the last slide, we have kept this stable since 2007. And as you see, it has even gone down a little bit.

The way that we manage these risks is that Jackson looks at all of our risk and it allocates capital to those risks. Over time as our variable annuity business has grown we have allocated slightly more of our capital to equity risk. At the same time we have made a commensurate reduction in the capital that we are willing to put at risk for credit. In total across all of our risk categories we have been putting the same amount at risk for these shocks across all of our risk the same amount of capital is being put at risk from 2007 to 2018. The key features are the business has grown but we are keeping the same amount of capital that we are willing to put at risk from 2007, pre-crisis, through to today. It is a very conservative way to manage it.

I am going to dig in a little bit deeper on credit. Mark showed you some slides yesterday that talked about our credit portfolio and right now on this credit limit, over time roughly 50-55% has been our utilisation of this limit. Going back on the equity side roughly 70-75% is how we have been utilising that particular limit. We have got the limit in place and we are always staying underneath that limit with a little bit of a buffer just to be able to absorb movements in the market and such.

Key Risk Oversight – Credit

Materially de-risked investment portfolio since the financial crisis

But the 50%, a lot of it is driven by how we manage our risk within our investment portfolio. As Mark showed you yesterday, we have a very conservative investment portfolio in Jackson today. What I want to highlight during this slide is how much it has changed. Look at 2007 and compare that to the middle of 2018. You will see a material de-risking in our credit portfolio between those time periods. So what I am going to do is I am going to focus first on a couple of the asset classes in which we have reduced our exposure to de-risk the business and then I am going to focus on a couple of the asset classes that we have increased our exposure to compensate.

The two areas that you have seen the largest reduction between 2007 and 2018 is mortgage-backed securities, asset-backed securities and also in the high-yield corporates. Starting first on the mortgage-backed securities side, this is the light blue on this particular chart. It was over 25% of our investment portfolio in 2007 and it is just over 7% now in 2018. The main reduction is due to pretty much removal of all of our residential mortgage-backed securities, both agency and non-agency. The reason for this is they have negative convexity, which does not really work well from an asset liability management perspective. At the same time, if you look at the non-agency issuance since the crisis it has been relatively flat. We do not feel that this is an asset category that is very attractive to us at this particular point in time.

So what comprises the 7% that we have today is going to be commercial mortgage-backed securities and asset-backed securities. Both of these we feel provide a good risk-weighted return but at the same time there are limitations of how much we can have in our portfolio because of some of our internal risk limits and also availability in the market, especially in the asset-backed security side.

On the commercial mortgage side our preference today, as you can see by looking at the purple where we have 14.2%, commercial mortgage and loans is our preference over commercial mortgage-backed securities. Again, there are a few reasons for that. The first one is PPM America has a very strong team with a great track record in managing commercial mortgage loans. The have had very strict underwriting guidelines, for example, office space is something we do not participate in. At the same time, you have the property as collateral. The business that we have, the portfolio today within the commercial mortgage loans is very, very healthy. We have a loan-to-value ratio of right around 50% and we have a debt service coverage ratio of right around 2.5x. I think that is good documentation that we run a very conservative approach to it and it is a very healthy block of business.

Moving on to the second asset class that we have reduced materially from a risk perspective from 2007 to 2018, that is the high-yield corporates. It is probably easy for you to

understand why we have made a reduction in that space. We do not see that there is a lot of value in there and it is not worth taking the risk. We expect that to be a small proportion of our asset mix moving forward. It is not a place that we want to play right now.

As we made reductions in the residential mortgage space, as we have made reductions in the high-yield corporate space, where have those assets gone? There are two places. The first place I would like to talk about is US treasuries. US treasuries is the red in the slide today and you will see in 2018 it is almost 10% of our in-force portfolio. Back in 2007 you cannot even see the red on the slide so it was not an asset class that we were really participating in at that particular point in time. Now, the reason that we like the US treasuries is because it is an up-quality asset. At the same time, it provides good duration management capabilities and the third reason is that it can be utilised for collateral for derivatives activity. It is a very good asset for Jackson. We expect to be able to participate in this moving forward and so you will continue to see treasuries within our investment portfolio moving forward.

The last piece I wanted to talk about was the investment grade. The investment grade is the bread and butter of what we do. That is why we have 60% of it. We have increased it. We have increased by about 8% points from 2007 to 2018. This is comprised of both publics and privates. There are the advantages of the investment grade: it is the size of the market, the liquidity of the market and you are also looking at the spreads that it generates. If you look at the privates compared to the publics, then you have got extra spread lift. Then there is also bond covenants that you can get on the privates that you cannot have in the public space. About 20% of this 60% is private compared to public. Again, it is a very good space for us and it is an area where you will continue to see a large percentage of our investment portfolio sitting in this asset class.

Jackson's BBB exposure is stable while the investment grade market has moved towards BBB

Since we have 60% of our assets sitting in investment grade one of the questions is credit quality so I am going to spend a little bit of time on credit quality. This graph has two lines. What it is looking at is the BBB exposure as a percentage of the investment grade portfolio for the market and that is grey, which is the top line that you see sloping up, and then within Jackson which is the red line. You will notice that the market has increased its BBBs, and there are two main reasons for this. One is you are seeing a higher percentage of issuance of BBBs within the investment grade space lately. At the same time, you have the downgrades that are in the BBB space today. We have remained consistent, diligent and conservative and we have kept our BBB exposure flat as the market has been increasing its BBB exposure. At the same time, even within our BBB exposure, we are more conservative than the market because we do not really participate in the low end of the BBB. Not only have we kept our BBBs flat but we are conservative within the BBBs. I think this is another differentiating feature of Jackson.

All of these changes that you are seeing on this slide, the rigour that we have around discipline on the BBBs, all the changes that you saw on the slide before where we were talking about de-risking our portfolio, those are driven by changes in our Investment Policy. Not only have we made these changes but we have embedded these particular changes in this risk appetite into our Investment Policy. That policy will talk about our desired mix of asset classes. It is going to talk about credit quality. It is going to talk about individual

issuance and the caps that we have on those. It has all of these pieces built into it and that is part of the North American Risk Framework. If we wanted to make changes to that Investment Policy we would have to take it through our Investment Committee and get it endorsed. It would need to go to the Board. The Board owns the policy and the Board would need to approve any changes that we make to that policy. So again, we have a very rigorous process around the governance of changing anything on our Investment Policy or any policy that we have.

Key Risk Oversight – Policyholder Behaviour

Jackson assumption setting process

The next place I would like to go is assumptions. How do we monitor our experience, how do we benchmark our assumptions, how do we set our assumptions and what governance process do we have? This process is used for all of our assumptions. It does not matter whether it is mortality or policyholder behaviour. Where I want to focus today is lapses. I am going to start in the top-right experience studies. This is where we really start. This is what drives our long-term, best-estimate assumptions. The reason for that is that we have one of the largest blocks of GMWB, for example, in force in the US. We have more experience than anybody else and we need to utilise that experience to set our long-term assumptions.

Because every company is going to have different experience given the benefits of the policy, the features of the policy, the distribution and the competitiveness of the policy. All of these pieces are specific to an individual company and by having a credible block of business the size of ours it enables us to take the prior experience, be able to determine where we think our future is and be more accurate that just using industry data. We look at it every quarter. We do full experience analysis every quarter. We have a multi-functional team that meets to talk about all of it and to understand it.

We do full analysis every year going back multiple years to understand where we sit now in addition to the trends that we have seen. However, even though we have a very large block of business we are taking past experience to predict what will happen in the future. That requires expert judgement so we will sit down, talk again in a multi-functional team and understand why we think the experience has been driven the way it has, where we think it is going to go in the future, what external drivers happened at the same time, what has happened in the market and what has happened in regulations to understand where we think the experience will go in the future to set long-term assumptions.

Then we benchmark it. So we participate in all the core benchmarking studies around the US. Unfortunately, due to the confidentiality requirements of these particular studies you can only be using it if you are a participant, for example. I am not able to share that data with you today. However, I can tell you that as we look at our benchmarking around the US our lapse assumptions are conservative relative to our peers. Especially when we look at lapse assumptions benchmarked of policies in the money, we are on the conservative end.

After our internal experience studies, after the expert judgement and doing the external benchmarking it goes through what we call in Jackson, the Jackson Assumption Working Group. Again, this is a multi-functional group that looks at the experience, asks questions and additional analysis. This is where the proposed assumptions for year-end are vetted out

and we understand why we are setting those assumptions. Once that process is complete there is a separate independent risk opinion that is put side-by-side. So what you have is the proposal coming out of the Assumptions Working Group from the first-line sitting side-by-side with a paper by the Risk function that is looking at it from a different lens to provide different levels of insight. Those two pieces go forward to help inform management and be able to endorse the assumptions for year-end. It is the governance process.

It is the tiny, little stuff at the bottom here that I am sure nobody is going to be able to read so I am going to give you a quick highlight on that. Again, as you have seen with everything I have talked about so far, it is a very rigorous process from a governance side and it is very complete and holistic. Once it goes through the Assumptions Working Group it gets an independent risk paper put side-by-side and at that point in time it is going to go to our Asset Liability Committee within Jackson so that they can endorse those assumption changes. It is going to go to the Group Assumptions Approval Committee. It goes to the Jackson Audit Committee. It goes to the Group Audit Committee. It has independent external auditors reviewing all the assumptions and then finally you have got the appointed actuary and the CFO have to sign off.

The two key takeaways I want you to take from this slide are: we run this process every single year. We do not allow our assumptions to get stale. What that means is that some companies have a process in which they will keep assumptions relatively flat for multiple years. They will track experience and they will look at experience and then they make a change in assumptions on an irregular basis. And what that means is that they are not keeping their assumptions in line with experience and the change that they make is going to be larger when they make and it will flow through all of their financials.

The way that Jackson manages our assumptions is that we update our assumptions every single year to take into account the most recent experience that we have. In that way what you have seen every year and what you will continue to see is a small update to assumptions every year and no material impact in any of our financials because we always ensure that our assumptions are up-to-date.

The second key piece to take away is again going back to the benchmarking. I wish I could share the data with you but everything that we are looking at on the benchmarking side is that we are conservative within our peers. We are not on the aggressive side.

Assumptions Update

Modest impacts similar to recent years

Let me walk you through where we expect these assumption changes to hit us in 2018. It is not going to be a surprise. There is not a lot of changes happening because again we update it every single year. What we are seeing on experience is slightly lower lapse rates on the variable annuity side. Markets have performed very well. Our customers have a very good product. There are not a lot of alternative solutions out there, so they want to keep their policies in force because it is good value to them. The second piece is there has been uncertainty recently around regulatory regimes, especially DOL. Then on our utilisation we have seen a slight increase in the utilisation of our guaranteed minimum withdrawal benefit with customers being able to use it in a slightly more efficient way. However, it has been marginal, not a lot of changes there.

As the numbers flow through our year-end financials the utilisation assumption change will be a slight negative across our financials but again nothing material. The lapse assumption change is going to vary. If you think about it, it is going to depend upon the economic growth within the financial metric. If you have a financial metric that has a higher expected economic growth then the separate account will grow, policies will stay out of the money, we would be expected to pay less claims and you would see a positive coming through in that financial metric, EV. If you have a financial metric in which the economic growth rates are lower, like IFRS, or it is based upon a tail measure like US-based statutory, then you are going to see that in those scenarios the separate account is going to grow at a lower rate. You are going to have more customers that are going to be in the money and there is a higher expectation of claims being paid.

So again, in those metrics you are going to see a slight negative. Where we are expecting our year-end numbers to come in is that it is going to be a modest positive from an EV perspective, a very slight negative or almost immaterial from a statutory perspective and again a very, very modest negative coming in on IFRS.

North American Risk

Key takeaways

In summary we have got a very holistic, mature risk framework that helps us not only manage our risk but ensure that moving forward it can adapt over time. We have kept our equity and credit limits steady since 2007 even though we have seen a material growth in our business. We are very conservative in the amount of capital we are willing to put at risk. We have a very robust framework around keeping our policies in place, for example, our Investment Policy. We have de-risked our Investment Policy. We have de-risked our credit portfolio as a result of that. Then lastly we have a very robust process to set assumptions and keep them up-to-date so that our assumptions do not get stale and will have a very minor impact at year-end 2018.

US Pricing and ALM

Steve Binioris

SVP, Asset Liability Management, Jackson National Life Insurance Company

Topics

Good morning. The topics I will be covering today are product and risk overview, product design and pricing, how we select funds in our variable annuity guarantee platform, an update on the health of our in-force book and lastly an update on our hedging strategy and where we stand real-time on hedging. Let us jump into the major products, an overview of those products and the key risks that come with those products.

Diversified Portfolio with Complementary Risk Profile

On the far left you have got the products: fixed annuities, fixed indexed annuities, the three variable annuity flavours, the GMDB, the guaranteed minimum death benefit, guaranteed minimum withdrawal benefit, GMIB, life insurance and our institutional product. The second column from the far-left is our exposure as at September 30th, so it gives you a little bit of perspective in terms of the reserves and the account values for variable annuities to get a feel in terms of the intensity of the balance sheet and where those products fall. Key risks are of course equity, interest rate risk, credit risk, mortality and longevity.

What we are trying to do here when we manage our risk we always try to manage for the most macro level, looking for the natural offsets that exist within our product suite. What you find is a lot of products have natural offsets between products but we actually have offsets within products as well. I am going to highlight a couple of examples here to bring that message home. On the equity side you can see fixed indexed annuities. That is a product where if the market goes up we credit more to the policyholder. They participate in the upside equity markets. Now, variable annuities, as you probably know, are exposed to downside equity markets. Those are offsetting risk. If I was in a siloed hedging programme I would be buying call options to hedge my FIA exposure and buying put options to hedge my VA exposure. I am buying two derivatives that I probably do not need. What if I net the two positions together I have one net exposure and I just buy the one derivative instrument to manage that overall exposure. It is much more efficient. You save on bid/ask spread with respect to buying derivatives.

Another example is mortality and longevity on the far-right, the little green box there. When you look at GMDBs the risk there is early death, life expectancy, in a bad equity market. That is an option on GMDB. If you buy that product we charge you for that product and there is a charge associated with that. There is also longevity risk that comes with GMWB. The risk is that you live past your life expectancy. Now, you see the account values there and please do not add them together. We do not have $310bn of variable annuities on the books. What that is trying to show is a lot of our policyholders actually have both products. They have selected both an optional GMDB and an optional GMWB. They are buying both products. By definition they can only really execute on one. They are either going to live a long time or they are going to die early. There is a nice offset that exists even within the VA product suite.

Then we do have the life insurance block of business. As you know, we are trying to do more bolt-ons because with those life bolt-ons comes mortality-based risk which offers a nice offset

to the longevity-based risk that we have with the variable annuities. That comes through in our economic capital models. When you actually look at where we stand on mortality/longevity you see that risk is quite minimal because we are getting a nice offset between the two.

I think Brad has covered credit pretty well so I will skip it but you can see that the check marks are there for your benefit. Anything that has a general account liability is going to have a credit risk associated with it.

Interest rate risks you can see it is a pretty busy section. Pretty much every product that Jackson offers has some level of interest rate risk. What we do is we manage that at the highest level. We take all those gross exposures from the different products. We put them all together in our models, we manage our overall interest rate risk and we buy the appropriate derivatives to manage that particular risk.

I am going to focus on one specific item with respect to interest rate risk, probably the most important one, which is the variable annuities which of course are exposed to low rates. However, there is a very important concept that I think we want to get across here. This is a contingent risk. What do I mean by that? You will see this in a future slide but the claims that we are going to make on a variable annuity is when the account value has been depleted and then Jackson is on the hook for the claim payments. That is going to be about 20 years from now. If markets do well those absolute claims in 20 years are going to be pretty small because they usually will not get to the point where the account value has been depleted. Whether interest rates are 1% or 10% if there are no claims to discount it really does not matter. It is a contingent risk.

If equity markets do poorly those absolute claim levels 20 years from now do get big and at that point interest rates do matter now. In the discounting of those claims those bigger claims are very important. It is very much a contingent risk. You have seen that we have addressed this in the past. We have done trades like the hybrid trades, for example, which were equity trades but they are contingent on interest rates. We address that contingent risk and we look at our profile. If we need to do those trades we will do that but it is all shaped by our profile and our sensitivity at a given point in time.

That is the contingent interest rate risk that comes with the products that we offer. GMIBs, first of all you can see the numbers, $2 billion of account value so it is pretty much a rounding error with respect to Jackson National. It is in a run-off mode. We stopped issuing the policies many, many years ago. It is reinsured so you can see that the equity interest rate risk is reinsured there. This is the product that you probably hear a lot of press about. This is the product that has caused issues in the industry. It is the product that people are trying to get off the books. It is the product that the customer is getting a proposition to move away from. They have taken away investment freedom on these products, basically forcing the policyholders to lapse because they do not really have that good investment proposition.

There is a long story there in terms of things that our competitors have done in the GMIB space to try to get that stuff off the books. You obviously know a little bit about the policyholder behaviour risk of GMIBs. We have talked about it in the past. It is a much more binary risk than a GMWB so there is a lot of sensitivity on the policyholder behaviour side. However, the other key thing here is it has a lot of interest rate sensitivity. Unlike our

product which is GMWBs which is a contingent interest rate risk, for GMIBs interest rate risk is very much a primary driver of that product. I think that is part of the reason that the products had so many issues.

Key Features of Guaranteed Minimum Withdrawal Benefit (GMWB)

Let us stop talking about GMIBs and start talking about GMWBs because that is the product that we like and sell a lot of. In terms of walking through the slide, this is more of the VA 101 for GMWB so I apologise if a lot of you guys know this stuff. That is pretty cool but there are probably some new people in the room, so I am going to at a very high level give a quick illustration of how GMWB works. Hang in there with me.

The key features on the left, who is a typical customer? The average issue age is 62 years old, so these are individuals that are getting close to retirement and they are looking to protect their nest egg that they built up with retirement income as they stop working. The benefit of the product is that you can remain invested in the markets. You maintain that equity participation in the markets and if something were to go bad and the account value is exhausted you still have that retirement income guaranteed to you. What is Jackson's advantage? The one thing that differentiates from our competitors is investment freedom. We allow you to stay invested through the market cycle. We have not forced volatility control on you. We have not done forced asset allocation and so the customers really benefit from our experience versus the competitor's experience.

I have got a simplified illustration here on the right and a couple of simplifying assumptions here as well. First of all, this is a 0% market return assumption so I think we can all agree that is pretty conservative over a 20-year type period. It assumes that the policyholder is going to take withdrawals immediately. They buy the product and in the first year they are going to take their contractual withdrawal amount that they are allowed to in the policy. The first red bar is their deposit. They deposited $100 and you see the little blue bars at the very bottom, those are the withdrawals that are coming out of the account. Call it 5%, they are taking $5 out of that $100 and that is coming out over time.

What you see is because there is really no market return here, a 0% return assumption, their account value, which is the grey shaded area, is starting to drop. As they are taking withdrawals that is depleting their account value. The important point here is that they are funding the withdrawals out of their own account value. At this point in time Jackson has no obligation with respect to the withdrawals. Now, you get to the point eventually when the account value has been depleted where the bars shift from light blue to dark blue, that is when the insurance carrier, in this case Jackson, would be responsible for those guaranteed income payments until the policyholder passes away.

Now this is a 0% return assumption. We are going to do better than that. History has proven that we do better than that. What happens if markets do better? If the market does as it has done historically those dark blue bars are going to go away completely. Contrast that with our competitors because when the market is up 20% they are not going to participate at the level that we are going to participate so they are not going to get those good equity years. This actually is pretty close to the actual profile that you will see with our competitor set. That is not going to generate enough good returns given the structure of

their funds, the volatility controls and the forced asset allocation. It is going to look very, very different.

Pricing Approach and Methodology

Let us jump in and talk about the pricing approach and methodology that we follow at Jackson. The first thing is we are going to cover is to identify the concept. And so that way, they come through distribution. They will come up with an idea. We will look at our competitor products. We do reverse engineer those products. Do they make sense? Oftentimes they do not. In some cases we will actually create the product. Elite Access, for example, is a product we created in the industry.

We will do the necessary risk assessment on those products. Does it fit our risk appetite or Risk Framework? How does it feel with everything else we do? Lastly, can we hedge it? Elite Access again is a perfect example. We did the risk diligence on Elite Access. Elite Access has a lot of really interesting funds but a lot of funds that you just cannot hedge. By definition we made the right decision. It was the right decision not to put a guarantee on Elite Access. That worked out really well.

Of course there is the regulatory review and the lawyers get involved. I am going to skip that. Setting assumptions, I think Brad highlighted that pretty well. Where we have credible internal data we will use it. We do look at industry experience and industry studies but at the end of the day I think we price conservatively on assumptions. We want to make sure we are covered.

