PRUDENTIAL

2018 Full Year Results

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Introduction

Mike Wells

Group Chief Executive

Welcome

Well, good morning and thank you for joining us today for our results presentation. Got a lot to go through with you this morning in a good level of detail. Hopefully you have had a chance to review the early comments. I am going to assume you have all read and studied the disclosures and move right to the highlights.

Key Highlights

Again, resilient results on all of our key metrics in what was an interesting year from a market volatility, interest rate, political point of view in most of our markets. We are obviously very pleased with the strength and the depth of the performance of the varied business units. New business profits, again up 11%; Asia, up 14%, health and protection helping that materially. Group IFRS, up 6%.

Looking through those numbers a little bit, Asia up 14%; the US fee income, up 8%. If you strip out some of the one-timers in the M&GPru business, you see it up 5%. Again, I think a very strong performance given the climate we were in. Free surplus generation at £4 billion, up 14%. Again, Asia free surplus generation up 14%. Dividend per share, up 5%, again, consistent with our policy and our solvency ratio at 232%.

Enhancing our capabilities and extending our reach

I am going to spend a few minutes on some of the non-financial metrics for the year. If you consider the normal practice of selling profitable product in the channels, what you expect us to do, I want to give you a little colour on the amount of work that was done to further expand our capabilities, further extend our distribution, product, technical reach around. I am going to focus on this slide in particular on the international business.

To just give you a general feel for the magnitude of what the group is accomplishing concurrently with its day-to-day operations and again, concurrently with the strategic objective of the demerger. Starting with UOB and our bank partnerships. We will start upper left and I will move across.

UOB at 2010 to 2018, excellent performances. I think everyone is aware in APE and new business profits, great partner. The new relationship extends 15 years. It adds Vietnam and has a core component around their digital initiatives, their new digital bank, their focus on digital banking, which again aligns with some of the work we have been doing. Standard Chartered, we brought into Ghana, again, bringing an existing relationship into one of our newer markets. This is the model you have seen of a successful playbook being applied to a new regime that we think has excellent characteristics to it.

You also saw Siam commercial, Robinson, O-Bank and OCBC as well as some other bank relationships brought into the fold. These vary in size and structure. Some are exclusive; some are single product. Again, it just shows the team's flexibility taking some of the things we are best at and going in and partnering with these entities and coming up with relationships that are highly profitable for us, for them and for the consumers.

On the distribution side, segmentation, we have been talking to you about for a while. In Asia, 7,000 of our agents are now Million Dollar Round Table. That is up 20%. That is a material number. In absolute sense, certainly is a percentage of Million Dollar Round Table producers around the world. It goes to what we were talking before about one of the things we needed to address is make sure that the more senior agents in our networks have the product skills, tools available to them to continue to succeed. We are very happy with that performance.

Two new provinces in China. Again, one January this year; one end of last year. Materially extending our footprint there. We continue to develop our China footprint and capabilities. I am going to remind you, this is a cloud-based, digital-based highly scalable platform we have in China. We still need to build that physical presence. We still need to build sales and support as we enter a market. However, the infrastructure, this is one of our most efficient businesses to expand. These are very exciting for us on the licenses.

On distribution partners, DPL digital provider for the US for fee advised. State Farm will launch later this year. I had a chance to meet those folks in Nashville last week. Morgan Stanley on their advice platform again is coming up in just a few months so continue to expand distribution platforms.

Babylon, we showed you Ali and his team, for those who joined us in Singapore. This is arguably the world's leading artificial intelligence medical platform. We are taking it into ten countries this year in Southeast Asia localising it for each geography. That can be anywhere from the language, to the illnesses, to the medical provider model and support. This is part of our desire to continue to build out a health ecosystem for our consumers and a larger consumer set, potential consumers and people in these marketplaces to help them with health and longevity in the same way we use robo advice and technologies to help them with wealth – a continued expansion of our capability there.

Envestnet, it is a very sophisticated platform for registered investment advisory distribution, arguably the most successful in the US. Now connected with them. PRUONE is a point-of-sales technology that can now help in Asia, our advisors, agents and bank distribution folks, make presentations where the illustration materials come in seconds. This is a material upgrade in some of the support they had historically. Then PRUforce is an agent management technology that we are moving across the region. In the latter part of the year, the team embedded auto underwriting in this. A disproportionate amount of the cases can be underwritten point of sale, very convenient for the client, very important for our agent in the field.

This is by no means an exhaustive list of what was done last year. However, if you look at the combination of organic, inorganic, new partnerships, new technologies, new distribution relationships, new geographies, this is running concurrent with our normal business as usual. We are obviously happy with the amount accomplished and I am proud of the work.

Progress towards demerger

On progress towards demerger, this is the strategic separation of M&GPrudential from Prudential PLC, very good progress. We announced this a year ago. Probably my least favourite question is, gosh, it seems like you have been working on this a long time. We have in terms of hours. However, I can tell you one year, we accomplished a tremendous amount and we stay at pace. It feels like it is exactly where it should be, if not a little bit ahead of where it should be.

There is a lot to do here. The majority of the work we feel like has been accomplished. If you think about the project in and around, we announced three things this time last year. You see the legal transfer of Hong Kong and the first piece is done. That was a fairly unique transaction historically. That required a number of regulatory approvals, lots of work by the teams. That has been completed. The reinsurance piece on the £12 billion UK block with Rothesay is done. There are still some court steps to that that are live, currently scheduled for 30th June of this year. Some approvals required in that but good progress towards the Part VII transfer. We see that as a prerequisite before the split just to make sure that there is a clean separation in the entities and their interest.

The Hong Kong insurance, HK IA, our new regulator has been chosen as a group-wide supervisor by the regulatory college and has done a tremendous amount of work for us working with us and the industry, working with the global regulators on a group-wide supervisory regime as well as an interim regime and very good progress on that. Again, their desire to, as you heard in Singapore, have a well-respected, well-regarded capital regime and a competitive environment for insurers as well so a good balance in agendas. They have done a tremendous amount to help us over the last year and get to where we need to. The team has raised £1.6 billion of new subordinated debt. That is again about nine points of that solvency ratio, just to be clear, but very good progress on debt and restructuring. This gives us again the ability to model the balance sheets of the two entities the way we think is appropriate.

M&GPrudential, there has been a tremendous amount of work done here from operational platforms, tech platforms. We mentioned Aladdin. Improving the client experiences. The time it takes for us to interact with a client in various transactions in almost every case is improving materially. Some of those core capabilities that we wanted to get in place, you are seeing great progress there. We have added a Holdco, which will be the legal entity that would be listed.