Risk adjusted stochastic pricing and I am going to thank Mike here because he is going to really help with this slide. He does not know it yet but he is helping me hugely from yesterday. We took a two-pronged approach to pricing. The first approach we look at and this is unique to the industry, is real world scenarios and we price into the tails. What does that look like? We look at a CTE70 measure. That is a little acronym there. We look at the worst 30% of scenarios and we set a price on that basis. It is very much in the tail of a real-world distribution and you come up with a charge.

Then we are going to look at it on an adjusted market consistent basis. That is a step over to a different regime. On that basis we use a long-term historic implied volatility of 25%, which actually is not that different to what implied volatility is today. On a market consistent basis you typically are growing at the swap rate and discounting on the swap rate. We make an adjustment for that. When you think about it, if I have a claim 20 years from now that I know I need to start building a reserve today to fund that claim in 20 years I am not going to invest in swap rates today to fulfill that obligation 20 years from now. I am going to invest in an AA corporate or an A corporate to fill that obligation. We make that adjustment. We make two adjustments, the volatility and the AA corporate, and we come up with a mean charge on that distribution. That is a second set of charges.

That is the methodology. Now we have got some numbers because Mike shared the numbers with you yesterday. In 2007 we were charging I think it was 95 bps. That 95 bps was Jackson's real-world charge. When we ran our models back then we came up with 95 bps. You saw the other charge that was 65 bps. That was the industry charge, if you call it that. That was the market consistent charge. Why is that? Why is it lower? Think about it. In 2007 implied volatility was low, rates are really high and that works really well for a market

consistent regime. If you were following that regime you were going to use 65 bps. We used the greater of the two. So we charged 95 bps on the cost of sales. There were some distributors that were not particularly happy with us, but I think they are happy today.

How did that play out? Step forward just a year later and implied volatility went up and rates down. What does that do to your market consistent pricing? It is not 65 bps anymore. It is closer to the 95 bps Jackson charged. What did that allow us to do? It gave us the hedging budget we needed to take care of the tail. Whereas the competitors were stuck with 65bps and I think they never really truly recovered from that. That pricing regime still is with us today. We are still using it and you see, I think it was 135 bps Mike showed us yesterday against the industry charge of 115 bps. It makes us a little more expensive but we offer investment freedom. There is a cost to that. It is a little more expensive but I think it is more resilient through the cycle. There are going to be peaks and dives through the cycle but you are going to get a charge that we are comfortable with and I think our customers are comfortable with as well.

It is a disciplined pricing process. There is optionality in these benefits, as you probably know. We need to understand those benefits. What does that option look like? Can we hedge it? We do a lot of sensitivity analysis on the key risk parameters of the pricing to make sure what the driver that are affecting the pricing are. One big important takeaway is we do price each benefit on a standalone basis. We are not subsidising. The optional GMDB is not being subsidised by the optional GMWB. We are not pricing our guarantees by saying, 'You know what? We will dig into the base contract fee and subsidise that to make the guarantee cheaper.' No, it is very much done on a standalone basis. It is holistic and a formal approach. All the key stakeholders are involved. It is ALM, Actuarial, Distribution and Risk. We have everybody that is important at the table looking at these products. We have a Product Committee where these are reviewed. We have assumptions and methodologies on our pricing that are reviewed annually, as Brad already highlighted. To the extent that if there is a new product or a new risk that has emerged, that will go even to the Group level and potentially even to the Board level if it has got that much materiality. It is a very formal approach.

Guaranteed Withdrawal Benefit Pricing

Jackson prices its benefits conservatively

Let's look at the pricing of a GMWB benefit. We have already come up with a charge. The two-pronged approach came up with a charge that we are going to use that is pretty resilient. How does that look on the path of history? This is a distribution of long-term returns. It is going to be an 8% equity return, 18% volatility and discounting the cash flows at that AA curve that I talked about. What you see is the present value of the profits of an unhedged GMWB and where it falls in the percentile rank of history.

Due to the fact we are pricing it deep in the tails, 90% of the time what we have charged should be good enough. If we did no hedging at all we are going to be covered for 90% of historical times. However, there is a tail here and so we have charged enough on the front-end. What do we do? We use that guarantee fee to truncate that tail, get rid of that tail. Now, it takes away a little bit of the profit from the rest of the distribution, but we have taken away the bad stuff and retained upside for most of the historical returns.

The point of this as much as anything is, obviously the pricing is here for you to see, but a lot of this goes back to our approach to pricing and hedging. We are pricing into the tails. Our hedging should focus on the tails. If you have not priced it appropriately on the front-end there is no amount of hedging that you can really do to fix it. They work hand-in-hand. It is very much a symbiotic relationship between the two.

Investment Freedom Has Led to Upside for Policyholders

Account value upside while equity allocation remains within assumptions

A key input in our pricing of course is investment freedom and it is a differentiator versus us and the market place. I will walk you through the chart here. The grey area is the allocations of our in-force to equity. The blue is bonds and the red area is the fixed bucket. What you see is a dashed line that goes across at 83%. That is our pricing assumption. That is what is embedded in our pricing models with respect to the equity allocation. What you see going back to 2010 is we have not exceeded that 83%. What you do see is that grey area is drifting up from call it 70% to around 78% on a real-time basis.

What is driving that? It is not the policyholder doing that. They are not changing their allocation. The experience, and I will get to it on the next slide, is that they have sat down with their financial advisor, they have selected an allocation that works for them, call it 75:25 and they stick with it. What changes their actual allocation is the equity markets because they participated in a strong equity markets. The market has reallocated them up. Of course, if the market ever drops it will reallocate them down. However, the key takeaway here is that where we stand today we have still got a fair bit of conservatism against our price assumption at 83%, which actually works quite well from a hedging perspective as we are actually hedging to the actual asset allocation.

Reallocation History

Policyholders have not reallocated in reaction to market movements

This reinforces the transfer dynamic that I talked about. You can see the bars there are people shifting their allocations. If they were 75:25 and they are now 76:24 you would see a 1% little bar. You can see how small these bars are going back to 2007. In general, policyholders select an allocation that works for them and they do not change it. Actually, investment freedom has risks with it so we want to make sure that we are covered. This is the level of granularity that we look at the data to make sure that these asset allocations are they shifting? Are we going to see a regime shift? We do monitor this quarterly to make sure that it all hangs together and you can see the bars are very, very small.

Fund Manager Selection

Disciplined and robust process

We have a lot of funds on our platform which we will get to in a second. As you probably know, investment freedom was what everybody offered in the marketplace pre-global financial crisis. After the global financial crisis you saw a shift away from it. You saw individuals go to volatility control or forced asset allocation. We stuck with it, but we have to monitor. This is a very rigorous process that we follow. Not a lot of funds come on our platform in a given year, very few actually, and we will remove funds from our platform that are not performing as we expected. Even before it gets to my team for our due diligence review there is JNAM, which is Jackson National Asset Management. They are actually the

ones that submit the funds to ALM for recommendation. They do their due diligence on their end and they look at it from a much broader perspective than I would. They will look at the organisation. They will look at the fund manager. They will look at the technology of that investment manager. They are looking at all the soft stuff, so to speak, and some of the returns as well.

Then it comes to us and we do our due diligence review of the fund. We typically need five years of data on a fund. It is what we are looking for so we can run the key risk-adjusted metrics that we need to look at. It is probably the ones that you guys know very well. We will look at alpha, betas, access return, sharp ratios, m^2 ratios, information ratios and probably one of the more important ones is a downside/upside capture ratio. What we really want to make sure happens is when the fund goes down ideally you like to see that fund outperform its benchmark or hedgeable indices. When you think about the risk to a variable annuity, which we will get to in a little bit, it is the down equity markets.

If the general market or the benchmark is down 10% and that fund is down 8% that is actually a really good result for us. It fits well with our risk profile. If the fund actually underperforms on the upside it is not ideal but that is not a risk that we are worried about. Upside equity markets are not the risk to our variable annuities. We watch that downside/upside capture very, very closely.

Of course we look at a couple of other things: trackability, tracking error, the consistency of the returns that the fund managers are providing. That is something we look at. Then of course we do a lot of analysis on the returns against the benchmark and against our hedgeable indices to make sure that it is working as we initially thought. Remember we did the due diligence on the front-end but then we come back and look at it again to make sure it is performing as we expected.

One thing that we require on our platform is individual holdings. If you are managing a fund and you have a 2% allocation to Coca-Cola you are going to give us that exposure. We will know exactly how much that exposure to Coca-Cola is. The next fund manager is going to have 7% allocation to Coca-Cola. My team will consolidate our overall exposures and what you want to make sure is that you do not get a situation where you have got 20% of your separate accounts sitting in Coca-Cola. If Coca-Cola has a really bad day then that actually has financial implications for the company. We have limits in place to prevent that from happening but we do monitor it at that level of granularity. It is something that we are pretty strict about. If you do not want to give us your data, then you cannot get on our platform. I think the fund managers actually get it. I think they understand it and it has worked very well for us to be able to get that level of granularity.

Diversified Separate Account

Jackson Top Ten Funds

Looking at our separate account funds these are out top ten funds and first thing that stands out, the biggest fund is 4.4% of the separate account. We do not have any material concentration. You are going to see a lot more funds here than our competitors. If you looked at their top ten you are going to see probably about ten funds and they are all going to be about volatility control and forced asset allocation. What you see with us is a balanced fund at number one. You see the S&P 500. We do a pretty good job at hedging that one.

A lot of managed moderate growth or balanced funds. Even though we have allowed people investment freedom they ultimately select asset allocation type funds which by definition are going to be 70:30, 60:40, 80:20, depending where you fall on your risk target. They are not 100% equity type funds. We give them investment freedom, but people select funds that make sense from our perspective as well. No material concentration to any one fund and the ones that have a decent concentration they are good funds. However, we have 65% of our funds diversified amongst 131 fund managers. We feel pretty good about that. It is a very diversified mix and it has performed extremely well.

Unhedged GMWB Cash Flow Exposure

With that performance the last five to seven years we have done really well on our separate accounts. That should flow through in terms of the actual in-force health of the book. That is what you see here on this particular profile. This is the unhedged GMWB cash flow profile, just to set the assumptions. It includes only the guarantee fees. It uses prudent best-estimates which are aligned with the statutory framework. It assumes a 5% gross return so a pretty conservative assumption based on history. The bars on the top-left those are the fees that we are collecting. Then you get the claims that emerge and I talked about 20 years out you start to see these claims start to emerge. Again, this is under a 5% gross return assumption. If you take out the fees, the account is barely moving up.

What you will notice is that the claims are many, many years out in the future and when I PV those back, what you have is $12.3bn of present value of future guarantee fees against $2.2bn of claims, so a net PV of $10.1bn, so very strong positioning. This is as of 30th September 2018. It came into the October market movement from a position of strength. We do run a couple of sensitivities here. We look at what happens if rates are down 100 bps. If you look at the absolute cash flows they look exactly the same because we are using a 5% assumption. What we are doing here is discounting the cash flows at 100 bps lower. You can see the numbers are very consistent based on down 100 bps. It is back to this contingent aspect. If equity markets do well, the interest rate risk becomes not as important a factor.

Let us look at a down 40% scenario. You can see that of course the red bars start to get a little bigger which makes sense, so to see claims emerge. The PV benefits goes to $14.3 billion. What you see is the guarantee fees have actually increased to $13.6bn versus $12.3 billion which does not seem intuitive given the market just dropped 40%. There are two things at play here. One is persistency, because if the market does go down 40% these people have guarantees. They are more likely to persist, so lapses will come down a little bit, so we are going to collect more fees. Just as important is the fees on a guarantee are benefit-based. If your account value was $100, your benefit base was account value and the market dropped 40% your account value is $60. However, we are going to charge the guarantee fees on that higher benefit base, so even though the account value has gone down we are still charging off the higher base. That helps with the PV as well. We will see a little better present value of future fees even in a down shock.

Even if you net those two positions it is pretty much a push. This really has to do with the fact that we price in the tails, we have got good history here behind us in terms of good returns and we wrote the business at very good times as well. A lot of the growth in the book, as we will come to in a second, has come post-crisis when the market was quite a bit lower on the S&P and as we sit here in the 2,900 area, they participate in that. Even before

hedging the book is pretty resilient. We do hedge and in a down 40% market shock like this we would expect hedging gains of $15 billion. That takes care of that negative pretty well and even if you say, 'Well, you are using a lot of your fees to do hedging,' even if you zero out the $13.6 billion and said, 'You know what? I am not going to take any credit for that,' you are still going to get hedging benefits that are going to exceed the PV benefits. From that perspective it still works.

GMWB Unhedged Cash Flows

Jackson's block is in a very strong position

This is reiterating that we wrote the policies at a good time. The markets have done well and this is the same chart as before, just a bigger version of it. You can see the $10.1 billion which was at the end of the third quarter. This shows the timeline of how this has progressed over time, starting at $2.5 billion and it is going to $10.1 billion over time. A wonderfully-positioned block, especially as we came into October.

Cohort Analysis

Jackson has a strong VA back book, both pre and post crisis

Cohort analysis, we do this as much for your benefit as ours because we do not actually manage the book this way so let me walk through what we are trying to get accomplished here with this slide. If you look at the business that has caused a lot of our competitors problems it is that legacy book, the old stuff that they do not want to talk about. It is stuff they are trying to get off the books. We have that too but the difference is when the market fell 40% in 2008, we did not actually force our policyholders to get out of funds that they wanted and force them into volatility-controlled funds. They stay committed to their original allocations and they are really happy today because the market has gone from 670 in March of 2009 to whatever it is today, 2,700 or something like that.

They participated in that so you have 103,000 policyholders on the GMDB side that have been with us through this fun ride. They are 6% out of the money. They are happy. Their account values have been restored. We are happy from a guarantee perspective. Obviously we have grown a lot since the crisis and we have a much bigger cohort that has come post the crisis. We have 931,000 policies that have been renewed with a GMDB and the moneyness on that is actually 19% out of the money as of 30th September 2018. The GMDB block is really good.

GMWB, similar story there, is a smaller block of 38,000 policyholders who are pretty close to at the money and the new stuff, 809,000 are 2% in the money. That by definition is not going to get too far away from being at the money. There are the step-ups in these products so as the market goes up they are going to reset. If they are at $100 and the benefit base is $100, the market goes up 25% in any given year their account value will go to $125 so it will look like you have got really good moneyness but as soon as you get to that contract anniversary a year later the benefit base will go to $125 and then you will be back to at the money. At the money is a really good place to be from a GMWB perspective.

Again, we managed the crisis really well. The market had dropped 40%. We hedged that. Our policyholders stayed committed with us. Our solvency was very strong, as you know, and they stayed with us. I think they have been rewarded for doing so. We had no write-offs, write-downs, goodwill impairments or charges taken against VA. The stuff we

have written post the crisis, as my charts showed, we went from 95 bps to 135 bps so it is better priced and we wrote it at good market levels.

Hedging Philosophy

Hopefully you are mostly familiar with this. We are always looking for those natural offsets to the books. We stress it and make sure that we are within risk tolerance. We do look at pretty onerous shocks here. When I say we are within risk tolerance for equities we are taking an instantaneous down 40% shock. How do we look on that basis? For interest rates we will look at +/-100bps. These are instantaneous. How do we look on that basis? Credit, every single bond that Brad talked about has a base default assumption associated with it. We are going to take that and multiply it by a factor of ten. That is what we think an AA shock is for credit, ten times the long-term historical default assumption for a bond.

It is not an immunisation-based strategy. Every single little 1% move in the market we are not trying to manage. I was up all night, I did not sleep at all last night because of the time zone difference, and the market must have had a 1% move three times it seemed like in the middle of the night last night. Interesting time series for us but we do not worry about those kinds of moves. We worry about the big moves. We worry about moves that happened in the month October when the market at one point was down 10%. I think it finished down 7% for the month. We want to be very effective in our hedging programme, greater than a 90% effectiveness in those big market moves.

The next two bullets are part of our core hedging philosophy. We look at the assets that we have on the books and liabilities on the books, we stress test them, but we do not give ourselves any benefit of rebalancing. We only take credit for what we have on the books. That protects us from things like gap risk. If the market does drop 10% in the course of the week buying derivatives when the market is dropping 10% is about the worst possible time to be doing so. It is expensive. You know you are going to get picked off from the bid/ask spreadfrom the dealer so you want to make sure you have those hedges in place before that gap and that happens.

It requires a significant portion of our hedges be option-based and we will show you the economic profile and what that means. Options give you gamma. You need that gamma in those bad scenarios and that will hit home in a couple of minutes. The Greeks that we manage, delta, rho and gamma. Delta, I talked about how we do not follow an immunisation based strategy but do not want you guys to walk away here and say, 'They are still focused on the down 40 but they are not really watching the down 5/up 5.' We absolutely look at the entire range of profiles. We do look at smaller shocks as well to make sure we are sitting from a good position here as well. Rho is interest rate risk. Again, we talked about how we manage that from the highest level of the organisation given interest rate risk exists across all our products. Gamma is a second order of delta. That is that context which we will get to in a second. We do not hedge implied volatility. We talked about this in the past. What we do focus on is realised volatility. What we do is in that down 40 scenario once that scenario has played out I think we can all agree that volatility is going to pick up. It is going to be more expensive to protect yourself going forward.

We want to set aside effectively a capital buffer. When that event happens, have I set enough money aside to make sure that I can protect myself for the next move, whichever

move that might be. The regimes here they are memoryless, in the sense that if the market dropped 40% but the stat does not really care about that. It says, 'What is the next down 20 look from that perspective?' You want to make sure that you have got that capital sitting there, that hedge budget, so to speak, to make sure that you are covered off for the next leg down.

There is an economic focus here. The cash flows that we talked about, those 5% cash flows, those are the economic cash flows. That is what we focus on with respect to our hedging programme under normal conditions. But there are times when the statutory considerations become biting and we have to reflect that. We are actually in a situation like that right now on a real time basis so just hold on for a second on that one. The hedging programme of course we adapt it to market conditions.

Strategy unchanged but methods are updated over time

One thing we have done recently, and I will just jump right into it is the strategy is unchanged but the methods that we are using have changed a little bit. I went back to 2008 and I said if the market dropped 40% in 2008 we had $1 billion of hedge pay-offs as well we had assumed from our counterparties. We have, roughly-speaking, about 15 counterparties that we work with, but on a real-time basis it might be about ten that we are actively trading with. If you take the $1 billion and say that is what I have in a down 40 event. I am going to divide by ten. I have got about $100 million of uncollateralised exposure to a given counterparty. I have protection with counterparty A on Friday that I thought was there, they go under on the weekend, the markets are probably not going to open up very well on Monday morning and I thought I had protection and I don't have that protection. I want to make sure that I am pretty diversified in terms of my exposure in the tail scenarios. Our strategy, as you probably know, back in 2008 was predominantly put options. We had a lot of put options, so we had this counterparty risk down markets and we had a little bit of short futures as well.

Stepping forward to 2018, now when the market drops 40% we have got $15 billion of pay-offs in the down 40 scenario. If I stuck with my original strategy, and I use those same ten counterparties, I would have a $1.5 billion of uncollateralised exposure to any given name, which is a material number if one of them gets into financial stress in a down 40 scenario, which is a possibility. What we have done here is reshaped the problem. We used different instruments. We have gone to more of a short futures, long call option position. That is roughly-speaking about 80% of what we do. We are still doing some put options, about 20%, but I know you guys like to look at the schedules and the blue books. You are going to see a lot of call options in the schedules and you are probably going to be wondering why are they buying call options when there is downside equity exposure? This should hopefully help with that.

Hedging Illustration

Ability to match economic profile but counterparty risk is diminished

What we have done now is we have bought a lot more call options so our counterparty risk is actually to up-markets. We need those derivative counterparties to pay us when the market goes up. I think that is a pretty good assumption if the markets are up 20% or 30%. They should be there for us to make those payments to us in an up scenario. If none of this makes

sense hopefully the pictures will help. In 2008 you have a vanilla put. If the market goes down you get pay-offs and, you can see it is labelled there, counterparty risk occurs when the markets are down.

As indicated, we have done short futures which is like shorting a stock. The market goes down and you get gains. It is a delta one instrument, of course. The market goes up, you lose and you can lose unlimited. We clearly cannot have unlimited losses to the upside so what we have done is put a lot of call options to protect the upside exposure. By doing that, as you can see, the counterparty risk now is to up equity markets, as I indicated before. You put those two pictures together and you have got a synthetic put. It is called put-call parity. You basically have the same exact picture as you had before. All you have really done now is changed the counterparty dynamic which is a really good thing. We still have payments, do not get me wrong, when the market goes down, but who is our counterparty now? It is the largest exchange in the world. It is the CME, so we feel pretty confident that that is the right place to have our protection in place.

Economic Profile of VA Guarantees

Jackson focuses its hedging on the protection of the economics

This should be new. This is the unhedged economic profile. What do you hedge? This is probably as close as to what you are going to see. These are the cash flows on an economic basis and let us talk about the profile because to me it is fascinating. If you go in up-markets, for example, you see that as markets go up the economic liability gets better. Actually, it reduces. However, it gets to a point where you see it starts to flatten out and this is due to the step-ups that I talked about before. If the markets go up policyholders are going to ratchet up or effectively become at the money, so you effectively cap up your upside on an economic basis. Again, this is just the guarantee. Obviously if the market is up 30% while this may be capped up from this perspective, we are going to be really happy with the base product with markets up 30%. That is the upside.

On the downside you can see how this is not a linear profile. The first 10% down is bad, the next 10% is worse and it just keeps on getting progressively worse. That is convexity in action. When I talk about gamma that is what I am talking about. If you are actually using futures to hedge that, futures are straight line. They are not going to actually cover the risk that you want and you are going to by definition be chasing the market as it is rolling down. What you want to have in place is gamma, and that comes from options, which is the way we approach it.

Statutory accounting will not always match the economics

This is our economic profile. This is what we hedge in normal times. We have also given you the statutory profile here as well, and it does not always match the economics. Let us talk about the upside. And I think Mark highlighted this in his presentation yesterday in terms of where things are with respect to reserves. If the market goes up there are no reserves to release at this point in time, and Chad will get to this as well in his session a little later, so you are floored out. You are not reflecting that good news of equity markets going up. It is not coming through in the statutory methodology as it stands right now. In the extreme, if the market were to double you would not see this come through. I think we can all agree if the market doubled that would be a really good result for a variable annuity business.

Probably more interesting than that now is to look at the downside profile. It is convex as well, so you get that convex profile that we talked about before. However, if you look at down 0-10% you see an interesting dynamic. The book is in such good shape that you do not actually start seeing reserves being put up on the book until you see a 5% to 10% drop in the market. There is this buffer, effectively of good news, that is not being reflected, so to speak. When the market drops you are not going to put any of your reserves up. This was tested very well in October when the market dropped 7% and the hedging performed exactly as we expected. Again, this profile was as of 30th September 2018 so this was our profile on a statutory basis coming into a reasonably down equity market in October.

Jackson focuses its hedging on the protection of the economics

Putting those two together, we focus on the economics but there are going to be times when statis going to be the binding constraint. We are actually seeing that on the upside on a real-time basis. We are doing additional hedging on the upside in the form of additional call options, uneconomic call options on the upside to protect our statutory capital position. Then you start to see the profile on the downside, and Chad will walk us through in terms of the numbers that we have actually been spending in the last couple of years as we have had to live through this dynamic.

On the downside you can see they both have a convex profile but the economic profile which we are hedging to is actually a worse profile than the stat. You are actually going to get better results from 20% drops from a statutory perspective than you would an economic perspective because you have got this little deductible, this first 5% move down when you are not going to be putting up reserves. Economically you are going to be seeing that liability hit. What is really nice is you get to down 40 and you can see the two profiles converge. As I said, down 40 is our risk limit, so as it stands at 30th September, the hedging that we are doing economically aligns very well with the hedging that we need from a statutory perspective.

Quirky things happen with stat in the extremes, so we have had strong equity markets and we have to live with the dynamic on the upside. If we go down past 40 you are going to get to the point where the statutory requirement will be more or less uneconomic, but we will deal with that when that happens. These are point-in-time shocks.

Takeaways

Wrapping up we have a long history of risk management at Jackson. We have been around for a long time. I have been working with Chad for many, many years, 17 years in about a week. We have seen all kinds of equity stuff, global financial crises, flash crashes, Brexit, the Trump election, the Trump tweets. We have managed through all that. We have a credit cycle that we managed through. We saw a 1.37% on the ten year in July of 2016 that we managed, and we have obviously benefitted from rising interest rates since then. As a team we have been there, and we will continue to be there in the future.

I talked about our product design. We chose the right product. We stayed away from the GMIB and focused on GMWB. Our fund selection, we stuck with investment freedom and managed that. There are risks associated with it, but the rewards are there for us and the policyholder. The pricing, we have that two-pronged approach to pricing that is more resilient through the cycle, which has benefitted us as well. The in-force book is as strong as it ever

was coming into October and the hedging has adapted. The strategy is unchanged, but we will adapt it; we walked through the counterparty risk as an example. Lastly, we are defensively positioned so if the market does drop 40% we are going to be well-protected for an event like that.

[ADJOURNMENT]

US Economics and Capital

Chad Myers

Executive Vice President, Chief Financial Officer, Jackson National Life Insurance Company

Topics

Good morning. Hopefully you saw some good insights on risk management, limit frameworks and all that. We obviously take this very seriously, as you will have seen from Brad and Steve's presentation, and I think a long-held view that we hedge economically.

I am going to try and bridge the accounting and the economics because we get a lot of questions these days, I think in part because we are a little bit unique in the industry and partly because this is extremely complex. We get a lot of questions around interactions between the economics, the various accounting, why stat is going one way, IFRS is going another, why we are not seeing more cash coming out of the stat side, given the build-up in the markets and the balance sheet.

I am going to seek to address some of those today, dig a little bit into the vagaries of statutory and IFRS accounting, and hopefully that will add some clarity as opposed to reduce it. I thought I would level-set as well on the economics of what we do and the different products that we offer, before we get into the accounting. I think it is helpful as a reset.

Economics of Jackson's Business

Fee

So fee base, basically the VA, spread effectively fixed annuity, indexed annuity and Life is Life. If you look at the various pieces of this, obviously fee or VA is the vast majority of what we do, the vast majority of the growth that we have seen over the years.

And if you think about the revenue pieces of that, relatively straightforward: there is the base contract fee and the asset management fees, which are there to effectively cover off some of the expenses there, such as commissions, general administrative expenses, those types of things. Also on the revenue side we have guarantee fees, which are there to handle the hedging and the various benefits that would come off on the expense side. VA historically has very little capital requirements, it is a very capital-efficient product. And as such, with the strong returns we have on it, it is the highest ROE product we have.

If you look at the underlying economic drivers of that in terms of what could impact the profits going forward, equity markets are fairly obvious ones in terms of the absolute level of the account: what kind of fees we can charge, what kind of benefits we have to pay, so that is the bigger one. Steve mentioned the interest rates side on the VA. We are seeing the discounting of future benefits is a main dynamic that goes along with interest rates there. To the extent that we have benefits, there is contingent risk of interest rates there.

Longevity, since most of what we offer is GMWB. That is the most popular product we have. It is a lifetime income plan. To the extent that people are living very, very long lives, then there is the potential exposure, to the extent the market is not doing well, to have longer payments going out through time.

Hedging effectiveness is obviously a key one to the extent that we have this equity market exposure. And policyholder behaviour, which as Brad mentioned, is conservatively set and updated frequently.

Those are the dynamics we have within that.

Spread

If we look at the spread business, it is a little bit more straightforward. Investment income is our main revenue source. Against that, we have commissions that we pay out for the product, general and administrative type of expenses and interest credited. We are looking at the core revenue dynamic or profit dynamic there as investment income less interest credited. The balance we have left over is there to pay commissions, general and administrative, and to generate a profit.

Spread businesses tend to be the higher capital requirements in the US, and as such they tend to be more on the low end of the ROE spectrum from our perspective. What we sell we are still happy with the ROEs, but they are on the lower end of our product set. The main risk there, interest rates as rates move around because there are various guarantees there. Credit spreads, in terms of when we put the products on the books: wider credit spreads tend to lead to better profitability. Of course defaults, to the extent that we have defaults come through, then that is going to impair profitability.

Life

Again, relatively straightforward on the Life side: premiums collected, some investment income that comes off of the building up of the fund. These are offsetting commissions, interest credited, death benefits, G&A, those types of parts. Again, from a capital intensity perspective this falls in between the fee and spread, so this lands more in the middle of our ROE and required capital dynamic.

Mortality, interest rates, credit spreads are the other pieces that are determining of the overall profit picture.

Accounting Frameworks

US Statutory

Digging a bit into accounting, we are going to stick to just two of our accounting regimes this morning. We will start with stat versus IFRS. On the stat basis, statutory is the regulatory solvency-based regime that we deal with in the United States. It is designed with the protection of long-term policyholder protection in mind, and solvency is the priority. As such, it tends to be fairly conservative on a number of measures, certainly more conservative than any of the other bases that we manage to.

For instance, a couple of examples of that would be on the acquisition expenses, what we refer to as CARVM which is just shorthand; I think it is in the glossary. All we are looking at there is effectively the value of the surrender charge that we have. If somebody puts $100,000 into a policy, there is a 7% surrender charge in place. Effectively, there is a $7,000 expense allowance there. That really is ostensibly the CARVM allowance, just the value of that surrender charge, so a bit of shorthand in case this gets jargony. However, stat has a relatively quick amortisation period on those acquisition costs, and I will get into that in more detail.

Similarly a conservative view of deferred tax assets, so stat has a fairly conservative on anything that is not specifically tangible, specifically not cash. The reason stat is important to us, besides just obviously we like being solvent, is it also determines how much cash we can push back out to Group at any given point in time.

IFRS

Contrast that with IFRS, which is more of a longer term view of earnings. The concept there is more of a matching of revenue and expenses. If you look at some of the same things I talked about like, for instance, the acquisition costs, as opposed to the CARVM allowance which is in stat, you have the DAC, Deferred Acquisition Costs, which ostensibly is the commissions that are paid. That is capitalised upfront and amortised over time. That amortisation period aligns with the profitability of the overall term of the product. If you have a product you expect to be around for 30 years, you will see DAC being amortised over a longer period of time and in proportion to the earnings that are coming off of the block.

Similarly, on something like deferred tax assets, deferred tax assets are allowable under IFRS to the extent that they are reasonably recoverable and not specifically limited formulaically like they are under stat.

One nuance, which I am going to get into on IFRS, is that there is some limitations to what we can book in terms of the GMWB fee recognition, so that does cause some differences between the two.

Statutory Reserve Dynamics for VA Guarantees

Statutory reflects all relevant cash flows

With that stated, let me dig a bit more into stat for a minute. Ostensibly for us, for GMWB the most relevant statutory metric here is AG43. There are other pieces to statutory; I am just trying to keep it simple here with AG43. If you have GMIBs, that is under a whole different regime, and I am not intending to get into that today.

I think Steve mentioned this before. Within AG43, it is this view of a stochastic set of scenarios. We project out a whole bunch of various equity, straight and similar type of returns, and we are going to look at the CTE 70 or the average of the 30 worst percentile of the outcomes.

That is what AG43 looks at and it is more inclusive than IFRS. It includes all the contract fees. If you think about the revenue sources that I put up the first slide, all those revenue sources are in there as well as forward-looking hedging, but they are subject to prudent margins and other various limitations. You can see in the fourth pillar, some of those limitations include things like the cash surrender value floor, which I am going to get into; the standard scenario floor. Within AG43 or that framework within statutory, there is principles-based reserve, which is AG43. Then you have the standard scenario, which is the deterministic view of things, and you are going to hold the greater of the two. It is one conservative deterministic scenario in the standard scenario floor that is not currently biting, but it has from time to time.

There are various prudent margins that are put in, so policyholder behaviour is not best estimate; it is prudent best estimate. There is some level of prudence that gets put in the stat there.

There are things like asset-based fees, which we collect on the asset management. Steve mentioned JNAM is our advisor to the various separate accounts. We collect a fee for being the advisor, and a portion of that fee is built into the overall profitability of the contract. Stat does not allow us to fully recognise that, because again there is some level of conservatism and the view that we might not be able to collect those fees in the future, even though that is remote.

There are other things in there, but let me stick with cash surrender value at the moment; we will dig into that quickly. To clarify cash surrender value, all we are talking about there is whatever the customer can cash out at that point in time. I mentioned before if you had a $100,000, a 7% surrender charge happens to be in place; the cash surrender value, or what they could actually cash the product at, at that point in time, would be $93,000 in that example. That is the cash surrender value, and within statutory there is a floor there that says irrespective of what all the principle-based reserves look like, irrespective of everything else – these multiple tests as I mentioned with standard scenario and some other things – the cash surrender value floor is one of those floors.

The reason I am talking about that is it is currently the one that is biting for us, and it is relatively unique to the industry and actually somewhat unique for us, given the health of the book recently.

Statutory Reserve Dynamics

Comparison of two similar-sized, hypothetical VA blocks

I am going to walk through a couple of examples to clarify this as much as possible.

Scenario 1 – Reserves above CSV

On the top left of the chart, you have a couple of bars. The grey bar is this principles-based reserve. Basically you are basically taking your fees, you are taking your benefits, running through all the scenarios, taking the 30% worst on average and you come up with this principles-based reserve that comes through that.

The green bar is represented by the cash surrender value floor. In this case, the example I was using before for that individual policy, the cash surrender value floor might be $93,000, the principle-based reserve might look like $95,000. Now, you are going to hold the greater of the two. In this case, you have the grey bar exceeding the green bar, which gives away to a little AG43 reserve sitting out there on the right-hand side.

This would be fairly similar to what you would see across a somewhat normal condition in the VA world. This has been a large part of our history. We have had AG43 reserves up, as have most of our competitors still do.

Scenario 2 – Reserves below CSV

If you look at the bottom, another scenario you see is the block is healthy enough, and that could be due to very good markets, that could be due to fees well in excess of claims. If you have a more robust fee charging structure than the top one, that would help you. Less aggressive benefits would also help you on the grey side. Nonetheless, you get into a situation here where the principles-based reserve is less than the cash surrender value floor. The cash surrender value floor will be held as a minimum, so now you have no AG43 reserve

but you also have this latent capital sitting out there that is not fungible – not recognised on the statutory balance sheet. Nonetheless, it does sit out there and does cause this gap.

This is the situation that we find ourselves in recently, which is that we have floored out the reserves. We have seen over 2016/2017, we have had more and more policies flooring out. Now we are up to the point where the vast majority of our policies are floored out. There is not a whole lot of reserves up, and our principles-based reserve now sits below the cash surrender value floor on the whole.

Assume the two blocks experience a meaningful gain in equity markets

That is where we sit today; at least as of 30 September. And that is where we have been for a while. But let us take a look at some of the scenarios that would play out underneath this, or what would happen to the reserves in a couple of different scenarios.

Scenario 1 – Reserves above CSV

The first one is if you look at a meaningful gain in the equity markets, this should be relatively intuitive. If you have a better equity market, the principles-based reserve should drop; less benefits, more fees. That is a good dynamic, the principles-based reserve will come down. In this case, it is still sitting above the cash surrender value floor, so you would have an AG43 reserve still up.

The good news is as the market went up and assuming you were hedging you had hedging losses, you now have a reserve release to offset those hedging losses. Your stat capital is reasonably well protected and is moving in a constructive direction, so relatively well insulated from that and obviously a good economic outcome for the block.

Scenario 2 – Reserves below CSV

Scenario 2 is again where we find ourselves these days. Now what you have done is the grey bar or the principles-based reserve is going to drop. You are going to have less principles-based reserves, but the cash surrender value floor is still the biting constraint. You now get a larger gap in between those two, more latent capital sitting on the balance sheet and no AG43 reserve.

As we move through 2017 and parts of 2018, this is the condition that we have been in as we have seen larger gaps come up there. The problem with this particular one, from an alignment perspective, is to the extent that you are hedging, and we do. You are going to take losses on the hedge portfolio, get no reserve offset, and end up with pressure on statutory capital.

Assume the two blocks experience a meaningful equity market decline

Scenario 1 – Reserves above CSV

If you flip that around now and say, 'What if the market drops?', in this case again, the upper chart shows an increase in the overall principles-based reserve, so you have a larger gap between that cash surrender value floor, you are going to put up more AG43 reserves. The good news is you have been hedging, so the hedge gains that you have offset the reserve. The reserve increase against stat capital is relatively insulated; not much movement happens there and you have a larger reserve coming through.

Scenario 2 – Reserves below CSV

The interesting part gets to be the bottom section. In this case, again where we would find ourselves, as the principles-based reserve moves up, as illustrated here in this assumption, you get just to the point where you a slight positive reserve. You have a reserve increase just slightly over the cash surrender value floor. In the meantime you have this buffer, a kind of deductible if you will, sitting there as a cushion on the balance sheet and its latent capital. I will get onto this in a minute and Steve mentioned it as well. As the market moves down to the extent that hedges continue to gain value in a down scenario, you will get the gain on the hedges. You will see you will not take the full reserve hit in this case, because you are sitting on this cushion and that will be beneficial to statutory capital. While the condition that we have been sitting in for a while has built up this latent capital position relative to the stated balance sheet, what it has done is built us a cushion for down markets.

Jackson's Required Reserves Under Statutory are Floored

A strong liability profile

If I think about summing this up, there are a couple of dynamics here. First of all, within these two scenarios we are not always in Scenario 2 where we have been more recently. Generally speaking, we have been in a scenario where we have had AG43 reserves. The left-hand side is more indicative of past, the right-hand side is a little more indicative of current or up until recently. There is nothing structural there one way or the other in terms of one being good versus one being bad.

One thing I did want to address here though is I think there has been an assumption or an impression in the market that because we are not holding reserves, or that we do not have any excess reserves above cash surrender value floor, that somehow our book is more aggressively positioned than some of our competitors that have large AG43 reserves up. It is really quite the opposite.

So if you have a large set of AG43 reserves up, that tells me that your book is fairly underwater, and you have a lot of payments you expect to make over time. The question gets to be as that reserve built, did you have hedge gains against that to immunise stat. Historically, we have. You see with a lot of our competitors who have a large AG43 reserves,they did not have the hedging to offset that, or they had assumption below, or whatever it was.

So, they have large AG43 reserves, they did not have the hedging offset. That is not a position that should be viewed as a conservative or better place to be – to have large AG43 reserve relative to where we sit today. In fact, if you took out the cash surrender value floor, you would say both of them are principle-based, neither one of them should be better than the other; it is just it is what it is, it is the cash flows that underlie. We are effectively holding extra capital because we have this floor, relative to those in the industry that are holding larger AG43 reserves. It is not a sign of conservatism to have a big red bar there; it is really more a sign of conservatism to be floored out at cash surrender value, because the book is so healthy that that is where we have gotten to.

Impact of Floored Out Reserves

This should look familiar; this is the slide that Steve had up. The red line there is the economic, the blue is statutory. As we discussed previously, we are in a position where we

are reasonably well aligned in the 'down 40' so we have not had to do additional accounting-based hedging recently in the more extreme scenarios because of the health of the book. There are scenarios – I have talked about this in prior meetings – like back in 2016 when the market was down and interest rates were at their all low time lows, that the down 40 would have been more binding on the statutory side than the accounting side. Then we have had to do additional hedging in certain periods to address that. This is where having the buffer in the buffer in the pricing comes in handy, because you can absorb those within the budget.

Also, as Steve mentioned, we are in a situation now where this is this latent capital place that we are at, that you have to drop somewhere between 5% and 10% to see reserves starting to come back up. So, you get in a situation like October when the market drops 7%. That is actually a pretty good scenario for us, because some of that latent capital will come back through and emerge into actual capital. Obviously, the path of the markets going forward will determine exactly where we sit. If you get a big rebound in the market, you will see some of that go back away and move back to this position. If you move far enough down in the market, once you get past that buffer, there is a pretty good alignment between stat and economic at that point. You cease to get additional benefit from it, but it is there and is extremely helpful in the environment we are in right now, because we are in a very volatile environment. This is a very nice cushion to have in place at the moment.

The right-hand side has been more what has been an issue over the last couple of years. As the market moves up, we have literally no cash surrender value; we have no reserves to release because of the cash surrender value floor. This causes a disconnect between the hedging programme and statutory capital, so we have had to do additional hedging to meet that.

Additional Hedge Spend Requirement

Floored out reserves have led to additional call option spend

What you see here is a quantification of that. This is an estimate of the additional spend that we have had to do to deal with this kind of cash surrender value floor dynamic, you can see was reasonably significant in 2017 at $500 million. Before you adjust and tack that onto capital as a pro forma adjustment, I would mention that this is the spend. Obviously, 2017 was a very robust year in the equity markets. We had upside, and so a lot of these would have been call options. These call options would have paid off at some level, so the $500 million is not necessarily indicative of just an incremental spend that is effectively lost money.

However, it is an incremental spend. When the markets really do not move, were we not to get payoffs from those, this really becomes a drag on the overall capital formation and the accounting dynamics as well. This is one of those things that because stat is what it is, and because we have to protect stat, we have been having to spend the money to do this.