The approvals required for it, Mike Evans has been hired as Chairman. Mike and John and the team continue a good progress on building out the rest of that non-executive director board. That is progressing well. Then integrating the support teams, getting to a single management team, getting the cost saves, getting the structure correct to run it as one business continues at pace. Again, the merger and transformation targets that were given to continue at pace and are still viewed as achievable in the timeframes that were given.

Prudential plc Post Demerger

Ambition and operating principles

Shifting back to the international business. I want to just spend a couple of minutes to go back through what the ambition and the operating principles will be for the international company. You can start with a question of why is the US in. Why is insert-whatever-country-you-would-like-here. Why are we in a particular market?

I want to give you the filter we are using for that and give you the rationale for how we are looking at it and also remind everybody that we have been active managers of the business. That is the perspective we continue to keep. However, it starts with the idea that we are looking for markets with structural opportunity. Is there a demonstrated demand for a product or service that we think we are the natural owner of that risk or bring a unique capability to that solution? We are not looking to enter every and any possible good business that has got good returns.

You see we are more than comfortable taking pieces of the value chain if we think someone can out execute us or has scale at something we do not think is a critical component. However, we are looking first and foremost for structural opportunity. Is there a natural demand in that market for products and services that we think we are a logical provider of? Can we operate in that market with discipline? That may go to the ownership structure, regulatory models, competitive behaviour. Do we think that a disciplined model will succeed in that space? That lens varies by country and by issues that come out of that. But you have seen, this is the capital allocation piece that we think is most critical. You have to look at risk-adjusted returns. You have to expect higher returns in markets where you are taking more risk. You have to take market factors into account when you are looking at allocating that capital.

These businesses compete amongst themselves. I have said this before. We always have more ideas than we have capital. We have a lot of capital. That is a healthy dynamic for a firm that is our size and growing. That is as true today as it was in my first time up here. We got a great set of ideas the team is looking at. We always do and that just tells you we have got creative people focused on new ways to deploy capital. We are looking very seriously at them.

Can we enhance capability? Is there something we have in our skill set, in our tool kit, in our team, in our model that gives us a unique advantage in that marketplace? Is it a cost advantage? Is it a technology advantage? Can we bring a partner in? Standard Chartered, one of the most successful bank relationships in the industry with us into Ghana. A lot of the period of time where the partners get to know each other is behind us in something like that because that is a highly productive relationship with very good relationships and the principles. It starts at a very different place than a relationship with a bank we have not done business with before. It could be a tech provider. It could be a reinsurer. There is a variety of ways that we can approach this. However, are there things we can do with the relationships and capabilities we have that give us a unique advantage in that market?

Finally, does that produce outcomes that justify the work, the capital? This goes to scale. This goes to risk-adjusted returns. This goes to currency. All those sorts of things and if it produces those outcomes, again, it gives us the ability to continue investing in initiative like this. That is the model.

We expect the various pieces to complement each other. We expect them to reduce risk. We expect them to diversify the kind of exposure we have. We expect very fast returns on that capital and high returns on that capital. I think you will see that in the materials in front of you today. This is where our track record has come from historically. We think this is the critical element for the business to succeed going forward.

You have got to have a discipline on how you go into a market. You got to have a discipline on when you come out of a market. Again, I think we have demonstrated we will look very actively at businesses, channels and product lines. If we like them at a certain point in time, we will compete aggressively with anyone. If we do not, we will back off or exit. That is part of the firm's discipline. That is part of the view how the entity will go forward. It is underpinned by the track record. However, it is also where the confidence comes from on where we see the business going forward and where we think the capabilities are in the group.

M&GPrudential

Leveraging a broad range of capabilities to deliver outstanding solutions

Let us switch to M&GPrudential for a moment. With the same sort of lens on M&GPrudential, why should it succeed in this market? Well, first off, if you are going to be an asset manager, if you are going to be a wealth manager, if you are going to provide individual retirement accounts, you need investment performance. That is from an advisory platform. That is the consumers. That is an institutional space.

We start with some good track records, the far-left column, if you will. PruFund's performance at 88% relative to its comparables. The retail funds being 74% above median and 93% of the institutional funds outperforming their benchmark.

However, what portfolios? We go back to capability. In this space, we know we have got the need in Europe and the UK in particular and certainly they can expand outside of those boundaries. However, for individual self-funding retirement, for pensions looking to diversify assets, but particularly around certain asset classes that are harder to commoditise. If you go upper right-hand side for a moment, then we will jump back to the centre in a second. Look at the types of asset classes where M&G has succeeded. The multi-asset fund proposition, some of the higher value more complicated, more difficult to replicate models have been a huge success for M&G. Fixed income, it has clearly been successful but very little dependency on a pure equity play.

Again some of the alts and the real estate that are again more complicated, harder up, very good track records in those as well. But we think, you get a couple of things out of this. Very good track records with the right types of portfolios. You also do not have an asset manager that is dependent on a single category being in vogue. This is a well-diversified company across the risk spectrum. If a client wants to move out of one position, they have got excellent alternatives and they tend to be in the conservative long-term space. That is their niche. That is what they are best at and there is the track record to support it.

Then you see from the fund growth in the centre where the success is coming from. It is very diverse in distribution and types of clients, which again helps them across different cycles. At the most conservative end I think on the fund flows, the £8.5 billion you saw last year going to PruFund, an asset manager with the option to have a smooth product. It is a very unique characteristic. It serves a particular niche very well. It has got the performance of M&G wrapped by the capabilities of Prudential. It is a tremendous combination. We think it makes for a highly competitive model.

Asia Country Highlights

Hong Kong

I am going to do a couple of countries in Asia, one at a time, little bit of a deep dive. Then of course Nic and all the rest of the CEOs and the team will be up here later to answer any specific questions if you want to go a little further.

But taking that earlier lens of structural first. Let us do Hong Kong. A lot of questions about Hong Kong the last couple of years, tremendous success. How big can it get? It is one of our best run businesses. Derek and the team are just a great management team.

You have three markets there. You have domestic and you have mainland. Now, we have this Greater Bay initiative, which is effectively a hybrid. The structural demand locally has been tremendous for us in a couple of key competitors, the local residents, high net worth. Again, insurance is a core part of savings and wealth planning and modelling. Health and protection has been a big part of our push there, very successfully. Mainland Chinese with economic interest in China continue to increase in their foot traffic. You have added high-speed rail, new bridge, even easier access. That continues to be fundamental pieces for the growth of the business.

Then on the Greater Bay area initiative, this is an alignment if you will of interest on, effectively, 11 cities – Hong Kong, Macau and nine on the mainland cities – with an insurance connect model very similar to stock connect where the intent of the regulators on both sides of the bay is to allow a client to be serviced on a health product or similar product or if you think of it as a claims paid through an insurance connect pipeline through the bay.

Now, a Chinese mainland client who buys in Hong Kong can have a bill paid in the mainland. This is work in progress. It has been announced by the government. We will get more details as it plays out. This is a tremendous opportunity for us. At $1.5 trillion in GDP, it is about the size of South Korea, just this one 11-city project, you are seeing good cooperation between Hong Kong regulation and the regulators in Beijing. I think it is an interesting message on the role of insurance cross-border as well. China views penetration, Hong Kong views penetration as important social initiatives. Can we do a better job of privatising the risk of consumers in these markets? Again, further alignment, that is beneficial to us.

Are we positioned to take advantage of that? Well, we have the number one agency force in Hong Kong – tremendously productive, highly skilled, well-educated, incredible energy, largest number of Million Dollar Round Table producers. They are very, very dynamic. It is stunning; good people to spend some time with.

We have arguably the most successful bancassurance partnership with Standard Chartered. Then we have our resources. Go back to the China for a second on the other side of the Bay where capability is there as well. Watch this space. This will continue to be a market that we think has tremendous upside. You may have seen in the materials, Hong Kong's fourth quarter sales were up 18%, continues to grow.

On execution, just strong, strong results. Continued product innovation, focus. When you are in that operation, they know exactly what they are working on. There is tight alignment between the management team. There is tight alignment with the distribution team. Very high quality of presentation materials, support. Very high quality from a regulatory point of view, from a risk management point of view. Again, last year IFRS up 33% for the business.

China

China, so structural demand. We do not need to spend a lot of time on growth in China. However, significant under insurance, a government target to move that to 5% by 2020, about half that now, pretty well discussed. The gap is about the size of the US insurance market. For us, a material increase in the scale of the middle class. These are the sorts of structural things we look at and say, okay, this is a market that has got the fundamentals we need to succeed. It has the measurable structural demand that would suggest we have a long time to run there if we do a good job to compete effectively with domestics.

We added two new provinces as mentioned. We are now in 87 cities, branches of provincial license. We have access to about 75% of the population and 78% of the GDP. Reminder, we are a 50-50 joint venture with CITIC. The law now allows 51. Other than AIA, no other insurer has 51 to be clear. Some noise on that in the marketplace. That conversation for us would be both a commercial discussion with CITIC. This is a highly successful business. Like in any highly successful business, if you ever change ownership, both parties would want to agree to that. It would be a regulatory discussion because the entity is regulated by multiple regulators. We are very happy with them as a partner as we enter these new markets. They are tremendously helpful for us going into provinces where they have experience, they have brand and they have presence. It absolutely accelerates our success in that space. We are very interested in continuing to do more and investing more in China.

That said, we have 48,000 agents focusing on productivity, a 32% increase in Million Dollar Round Table producers. We have 40 bank partners. We are continuing to grow banca there as well. We continue to grow our footprint.

On execution, we participated in this pension trial. China, like many other countries in Asia, has a very large aging population. They are looking for ways to manage the pension demands of those pensioners as the family model changes. The historic model for pension support was children and extended family. The one-child policy has certainly changed the dynamic of that and there is a clear and growing need for pension product in China.

Again, we are participating in that. I was over in December. We opened up the WFOE. This is our wholly foreign owned enterprise. This allows us, through Eastspring, to service institutional and retail consumers in China. We got tremendous support in doing that. It has worked well in the remaining licenses it needs. The QDLP and others as well are in place. We have got a very good team we are starting with there – experienced, capable and we are very confident in how they are going to do.

On the risk management, again received the number one rating from the regulator on risk management, risk-adjusted returns aligning with government's objectives. Again, it is important for us to run these businesses at risk levels that we are comfortable with and risk levels that local regulators are comfortable with. Very pleased with the outcome there.

Because in some ways, it is a late entrance for us, it is some of our most cutting-edge technology. This is cloud-based, primarily mobile-based. There is one signature piece towards the end but primarily mobile-based and certainly digital currency-based company for us. Almost all transactions are on WeChat or Alipay, including the payment of claims.

Indonesia

Indonesia, so we still very much like the structural opportunities in Indonesia. We are continuing to invest to make progress towards getting its sales growth there. You see the earnings are flat. There are lots to do. I will give you an update now on some of the progress there and Nic will answer any questions you have later on it.

We have seen some interesting behaviour by competitors in that marketplace this year. It has been an interesting year there. Fundamentally, the structural demand is there. It is a large population, growing middle class, under insured, all these same characteristics we like. We talked about segmentation last time we were together. Our elite agents are now 19% of the APE. This was getting them more product, different support, different technology at the higher end of our book as far as agent productivity goes. Material increase in Million Dollar Round Table, activation training – all those elements are faster. Takaful is succeeding very nicely in country. OCBC on board now is giving us some good support in the bank channel.

We have revamped the flagship product and brought additional products online. Again, this was one of the things this business needed was newer and broader product sets to continue to actually monetise and support the agency base that we built. Good progress towards those goals.

Asia – High Quality Portfolio

Up to the portfolio level for a second on Asia. Again, Asia was not without its market volatility this year at a macro level. Lots of interesting challenges in Asia. Just stepping back, you see the benefit of the portfolio. You see quality and resilient growth. You see compounding with insurance income being a larger and larger piece of what we are doing. In the second graph, you see the compounding. 94% of what we are selling in Asia is now recurring or regular premium.

We told you we needed to penetrate more into the deeper, better relationships with our consumers. 42% of our sales now were to existing clients. That is great progress and 90% retention rates on the client relationships. A very, very healthy set of metrics on the recurring earnings quality of the back book.

Then diversification, seven markets now over £100 million of IFRS earnings, ten growing double digits, good mix of product; the bottom APE, good mix of channel. Very, very happy with the blended effect of our position, the portfolio position we have in Asia.

Compounding growth driving a growing earnings base

Correlation to markets, the outcomes compounding with very little market correlation. That should not surprise you given the risk off nature of the products and services we sell in Asia. Again, you just see the renewal premium compounding 18% on a ten-year. Then as a measurement of scale, if you will, is there a measurable benefit of scale? The earnings compounding 22% would suggest we are using our scale to our advantage. I think the dynamic of can we continually keep clients happy, pleased with what we are doing, products relevant to their lives, correct amount of touch, correct support all those things. You see that embedded in here. There is a massive amount of work by our distribution and service people to make this slide true. Again, it is compounding at scale.

United States

Structural trends

Switching gears to the US. Structural, so baby-boomer movement through the US economy is well rehearsed. Still very true, 40 million in the next ten years. The concern about individual retirement, the headlines about pension funds, funding level at the state and fed, all those sorts of things are as front and centre as they have been in a very long time. The demand is there.