One of the benefits of seeing the market come off from our perspective is now we get back to a better alignment between reserves and hedging. That is a good thing. The other thing it does is – if I go back – as we slide down the left-hand side, then that disconnect between economic and stat on the right-hand of the page goes away. Then this spend starts to

reduce, so we get to the point where we do not have to be buying any incremental call options going forward. That would be a good dynamic from our perspective.

It is a little counterintuitive, because the accounting gets better when the market drops, even though the economics get much better when the market goes up. It is one of those things that we appreciate that there is an opacity issue in overall accounting. We do not like it anymore than you do, but we do not get to write the accounting standards. The best we can do is try to explain it and work around it.

Statutory Deferred Tax Asset

Non-admitted DTAs represent unrecognised economic value

I mentioned also under statutory that it is relatively conservative on deferred tax assets. This is another one of those things that is market-directional. On stat, there is a myriad of tests that you have to look at to see the maximum deferred tax asset that you can put on your books under statutory. The biting constraint, as it stands right now, is that there is a limit at 15% of capital and surplus. Any deferred tax asset that you have in excess of 15% of capital and surplus is not admitted.

You see on the chart the amount of non-admitted deferred tax asset that sits on our books at any given point in time in the last couple of years. You will have seen also within this the reason the deferred tax asset is moving in the directions that it has, and the magnitude that it has, is you have a change that happened about three years ago with the IRS where their view was hedging needed to have better alignment with the liabilities that used to be effectively realised gains and losses came through at whatever time they came through. You could have a potential mismatch between a realisation then on the asset and liability. They did not like that, so they put in a formulaic three-year spreading of gains and losses on these derivatives portfolios backing VA.

In this case, what you see is, for instance, in a year like 2017, the market went up 20%; we obviously took hedging losses. Those hedging losses got spread over three years. We got to deduct one third of it in the current year, and then two thirds of it went into the DTA. The hedging losses that now were sitting in DTA were now subject to a 15% cap relative to capital and surplus, and so we end with a large non-admitted asset.

The important point here is that because it is a three-year rateable amortisation, those come through as deductions in the next two years, so we do see those coming through. To the extent there is a path dependency to what this non-admitted deferred tax asset looks like, it is somewhat dependent on the amount of capital we hold, because if we hold more capital we get to admit more deferred tax asset. To the extent we have fewer hedging losses, then we will build up less deferred tax assets; the old ones will come off, the new ones will not come on at the same rate. You will see this drift down through time, and that will drift into capital.

This also tends to be something that is a little bit of a cushion to the downside because as the market drops, it will generate hedging gains. Those will turn into potentially deferred tax liabilities. The differed tax liabilities will offset the deferred tax assets. They come into capital at that point in time, and you would be able to see those get recognised so it gives us a bit of extra cushion as well on the downside.

I did mention at the beginning statutory is conservative, and this is all part of what we see within that level of conservatism.

Divergence of Statutory and IFRS Operating

IFRS operating income grown while statutory flat

Moving on from just stat versus economic into stat and IFRS, as has been noted we have seen an increasing difference between IFRS operating and stat operating over the last several years. It boils down to there is obviously a lot of methodological differences between IFRS and stat. There are two that explain the vast majority of this difference, and that is the guarantee fee recognition under the two regimes, as well as how the two accounting regimes handle acquisition cost treatment.

Guarantee Fee Recognition

Statutory

I will start with guarantee fee recognition, so I am going to start with the reserve before the guarantee piece of it. I mentioned before, the reserve under stat looks at the culmination of all the fees. That is not to say that, for instance, the base contract fees get reported through the reserve; they do not, they get reported as incurred. However, as I am setting the reserve for the guarantee fees, it is a more holistic view. Those guarantee fees go entirely into the reserve calculation. On a stat basis, all of the guarantee fees sit inside the reserve. The reserve, net of hedging, sits in the non-operating portion because it is very volatile and does not give you as much of an indicator of what is going on.

IFRS

On IFRS, it is a different view. It is a standalone, just the guarantee value or just the guarantee reserve view, which means you take the fees you collect on the guarantees and you look at the benefits you would be due to be paid on just a standalone GMWB over time. That is what the reserve is getting at.

Because we price conservatively, and IFRS is not looking at a tail measure but at a mean type of measure, what you end up with – at least we have historically because of our conservative pricing – is a situation where there are more fees being collected than IFRS would say will be benefits to be paid in the future. That is generally a good situation, except IFRS does not like the concept of a gain on sale or negative reserves. So, at inception we are capped in terms how much of the fee we can recognise in the reserve. Not only are we capped at inception, when the policy is written, that same proportion of fees is locked in through the length of the policy. You do not get to bring in more fees down the line if hedging goes up, or release fees if hedging goes down. You have a situation where the fee component of it is basically fixed. It is just the way the accounting metric works. It is what it is. So what that means is two things.

One is the reserve tends to be a little bit less volatile than the hedging, because we are hedging the economics, we are hedging the whole fee. We have talked about this in prior events as well, where we basically have to ignore the PV of the fees that do not go into the reserve, because they are not in the reserve, yet the hedges are actually hedging that. So, to the extent that we see up markets, where fees go up and hedges lose, we are not really getting to capture that in the IFRS below the line. However, the trade-off to that is where you do not see a portion of the fees sitting in the reserve, it just comes through as earned,

basically, and that just flows through operating, because it is not part of the reserve. Therefore, what you see there is a difference between the way stat and IFRS work with respect to this recognition. The orange bars there will show you the growth over time. What we are seeing is the recognition of this extra guarantee fee in our IFRS world flowing through operating and not through stat. That gives you a difference between the two.

I think the important point to make here would be that if you think through what IFRS is looking at – the long-term assumptions that IFRS looks at – if you were to see those long-term assumptions play out and you would basically end up with the benefits that IFRS would project at the beginning of the policy, you basically would be back to a point where you would just get a different reporting outcome between the two. You would have basically no net reserve impact below the line, you would have recognised the fees that you should have recognised in operating, and that would be there. Stat would just show a gain in the reserves net of hedging below the line in that case because it would be counting all the fees in the reserve and you would not have needed all the fees in the reserve – again, back to the long-term set of assumptions. That is the dynamic that comes through with respect to that one.

A closing point on that too would be to the extent that we continue to price conservatively, continue to grow the VA book, this is something that will persist over time and it will just be a subject. The end result of the how the cash flows come out over time will be a function of how the markets play out and how hedging plays out over time.

Acquisition Cost Treatment

Secondly, the acquisition cost treatment varies quite a bit between stat and IFRS. I mentioned before, stat is pretty conservative. The grey and red bars are post-time zero, but if you think about time zero for a second, which is not illustrated there just because it got messy, at time zero you have the acquisition cost. The way IFRS is going to look at it is the commissions. The commissions will get deferred under deferred amortisation costs (DAC) under IFRS. Stat does not specifically take the commission. What it does is it looks at the surrender charge. As I mentioned before, this is the CARVM reserve we talked about earlier. Stat looks at that and gives you this expense allowance against the surrender charge. They are close, but stat tends to be a little bit more favourable or a little bit more lenient if you will at time zero inception. However, it reverses quite quickly because what you see is the grey bars on stat really just follow the surrender charges. The surrender charge runs off and they tend to run off over five to seven years, depending on the product. If you get a seven-six-five-four-three-two-one type of surrender charge and it runs off 1% a year, what you will see is effectively a 1% drag per year for the first seven years come through on stat story. That is shown on the grey bars. That is the drag that you have for amortising that off.

On the IFRS side, DAC is more aligned with really the profit emergence. The red bars would demonstrate more what DAC amortisation might look like over that period of time as you have profits really spread over the entire length of the contract. You would not be as aggressively amortising DAC at inception, but long after the stat CARVM allowance has run off, you are still amortising DAC. There is a big timing difference between those two. The other thing that is important to note in more recent history is while stat is relatively insensitive to the market, you are not going to get any relief from the CARVM reserve amortisation. If you got a huge drop in the market, you actually could see it amortise faster,

but that would be a very, very big tail type of event. The red bars actually do move up and down and they move up and down with the market.

We have had a very good run over the last couple of years in terms of equity markets and what that has done has given us more profitability in the book and more profitability further out, so that has a tendency to slow down current-year DAC amortisation and really push some of that DAC amortisation further out into the future, which gives us a bigger disconnect between stat and IFRS in the current environment.

The other thing to take note of is the sales patterns, because if you think about those red and grey bars running through time, that is one cohort, but if you think about all these cohorts that are running through, you are going to have some that are old enough that all the CARVM reserve has gone, so stat profitability should be much higher than it would be under IFRS. Obviously to the extent that you have a younger block, it is going to be the other way.

Impact of Acquisition Cost Differential

We wrote a lot of business. We had our big lift-off coming out of the crisis and you saw pretty good growth in sales up until 2011/12 and into 2013 and then a flattening out and then a drop of sales. We are still working through the pig and the python analogy of all the amortisation costs from the ramp-up in sales and we are not getting as much of the benefit from first-year sales on stat capital due to the carbon allowance over the last couple of years, because sales have dropped somewhat. That is illustrated here.

As I mentioned, stat is a little bit more favourable, but that has been relatively flat. That is the blue bar. That is a little bit of benefit that we get from stat, because the surrender charge typically exceeds the commission. That is just really the dynamic being captured there. That has been relatively steady from 2013 through 2017.

What has not been steady is the difference in the amortisation between stat and IFRS. If you look back to 2013, what you will see is the amortisation on the in-force was reasonably well consistent between the two. I guess it was a bit of luck there, because they would not expect it to be quite that close. However, as sales increased in prior years and have slowed in more recent years, what you have seen is an increase in the drag from stat relative to IFRS. That is demonstrated with the green bars.

What we have seen there is about a $400 million per year swing from 2013 to 2017 that is really mostly a timing difference between how stat and IFRS are handling the acquisition cost. This is something that will reverse through time and we will see a better alignment between both stat and IFRS.

Capital History

Looking back over the last several slides, we have clear headwinds coming through in terms of just the conservatism that is sitting in stat. We have had obviously a fairly significant drag, given the positioning of our books and given the conservatism of stat. I think just to put that more in context, while if you look at the overall performance of Jackson in terms of cash flow, capital and the resilience of the book, what you will see is going from 2007 through 2018 – looking at the solid blue line, which will be the gross amount of capital – overall the capital really has not grown over those ten years.

Part of that is due to the fact that we obviously we remit quite a bit back to the group and we have had a number of drags coming through in terms of that. We also have a very capital-efficient business model. If you think about the transition we have had from pre-crisis where we were much more fixed annuity, indexed annuity, higher capital requirements to a position where we have more variable annuities, less capital requirements, the capital has not really needed to grow materially and you see that through the RBC ratio, which is the dotted blue line, which again is vacillating between 400% and 500%.

If you just stopped with the blue lines and said, 'Well, that does not seem all that great – you are flatter over the last ten years,' that would be ignoring the fact that we have remitted $5 billion in dividends back to group over that period of time. We have absorbed what is effectively the equivalent of over $1 billion of equivalent capital hits in the tax changes that we saw over the last year and we have grown the balance sheet over 200%. If you think back, if you look over this period of time, you think about the out turn that we have had on capital, it has been extremely strong.

Steve brushed on this a little bit earlier too, but if you think about the context of the last ten years, that is a 50% drop in the market, we have seen the lowest interest rates in 1,000 years and we have had the commodity collapse – we have had a little bit of everything. Despite all the changes we have had coming through there, despite the fact that we are remitting a lot of capital and despite the fact that we have a lot of regulatory headwinds, we have seen a very resilient capital position. We have built a very strong business here. It is very resilient to all kinds of market shocks and continues to be able to be cash-generative. This gives us a large level of comfort, because we are not done yet with the regulatory fun.

Regulatory Update

2017

As a quick recap, if I go back to 2017, we started the year in the high 400s in terms of RBC. We saw a 75-point RBC hit from the tax reform that we saw going last December. We additionally paid a $600 million dividend. Net-net of that was we ended the year at a 409% RBC, after what is effectively a three-year $1 billion capital draw between those two impacts.

1H18

If you look back into the first half of 2018, again, we started the year at 409%. We ended up with the second leg of the tax impacts. The first tax impact had to do with deferred tax assets and carry-backs and things like that. There was more of a capital or a numerator type of event. There was a follow-on piece, which was the NAIC updated their tax factors for the various risks and that is a denominator type of effect. That came through and we adopted that in the first half of 2018 once the numbers were available. So, we took a 35 RBC point impact from that, paid out a $450 million dividend and we are still above the RBC level we started at the beginning of the year. Again, we had a strong performance there.

If you look at that year and a half, we had a 110 RBC point impact, which again is north of $1 billion equivalent, we paid over $1 billion of dividends and we were still in a very strong RBC position.

I will note here that I am not a fan of this particular measure in terms of the CTE positioning, but I know a number of our competitors are out there talking about it and I know it has made a lot of you curious about where we stand. Therefore, if you look at our mid-year, we would

be holding capital north of a CTE 98 position. I do not like it because it is not comparable across companies. It is not what we manage to. Hopefully though your curiosity is now sated with the fact that we are north of CTE 98 and on par with some of the other disclosures that are out there. I think that will go away. Even some of the people who have been excited about the CTE measure have already said that under the new VA regime, they will not really be bothering with it anymore.

2019-20

Looking forward, we still have two more legs in this race and the first one is the C1 factor update. I think it has been 20 years roughly since the NAIC updated their default factors, also referred to as the C1 factors. They are just about at the end of doing that. They pretty much have the factors together. What is in question at the moment is when they are going to be able to implement. This is a very large rebuild of their systems to be able to get all the inputs from the insurance companies that are coming through.

There is some question as to whether that is going to happen in 2019 or 2020. It looks probably more likely to be 2020 at the moment unless they are able to pull a rabbit out of the hat. That said, our estimate at this point is about 30 to 40 RBC points. The reason why there is a little bit of a range around there is this is a denominator impact. This is not hitting capital – it is hitting required capital. Because there is so much leverage in the formula, it really would matter a lot whether we were at 400% or 450% or 500% RBC when the change actually went through in terms of how many RBC points it would be. That is why there is a range around that. However, I think it is relatively well baked at this point.

The other big impact that is sitting out there is the NAIC VA framework change that is being headed up by Oliver Wyman. That again is something that is expected to come in in 2020. There is the option to spread that over three years. I think we will see whether it makes sense to spread or not spread when we get there. It is not that big of an impact. As you can see, we are looking at something in the neighbourhood of 40 to 50 RBC points on that. Again, this is more of a leverage type of thing, so what we are seeing is a roughly equivalent increase in both our adjusted capital – so an increase in capital – and an increase in required capital.

When you start with four to five times the required capital, then you get a leveraging impact on that that is not helpful in terms of the RBC ratio itself. This is one of those things, as I have mentioned before, that the industry may reset down to a different view of capital. The ratings agencies may as well, because this is one of those things where when you take both of them up you just depress the ratio, so striving for a higher ratio does not necessarily make an immense amount of sense because the risk has not changed.

Anyway, within that we are looking at a 40 to 50 point impact and, as I have said before, one of the benefits of the new methodology is that it should be a little bit less volatile in the down markets, for those of you who are deep into the wonders of statutory accounting and capital, you know that there is a reserve calculation and there is a capital calculation. Each one of those has two prongs to it. Any one of those four pieces could win at any point in time. It makes the calculation very volatile potentially in steep down markets, depending on what rates and equities and everything do. That really goes away under this new regime and so we should see a much more stable downside and presumably less need to do additional stat

hedging. We talked about the down 40 in the past. The stat should be more stable in the extreme downs, so that would be welcome I think from our perspective.

To wrap this up, we do not know exactly the timing on C1. Again, it is likely in 2020. Certainly, NIAC will be in 2020. When we look at this over the next couple of years, we are seeing less of an impact going forward than we have seen historically from the regulatory stuff, so that is helpful. We do expect that given the planned capital formation that we see coming through in the next couple of years that we will be able to absorb, as well as pay our normal robust type of dividend levels and still come out with a relatively strong RBC position. We really do not see anything that is going to come through this that is going to significantly impact our business model or remittances or anything like that. We are reasonably calm about that situation.

Takeaways

In summary, I think there are a couple of things worth talking about and hopefully this laid out the continued track record of delivering cash through crazy markets and all kinds of regulatory changes. We have continued to be able to do that. As Barry said, we have been on a merry-go-round in terms of that and I think that is a sustainable scenario that will continue to be workable going forward.

We continue to drive significant value creation through our market-leading position. We are in the highest return segment of our market, we are by far the market leader and we have shown that we can control this, that we can manage the risks and generate strong returns. That continues to be the case.

We continue to see a strong economic profile in the VA book. It continues to improve. Frustratingly, the accounting does not fully reflect that. That will change through time, depending on where the markets go, so stay tuned for that. However, we are continuing to be well positioned to deal with the upcoming regulatory changes over the next few years – still paying dividends and still doing what we are meant to be doing. Again, as I think Steve finished off, all this is wrapped up in a nice package of a well-hedged, well risk-controlled block of business that gives a lot of potential upside to the shareholder.

With that, I will turn it back over to Barry.

US Strategic Outlook

Barry Stowe

Chairman and Chief Executive Officer, North American Business Unit

Market Leadership

Three and a half years ago, a little more, when I returned to the US from my long run in Asia, I inherited from Mike the leadership of this business. You have seen countless evidence that it is a best-in-class platform that was market leading, gaining market share every year, going from strength to strength and considerably outpacing all of its competitors. Mike touched yesterday on distribution capability and the efficiency of distribution. Our wholesaling force is always ranked in the top five by financial advisors, year in, year out, and we are the only life insurance company in the top five. We are up there with American Funds and BlackRock and people like that. We have the lowest operating cost. Again, Mike touched on all of this yesterday. We have off-the-charts customer satisfaction.

I inherited this best-in-class platform, but the market was shrinking and had been shrinking every year consistently since 2007. We were under increasing regulatory pressure. The DOL rule was being talked about, and right about the time I settled in it landed in my lap, so that was fantastic. It was challenging but it really created an inflection point for the industry.

There was also a lot of consumer scepticism. You had talking heads on CNBC: people who were financial planning correspondents and so forth who did not say nice things about annuity products in general and variable annuity products in particular.

So notwithstanding this extraordinary strength, the fact that we were the leader, we had the growth in the balance sheet that Chad has highlighted, we had industry-leading return on equity and that we have never created any drama – that we are, as I said earlier, compared to some of our competitors a little dull in terms of our consistent trajectory with financial performance – we found ourselves in a very difficult situation because we were in a shrinking industry. We were a virtuous company with a virtuous product in a shrinking industry.

Therefore, we quickly came to a realisation. Much of what we have historically done, which has been highlighted for you by Brad and Steve and Chad over the last couple of hours, should not change. It should never change. We continue to maintain this extraordinary level of governance and discipline and financial prudence in order to ensure that we deliver promises made to consumers and to shareholders as well that there were other dynamics in the marketplace that required us to do some things differently. When you find yourself in a position where you are far and away the commercial leader in the segment, then it is incumbent upon you to become the thought leader as well, to become more vocal, to become the advocate for what we do, not just as a company but as an industry, who we are and the social utility of what we do.

Three years ago therefore, we took on that responsibility and decided – determined really – to lead the industry back to growth. We have been working very hard on this ever since. What we really did was we listened to the forces in the marketplace that were causing the absolute scale of the market in terms of new sales to drop and we adapted. We listened, and we adapted. We decided we have to create new products, designed specifically for fee-based advisors. We decided we have to change the entire narrative: all of the scepticism,

regulatory scepticism, consumer scepticism and investor scepticism around who we are and what we do. We have to change the narrative; tell the story in a more compelling way, because it is actually a fantastic story.

There were things we had to do around technology. Notwithstanding the fact that we have market-leading and very low-cost customer service technology, the entire industry suffers from very poor front-end technology. Part of that is because of the regulatory burden that is placed on us – the amount of paper and wet signatures in some states and so forth that is required by regulators – but even still, there were opportunities for us to engage very differently with consumers and with the advisors who advise them and use technology to make it a lot easier to get these valuable products ultimately to consumers. Whilst we are going through all of this change and thinking differently and telling the story differently and doing a lot of very innovative things, we have to protect the core business, which has historically been driven by the brokerage market – by financial advisors who rely upon commissions for their compensation.

The Future

New products for fee-based advisors

Let us start with product. We launched new products. Again, the primary reason relates to this graph. You see there was a tipping point about three years ago where the assets flowing into wealth management platforms where the advisor is compensated on a fee basis exceeded the volume of assets flowing onto commission-based platforms. It is not just that there was an inflection point. You also have to be mindful of the trajectory.