Now, there has been regulatory and there have been headwinds that are well rehearsed in this room that the business has dealt with. However, the underlying consumer demand for a put some level of protection in a long-term savings vehicle is absolutely intact.

Platform

We think we have an advantaged position, advantaged platform to take advantage of that. We have the industry's best wholesaling products service platform.

Technology, you see the sort of things that the group has been able to do in linking with partners that have highly complex or very, very modern and sophisticated RIA platforms. That gives us a cost advantage in the US. Again, we recognise there is a concentration risk in the US business. You have seen us from a strategic diversification point of view. Look at a number of things that can be organic, that can be bolt on as we showed with John Hancock. That is about a 10% increase in the general account. We are continuing to keep an eye towards ways to diversify the US business.

Execution

On execution, good year on growth in channel, growth in selling group agreements, penetration of those relationships, new distribution partners I mentioned earlier. Again, the technology build to connect with these people at very, very sophisticated levels. It is a barrier to entry for some, and it is one that the team is quite comfortable in meeting. We like the structural piece. We like how Jackson is positioned. We see the need to do more with Jackson. We think the execution of Jackson is fit for the task

Well-protected through 4Q market volatility

US resilience, again, coming off of Singapore. We have been paying for hedges for a long time. In a decade where markets have gone up, that has been an expensive luxury. I think you saw in the fourth quarter the value of them. They did what they were supposed to do. They produced about $900 million of capital in Q4. The buffers we discussed with you in Singapore performed exactly as we anticipated they would. You see what the RBC ratio is in Jackson. This is a well-protected business. From a granular point of view, not a whole lot to say here other than everything did what it was supposed to do.

I know there has been some concern about some of the changes to capital models in the US. We intentionally went back to 2016. You start with a 485% RBC. You generate 178 points of capital – again, a highly capital generative business. Pay the dividend. We have the impact of tax reform broken into two pieces we showed here as one. You finish the year at 458%.

Resilient statutory capital position

Let me give you a different look at this. If you look at the right-hand side, we are managing this capital base to a specific set of parameters. I hope that slide demonstrates that. We recognise what a properly capitalised business looks like. That said, come back to the left, you see we can do that while producing very good cash flow off the business. You can do both of these at once. The strain in the market produced no material difference in the RBC ratio. Again, the consistency is the story here.

The resilience of this business, as I mentioned to you in Singapore, only really gets tested in a little bit of a strain. It did what it is supposed to do. For the industry, the RBC 31 December was not a particularly easy mark. That said, Jackson is fine.

Group

Long-term track record

One of my favourite slides. I guess the question on this one, can we continue to grow at scale? The answer is yes. I think the key is to focus on all of the elements I discussed earlier. Are the products you are selling efficient with capital? Do they pay back the capital in a reasonable period of time? Do they provide a service to the consumer that the consumer values and they are willing to pay for year-after-year? We have got those risks correctly priced and diversified or hedged. If we do, then this slide should look like this. That should produce a supportable, sustainable dividend.

Delivering cash

Last year, it was 1.2 billion paid out; 800 plus million invested in new business. You see a material investment in organic and new capability. We can do all of that and still have a very strong capital position. We want the growth but we also want a good, highly predictable, well-covered dividend. Again, you see that here.

Wrap up

With that, hopefully, what you see in there is quality growth, material increase in the capabilities that this firm has year-over-year. I think that is one of the things we owe you when we stand here. Position it more competitively for where it is going and what it needs to be able to do in an ever increasingly challenging market.

M&GPru getting a tremendous amount done towards not just the divestiture but to be a better firm, closer to their clients, better service, great performance. PCA doing what everyone hopes PCA does, which is continuing to grow, highly profitable across a good diversified portfolio of successful businesses. Then Jackson demonstrating its resilience, its capital management capability, its market position and its ability to diversify.

So with that, Mark, I will ask you to take over.

Group Financial Performance

Mark FitzPatrick

Chief Financial Officer, Prudential

Good afternoon, everybody. Thank you for coming and extend my welcome that Mike started off with.

Group

FY18 financial highlights

I am very pleased with the group's financial performance in 2018. It reflects our strategic focus on driving growth while at the same time making good progress on the preparations for our planned demerger.

During the year, our businesses faced up to a number of external headwinds with market volatility and general global uncertainty ever present throughout the period. Yet in this environment, we still delivered growth across our major earnings and cash metrics and improved the capital position of the group.

You can see that here in the key measures with new business profit up 11%, IFRS operating profit up 6%, 11% growth in embedded value and Solvency II cover increasing by 30 percentage points to 232%.

Now, this is not a chance outcome but the direct consequence of our disciplined approach, which is reflected both in the quality of the business we have written over a number of years and the way we manage it while it is on our books. It also demonstrates the strength of our platform and the market positions enabling the group to grow even when the external environment is less favourable and to accelerate when the conditions are right.

Key drivers of Group financial performance

What this means is that Prudential's financial performance benefits from resilience throughout the cycle and is able to maintain the attractive combination of both growth and quality. I will bring that to life now as we go through the next slides.

Before I run through each of the businesses in turn, I will cover some high-level observations at a group level and then conclude with a more detailed outlook at the overall Group metrics. I have used this slide before to demonstrate that the long-term consistency in the Group's performance is ultimately driven by our ability to keep building the base of earnings by writing good quality business in the first place and then actively managing the in-force book to ensure we are able to retain it.

In Asia, this can be measured by the stock of recurring premium income from highly valuable sticky business; in the US and in M&GPru, the accumulation of assets under management. Our progress in 2018 continues this long-standing trend.

Growth aligned to areas of strategic focus

Importantly, we are growing in the areas that we have identified as strategic priorities. In Asia, health and protection provides the earnings of the highest quality, which are largely immune to investment markets and which grew by 15% in 2018. Our increasing presence in China really highlights the progress we are making in this very important market. This is the outcome of our investment in growth and in building a platform for the future, which in the last five years alone has seen us expand into six additional provinces providing access to another 380 million people.

Over the same period, IFRS earnings have also grown strongly resulting in China advancing from our eighth largest contributor to our fourth largest on 100% basis. China is a good example of our approach across the region but at a much larger scale where the headroom is material for many years to come. In the US and at M&GPrudential, we are achieving growth in revenue in the areas where our products are differentiated and our execution is hard to replicate.

Asia

FY18 financial highlights

Turning now to the performance of our individual business units and starting with Asia. Across each of the major metrics shown here, our business has continued to extend its track record of resilient growth with double-digit increases which have been achieved at the same time as improving the quality of the financial result. Asia remains well-capitalised overall as well as in each of our local markets with significant headroom over regulatory requirements.