So, there is no doubt that fee-based advice is the future. People argue well, commissions make more sense for this reason or that reason. It is what it is. Therefore, we have decided as an organisation three years ago to stop arguing and to be agnostic. We adopted the approach, which we had not before, that it is the consumer's choice how they pay for advice. We will adapt our product so that consumers can go to a fee-based platform or a commission-based platform. It is their choice. They can get exactly the same outcome from us. That is what we ought to be focused on.

We launched again our lead access product, which you heard about earlier today, our flagship product, which is the Perspective II product. We launched advisory versions. We have just recently launched MarketProtector, which is a new FIA product, also available on an advisory basis. All of these products have now been launched. By taking out the commissions and by simplifying the language of the product, what we think we have also done is make the products easier to understand. They are simpler and you can compare them more readily without the compensation built into the product, into the pricing of the product, to a mutual fund, which is in fact the product against which we are usually compared, most commonly.

Changing the narrative

We also, as I said, set out to change the narrative. Candidly, this is a gigantic task and I have to say this is one of the things we have undertaken that I think is actually progressing more quickly than I imagined it would. Again, it is not just changing the narrative in the market place and running ads that say, 'Annuities are fun – everybody should have an annuity.' It is having substantive conversations with all these constituencies to make them understand who we are and what we do, because there was clearly, based upon the criticisms

that we were getting, a clear lack of understanding of what our product does. This started with regulators.

One of the other benefits of adopting this fee-based approach, is where we strip out the commission and as a result strip out the surrender charge in these products. Essentially you could buy one of these products now on a fee basis and you have liquidity. If six months later you want to change your mind, you get all your money back. There is no drama at all. By introducing these products and then going and visiting regulators and saying, 'Look, here is our value. Here is what we think a modern, variable annuity ought to look like,' and engage them in that conversation, what we had actually done from a regulatory perspective was solve the two overwhelming objectives that regulators had historically had around our products. These are commissions. They believe that paying an upfront commission introduces the prospect that the advisor's judgement is impaired when he is advising a client. Again, we can argue about this, but that is their view and it is not a completely unreasonable view. Also, it removes the surrender charge, because the commission and the surrender charge are linked. Without the commission, you would need no surrender charge.

Therefore, what we found immediately is that regulators started reacting very differently to the product. In fact, we had one meeting with a very prominent regulator who is incredibly influential over our industry. There were a group of us there and after a long meeting where we explained what the fee-based product – which had not actually been launched at that point – was going to look like, on the way out this man said to us, 'You know, I really look forward to seeing this product in its final form. I think my father is going to need one of these.' This was a completely different approach from regulators and that has continued.

Changing the regulatory environment does not happen overnight. It involves constant interaction with lots of regulators and, as you know, it is not a single regulator. There are elements of our business where the DOL has had insight. All elements of it are under SEC purview. We have FINRA, which oversees the compliance of the broker dealers, the distribution and so forth. Then there are insurance commissioners in every state where we do business and we do business in every state.

So it is a lot of conversations, a lot of road trips going to places like Idaho and Indiana and Tallahassee, Florida and so forth to meet with regulators, but we are making enormous progress and we are generally speaking getting a very positive hearing and a much different sort of conversation around these products going forward than there has been in the past. We have also engaged with legislators, because a lot of the oversight of our industry can be impacted and not just by administrative change but by legislation. So, there is legislation. There is a bill called RISA that is moving through Congress. Elements of RISA have been attached to a tax bill that we expect to clear the House and the Senate and be signed by the President we hope before the end of the year.

There has been an election but Congress is back in session now in what in the United States is called a 'lame duck' session. There will be, obviously, a change in control of the House of Representatives but the Republicans are still in charge for another six weeks and it is highly likely they are going to pass another tax bill that will include provisions that are very useful to us, specifically around embedding the kind of products we manufacture into 401K plans, defined contribution savings plans, which the long and short of that is that it allows us to reach out to people and educate them on the importance of a protected lifetime income long

before they reach age 62, which as you heard earlier is the typical age where someone comes to us and says, 'Here is what I have, I would like to sort this out.' So that is very useful. We continue to engage, however, very closely with the SEC because another big thing that will be happening in the next 12 months is a new best interest rule that will be promulgated by the SEC which will speak to the level of care that advisors must exercise in providing advice to consumers. This is in some respects an alternative to the DOL rule, which has now been vacated by the court system and which is gone.

The most impactful thing we have been able to do with the SEC is have a conversation with them about a very specific topic and that is the sorts of risks that advisors must contemplate as they give advice to customers. Two risks that we are optimistic will be in the final rule that have not ever been in the rule in the past are the requirement that advisors take into consideration the risks that consumers face around market volatility and longevity. Those two particular things, those are risks that in many respects are only mitigated by the products we sell. So as you can see, the environment is changing.

Consumer segment

Let's talk about the consumer segment. You see the logo up here, the Alliance for Lifetime Income. We decided over two years ago that we were going to have to go out into the marketplace and make a statement about the importance of protected income and rather than having Jackson go out and spending an enormous amount of money and say 'buy a blimp and run TV ads' or something, the sorts of things we have never historically done, we said we do not want a company that is the leading writer of annuities and telling people that annuities are fun because it is not. As credible as if you have a coalition of interested parties and it includes insurance companies but it also includes asset managers including the firms that many of you work for and it includes consumer interest groups and consultants and they have all come together, they have all donated money, time, effort and thought leadership and we have created the Alliance for Lifetime Income, which is educating consumers in a variety of ways.

A lot of print advertising, there is a fantastic digital footprint but most importantly, starting in the first week September, we started running television advertisements that are very clever. Those of you in the United States might have seen some. There is a woman featured in one of them that drives these like jet cars, she is like a drag racer. There is a guy that swims with sharks. I mean, you see this guy, he is insane. But they are very clever ads and the point of them is to highlight the need for entering retirement without risk.

People live with risk all their lives. These people that we have highlighted in the ads live with unique levels of risk all their lives and as they enter retirement they want to retire their risk as well. Those ads have been impactful. Just in a matter of about six or seven weeks, the focus groups indicate that the idea of an annuity and what an annuity does is viewed much more positively than it was six months ago. The number of articles in publications like the Wall Street Journal or the like that are positive on annuities is up 9%. The number of articles that are negative about annuity products is down 10%. So there is a shift happening in the marketplace in terms of the way people think about these products.

We have reached out to people who historically were not friendly to us. I earlier referred to people who were on CNBC or the Today show or one individual, a guy called Dave Ramsay in

the United States, who has a fantastic following, does a daily radio show and provides millions of people every day with just common-sense financial advice and he is a fantastic guy but he never said much nice about us. So we went and we spent hours and hours with Dave Ramsay and with his people and we have talked to him about these new products and who we are and what we do, the virtuous nature of the product, the social utility of the product.

Last week I called, Dave had me on his radio show. We were talking about some community work that we are doing together with our foundation and his foundation. But he made a point of calling out the fact, he said, 'Hey Barry, yesterday somebody called in and it sounded to me like they needed an annuity and I recommended one and I hope I got the advice right.' I am pretty sure he did. The point is, we have turned the tide with these people and there are people who were very public, visible, vocal, sceptics who are now believers and who believe that what we do is important and valuable. The conversation at that level is changing as well.

So you can imagine an environment in the future where these products are viewed very positively, where the regulatory environment is much more positive towards these problems. The result – I am not allowed to make forward looking statements but I think I am allowed to be optimistic and I am – I believe this is going to be a different world five years from now.

Technology Integration

Another thing we have done to facilitate all this is the technology element. You may have heard us talk about this before in terms of building pipes. So most financial advisors, the way they interact with the customer is they do it all on their client management platform and they can do anything by pointing and clicking, except buying a product that provides protected lifetime income and then they have to drag out a ream of paper and fill it out with an ink pen and it is not a pleasant experience.

What we have been working on over the last three years is to build technology that links our system to the operating systems of the Morgan Stanleys, Merrill Lynchs, the InvestNets and all of these platforms that various different advisors use so that they can link into us and transact far more easily than they have historically been able to do. There is still a lot of work to be done because we have done the work on our end; it will largely be completed in the coming months. The counterparties, the Envestnets and so forth have to work to connect with us on the other end. They are making good progress as well.

We announced this collaboration with Envestnet in 2018 and the products available there will be both our commission product and our advisory product but that connects us, makes it fare more easy for 90,000 advisors to transact with us. It dramatically simplifies their life when a customer comes to them and says, 'Hey, I am hearing about protective lifetime income, how does that work?' So we are creating a tailwind for the product with all the narrative change and then when that tailwind sort of hits the customer in the form of a consumer who walks in and says, 'I would like to hear about one of these things', we are making it far easier for him to fill the need of that consumer.

We are also embedding the idea of a guarantee into the planning tools. As you are aware, many people go on line, they do some robo advice, a little do it yourself advice, and there are countless tools on the internet where you can go and say, 'Well what happens if I save this much or that much, I get this return, that return, what is inflation,' and so on and so forth. None of these tools have ever said, 'What is the likelihood that my desired outcome is fulfilled

if I have a guarantee?' What we have typically found is if you work this tool and you say 'well based on your inputs, there is a 70% chance that the level of monthly income you want, you are going to get and it is going to last forever.' You introduce the idea of a guarantee and as you can imagine, it goes up 20% to 25%. Becomes much closer to a virtual certainty that people's desired outcomes are met. So that is an incredibly powerful piece of this as well.

Traditional Channels

Advisory is the future. All this change will facilitate it but the brokerage market that has built our business is the present and we continue to dominate that, we continue to be the top VA seller in every channel where we are present, our market share continues to go up, 627 selling agreements with different broker dealers, firms around the country and importantly, we have just announced a new relationship with State Farm Insurance. For those of you that are unfamiliar with the property causality market in the United States, State Farm is sort of a Main Street instantly recognisable brand to any American. There are State Farm offices in anybody's town, no matter how big or small. They are the largest provider of consumer lines, property and casualty insurance in the United States. They are twice the size in terms of market share compared to their nearest competitors.

They also sell life insurance, but they are overwhelmingly P&C. They currently do not sell annuities. There has been huge demand within their salesforce, 10,000 of who are licensed to sell our products because you have to have a securities licence as well, they will come on-line in the beginning of next year selling our products. Again, I cannot be forward-looking but I can be optimistic and you should be about this too. This is a fantastic development for our business.

Takeaways

So what are the takeaways? This is a huge opportunity. The retirement market is vast. We are an innovator. We have market leading capabilities from distribution, product manufacture, pricing, product management, risk management, customer service. From soup to nuts. We have unparalleled capabilities. We provide thought leadership, as you can see, and that will only become more impactful as time goes on. I hope what we have done today, because our objective was, to remind you that this business that you own is durable and virtuous and that the scale of it can grow much larger, the returns even more attractive and you should be proud to own it. I think we have to do a better job going forward, be more diligent about explaining the details, how the merry go round works, if you will, but it is durable. I hope that is what you walk away with today.

Now, my other hope is that the presentations have been concise and in-depth and so there is probably not many questions. Maybe one or two. We will have everybody come up to entertain any questions that might arise. Should not take long, right. So guys, you want to come back up and we will have a crack at this.

Q&A

Blair Stewart (Bank of America Merrill Lynch): Could you maybe give us a feeling for how the stats profit outlook might evolve over the next few years? Just given what you know about the shape of the book and in particular the amount of business coming out of CARVM period, how will that impact stat in terms of moving stat closer to IFRS perhaps over the next few years. Thank you.

Chad Myers: Yes, so that is an interesting question. Unfortunately, it is an 'it depends' question. So if you froze the book in time, I think you would see just from the dynamics on that one slide, you would expect to see a convergence between stat and IFRS. Obviously, stat would improve because you would have the acquisition cost behind you. The dynamic is hard to handicap at this point because of the sales levels, what Barry was talking about comes to fruition and we start to see sales levels starting to accelerate again, you are going to get a different dynamic between new stuff coming on and old stuff amortising off.

So it really depends a lot on the shape of the sales going forward and it also depends a lot on the mix, because one of the things I probably neglected to mention on the slide is when we look at the advisory products coming forward, there are no surrender charges, there are no commissions, so there is no CARVM allowance and there is no DAC. So a lot of that noise just goes away. But what it also would do is to the extent that we saw a big increase in sales on commission based business with surrender charges, we get a tailwind on that from statutory from the CARVM allowance being set up and we see a huge increase in fee base which you will see is the acquisition cost coming through in terms of just the general marketing and wholesaling and things like that that come through without any real offset. So you would actually see a strain in the first year, which is not something you have seen historically, that dynamic makes it really hard to say exactly what it would look like going forward. But the corner line block should improve. Does that make sense? You are looking a little puzzled at me.

Chad Myers: Not because it really goes back to what is the mix.

Blair Stewart: Yes, just ignoring the impact of new business for a moment. You gave an indication on the slide, it was $0.2, $0.3 billion as of 2017. Where do you think that goes?

Chad Myers: What you could look at is, from a normal perspective, that drag that we are getting today should reverse. So the $200-ish million hole that we are in today should reverse over the next couple of years.

Heather Takahashi: What is your outlook for remittances from JNL and then how much of that do you think will pass through to shareholders?

Mike Wells: There is nothing, as Chad mentioned, in the US plans that would suggest any strain on remittance, including some of the changes coming in methodology, if you will. That said, there is a normal governance process on our Board, regulators and things that define our dividend capabilities, so we would not give a forward look to that.

Heather Takahashi: are you saying that ?

Mike Wells: Yes. I am saying I am not going to give you a forward look on dividends in the US given regulatory approval and Board approval considerations. I cannot do that.

Jon Hocking (Morgan Stanley): To horribly simplify this, would it be fair to say taking what you have said this morning that the stat capital generations and the cash from the book is likely to be higher in a down market than an up market?

Chad Myers: Well certainly it would not be if you had the 40% drop because they are reasonably well aligned. But you do have an asymmetry because of the deductible concept we were talking about. There is a cushion there in the downside so to the extent that we saw a down ten, I think that would look better than an up ten from a capital formation standpoint in the near term.

Greg Patterson (KBW): Just two questions. Looking at the Oliver Wyman proposals, I mean, one of the key issues which cause problems was your voluntary reserves in the low interest rate environment. Both of those, well the voluntary reserves have disappeared, and interest rates have gone up, yet you have a 40-50 bps hit and the size of it actually surprises me. Wondered if you want to talk about the components.

The second thing is, I do not know if it is applicable, but I believe the NAIC is looking at a new charges for longevity risk and sort of to your timeframe, that will come in to play. I am not sure if they are just looking at fixed annuities or in-payment annuities or it might have an impact on a VA book and do not know if you want to talk about that.

Chad Myers: Sorry, I did not quite catch the full part on the longevity.

Greg: So my understanding is the RBC does not include a charge for longevity at this point and that they are proposing to introduce one. Is it just for draw down annuities in payment fixed or will it impact the VA because it is effectively a longevity product as well?

Chad Myers: Right. So in terms of the Oliver Wyman piece, I think the dynamic we have seen there is there is really no need for voluntary reserves any more. If you think about why we have been doing voluntary reserves in the past it has been because of the instability between – I have mentioned before, you have AG43 standard and stochastic, you have C3 Phase 2 standard and stochastic. Any one of those four could be winning at any given point in time and that really gets to be the one that sets the capital.

Because of the leverage in the formula, you get this dynamic of depending on which one, whether it is hitting the numerator or depositor, you can get a very erratic RBC which is not really helpful for anybody to look at. So the voluntary reserves we have used to historically stabilise that. The other thing I mentioned with respect to the voluntary reserves is, in a current stat regime, you have a disconnect between what the tax reserve is and what the stat reserve is, creating a bigger stat tax difference.

With the Oliver Wyman change, what you will see is the new regime will be the tax regime, so you will not have this noise coming through that would partially require voluntary reserve and you will not have this four-pronged test coming through that causes all this instability and RBC ratio. So from that perspective, we think it is going to be much more stable. We do not view it as a negative that we will not have to post voluntary reserves, we actually like the fact that we will be in a regime that we do not have to post voluntary reserves. Again, that will be more stable to the downside. So I think those are all wins from that perspective.

In terms of the interest rate risk, they have opened up more abilities or more flexibility to be able to deal with interest rate hedges and how you account for them relative to the reserve. I

think that is a plus. That will not really affect us a whole lot because as Steve mentioned, that is more of a contingent risk for us and in a very healthy equity market, the interest rate risk is not as significant. We have addressed that through hybrids and other things, as Steve mentioned before as well.

In terms of the longevity factor, I am not actually familiar with that. Currently within the RBC formula, there is an insurance risk, which is C2. That is already built into there. To the extent that if they were to come up with something new or additive to that, from what we have seen and Brad may have a view on this too, longevity risk is not something… It nets out pretty nicely, as Steve was talking about. It is not something we see as a big risk economically.

Greg Patterson: So you have removed the two issues that were gelling negatively with the Oliver Wyman proposals have gone away and those were the big levers. I think we have discussed this a few times. But why is there such a big hit of 50-odd basis points if the constraining factors that would have caused an issue have gone away, so to do with the prudency in the demographic assumptions around lapse in utilisation, or…?

Chad Myers: It is actually a little bit simpler than that. It is just the inherent leverage in the formula. So we are talking about an increase in TAC on the range of $100-200 million. So we will get a better view on adjusted capital and we will have a capital requirement that will increase by a similar $100-200 million. So you are just shifting both up by a relatively small amount but because you have four to five times leverage in the RBC formula, it effectively drives the RBC. You should see that across a decent portion of the industry. I think you will see a similar dynamic. People have been pretty opaque about what the impacts have been. It will not be a big deal or have much of an impact, I think. You should see a general uplift in both TAC and required.

Johnny Vo (Goldman Sachs): Just a couple of questions. Again, back to John's question, in an up market, it appears the hedge losses plus the growth means that capital formation is almost next to zero. So if we keep on getting an up market, will this put pressure on your ability to remit capital back to the group? That is the first question.

The second question is in a down market scenario, implied volatility will probably exceed your realised vol assumption, so what is your impact there.

There final question is the capital base of your US business has not moved and I guess a lot of that has do with, despite the fact your balance sheet has moved up, the fact that you are hedging a lot. Now what is the sensitivity of your capital abase to hedge breakage if some of your funds do not go as you expected? Thanks.

Chad Myers: I will start of and see if you guys have any comments. So in terms of the up market scenario, I think you seem to imply there was no capital formation for up markets but even last year, the market was up 20%, we still formed $800 million or so of capital if you look. That is to the point where we are already floored out. It is the same dynamics you are seeing here. So what I was showing on the screen is not necessarily forward looking. I mean, it could be, depending on where the market ends the year, but it is more backward looking than what we have seen. As I think I have said before, capital formation tends to be, I guess, in a fairly normal market a little better than $1 billion on a current run rate and we

have tended to have somewhere in the neighbourhood of $200-300 million of drag from some of the up-hedging that we have been doing, I think as we talked about last year.

So that is the dynamic, but we are still definitely capital generative in up markets, it is just that you have this latent capital conversation that I was referring to back there. So does that answer your question? Okay, good.

In terms of realised vol versus implied, the dynamic, at least in respect to remittances, is that statutory is not a market consistent world, so it has a fixed long-term vol. So if I look at the reserve calculation and what is being driven underneath of it, that is going to be off of a more 18-ish long term vol. So what you will actually see is to the extent the market drops and you get a big increase in implied vol, what will happen is our derivatives will mark in a positive way because of the flooring effect, the reserve will not be specifically impacted by that and then what we will effectively do is there will be a little bit of asymmetry that gets into the stat balance sheet and then it will inflate capital temporarily until some of that VEGA kind of burns off until either vol comes back down or until the time value is realised or not realised on the options.

Sorry, third question?

Steve Binioris: Just our sensitivity to down markets with the basis risk. And we actually calculate an indicator quarterly or we take the worst basis risk month that we have ever had, what are the implications to our capital position? It is around $100 million. So we are monitoring that very closely and obviously basis is important to us. We see basis as something like some international exposure, so we do things like we have allocated a portion of our hedges to emerging markets for example, so we are actually tracking at that level to make sure we have that 10% of the block that has that exposure. We have derivatives in place to cover things like that.

Andrew Crean (Autonomous): Given the almost mind-bending complexities of the accounting and the statutory basis, do you think there is any chance that public markets and portfolio managers will really be able to genuinely understand this and value it properly? How would you recommend we value the Jackson business and if you think public markets are not capable of valuing it fairly, how would you propose not to have too much value leakage from the Jackson business?

Barry Stowe: Even after today?

Andrew Crean: Even after today.

Barry Stowe: I think it takes probably more than one day every five or six years. As I said earlier, I think we probably have to do this more frequently, maybe in a forum like this and with a combination of this and reverse roadshows. I recall 12 years ago there was a lot of head scratching around Asia as well and we did not do it over night but I think we went through a process of investor days and reverse roadshows where we familiarised you with the business in a more intimate way, gave you in-depth exposure that I think few competitors did and the result is a different valuation on the business. I think there is the scope to do that here as well; but Mike is going to be the guy that is the expert on this, so I will turn it over to him.

Mike Wells: Thank you. I think it is a fair question. We talked about a lot of the challenges, not necessarily headwinds but a lot of the noise in the marketplace in the US and I think you have to add to that, we have had competitors that were unsuccessful in this space doing sort of the good bank/bad bank play to exit their liabilities they should not have written and write-downs that were material.

So Jackson. $600 million was the original purchase price for Jackson. Let us put this in perspective compared to some of the peers. So dividend levels are akin to our acquisition cost. +$5 billion of cash out in the last decade, return on equity calculations. It is +60% higher than peers. No slips, no stumbles, no losses. The quality of the business is clear and given a long-term look that Prudential takes at markets, you have structural demand, you have a leadership position, you have best in class capabilities. If you were looking at doing anything, which I am not suggesting for a second we are, you certainly would not do it after competitors stumbled in a lot of the market to price those errors. So I think there is a lot of different things to do to expand the business, to diversify the business, to de-risk the business, all of which we are alive to; but what I would not do is take somebody else mark on risk when they have stumbled.

Barrie Cornes (Panmure Gordon): You have talked previously about M&A in bolt-on acquisitions. I just wondered if that is still on the agenda and if so, what type of company and how much fire power would you bring to bear do you think?

Barry Stowe: Well we just did one, I am pleased to say. They do not come as frequently sometimes as we would like but that is a result of the dynamics in the marketplace. Over the last several years, it has been a result of what some people have been willing to pay for properties in the United States which drive returns that were not particularly interesting to us and I do not think would be particularly interesting to you and so we have passed on those. But we are known in the marketplace to be interested in acquisitions of the sort that we just did and under the right circumstances, some that would even be a little larger than that. So it is still very much a part of our strategy and we will continue to execute against it with the same level of diligence and hopefully the frequency will be more in the future than it has been in the last few years.

Oliver Steel (Deutsche Bank): Just to sort of help us with the CARVM and DAC calculations, what percentage of your business is fee based at the moment?

Barry Stowe: Very small. Is it measurable?

Speaker: About five.

Barry Stowe: We utterly dominate the space, let me say that but the space is tiny plus it is a very new thing.

Chad Myers: Let us say low single digits would be a fair…

Barry Stowe: Yes.

Jon Hocking: Just coming back to the risk appetite slides at the beginning, I am slightly puzzled about how the dollar equity risk has stayed sort of flat given the book is so much bigger. Is that just because you have hedged more or is it a function of the pricing of the book or market levels? How does that actual dollar equity risk stay flat given the book was just so much bigger than it was back in 2007?

Brad Harris: I will start and Chad, if you want to kick in after this. So if you think about it, a lot of it is depending on the health of the block of the business and the risk that underlying block is representing. So again, going back to the slides that Steve showed, you are seeing that as the block has grown and you have the present value of the fee sitting on one side and the present value of the benefits, the present value of the fees has been grossly outpacing the present value of the benefits that we expect to see. So the health of the block has been growingly tremendously. At the same time, it does mean that as you have also seen, that was roughly a billion dollars down, 40% shock a few years ago compared to where we have $15 billion sitting now. So we do hedge more today but at the same time, we are receiving more fees from those underlying consumers to pay for the hedging in which we are spending.

I know that we have talked about hedge losses in the past, to me it is insurance. So we are spending money for insurance through the hedge programme and in a good market we do not need that insurance. So I guess I would define the hedge loss slightly different, means we are spending the money, we do not need it and that is a good thing for us long term. So from a risk perspective, mainly the block business remaining is stable and if you also remember, it is because our capital levels have remained stable. So we want to give up a certain percentage of our capital, we are not willing to put at risk any more than that. I think there was a question earlier regarding to the amount of capital we are holding and remaining flat in the market in which we have also had an increase in our underlying block of business. We test that capital. So it is not just the fact that we are holding that capital on a statutory basis, we have two different economic measures in which we value are we holding the right amount of capital because the capital that we are holding is based upon the underlying risk of what we have in-force. And we validate that not only what we are holding from a statutory perspective is appropriate by looking at we have group economic capital model that is a one-year VAR 1 in 200 model and that consistently demonstrates that we have surplus above on that particular metrics. So we are statutory, the vol take us to statutory. We also have an internal capital metric that looks at paying claims when claims become due and also ensuring that we are holding the reserves that require each point in time and it is a 'how many times are we going to fail on a AA?' and that also validates the amount of capital that we are holding relative to the risk of our business today is appropriate.

Chad Myers: Just to add a little bit on that too. Clearly, the amount of hedging has increased massively. I mean, Steve showed you the slide, 15 times the hedging we did ten years ago. So because capital is flat because we set some of our critical limits based on a parentage of capital, which obviously is rational, we do have a very, very big hedging burden, if you will, to do year and year out without a lot of flexibility. It is not like we can play around with unlimited frameworks. We are generally having to hedge. I think it is an interesting question of conversation because we do have one or two folks in the industry that are thinking of it in terms of a first loss piece where they are holding back extra capital to say we do not want to spend as much for smaller movements and I think that would be an interesting conversation. I am not sure anyone wants to park a whole lot of capital in Jackson but you could reduce hedging expense there and benefit in markets more were that to be the case.

Brad Harris: Yeah, it is the difference between holding capital from the risk perspective to make sure you have the right capital to manage your risk appropriately and holding capital from the hedging optimisation perspective.

Abid Hussain (Credit Suisse): Morning. Just one question for me, please. How should we think about the ideal level of capital for Jackson? In particular, what is the range of comfort around the RBC ratio? Would you, for example, still want to operate above 400% post the NAIC reforms?

Chad Myers: Sorry, I could not quite hear.

Barry Stowe: Could you repeat the question?

Abid Hussain: So just in terms of capital, what is the ideal level of capital? How should we think about that?

Barry Stowe: Oh ideal capital levels. Go on. Yes.

Abed Hussain: Yes, and then sort of comfort levels around the RBC ratio is 400%, so the ideal level.

Chad Myers: So I guess on the overall levels, we have seen the industry over the last couple of decades at quite a range. I mean, if you go back to the 1990s, 250% was a perfectly adequate RBC ratio. They brought some intangibles in and then some things changed along the way and that kind of inched things up. We had the financial crisis, that pushed things a little bit higher. So I think the markets have become comfortable somewhere in the 400-500% range where I think we generally have viewed 400-450% a pretty reasonable place for us to be. I am pretty sure you are going to see the industry migrate a little bit lower. Whereas some folks might have been high 400s, I think the rest of the industry may feel like 400-450% is a reasonable place to be. I do not think anybody is going to be upset, regulators, whoever if you are closer to 400% than not. Again, depending on how everything comes through with the NAIC working group, I think there has been a lot of hits that have come through over the last year and more coming through. So it would not be irrational for the industry to reset back to a 350-400% range. I am not saying that is our target. We are comfortable 400% above at the moment. We are comfortable and we are not moving off that for now and I think we can sustain that. But I think given the amount of redundancy that is now getting built into the required capital on multiple levels, there would be reason to hold a little bit less RBC going forward.

Blair Stewart: Thanks. Just going back to Andrew's question about how to value Jackson and given that stats is maybe the most common denominator for a lot of people and the need for the US to be a good counterparty to a fast-growing Asian business in terms of cash flow, is there a temptation to maybe manage the business a little bit more towards that or maybe more of a balance scorecard approach whereby you can pull some levers to improve the stat numbers and if so, what levers could those be, apart from the issues we talked earlier with CARVM and what else can be done to improve the stat numbers.

Chad Myers: Well I think in terms of trying to improve stat, improving the actual balance sheet itself today, there is very limited things which you could do. It is a little bit of an interesting thing. I mentioned, for instance, deferred tax assets, right. If you put $1 of capital in into Jackson, you get $1.15 back out because you would allow the deferred tax asset. The catch to that is if you take the $1.15 back out, you lose 115% of the $1.15 so it does not quite work that way. But if you are looking for higher stated capital, there are some

of those latent capital dynamics that are out there, which could be improved through some mechanics like that. But not a lot of change.

Chad Myers: I am sorry? In terms of the flow. Right. So I think there you are back into the questions about where is the market, what is the path. As I mentioned, if one were to have the view that equity markets generally trend up with time, then it does not help the flow of capital in the short term but if you held more capital, you are going to generate more capital going forward to the extent the market moves up because there is more effectively risk capital in the business. I do not think there is any magic elixir to make a lot more cash come out. In fact, I think part of what we talked about, managing to the economics and managing to the long-term view of things, Barry has talked about the advisory world, the new advisory products will be somewhat capital consumptive in the early years because of the lack of a carbon allowance.

In some respects, I think we still continue to generate strong amounts of capital, we continue to optimise the hedge programme to try to be as resilient as we can for the up scenarios and deal with the cash surrender floor but I think the trend of the business we are looking at is not going to unlock some huge amount of cash all of a sudden, that is going to be much more market dependent and how much extra hedging are we having to do to deal with statutory dynamics.

Andrew Crean: Can I do two questions? Firstly, what is the total expense ratio or reduction in yield on variable annuities, taking into account advice fees, management fees and the fund management fees? Secondly, yesterday there were a couple of presentations looking at the value of the Asian business related to its embedded value and the generation of cash from the embedded value. Embedded value has not been mentioned once here in your presentations on the US. Is that an issue if you are going to put these two partners in the same bed?

Barry Stowe: So what you are looking for in the first question, Andrew, is sort of the customer outcome?

Andrew Crean: What is the customer's coverall reduction in yield if he holds the product for ten years?

Barry Stowe: Well it depends on what he bought and certainly in the fee-based model, it depends on what he pays his advisor. If you are comparing it to a mutual fund, even with our product with a commission, it depends on what he is paying the advisor for the advice on the mutual fund, so it is a difficult question to answer. But I can tell you this, we regularly compare ourselves using a basket of our funds versus a basket of competitors' funds to gauge what a theoretical customer gets, and we also look at actual customer outcomes as well. What we typically find is primarily because of investment freedom – because for the last several years we have been the only company in the market that continues to offer full investment freedom – our customers have consistently got market-level returns where other customers have been muted, competitors' customers have been muted. But to say, 'How much drag is it?' it is difficult to answer because it depends on the fee that the consumer is paying.

The other thing I would point out to you is it is a little bit like asking someone how much appreciation, what total value creation did you get over the last ten years of home ownership, contemplating all your expenses associated with that home and you compare if I bought

insurance on the home and if I did not. Because fire insurance on your home is not something that you can generally equate a value to. It is an expense until your house burns down. That is effectively what we are doing. We use all these terms to talk about financial advice and these financial instruments and solutions and so forth.

In the end, one of the best ways to look at our product from a consumer's perspective is it is fire insurance. Yes, a typical customer might pay us $5,000 a year in guarantee fees and that is the fire insurance on his retirement income that will last him the rest of his life and it will provide a legacy to his heirs once he has gone. As is the case with fire insurance, most people are not unhappy that they did not file a claim. So it is a more complicated question than you make it.

What was the second part of the question?

Andrew Crean: Embedded value.

Barry Stowe: Embedded value. Well Mike or Mark had it up. Are you saying would you expect us to focus more on EEV metrics going forward or…?

Andrew Crean: No, it is really more an observation that it makes it much more difficult for public markets to value a company where the proposition is you are going to value one side through one accounting method, embedded value and another side through a totally different accounting method, which I am still not quite sure how to value Jackson, whether I am looking at your IFRS, looking at your stat, looking at your EV, operating net income. It is a vast array of choices which is unlikely to maximise value.

Chad Myers: One thought on that would be I specifically did not go into EV because there actually not a lot of distortions going on in embedded value and not wanting to prolong the conversation any longer than anybody would want to have. I do not think embedded value is a bad way to look at Jackson, actually, in terms of it has a more long-term view in the market and reasonable prices. I do not think there is necessarily a disconnect between Asia and the US vis a vis that value.

Barry Stowe: Did I answer your first question to your satisfaction? Or at least evade it elegantly?

[ADJOURNMENT]

M&G Prudential

John Foley

Chief Executive, M&G Prudential

Good morning everybody. Everybody got Dim Sum? I can see everybody is ready for the big finish.

So what I want to use this time to talk about today is what M&G Prudential is. What makes us different from our competitors and why I think we have a compelling proposition for customers and shareholders alike. Along the way I want to demonstrate why having asset management and life insurance under one roof makes perfect sense. I will also set out the three competitive advantages which will arise from this business mix.

But what I will not do today is give a detailed account of our future strategy and the financial ambitions of this business. We will do that closer to the point of de-merger.

Building a Simple and Efficient Savings and Investments Business

I know M&G pretty well – or M&G Prudential, I should say. I have been with the Prudential Group for 18 years. 11 years of that within M&G. I am an executive director on the Plc Board, and as well as running the UK and Europe business I have been the Group chief Risk Officer and the Group Treasurer.

When Mike asked me to run this business I said yes, but on two conditions: my first condition was that I get to choose my own management team. The team is now largely in place and I think we have some of the most able people in the industry. Mike Evans was appointed as our chair in September, and Mike, if you would just stand up and take a bow in case anyone wants to speak to him at the lunch break. Together he and I will appoint a number of non-executive directors over the coming months.

The second condition was that I needed a pot of money to upgrade parts of our business. This is necessary to enhance the customer experience and to improve customer outcomes. It is mostly about modernising the infrastructure of the traditional insurance operation in the UK. As everyone knows, there has been an underinvestment in Prudential's UK and European business for the best part of the decade. Quite reasonably, Group has taken the cash flows from UK Life and put them to very profitable use in Asia. Now the time has come to make a fresh investment in what is after all the original Prudential business.

As previously announced we have allocated £250 million of shareholder investment to set us up for future success, plus a contribution from the With-Profits Fund. This investment will help to lower our operating costs and to make us even more competitive. That is to the benefit of both shareholder and customer. Now as well as reinvigorating our business this investment will result in cost savings. We remain on track to achieve annual cost savings of £145 million by full year 2022.

Now with both my conditions satisfied I am confident that my team and I can grow this business, improve outcomes for customers, and unlock the full value of M&G Prudential for shareholders.

The truth is, this business has always generated tremendous shareholder value, but it has not been fashionable to talk about it. Our decision to merge and subsequently to de-merge from

Group means that everyone now wants to understand our story. And I think it is a great story.

So let's start with the merger which we announced in August 2017. As I will show, despite the formal separation of the businesses over the years our fund managers and strategic asset allocation teams have collaborated closely ever since Prudential acquired M&G. I like to call this a symbiotic relationship and I believe it offers huge potential to create value for shareholders now that we are operating under a single management structure. The formal merger of the two businesses last year has enabled us to extend this collaboration much more broadly. That means through other areas such as sales and support services; it also allows us to maximise the efficiency of our investment in new technology.

Track Record of Seeding Asset Management Capabilities

But let's go back 20 years to when Prudential acquired M&G in 1999. The Group paid approximately 10% of assets under management. There were some who said we were paying over the odds for this business. Now let's take a look at the return on that investment. This slide shows how our asset management business has more than doubled in size. The number I really want to highlight though is the growth in assets we manage on behalf of external clients. This business is 7.5 times bigger. It is also worth pointing out that that Life Fund assets were stable for much of this period: now they are growing again thanks to the success of PruFund. And you will hear more about PruFund shortly.

At the time of the M&G acquisition the critics warned that life assurance and asset management would make for odd bedfellows. They said fund managers do not like working for insurers and that insurers do not understand or appreciate fund managers. Well, it does not have to be that way and it is certainly not that way at M&G prudential. In fact it is a relationship of mutual benefit. With each business supporting the other to achieve the best possible outcome for customers.

The result I believe is that M&G Prudential far exceeds the sum of the parts and these numbers prove it. What is at the root of this success? Much of it is down to the symbiotic relationship that I mentioned earlier between the fund managers and the strategic asset allocators of the Life Fund. Each team supports the other in multiple ways. For a start the Life Fund has acted as an incubator for the investment ideas of the fund managers. It has encouraged them to develop new strategies including direct investments in real estate private debt, and infrastructure. And then back them with seed capital. Everyone wins from this collaboration. The six million customers of Prudential's UK Life business have one of the most diversified portfolios in the market. This underpins the reliability of their returns. The scale of the With-Profits fund, now over £130 billion, enables it to achieve a level of diversification not open to smaller funds. At the same time, external clients have been able to share in this innovation under the M&G brand. Today we offer pension funds and under other institutions a rich variety of alternative strategies originally seeded by the Life Fund.

Shareholders also gain because this approach has turbo-charged the growth in our institutional and wholesale businesses. Along the way we have quietly built on of Europe's biggest alternatives operations, with assets under management of over £56 billion.

As well as becoming the UK's largest active fixed income manager we are one of the largest private credit investors in the world. As you can see from this slide, today we have a vast

array of investment capabilities in both public and private markets. We are a leading investor in infrastructure, channelling our customers' savings into everything from hospitals to solar energy. Clare will provide more detail on our alternatives business in her presentation.

Importantly these capabilities like many others at M&G Prudential cannot be easily commoditised by the passive houses. You cannot reduce these capabilities to an algorithm. This is because they involve real assets or private assets. As a result investment management fees for this type of asset management are relatively resilient when compared to the pressures on, say, equity portfolios. And these assets are also sticker.

Sourcing of assets and execution are critical in this space. Again this is something that the team behind the Life Fund have done for many decades especially in real estate. Few know this, but M&G Prudential is one of the UK's largest commercial landlords. This is our first competitive advantage: the breadth of our investment capabilities.

Competitive Advantages Unrivalled in our Peer Group

Now in case you think that the relationship between asset managers and the Life business is a one-way street, let's look at the Prudential With-Profits Fund. This is the engine behind our market leading solutions proposition in the UK, PruFund. With a size of more than £130 billion it is the UK's largest With Profit Fund by quite some distance. The nearest is just £60 billion. It is also one of Europe's largest multi asset funds for retail investors. Around 80% of the assets are managed by M&G Fund Managers and more than 90% of the assets are managed across the Prudential group.

The With-Profits Fund has delivered consistently reliable outcomes for customers, generating positive returns for the past nine consecutive calendar years. There has been just one five-year cycle since 1946 when the fund has failed to deliver a positive return. So to repeat that, it is just one five-year cycle since 1946, for a product which savers hold on average for 15 years. Just take a moment to think about that.

Now unlike our competitors we maintained our With-Profits Fund when the concept dropped out of fashion or was mismanaged by others. That means today we have the perfect engine to power our savings solutions for customers. Over the past decade UK savers have been able to tap into the With Profit Fund through PruFund. It has become the fastest growing asset management product across the entire Prudential Group. As you can see on this slide, PruFund has attracted almost £43 billion of assets. This is our second competitive advantage; we are a leader in savings solutions.

I think of the investment management and the strategic asset allocation as the engine behind M&G Prudential. The motor which drives customer outcomes. But we also have strong capabilities in distribution and two of the strongest brands in the industry. Over the past 12 months we have begun to explore how a more collaborative approach to distribution can improve customer outcomes and capture more assets. In the UK we are looking at how we can make the notion of 'the Man from the Pru' relevant in the digital age. Now Clare will talk more about our digital platform for advice customers in the UK, and it is one of the fastest growing platforms in the market.

Growing International Footprint with Two Outstanding Brands

Internationally, we continue to build out our footprint, opening offices this year in New York, Miami, Melbourne and Sydney. We are also deepening our presence in Europe, building our success under the M&G brand over the past 15 years. From a standing start we have built a £55 billion business in Europe. Italy is now our biggest market outside the UK, with total assets under management of £18 billion and distribution relationships with the likes of Intesa Sanpaulo, Eurizon and Fineco.

We are now exploring how we can bring the benefits of PruFund to European customers through M&G's established distribution network on the continent. Conversations I have had with our leading clients in Italy and France suggest an enormous appetite for the proposition. We just need to get the technical and operational aspects right. And what makes these conversations possible is the quality of our relationships with distributors in Europe and the standing of the M&G brand in these countries. And this is our third competitive advantage: international distribution and two outstanding brands.

Diversified Earnings Profile: A Resilient Platform for Independence and Growth

So you have heard what I think makes us different from the rest of the market and what our competitive advantages are. What then will be the financial characteristics of M&G Prudential? As I said we will provide detailed metrics closer to the time of our listing, but I know some of you have broad questions and I do want to give you a preview of what sort of financial profile we will have. One of your questions is about the dividend.

Future dividend policy will have to be signed off by the M&G Prudential Board which is yet to be created. So I cannot give you an answer today. But you can trust that we will be disciplined custodians of capital investing where we see clear opportunities to deliver attractive returns, reallocating capital away where we do not. And always informed by what is right of the customer, because the investment we are making in M&G Prudential is all about becoming a truly customer-centric business. Now here are the financial facts about this business today.