IFRS operating profit

Asia IFRS operating profit increased by 14%, driven by the continued strong contribution from the life business, which was up 15%. In asset management, like others in the industry, Eastspring has seen more difficult conditions for external asset accumulation impacting both mix and margin. However, unlike many others, it benefits from the structural underpin of recurring growth in internal assets from the life business.

External flows improved towards the end of 2018. We have seen this continue into 2019 with positive net flows and improvements in relative investment performance. We remain focused on building further on Eastspring's leading asset management platform, which continues to be a significant point of differentiation among our insurance peers in the region.

Within the life result, there have been some excellent contributions at a country level. In Hong Kong, earnings are benefiting from the significant increase in the scale of our business over the last five years where APE is now three times higher than it was in 2013. The move to a higher health and protection content meeting growing customer needs in this area and has improved both the margin and the earnings profile.

In Singapore, we have repriced our products to good effect. Initiatives we have taken to improve claims experience are having a positive impact. In China, we are building our presence to take advantage of the multitude of large-scale opportunities and we are very pleased with the progress we are making.

In each of these markets, earnings will grow at a different pace. We are building scale and breadth overall across the portfolio. We now have seven countries contributing over £100 million in IFRS profit.

The pivot to a higher quality mix remains a key feature of our strategy with eight countries seeing an increase in the proportion of profit that comes from insurance margin, which is predominantly derived from health and protection business.

EEV life operating profit

Asia's EEV operating profit increased by 23% benefiting from higher contributions from both new business and in-force profits. The strong new business performance, with profits rising 14% can be viewed across a number of lenses. By geography, we have achieved growth of over 10% in ten of our markets. By channel, we have seen double-digit growth in both banker and agency and through the continued prioritisation of high margin health and protection growing up 15%.

APE sales recovered well in the second half of the year, up 8%, underpinned by increasing momentum in Hong Kong and China through the fourth quarter and strong growth in our ASEAN markets of Thailand, Vietnam and the Philippines. In Indonesia, we are progressing with the multiple initiatives that Mike has covered. We will need time for these to be reflected in the new business metrics. However, across all markets, our focus on writing sales with high quality characteristics and attractive margins remains undiminished.

On the right-hand side, you can now see the profit from our in-force portfolio. The result is driven by an increase in the unwind predominantly reflecting the growing scale of the business and also to a lesser degree the benefit of higher interest rates compared to the prior year.

In addition, through active management of the portfolio, we continue to generate positive experience variances that in turn provide the basis to update our assumptions. During 2018, these effects have been seen across a broad range of factors including persistency, expenses and claims together with repricing of medical products in Hong Kong and in Singapore.

So in summary, our Asia business is in good shape. We are growing new business at scale. This is adding to the stock of recurring premium income. The quality is clearly evident in both what we are writing today and what we have written in the past.

United States

FY18 financial highlights

Turning now to the US. Jackson's underlying performance has proved resilient through a period of significant market volatility. This saw a marked rise in yields before reversing much of this benefit towards the end of the year and nervous equity markets that turned sharply in the fourth quarter. Over this period, Jackson has paid a dividend of $450 million, absorbed the impact of tax reforms and through the effectiveness of its hedging strategy maintained its RBC capital ratio above 400%.

Life IFRS operating profit

The underlying components and drivers of IFRS operating profit continue the trends of the first half of the year. Fee income increased by 8%, reflecting the growth in average separate account assets in our variable annuity business. Following the equity market decline in the fourth quarter, 2019 will start the year from a lower base although policyholder asset values have already benefited from the market recovery in the year to date.

The reduced level of spread income is driven mainly by the factors I outlined at the half-year stage namely the contribution from swaps, which are becoming less material as the instruments roll off. Secondly, the impact of lower reinvestment rates on the overall portfolio yield. Given the increase in available yields since 2016, we expect the pace of the decline in spread margin to moderate from here.

Jackson's headline results have been impacted by DAC accounting effects, relating to the effects of market return on the mean reversion approach. This has generated a high level of DAC acceleration compared to a positive deceleration in 2017. Overall, these market-related effects resulted in an adverse swing of £277 million. We have put a slide in the appendix to explain these dynamics more fully.

Jackson's RBC capital ratio improved by 49 bps over 2018 to end the year at 458%. While the equity drop in Q4 is not something to be wished for, it has provided a tangible proof point for the effectiveness of Jackson's hedging strategy and the ability of the business to manage market risk and the impact of tax reform while generating capital and cash for shareholders.

RBC statutory solvency position

We talked about Jackson's statutory capital buffer in November in Singapore. You would recall that this existed because of the healthy position of the in-force block leading to floored out statutory reserves. This, what we call latent capital, helped to mitigate the impact of the fall in equity markets in the fourth quarter as we anticipated.

In addition, the hedge portfolio, which is defensively positioned to protect against equity market weaknesses, performed as expected, generating capital gains in excess of the movement in reserves. So far in 2019, equity markets have performed better rebounding off December lows. This has also generated capital as the increase in statutory reserves posted at the year-end has largely unwound.

Now, any further increase in equity markets from here is likely to see more limited benefit recognised in statutory capital as reserves would move back to the floored-out position although the recreation of a latent capital buffer would once again provide protection against downside market risks.

M&GPrudential

FY18 financial highlights

M&GPrudential has delivered good financial progress alongside a year of significant structural and operational change highlighting the strength of the underlying business. It is important to note that both operating earnings and capital have benefited from favourable contributions from sources that may not reoccur. While some of these might offer scope for further positive development, they are unlikely to be of the same magnitude on a go-forward basis. Nonetheless, these are very real contributions recognising the store value that exists in the in-force book. I will pick up these items individually on the following slides to help demonstrate the robust performance.

IFRS operating profit

IFRS operating profit of £1.634 billion was 19% higher than 2017. Focusing on the core parts of the business on the left-hand side of the chart, M&GPrudential delivered strong growth from the PruFund component of the with profits fund with shareholder transfers increasing 30% to £55 million. As we explained in Singapore, the PruFund product profit signature is backend loaded. So there is a substantial store of future shareholder transfers embedded in the balance sheet as a result of the very strong sales in recent years.

Annuity earnings have performed in line with expectations adjusted for the £12 billion annuity liability block reinsured to Rothesay Life, which accounted for £140 million of IFRS core operating profit in the previous year. Asset Management revenues increased by 6% with higher overall margin achieved on favourable mix effects.

The cost to income ratio increase to 59% mainly reflecting costs related to preparation for Brexit, which accounted for two percentage points. Taken together, these components of core IFRS operating profit delivered 5% growth on a like-for-like basis.