Solutions and alternatives are at the core of our business. Both are currently resilient to fee compression and the assets are sticky. We have a balanced diversified earnings profile. As the slide shows this reflects the mix of our business lines with individual contributions from asset management, With-Profits, and our traditional insurance and annuity business.

New business is capital-light or capital efficient aside from some seed money. Our wholesale institutional businesses need little in the way of capital. PruFund requires small amounts of capital in the early years of the contract. Financial strength: an independent M&G Prudential will be financially strong. We expect to have a Solvency II ratio of 170% with an appropriate capital mix.

Combination of Global Trends and Competitive Advantages Create Opportunity

Now a few words on de-merger. As you have heard from Mike and Mark, we remain on track for our market listing. We expect the legal process behind the £12 billion annuity sale to Rothsay to complete by the end of 2019. At present we have no plans to sell any further tranches of the annuity book. Once independent, we can truly become masters of our own destiny as the leader in savings and investments. We will have control over our own capital and the leadership team focused solely on our business and on our customers.

As you have heard I think we have a unique mix of businesses, capabilities and people. We have begun to think of M&G Prudential as a virtuous circle, each part of the business feeding another, with a multiplier effect for customers and shareholders alike. De-merger will give us the opportunity and the capital to scale this business. Intelligent use of technology will be critical. It is the only way we can become an efficient, simple and customer-centric business of scale. And the opportunity for M&G Prudential is huge; our ambition is to be truly global. Clients already choose us because of our global investment capabilities. I see no reason why we cannot have a correspondingly global reach in sales and service.

In Europe alone the growth opportunity is much the same as for our colleagues in Asia and the US, a growing savings gap. You can see the opportunity on this slide. Improvements in longevity mean we all must save more and start earlier if we want to enjoy our retirement rather than merely get by. Support from the state is evaporating across Europe and employers are gradually retreating from guaranteed retirement provision. The result is a vast savings gap. In the UK this can be seen in the 62% fall in in annuity sales over the past five years. At the time there are millions of people with sizeable assets who want to grow or protect their value either for themselves or their children. Many savers seem to be keeping their money in cash despite the negative real return. Some €10 trillion of household money sits largely idle, in cash, across the European Union.

The truth is that they are reluctant to take on the risk of capital markets, without some form of professional help. Who will they turn to for that help? Well I would like them to come to us. And why not? As a leading provider of solutions with two of the most trusted brands in the industry we are well placed to be their first choice in savings and investments.

An Ambition Building on Success

So to conclude my section, asset management and life insurance can be a winning mix if done the M&G Prudential way so that the whole is greater than the sum of the parts. Our competitive advantages are the breadth of our investment capabilities; our leadership in savings solutions; an international distribution footprint; and two strong brands. I look forward to your questions later. Now I will hand over to Clare who will look at some of these areas in a little more detail. Thank you.

M&G Prudential

Clare Bousfield

Chief Financial Officer, M&G Prudential

Thank you, John.

Getting to Know Our Business

I am going to cover three specific areas, deep dive into our business. These represent some of the breadth of the customer offering that we are able to deliver to our customers. All three of them I believe are underappreciated by the market. They do not represent the entirety of our business but you will see they each represent some of the distinctive propositions that we are able to offer. The first area that I am going to cover is the With-Profits Fund. As John said it is one of the largest multi-asset funds in Europe.

The second area I am going to talk about is our advice platform. It is the fastest growing platform in the UK market both by relative and in absolute terms. And the third area I will talk about is the 20 years that we have developed the capability around private assets.

You will see how we are able to deliver superior customer outcomes as a result of these three capabilities. I will also demonstrate how we manage and drive values and the interlinkages between the shareholder, the policy holder and also our life insurance and our asset management capabilities.

Our With-Profits Fund Now Totals £134 billion

So the With Profit Fund is 170 years old. It has an estate of £9 billion which has been built up over that 170-year period. The total assets are £134 billion. It is a unique fund in the UK market both in terms of size and strength. And the PruFund proposition is unique in the market. You can see from the red boxes on the chart on the left-hand side the growth in the PruFund over the last five years, from £9 billion up to just over £40 billion at June this year. On the right-hand side you can see the asset allocation. The different asset classes and the different geographies demonstrate the strength and the size of the fund.

As a retail customer investing in the fund they get access to both public and private assets that they would not be able to access elsewhere driven by the size and the strength of the fund. Over 90% of the assets are invested by internal asset managers, 80% by M&G.

PruFund's Success Is Due to its Ability to Address Customer Needs

The close collaboration between the life insurance and asset management business means that we can actually very closely link the customer need with the investment outcome.

I am now going to deep dive into the PruFund and talk a little bit about why the PruFund is so successful in addressing our customer needs. It is a simple product, easy to understand, and it allows our customers to plan for the future. The customer has the choice of multiple tax wrappers and different investment profiles depending on their financial position and their underlying risk appetite.

On a daily basis the expected growth rate is added to that investment pot and you can see on the right-hand side the dark blue or green line shows the EGR. The EGR is adjusted on a daily basis if the underlying values move by more than some pre-set tolerance limits. The

PruFund growth fund has delivered an 84% return over and above the capital invested over a ten-year period and you can see against the benchmarks that has outperformed the benchmarks significantly over the period. That is driven by the diversification, the investment expertise, and the unconstrained asset allocation which is fundamentally driven by the strength and the size of the fund.

In 2006, we launched the PruFund. We took a static traditional With Profit Fund and created it into a successful proposition with the PruFund. The funds under management are just over £40 billion and growing.

With-Profits Fund Through the Lens of Customers and Shareholders

I think it is useful to understand a little bit more about the PruFund proposition and particularly the three key stakeholders: our customers, the With-Profits Fund itself, and shareholders. So if you just take each one of those in turn, from the customer perspective, our customers invest a pot, they then receive the EGR on a daily basis. The EGR is adjusted for significant market movements.

Against that pot, we deduct an annual management charge which represents both the administration and the investment fee. And then the customer can withdraw either in part or in full as and when he needs his funds.

The With-Profit Fund receives the actual investment return and then accrues to the customer the EGR. The Fund receives the difference between the annual management charge and the costs of administering and managing the investment proposition. And then the fund itself will pay the shareholder transfer at the point of the customer withdrawal.

So from a shareholder perspective, the shareholder receives the With-Profit Fund and the transfer at the point of the customer withdrawal. That amount is equal to one ninth of the difference between the amount withdrawn and the amount invested.

With-Profits Expected to Generate Sustained and Growing Cash Stream

Just taking the shareholder perspective and just exploring that in a bit more detail, the fund is a 90/10 fund as you would typically see in the UK market. The principle propositions relate to the PruFund and the traditional With-Profits business. The PruFund is a 90/10 fund. The shareholder receives one ninth of the smoothed investment return realised by the customer. That is effectively the EGR which is typically around 5-6%. For the traditional With-Profits business, again, a 90/10 product. The shareholder is still entitled to one ninth but that is distributed by the typical annual and final bonuses.

The chart in the middle shows the emergence of value. And you can see in that chart just the amount of accrued value that is sitting on our balance sheet today. You can see a substantial proportion of that comes from the traditional book but also the PruFund in terms of the in-force book.

We have included an illustrative view of new business. That assumes that new business stays static annually through this period. From a shareholder perspective there is a small strain that the shareholder is subject to. The PruFund is a very capital efficient product. There is a strain of round about 1% of the assets under management depending on market conditions on a Solvency II basis. That strain is relatively low for a typical Life product in the UK and the payback period is significantly faster. The strain is driven by a one in 200-year event that we

have to stress the balance sheet on a one year basis under Solvency II. And because the shareholder is subject to the investment risk both up and down, and Solvency II does not allow us to account for investment returns on anything more than risk free, that creates a strain on day one.

That strain is typically paid back in around about a three- to four-year period.

We Launched Our Digital Platform in September 2016

I am now going to move onto the second area, our advice platform. A lot of people ask us what is our platform strategy? And that is not surprising given the platform market has doubled in the last four years. We launched a platform in September 2016 and the assets under administration at the end June were just over £10 billion. And we have 66,000 customers. We launched a self-invested personal pension with draw-down capability as the first tax wrapper. And that was driven by the recently introduced pensions freedoms at the time. 90% of the assets are PruFund assets. We have just included 50 of the M&G funds onto the platform.

We are also in the process of launching to a small number of our own advisers' digital customer adviser and operational journeys.

Fastest Growing Platform in the UK over H1 2018

This slide shows the growth of the advice platform over the last two years. As I said, it is the fastest growing platform in the UK market both in absolute and relative terms. On the right-hand side you can see how the growth has been driven compared to our competitors. We also write an ISA, an onshore and an offshore bond, but currently those are not on the platform. The plan is for the platform to offer the full range of tax wrappers including the ISA, bonds, and a general investment account.

The pricing of the product is strong, driven by the strength and the value that our customers get from the PruFund proposition. As we implement a digital journey we will drive efficiencies through the business and look to reduce the administration fee to make it competitive particularly for solutions outside the PruFund.

We Support Customers Along The Entire Value Chain

I wanted to just cover the value chain. The value chain as I see it is the advice distribution and guidance; manufacturing capability including guarantees and smoothing; and then the investment proposition. You will see that M&G Prudential is strong in all elements of this value chain.

From an advice and distribution perspective we interact with over 7,500 intermediaries, and we have a top ten advice business with around 350 advisers. The launch of digital customer adviser and operational journeys will also form the platform for a direct proposition.

From a manufacturing perspective, we will have a full range of tax wrappers on the advice platform, and the strength of the smoothing and the guarantees via the PruFund gives us real strength in manufacturing. From an investment proposition, the breadth and capability of our investment proposition including the launch of the 50 M&G funds onto the platform provides good value for money investment solutions to our customers. The PruFund will provide an entry point to provide access into the intermediary market given we are relatively late to market in the advice platform, with a broad investment proposition and being able to offer

our customers interaction through guidance and advice however they choose to receive it will allow us to provide a closed architecture fund at a competitive price.

We Offer Client a Broad Range of Private Asset Capabilities

The final area that I want to talk about is our private asset capability that we have built up over 20 years. Our private asset capability is just under £60 billion of assets under management and that ranges from real estate private debt into infrastructure. Both the With-Profit Fund and our Annuity portfolio benefit from our private asset capability and that has been a key driver in terms of the underlying performance with the With-Profit Fund and from an annuity book the illiquid nature of the liabilities is a good match for the private assets.

Private assets are a high margin, high revenue product. They provide resilience and stickiness, around 25% of the assets under management is in closed-end funds. And typically, our clients are investing for around ten years. So a long duration, long-tenure investment solution. As John talked about, the capability both in terms of sourcing, the relationships we have and the expertise that we have developed over 20 years is pretty difficult to replicate.

Example of Capability Building: Leveraged Loans

The relationship with the Life Fund has been critical in delivering this track record and success. One of the examples is on leveraged loans. In 1999, we were one of the first non-bank investors to invest in leveraged loans and we did that on behalf of the With Profit Fund. That provided value as a first mover and then in 2003 we took it externally into our external clients. And you can see from this chart that we have developed that with over £8 billion of assets under management predominantly with our external clients. Our external clients now provide the cornerstone in some of these new strategies.

Private Assets are high Value and Long Tenure Products

Private Assets are in high demand. The investment profile, the return and the search for yield are the primary drivers. Analysts are expecting this area to double in the next six years. On the left-hand side you can see the average market fees for this institutional asset and you can see that we play at the premium end of this market. On the right-hand side, you can see in terms of our portfolio, the tenure. You can see that from a closed end fund perspective, our assets under management around 25% and from a revenue perspective 40%.

By the nature of the closed end fund, our clients are typically investing for ten plus years. This is driven by the relationships that we have, the performance, and the track record, and not only the relationship with our clients but also the relationship that allows us to source assets. As John said, we are one of the largest private credit investors in the world.

Summary

So in conclusion, I have talked about three key areas where I believe we have a strong proven track record. They all represent distinctive propositions that are difficult to replicate. I am extremely proud of what we have delivered and what we continue to deliver. As John said, we will provide closer to de-merger more details of our business segmentation and financial profile.

Q&A

Greg Paterson (KBW): I will keep it to three questions. Just on the PruFund, three questions. Two questions on the PruFund and one on Solvency. Just talk about your ability to apply market value adjusters on the PruFund and what sort of rules and conditions you would do that in, and secondly, is my understanding correct that the crediting rate is gross of the platform and the asset management fee? And if it is, could you just give us an idea of what those would be? And then thirdly on your solvency II target coverage ratio of 1.7 times, I understand that to be a shareholder view given the size of the inherited estate etc. What is your target on a regulatory view for that metric please?

Clare Bousfield: So I am going to take your second question first, Greg. So yes, the returns are gross of the underlying fees charged from a customer perspective. For the investment proposition and the administration our fees are round about 100 to 120 bps. That is excluding the advice. In terms of the first question around market value adjusters, when you look at the slide I showed and the dark line, that basically shows the adjustments that we have basically made, which you could put akin to a MVR. And the way the fund operates is we basically have a set of pre-set tolerance limits, and if the underlying value moves by more than that it effectively gets adjusted by half of that: half of the difference between unsmoothed and smoothed.

Clare Bousfield: Yes. And remind me your third question.

Greg Paterson: So the solvency ratio target you announced a few weeks back as 1.7 times. Now that is a shareholder view which is probably a poor representation of your financial situation because you have such a large with Profit Fund with the benefit of an inherited estate. So what would be your target on the regulatory view that goes into the SFCR assets?

Clare Bousfield: So the shareholder solvency view is actually a good representation of our business, because the shareholder solvency view includes any burn through cost from the With Profit Fund. And so from our perspective that 170 is a fair representation of the overall solvency position of the company. If you take the regulatory solvency ratio, then that includes the With-Profits SCR both in terms of in the denominator and numerator. That is not a good representation because it is not giving you any credit for effectively the strengths of the underlying With Profit Fund.

Jon Hocking (Morgan Stanley): Thank you. Jon Hocking, from Morgan Stanley. On the strain number you have mentioned, the 100 bps of AUM, as the shareholder count. Is the growth strain just the normal 90/10 rules that applies? And then in terms of the sensitivity of that strain to interest rates, what has to happen from a macro point of view for that strain to disappear or reduce materially?

Clare Bousfield: So that is purely the strain from a shareholder perspective. Obviously the With Profit Fund and the estate is supporting the strain from a broader perspective. You are right; the actual strain itself is sensitive to interest rates. I do not have the full details here of that exact sensitivity.

Johnny Vo (Goldman Sachs): Johnny Vo from Goldman Sachs. Just a question on your platform. Is your platform fully open architecture? And what is the underlying company that supports that platform? Secondly, can clients access the PruFund without going on the

platform? And the third question is, in terms of illiquid assets, are you planning to use the illiquid assets to bolster the annuity liabilities in terms of generating capital going forward?

Clare Bousfield: So the advice platform is a closed architecture platform and that is driven just by the strengths of the investment proposition that we have, both from M&G and the other internal asset managers across plc. And we have no intention of making it open architecture, partly because from a customer perspective, I do not think it is particularly useful having 5,000 funds that they have to select from. And actually being able to narrow the range and provide customers with something that is broad but not overly difficult for them to actually identify what fits their needs.

I have now forgotten the other two questions that you were asking.

Speaker: PruFund access, non-advised.

Clare Bousfield: So right now we do not. We offer the other tax wrappers from a PruFund perspective, so the ISA, the onshore and offshore bonds. They are all off platform solutions. We don't offer the solutions on a direct basis; we are working through that as I talked about. I talked about the digital journeys that we are just launching right now. That will provide a platform in terms of being able to then broaden this into a direct proposition.

And the other question you had was around the illiquids on the annuity portfolio. So we already use the private asset capability to support the annuity portfolio that effectively matches the illiquid nature of the liabilities with the assets. But that is obviously within defined limits in terms of the overall risk appetite of that fund.

Andrew Crean (Autonomous): Hello, it is Andrew Crean at Autonomous. Two questions. I think the Group's central costs are something like £340 million a year. How much of those will be parked in your business once you separate? And secondly, I cannot quite see the logic: you stopped writing annuity new business; you sold off £12 billion in annuities; and yet you want to keep the other £21 billion which as I understand it would have a bigger capital release than the sale of the first £12 billion. So what is the logic which lies behind that one?

John Foley: So on the annuity book, I think we have got it down to a level that we think is acceptable from a risk balance sheet perspective. It is an efficient business for us; it is a well-run business. We are happy with the risk. It is a business that has a number of attractions: the first is cash flow; the second is that it provides the M&G business with – as I was saying in my presentation – assets and capabilities that we then sell to third parties. Once we start reducing those capabilities from an internal perspective, then I think it becomes an issue for third party customers – particularly institutions. So when I go and talk to our clients, one of the things they are interested in is the fact that we manage large chunks of money on behalf of the internal client, and annuities forms part of that portfolio.

Now, that is not to say that in the future we would not do something on annuities; what I said is that we have no plans to do it today. I think the other thing to mention around annuities is that one of the issues for us in terms of the merger date is when we actually finish the part VII with Rothesay. And until we have done that we cannot de-merge. If we were to do another transaction now we would be delaying de-merger again. So these questions will come up when we have a separate Plc, rather than any time between now and when that happens.

Clare Bousfield: And then on your first question around head office costs. Mark talked in his presentation about the building of the internal model capabilities that the Group has and effectively moving those to the UK. That is an example of where what we are actually doing is leveraging what the Group has today, and that will move to the UK in terms of the support. Group Head Office costs we have to build ourselves, so investor relations is a good example.so we are basically working through that in terms of what capabilities we actually need, and starting to retract that and get those people on board in terms of actually working out what that Group Head Office will look like. Too early to say.

Blair Stewart (BAML): Thank you. It is Blair Stewart from BoAML. Two questions I think. The annuity asset portfolio is extremely conservative versus some other companies. We saw the split yesterday. Is there a desire to re-risk that book at some point? And if not, I am assuming that a potential buyer of the book would also be prepared to re-risk it. Therefore there could be a value transfer if you decided to sell it on. But the main question is, are you intending on re-risking that book?

And the second question is, related to the With-Profits Fund. The estate is significant, but the Fund is growing a lot. At what point does the fund start to outgrow the estate which means the shareholder strain would potentially go up? If that makes sense.

John Foley: Thanks Blair. So on the annuity portfolio we are reviewing it all the time. You are right in the sense of the conservatism around it from the asset perspective. And is that something we have if you like up our sleeves whatever we might decide with that book in the future? Yes it is.

Will we be doing it? We do stuff on the annuity book all the time but not in a dramatic way and our job as we see it, particularly with closed books, is to squeeze the performance out of it. And that is what we will continue to do. Others as we have seen from some of the things we have done and particularly the deal that we did with Rothesay and the process we went through with a number of bidders on that book – we understand how other institutions look at the asset side of that business. It is interesting. We learned a lot as we went through the process. We might apply some of it.

Clare Bousfield: And then on the size of the estate. So the fund itself is very strong and actually, what we are seeing is the traditional With-Profits business running off – and that is typically business that has higher guarantees than the PruFund. But actually, if anything it is the strength of the fund in terms of actually how strong it can get. That is the bigger challenge, I would have said, than depletion of that estate.

We would also look to leverage the estate in terms of the kind of capital intensity of our business. So if interest rates increase, guarantees will become more attractive, and therefore actually leveraging that estate in terms of providing those customer solutions, particularly if we start to hit some volatile markets.

Oliver Steel (Deutsche Bank): Oliver Steel, Deutsche Bank. Two questions. First is, you seem to have come up with yet another way of splitting your profits from previous versions. Are you still saying that the management actions – perhaps not so much the performance fees – are going to drop away sharply? I think that is what you said at the interim, but it seems to be a little bit different from your answer to Blair's question just now about re-risking.

Second question is, are you happy that the £250 million restructuring charge that you have laid out so far is going to be enough?

John Foley: I will take the first one. I did not mean to confuse the issue with Blair's question. The point of running a back book is that we are learning from whatever the market is doing at any particular point in time. So if we see an opportunity we might take it. But on management actions there are what you might consider the standard ones like reinsurance, and once you have sold a third of your book, you are somewhat limited in what you can do going forward. So I think our view remains the same that the ability to carry out management actions are somewhat less than they were in the past. Are we looking for new opportunities? Do we try and manage the book through that lens? Yes, we do. And I think shareholders would expect us to. So that would be my response to that.

Clare Bousfield: But on the costs and investment costs, the £250 million that shareholders are investing: yes, today, we believe that is sufficient in terms of being able to provide the £145 million of savings, and also driving stronger customer outcomes in terms of some of the digital capability.