Of the one-off items, I will draw your attention to two in particular. Firstly, as reported at the half year, we have booked £166 million from insurance recoveries related to the review of past annuity sales. Secondly, we have updated our longevity assumptions following favourable experience and the adoption of updated mortality tables under CMI 16, which together added £441 million.

Notwithstanding the current favourable trend in mortality, our annuity reserves remain conservatively positioned and we will continue to assess our assumptions against our own experience on more recent CMI tables.

Asset flows

2018 was a tough year for the asset management industry with investors generally moving to more conservative positioning. In such an environment, M&GPrudential's wide portfolio of investment and savings products provided a degree of resilience for both flow and stock.

Total AUM moved from £351 billion to £321 billion over the year. Of this, £12 billion related to the UK annuity block sold to Rothesay and £6.5 billion was a result of the redemption of a single institutional mandate with very low revenue attaching. The underlying decline of £11.4 billion was primarily driven by £9 billion of negative market movements combined with modest net outflows of £2.4 billion.

The residual net flow reflects the balance of continued strong net inflows into PruFund of £8.5 billion, institutional demand for M&G's differentiated strategies in areas such as infrastructure, illiquid debt, property and public debt and a growing presence in multi-asset funds all of which mitigated the impact of outflows from some of M&G's more established retail funds.

M&G's experience in retail flows over 2018 is largely consistent with market trends. Although financial markets have recovered somewhat since, investor sentiment remains cautious with investment association data showing January 2019 to be the fourth consecutive month of retail net outflows for the UK industry. However, the relatively resilient performance in 2018 overall across M&GPrudential demonstrates the value of our diversified mix of assets and strategies and the compelling long-term performance track record.

Solvency II capital surplus

Given the number of moving parts in M&GPrudential's capital during the year, I thought it would be helpful to break these out and show you the impact on PAC's shareholder Solvency II position on the left. The impact of the Hong Kong transfer now completed, and reinsurance of the UK annuity portfolio was in line with the pro-forma position we disclosed at the time of their announcement.

The rest of the capital build through the year mainly reflects the components that I referenced in IFRS, including items of a one-off nature and net of remittances to group and together have contributed 22 points of Solvency II cover.

The policyholder position on the right is an additional and very material source of strength. This is a key point of differentiation for M&GPrudential amongst its peers and represents a significant source of ongoing competitive advantage.

Equity Shareholders' Funds

Operating profit remains key driver of growth

My next slide turns to group level and completes the P&L. On both an IFRS and embedded-value basis, the operating performance remains the key driver of the progression in shareholders' funds. This is stated after restructuring costs, which mainly relate to M&GPrudential's merger and transformation in 2018 but also include a small amount relating to the wonderful IFRS 17.

As we are now entering the design and build phase of IFRS 17, you should expect our cost for this programme to increase accordingly. Higher rates in both Asia and the US had an adverse impact on the unrealised value of fixed income securities, with the Asia element recognised in investment variances and the US piece in the available for sale line. Investment variances related to the US favourable annuity block were immaterial on an IFRS basis reflecting favourable fair value movements on equity derivatives.

However, on an embedded-value basis, investment variances recognise the negative impact on future fees of lower account balances following the decline in equity markets at the end of the year.

Currency effects were strongly positive as non-sterling balance sheets were translated at a more favourable rate. Shareholders' equity on an embedded-value basis increased to £49.8 billion at the end of the year equivalent to 1920 pence per share.

Group Free Surplus Generation

Growing contributions from in-force life portfolios and asset management

As you have seen from the business unit headline results, the group has delivered good progress on free surplus generation, up 14%. Asia's in-force result was the largest component of the group total in 2018 emphasising the growth in the scale of the book and the quality of cash conversion in the product portfolio.

M&GPrudential free surplus generation from the in-force portfolio increased by £129 million reflecting positive experience. The non-recurring items I mentioned earlier added another £461 million, which I have included separately as one-off items in the grey box.

We continue to invest in high-quality new business growth opportunities. The reduced level of sales in the US and measures to optimise capital absorption at M&GPrudential resulted in slightly lower new business strain. As a result, new business profit expressed as a multiple of new business strain increased from 3.9 times in 2017 to 4.8 times in 2018. These results therefore demonstrate that we are successfully managing both the back book and the front book.

Holding Company Cash

Strong liquidity position

As we progress towards demerger, we are maintaining a keen focus on the quality of our balance sheet and the sources of central liquidity available to the Group, and in the future to each standalone business. Remittances from our operating entities continue to generate a material source of dependable cash to fund central activities. Like free surplus generation, Asia is the largest contributor to the total after funding investment in new business growth.

We have additional funding flexibility through untapped credit facilities of £2.6 billion, and significant headroom remaining within our existing MTN programme.

Ahead of the demerger, we have issued debt equivalent to £1.6 billion, as we prepare to rebalance the Group's current debt across Prudential and M&GPrudential. We were pleased to have issued these bonds with substitution clauses, which will enable the rebalancing process at the time of the demerger. These recent issues included sterling and US dollar denominations, and we retain capacity to issue capital across both businesses in sterling and non-sterling markets, and will focus on good execution so each business is capitalised with the appropriate quantity and mix of capital.

Group Solvency II Capital Position

Turning now to the Group Solvency II capital position. Driven by the strength of our operating results, the surplus has increased to £17.2 billion with a 30% increase in the coverage ratio to 232%. Adverse market effects were largely offset by positive currency impacts, and other items were net neutral too, after including nine percentage points of net debt issuance in the period.

We have been engaging closely with the Hong Kong Insurance Authority, as it develops a new Group capital regime, for which it has begun discussions with the industry. As part of our engagement and based on estimated demerger timing, the HKIA has confirmed that our existing subordinated debt instruments can continue to count as capital resources towards meeting the Group regulatory capital requirements that will apply immediately post-demerger. As the Group capital framework develops, we will update you on its progress.

Overall, our current capital position, under both internal and external measures, and at both local and Group levels, remains robust.

Group Embedded Value

In my final slide, I leave you with an update of the embedded value growth I showed you in Singapore in November. The messages then were as follows. Firstly, that new business is the new key driver of value and cash for the Group, centred on Asia's high-quality compounding contributions. Second, that through the year we are adding to the stock of future profit and cash every year and, third, that this provides a powerful, positive dynamic that underpins the outlook for earnings and cash generation. You can see that 2018, through the addition of another material cohort of high-quality new business, has added yet another proof point in this consistently strong trend.

With that, I will hand you back to Mike.

Mike Wells: Before we do the Q&A, if you do not mind, I asked Michael Falcon, who joined us at the beginning of the year as a CEO of the US, just to give you a few of his initial observations, and then we will bring the whole team up for Q&A.

Initial Observations

Michael Falcon

CEO, North American Business Unit

Introduction

Thanks Mike. Good afternoon. My name is Michael Falcon and I am the new guy. I have spent the better part of the last 20 years of my life in the savings, investment and retirement space, mostly in the US, and in the last four-plus years in Asia. I could not be more proud or pleased to be here today and part of a great team at Pru, and a fantastic team back in the US at Jackson (some of the team is here today as well), meeting what I see as a really great goal, not just financial but social goal in terms of helping people retire successfully and live a life post-work with dignity. I think guaranteed income is a big part of that and, as you have heard over the years before, that is really at the core of what Jackson does.

Learning the Business

As Mike said, he asked me to share a few early thoughts and observations, and I will do that this morning. I started ten weeks ago, and since that time I have spent a lot of time learning about our business, most of that meeting and working with my leadership team, the management team at Jackson, employees. I have been through the sales conference, I have been through an internal board cycle for our subsidiary boards, as well as through Group boards cycle; all of the various control, investment and asset liability committee meetings. I have had time to spend with the teams of each of the operational centres, listening to client calls and watching how business is processed. I have spent time with our technology group, looking at projects and prospects there, and even time on our internal sales desk, listening to interactions with advisers.

External-Facing Work

Over the past few weeks, I have done a little more external-facing work, and that will continue over the next couple of months, with clients and intermediary platforms, as well as our fund and asset management partners. I have listened and observed a lot, and I will tell you, I am pretty impressed by what I have seen and heard since joining. It is also nice that it is consistent with the opportunity I was sold coming in; I am finding it very much as bargained for.

Three Key Takeaways

Jackson is a great business

I am really left with three key takeaways at this early stage that I think are relevant today. The first is, Jackson is a great business. It really has a tremendous set of capabilities built over a long time, and I think it demonstrates that in lots of ways, some of which Mike and Mark have talked about this morning. I think it is a disciplined organisation, not just in terms of the way it protects and allocates capital but in its operation. It is pretty deliberate and is generally recognised for very, very high service levels and quality in really every aspect of the business. I think that drives from a strong service culture, and it is an organisation where it is historically very sales-focussed but that is sales through service. Particularly interesting to hear still reactions of how the business, the products and the teams performed through the financial crisis, for advisers and for clients. It is that that is distinguishing us from a number of peers in the industry that I think demonstrates a continued culture but really the impact that that has.

Jackson is a resilient business

The second takeaway I have, and Mike highlighted this as well in his comments, is Jackson is a resilient business. I think we saw that through the market volatility, hedges performing as we would have expected them to through the fourth quarter, but I also think there is commercial resilience to this. There are obviously a number of headwinds in the brokered VA market and in particular in the US, brokered products being somewhat out of favour. We are also at a cyclical point, deep into recovery or maybe we are mid-cycle or late-cycle, there are arguments, but with the equity markets and rate environments, there is a lot of headwind in the market and yet we have very, very strong commercial relationships that we can continue to expand and build on. So I see a lot of resiliency in the business, and particularly that we are in the business of guaranteeing, retirement income, guaranteeing income and assets, if you will, I think resiliency is important.

Jackson has a great future

That leads really to my third takeaway, again early on, is that I am optimistic about the future of Jackson. I think the needs and demand for the capabilities that Jackson brings are growing. We have a leadership position, particularly in fee-based and advisory, which is still almost embryonic, and it is really just in its infancy. There is a lot to do, there is no question. It is a difficult and complex product, it is a difficult and complex market, but there is a market there, we are a leader in it, and we have the ability to solve a lot of these friction points and make it easier for intermediaries and their clients to do business with us.

It is no secret that there could be some more balance commercially in the book over time, between VA and other products. The good news is that over its history, and even currently, Jackson writes those types of exposures and has real capability to originate across a spectrum of products, meeting end client needs, and I think we will see more of that.

Optimism for the Future

The final thing that gives me optimism is what I term sales alpha. There is a real sustainable competitive and differentiated advantage in terms of how effectively Jackson and the team go to market. That is really integrated from the back end all the way to the front, but the most obvious, the point of the spear, is the sales force, the 180-plus people in the field, close to 200 back in the sales desk office, covering advisers and platforms across the country. It is a highly trained, skilled technical sales force with good longevity. As we shift into this adviser and fee-based model over the next three to five, ten years, I think it is extremely well-positioned to be cross-trained and meet the changing demands of the market to deliver these products and services.

Going forward, I will be back obviously to share more solid plans or visions of the future, but I do appreciate the opportunity to at least address you all at the start of my tenure here. You will see me continuing to spend time with the teams and spending more time at the external market place to get a gauge on where our biggest and best opportunities are. You will see a focus to continue on strategic diversification, which is important, and also what we could do to broaden our offering, both through product as well as distribution, deepening distribution relationships. Then I will be spending a fair amount of time with the leadership team, aligning the organisation to make sure we are putting resources correctly behind the biggest opportunities, and maybe pulling back from some of the less important ones.

With that, I am looking forward to many years of continued success at Jackson, building stable, prudent, profitable and balanced growth. I will turn it back to you, Mike. Thank you.

Mike Wells: Thank you Michael. I will ask my colleagues to come up on here and we will do some Q&A, if we could.

Q&A

Oliver Steel (Deutsche Bank): Morning. Three questions. The first is that historically you have described a 5% dividend increase as the 'worst case' assumption, so I am just wondering in the light of double-digit growth elsewhere in your business, why you have chosen only to increase the dividend by 5%.

Secondly, can you talk a little bit more about the extra balance that you want in the US business: how far do you want to go, what sort of products do you need to introduce, how you are going to achieve that?

Then, thirdly, you talked about the PruFund profits being backend loaded: can you give us some sort of idea on a five-year view, let's say, based on the current business, what sort of latent profit you have there?

Mike Wells: I am not sure if we described the dividend as worst case; I think the language was 'earn it, stress it and pay it,' specifically, and I think the key of a sustainable dividend is just that. There was plenty of case studies on dividend distribution getting ahead of actual core earnings, and that is not how we see this firm. We have a lot going on this year, Oliver. I think you see the cash and resilience of the centre. It was just viewed as cautious, given the structural changes and the fact we are not done with the final look at what the two entities would be. But it is not a reflection on our confidence in the growth or earnings. It was just simply a period where the Board thought we would be cautious, and think it is a good dividend increase, and obviously one we can comfortably pay.

Extra US balance, we have a variety of options there, but let us give Michael a little time to settle in before we get into some of the specifics. You are seeing an increase in the index annuity product sales in the US; you will see that in the league tables, and Jackson is looking at a variety of product initiatives. I think for competitive reasons, anything else we are doing we would want to keep confidential at this point. Then, Mark, a statement on PruFund profits looking forward, I will let you.