Patrick Lemmens (Robeco): Patrick Lemmens from Robeco. To go on on that £145 million, I mean, I have been here looking at digital capabilities, running a fintech fund. And clearly a lot of money is needed. You need to invest. You have just completed a ten-year period of underinvestment, and now you are going to save some more costs. So maybe you should be spending that £145 million per annum to actually invest more and become a digital leader rather than doing what is just necessary?

Clare Bousfield: So that investment is going in to effectively drive a number of different outcomes but the use of digital and technology, we have been relatively late to the market. I have talked about the advice platform in terms of what we have been able to do. That is effectively to buy this technology and capability relatively cheaply learning from some of the mistakes our competitors have made. So I would not see the £250 million as purely driving cost savings; it is actually about investing in our business in terms of creating the technology, driving better customer outcomes, managing conduct risks. And as a by-product we get cost efficiency as a result of it.

Greg Paterson: Two questions. One is, how much is the policy holder fund investing in the restructuring? I did not think you gave a number. And the second question: slightly confused, and maybe it is my misunderstanding of the structure, the PruFund, but if it has lower guarantees and you have an estate, why is there burn through to shareholders in terms of new business strain? I thought it would be adequately covered by the estate.

Clare Bousfield: So the reason you get a strain on the shareholder side is because the shareholder is exposed to on its transfer both an up and a down on the investment markets. That is why you are getting the shareholder strain. It is not because there is any burn through in terms of the With-Profit Fund. It is purely the fact that the shareholder has that up and downside risk.

John Foley: I am trying to think of a longer way of answering your question, Greg, than saying that we are not going to disclose what the policy holder is contributing to that. But it is substantial, and you can be certain that there are equivalent benefits for the policy holders in making that contribution.

Group Q&A

Colm Kelly (UBS): Colm Kelly, UBS. A question on the balance sheet and de-risking. So obviously there is a very strong growth focus of the Group which is very clear. What is clear also through the slide pack is that there has been also certainly an internal focus on de-risking parts of the balance sheet, particularly credit risk across US, Asia, M&G Prudential, and a lot of the corporate activity to an extent. I feel that has been a focus of doing that as well. So when you see the balance sheet as it is today, what are the areas from here you would like to maybe tackle in the next couple of years? What areas of that balance sheet or risk profile should we see as in scope for change from here? Thank you.

Mike Wells: So in the broader view of risks, I appreciate the comments. So we have aimed to de-risk in credit. Clearly the US has aimed at de-risking the equity risk by the level of hedges we are maintaining now. We have exited, as we showed you when we were talking about active management, about £300 million of recurring earnings businesses; markets; channels, etc., that we think cross cycle had more down side than upside, or were not at scale for management retention, reinvestment, etc. And again to suggest that people do not find those businesses valuable. But again that is a view towards the current view of the management team that at this scale, resilience is something we could afford to build for not to fill back for some of those decisions.

So I appreciate there is a loss of earnings, but I think there is also a much more resilient earnings base. The other that is obviously risk related is the shift in Asia, in particular to more recurring premium. And this is again to get us more neutral to interest or equity rate cycles. So looking at it now, I think we are actually where we need to be. I mean, the last risk that gets addressed is FX. Clearly being pound denominated there has been some noise in the pound due to recent political events. And I think the alignment on the demerger of the two businesses – one primarily a pound earner and one primarily a dollar earner, or effectively a dollar-linked earner – takes a lot of the FX noise hopefully out of the shares. And that is as much market element as it is an earnings element. But there is a real cost to that as we have told you: we hedge our dividends once declared so that does have a cost to us that when currencies are more volatile is higher. So that comes out of the business plan, effectively, when we get that split done. So that is the last piece.

But no. There is no other part of the business that we would look at. I should look at our CRO, but I do not think that there is any part of the business that we are looking at now that we think has a material risk. Do you think?

James Turner: No. We are in the situation where the half year, £74 billion of the £94 billion of invested assets was in debt; and then as we set out the risk profile of that debt is extremely conservative. So I am very comfortable in terms of where it is.

Jon Hocking: Thank you. I have two questions please. I understand you cannot comment on the M&G Pru dividend policy until the Board is in place. What should we think about the Pru Plc dividend policy going forward, given the different shape of the business, and the growth focus? First question.

And then second question, given what you have said about FX, does it make sense to report in dollars going forward, rather than sterling as at the moment?

Mike Wells: So I am going to give you a little bit of the same answer. It is a Board decision, not a management decision, on dividend policy. So I think to the question earlier on dividend capability of the businesses, I think what you see is there is nothing occurring in the business which diminishes any business's ability to continue paying dividends. The question for both boards as they split with their new own risk appetites and own dynamics is what is the reinvestment rate? What are the opportunities in front of us? What is the dividend for competitors with similar securities, similar positions in the market place? And that is the natural tension I think for both boards. But I cannot give you a forward-looking view. In the interim obviously our current dividend policy is well strained, well tested. We are very confident with it and stand by it. Mark, do you want to talk about reporting currencies?

Mark Fitzpatrick: Yes, sure. John, thanks for the question. In terms of reporting currencies we have looked at it and recently agreed that we would at the right time look to switch over to BAU US dollar reporting entity for Plc. Just given the underlying currencies that come up and we think as Mike said, it ought to strip out some of the currency noise in the accounts.

Johnny Vo: I guess coming back to Jon's question again, when you look at all the three regions, there seems to be growth opportunities and significant potential, significant investment opportunities. Tell us the demerger change the capital allocation decisions that you need to make? And second thing is, how much capacity do you need to have to meet the needs of each of the businesses?

Mike Wells: It is a great question Johnny. There is no constraint on any of the businesses for organic growth. Let's start there. So Asia does not have a sales cap on a given product in any given market, etc. It is inorganic, the capability; some of the partnerships. Monetising those sorts of activities that would create additional strain. And I think they vary in size and scale, so I think the combined business will have plenty of bandwidth to do the kinds of things we have been doing. Renewals of bank relationships; the Babylon size elevations in our capability.

The bancassurance relationships you have seen down the last year in Asia. The bolt on you saw in the US. You see all that in the normal course, and I think that is part of the scale issue that I have been arguing we need. I think I mentioned this yesterday: if you went to the market for £200 or £300 or £400 million transaction you would be a diminished buyer at the table. There is just no way around that. Firms ask, because there is a counterparty in the first round. And if you ask John, we looked at the transaction with Rothesay. Anybody that needed to come back to you or to reinsurers, or to the debt markets, to be able to fulfil their bid, John – is it fair to say that were looked at differently?

John Foley: Yeah. Completely differently.

Mike Wells: So we do not want to be that firm. Given the size and scale of the Group we want to maximise the value of that. I think on the larger strategic, it is clear when both these firms split, they have options and choices they have never had before and for a lot of reasons. I mentioned yesterday the number of potential relationships, partnerships, things we can do is material. And if they are larger we would come back to markets for that. If we thought they were accretive and they added value or dimensions to the firm that were unique then I do not think as a management team or as a Board – let's be clear, these are growing businesses. So if there is something that we think is important to the shareholder base and

the long-term success of the company we have debt as options and we would have equity as options. And both of those for the further growth and scale of the business are at a certain size, I think, on the table. But we should not be coming to you for things that a firm our size should be capable of funding off the success of the previous back book.

Greg Peterson (KBW): Thank you. Greg Paterson, KBW. Just to explore the dividend theme, very happy that you acknowledged the bancassurance deals as a central funding function as we have discuss before and also mentioned Babylon. So I have two questions. As a source of addition capital requirement finance from the US, could Nic give us some idea of what the next five years' additional or CAPEX on, call it, new age, IT, IP, whatever it is going to be. What step up is that, so we have a feel for the magnitude? And I wonder if you could give us an idea of what the sort of currents of the next three year pipeline for bancassurance deals are in Asia: which ones are coming up, which ones will be of magnitude, and some of the thinking about pricing of those?

Mike Wells: So the second one, now. That would be competitive information. We are not looking to have competitors in Asia or competitors who are not in Asia that wish they were in Asia saying, 'We did not realise that bank was coming up.' So I do not think it is appropriate. We are not going to share with you what bank relationships are on the horizon. No scenario would go in that space.

On CAPEX, the Asia team, the US team, the UK team have more ideas and more things on the horizon and there is a fantastic energy right now on what is possible. And that said, that has been true for a long time in the Group and there has always been a discipline in how we allocate capital, and there is a reasonableness in management bandwidth and our ability to integrate different activities. So we have to stay focused. I think the priorities for Asia have been very clear on what we want to do. So the choices in how to accelerate that do come at different sort of capital tiers. So I think the Asia team is live to that. Is that fair?

Nic Nicandrou: Absolutely. The opportunities that we showcased yesterday in the technology space, when it comes to service, increasing touchpoints is organic in nature. In Babylon, yes, there was an up-front payment but that buy us a number of years of working with them. Because they are organic in nature we get to decide the scale and pace at which we can undertake those.

Then of course, any extra OPEX expense, ultimately will be funded by scale benefits, and other efficiencies that these investments generate. In Asia, our total cost base is £2 billion. So there are abilities to repurpose spend. And as I said these things will generate savings. If there is CAPEX that is needed then we will fund that out of retained earnings.

Nic Nicandrou: I did. Okay. No, last year, I said that when it comes to operating, the operational and the CAPEX costs in 2017 for example, they were of the order of about £250 million in my business. And I indicated that we would increase that to £300 million which is what we are spending this year. As we look forward that number will be bigger but I did not indicate that it will drive an overall increase in our expenditure: I said that it will make up a bigger proportion of our total costs. As I said, they will drive efficiencies. There is ability to repurpose spend and I will do that and if we need to make some CAPEX investment then we will fund that from the capital that we have on our balance sheet.

Chantal Waight: I think we owe Blair an answer from yesterday. Having referred to some Solvency II statistics, what we can say in terms of capitalisation for plc going forward.

Mark FitzPatrick: So in terms of Plc going forward, today, and until the point of demerger, we will continue to be subject to Solvency II. M&G Prudential will continue to be a key part of the Group. We are in the early stages of discussion with the Hong Kong Insurance Authority in terms of what the new capital regime will be like and therefore what the requirements of that will be. The one thing that we have agreed with the Hong Kong Insurance Authority is that the Jackson National Deduction and Aggregation methodology will be maintained going forward in terms of the way we operate and the way it is set out currently in the accounts from a Solvency II perspective. And as soon as we can share with you what the new position will be once we have agreed it with the Hong Kong Insurance Authority, we will look to share that with you.

Blair Stewart: Thanks. I just want to come back on that if possible. So when the businesses are separated next year, how does the Plc business look from a capitalisation perspective based on today's rules? Presumably you can answer that.

Mark FitzPatrick: In terms of today's numbers we have not disclosed what the element of that particular position would be like because technically the element of stripping out the UK, Solvency II would not apply in that new world. So it is very much a hypothetical constructed position rather than the reality of what the position would be. If you bear in mind from an Asian perspective, and something we have been saying for a while is, when you look at the capital within Asia, the element that bites is the local statutory position rather than the solvency II position from that particular piece.

Blair Stewart: Yes. Because I think on a solvency II basis it would be something like 250% if you look at the Group and take out the UK at 170%.

Mark FitzPatrick: It would be significantly higher than it is at the moment.

Blair Stewart: It would be a higher number. So would you describe the plc business as adequately over or under capitalised? I guess is one of the first two.

Mark FitzPatrick: In reality, Blair, I think we need to look and wait to see what the Hong Kong regulator comes out with, so that we can make that determination against a methodology rather than just a standalone in abstract. In terms of where we stand today, very comfortable with the level of capitalisation that we have in terms of the capital, in terms of the risk that we run.

Blair Stewart: So that is a stock of capital. Could I just ask something around the flow of capital? Because you talked about bandwidth, I think, Mike, was the word you used. And just looking at the capital generation of the two businesses, for the plc business at the moment. I appreciate the organic growth opportunity is what it is all about. And I think you have done a great job of explaining that. But the inorganic stuff, inorganic cost: it is not clear where the bandwidth is. When you look at the cash flows coming from Asia and the US and set that against central costs in any reasonable dividend policy, it is not clear to me that there is a great deal of bandwidth.

Mike Wells: Again, we have not defined central cost or dividend policy so I cannot fill back in the gaps for you at this point. But as we get further, we get to the point of the roadshow

with the UK we will have similar information to you on the plc that shows you what the final looked like. Obviously we are looking at reducing costs. We have a very different model going forward. So some of those central costs that you referred to, we expect to be at a lower number. And again we will get to dividend policy, and those elements; we will give you a little better look then we will have at least the transitional regulatory regime to give you the answer to your first question as well.

Blair Stewart: Any idea when those roadshows might happen?

Mike Wells: We have to get through the part VII and the final steps again before we can. The parts that are in our control that we mentioned are on schedule. That piece, we cannot define. That is UK courts and the regulatory piece in the UK. So there is nothing to suggest it is not proceeding at pace but it is not something that we can influence. And just to be clear why, for the room: we do not want to split them with a relationship that is not finalised on severing that piece. There is language around reinsurance agreement like that has protections if the transaction fell apart so those would go to the original entities. So we need a clean break on that book before we can separate the two companies. It is an important step in this.

Scott Russell (Macquarie): What is the strategic asset allocation for Asia? I do not think we touched on that yesterday, but it was interesting hearing this morning particularly about the UK With-Profits Fund which is almost three quarters now in listed equities and private assets. Now I recognise the universe in Asia is very different and there are obviously ALM differences as well, but is that the direction of travel for your Asian par funds? I would just be interested to hear thoughts on the philosophy behind how you are investing investment assets in Asia which are backing the par funds.

Nic Nicandrou: I do not have the precise split front of mind. I do not know if Raghu is in the room and he has information to hand. You do? We had a slide but in the end, there were too many and we did not include it.

Raghu Hariharan: In the par fund, the equity backing ratio is around 40% in Asia. So 60% is in mostly fixed income half of that is in government bonds half of that is in corporate bonds. And below in investment grade is 7%. So it is a pretty strong fund.

To the other part of the question, Scott, around the strategic asset allocation, clearly this is something that we review every year. And it moves in tandem with illustration rates and achieved rates on the funds themselves. So as of now we are feeling pretty good with the asset allocation as is.

Nic Nicandrou: So yes. On the With-Profit Fund is in line with the expectations. Because we have run those funds on a PRE-basis. Because the business both in the Singapore With Profit Fund and the Hong Kong With Profit Fund were branches of the UK business. Clearly Hong Kong recently domesticated. In relation to the non-With Profit business, most of the balance sheet is effectively backing the protection insurance that we provide. And as Raghu showed you yesterday, a lot of that is on a fixed income backed, mostly from government bonds. And we are happy with our profile. We do not need to stretch for yield in that part of the book because the underlying profitability of the insurance propositions is strong.

Abid Hussain: Just carrying back to the earlier question on distribution agreements, can you just share to what extent can PCA fund these depreciation agreements without the support of other parts of the Group?

Mike Wells: The question is order of magnitude of the agreement. So you want to take a shot at that? The largest ones, no. The mid-size and all the ones you saw down this year, absolutely. It is just a function of the particular agreement, the duration of the agreement, the structure of the agreement. The nature of the current agreements is far less up front as Nic's mentioned. So an agreement signed three or four or five years ago had a very different cost structure when you deployed the capital than the current ones we are doing now. But they are one by one and the team looks at them individually. Nic, you want to comment further?

Nic Nicandrou: I mean, they come in different shapes and sizes. Absolutely. A lot of the ones we are doing we have done in the last year and a bit were non-exclusive in nature where we go after a particular segment. I think Lilian highlighted that. With a proposition that we know is stronger than our competitors' and one that we can execute to quite quickly. So it depends whether exclusive, non-exclusive, the duration, and the nature of the agreement that you have. How much of that effectively will be paid as a variable fee as the production is delivered versus just a fixed up front. They come in different shapes and sizes.

Abid Hussain: So I appreciate they come in different sizes and vary by up front payment versus trail commission. But if just use the UOB distribution agreement as an example I think you paid something like $475 million up front for that. Could you fund something half the size of that for example, with a similar structure up front versus trail commission?

Nic Nicandrou: At the time when we did the UOB deal I said different shapes and sizes and nuances if I can add that third dimension. We are also buying their existing in force Life operations both in Malaysia and Singapore, so that is another dimension. Clearly not all distribution deals that we look at have that component. Some do, some do not. So yes. Shapes, sizes and nuances.

Closing Address & Thanks

Mike Wells

Group CEO

Let me wrap up with a couple of things. A couple of you asked about the fintech events. There is a lot going on in Singapore this week as you are well ago. Our conference being probably one of the most important things. But there is also Asian conference and the fintech event with 42,000 people at it. So I did have our team Singapore were kind enough to put together about a minute clip of that, so we will show you at the very end for those of you who cannot make it to the office. And I think it just shows you: I started the conference by talking about the energy in this part of the world and some of the creativity and the dynamics. They did a good job of capturing a bit of that and our interaction with it. I guess where I would like to leave you, what I hope you heard in the last couple of days is, from a macro point of view, we do not have a business that is not in a market with material structural demand. That is a great place to get up in the morning when you do what we do for a living. We have leadership positions in almost every single market we are in. We have a unique product track records or product designs in almost every single market we are in. We have trusted brands in almost every single market we are in. And the similarity in the businesses, if you think about what you heard over the last couple of days is that if you do our job well for the consumers we are stacking vintage after vintage of profitable cohorts on years and years of profitable relationships with consumers.

We are not talking about blocks that did not work or products that fail. What we are talking about is the success over time and that funds the choices that we have for where we go. A lot of this is people: just proportional amount of it is people. We have an incredibly talented staff. I have been here more than 23 years: we have never had this depth and breadth of talent in the Group. And when I first took the role I told a number of you, when I first joined people thought we were bigger than we were, and now people underestimate the size and breadth of the Group and its capabilities. I hope you get a feeling for how many things this team can do at once.

The de-merger is one critical thing we are working on but as Mark mentioned it is about 200 people out of 24,000 plus. The rest are working on all those other things you saw in the various businesses. And every one of the businesses is looking at new ways to get to clients; new ways to support their advice channels; new ways to put a face on advice; new ways to improve technology and efficiency. All the same time, we are doing a corporate restructuring. We are restructuring the businesses. We are doing all in parallel. And I always believed, and I hope you see it demonstrated, that this Group had unique bandwidth and I can feel it day to day. I hope you see it in the presentations and just the sheer amount of things that are going on in these markets. I appreciate the complexity it brings, but it is also a firm this size should be dynamic. It should be growing. It should be adapting to its markets. I should be adapting its technology. We are doing all of those.

So the last piece I leave you with came up in this last session. Demerging is not an end game by any means. This is repositioning to grow the businesses further. This is a starting position. So it is not seen by this management team or the Board or Mike in his new role as, let’s run smaller firms in the status quo, in some sort of isolated scale. This is getting these

businesses ready to compete and grow faster, and to adapt and be more agile and focused and create more value for shareholders.

So I want to thank you very much for a couple of days of your time.

One more thing I want to bring out. So Barry has been with us about half of my career here and I know a lot of you know him well. And I think for the whole management team, I want to say thank you. Thank you, Barry. Want to say a word?

Barry Stowe: Thanks. I am reminded of 1st December 2006 which was the first investor day in which I participated, and it was actually an Asia day. It was memorable because we were trying to do a lot of things. We were trying to reset strategy for Asia and talk about introduce the idea of protection and other scary thoughts. I mainly remember the day, just the logistical organisation of it, was absolutely shambolic. But Chantal has done a much nicer job this week. I think we ran it about two and a half hours late. We had to cut off Q&A. we had way too many people speak and they had way too little to say. But we got through it and it was the start of a fantastic 12 year run from my perspective.

You know, since then, we have had the opportunity to interact on countless occasions on days like this. Results days and half year results days. And the many, many, many reverse roadshow visits in Asia and a handful in the US as well. And I think back on all of those interactions and all of the familiar faces in the room. And you have always been challenging, but more importantly you have always been supportive and the fact of the matter is, obviously your involvement is critical and your challenge and your support has improved the businesses year after year and these fantastic businesses that we had the opportunity to showcase for you this week would not be what they are were it not for you. And so I just feel like I would be remiss if I took my leave without just taking a brief moment to express my gratitude. Thanks.

Mike Wells: Thank you, Barry. Thank you very much. Thank you for everything you have done for us. The film, please.

[VIDEO]

The energy in that room was amazing. 42,000 people all trying to get us to invest in their start-up. It was a fascinating day. Again, thank you very much for your time on behalf of the whole management team. We appreciate the travel and the attention and the questions, and Barry's point, the challenge. Thank you to both Chairmen for joining us.

[END OF TRANSCRIPT]