Mark FitzPatrick: In terms of PruFund profit, I think we are going to be wonderfully consistent in our message in terms of not disclosing anything in terms of some of that latency at this stage but I appreciate the attempt on it.

Jon Hocking (Morgan Stanley): Good afternoon, I have three questions please. Firstly, on Jackson, the guidance you have given today, and I think it was the same guidance as you gave in Singapore, about there being a 40-50 point hit in 2020 for the VA changes, I just wondered whether there is some offset here, because you have the additional hedging that you have had to put in place to cover the inadequacy of the current regime, to cover the rate cap positions over and above the economic hedging. Is that 40-50 bps net of what you expect to save in hedging, or is that potentially on top? I am just trying to think about what the direction of the statutory cash flow is, because you have potentially four years, where you have exceptional items clouding the statutory cash flow. That is the first question.

Then, the second question again on Jackson. Some of the movements we saw in the S&P in the fourth quarter, we had some incredible zigzag markets, down 5%, up 5%. I just wondered if you could comment in terms of how you handled that, and how the hedging handled it, and was that within the range of what was foreseen?

Just finally on Asia, the Greater Bay initiative you mentioned, I can see the opportunity but also presumably there is a threat here as well. You have a dominant position in Hong Kong but not in the mainland – what is the risk of mainland companies encroaching on the Hong Kong core business? Thank you.

Mike Wells: So Chad, if you do not mind, I am going to put you and Steve to work on the first two questions, and then Nic on the Greater Bay initiative.

Chad Myers: Both questions kind of come together, so let me just start with the second one and we can wrap back around. In terms of Q4 the volatility was there, and that is exactly the scenario we are built for. It is primarily an option-based programme and it is resilient for gappy markets. It is not a purely futures based dynamic hedging model, like a lot of the competitors do, so those gappy markets actually help us. When we got to the point, and we talked about in Singapore, and we talked about a couple of times, about the more difficult scenarios for us, two that we have seen in the last couple of years: one was that 2017/2018 where reserves were floored out and we were having to spend more on hedging than we would otherwise be inclined to do, to protect statutory balance sheet. Also, what we saw back in the first quarter of ’16, or the first half of ’16, when the market was down really significantly but we also had rates go to an all-time low, which also was difficult on the statutory basis. In both of those cases, we were having to do additional hedging above and beyond what our normal economic-based capital-based hedging programme would do. What you saw in Q4 was as reserves started to build, we saw a very nice balance between hedge gain loss and reserve build, and you saw, because we had that latent capital position coming into a good capital formation in Q4.

Obviously, the markets have reversed back up since then; we have seen those reserves released, as Mark mentioned, against hedging losses we would have taken, but all in all, still well balanced, and very happy with the outcome.

As we look into the new VA changes, that range we have talked about is really a point in time range. If you just said, ‘Today, we are going to flip regimes,’ that is where we get our 40-50-point result. As I think I have talked about before, what you are seeing is an increase in adjusted capital and an increase in required capital, of similar magnitude, which is why with the formula, we are starting at a 450% ratio, that is going to by definition bring the ratio down if it is one for one top and bottom. What that will do is give us better alignment going forward so we will have some more reserves up than we would have had before, so there should be a little bit less pressure on the upside. If we saw Q1 ‘16 replayed, we would not expect the extra hedging we would have to do on the statutory side. So it is not so much that there is a point for point today if we said, ‘We are going to put the new one in and we are going to get some sort of relief vis à vis hedging,' but what we should see is on a go forward basis, a little bit less hedge spend specifically around those statutory related tails.

Mike Wells: Jon, just one last comment, I think there is an interesting question of what the market will see as AA level RBC, because you are talking about a less volatile regime, but that again is outside of our control.

Nic, on the Greater Bay initiative, how that is coming on?

Nic Nicandrou: The threat needs to be contextualised vis à vis the reasons people come across from mainland China to buy in Hong Kong. There is a number of reasons why they do that. The first one is diversification of assets; if you like it gives mainland customers access to overseas type returns. The second reason is exposure to hard currencies, in that it allows them to effectively invest in products that are US-dollar denominated or linked to the US dollar.

Also, there is more comprehensive cover that they can buy on many of the critical illness and medical products, not least to cover them for early stage diseases and multi-stage type illness, better hospital access, and actually more access to Western brands, which are not as readily available in mainland China. That is why people buy in Hong Kong. Yes, ultimately in time, the flows may be the other way, particularly where say a Hong Kong resident wants to buy a renminbi-denominated product, but those products are already available in the market. Our assessment is that the opportunity is much, much greater than the threat.

Just to build on what Mike covered earlier, we saw a 15% increase in the number of visitors from mainland China in Hong Kong from 44 million to 51 million. In fact, we saw a record level of visitors in the fourth quarter of 2018, aided by the increased connectivity that is coming through the new road and the rail services. It is no coincidence that behind the 18% increase in our Hong Kong sales in the fourth quarter lies a 42% increase in the mainland China sales, so you see those effects coming through as traffic or visitors increases.

Ashik Musaddi (JP Morgan): Hi, good morning, just a few questions. First of all, on cash remittances, it looks like you have moved to around a 100% pay-out at the moment on a cash remittance net of holding company. I think it is largely driven by a lower US dividend, but how do you think about this number going forward and especially how do you plan to fund things like the payments you will make to UOB, £600 million? Would you be using the debt that you have recently raised, or that has to be paid down as a restructuring and you will go down on cash balance? Any thoughts on that would be great.

Secondly, in terms of US RBC, I mean Mark, you also mentioned that US RBC is still doing all right, but any thoughts on how things have moved in the first quarter of this year, year to date? I mean how your equity hedges have performed, how interest rates have performed, because it feels like equities up is negative, interest rate down slightly is negative as well. Should it not be moving down more back to 400% RBC, it is on 450% at the moment; and what impact does it have on the dividend from US?

Lastly, on UK capital, I mean, UK capital has moved up nicely because of this longevity release, which will mostly likely happen for the next two years as well, but you still aim to maintain say 170%, so are you looking to extract more dividend out of UK because of that? Thank you.

Mark FitzPatrick: In terms of the cash remittance, effectively the philosophy and the approach is we bring up what we need to the centre. Candidly, in terms of where we are at, at the moment, given the fact that we raised £1.6 billion of sterling, and we have a cash stock at the end of the year of over £3.2 billion, bringing up extra for the US just did not seem to make a whole lot of sense. There is also a capital efficiency with actually having some of the extra capital in the US because of some of the inadmissible DTA that we can bring in through that component. So there is a financial play in terms of doing that piece, but in essence, we bring up what it is we need and when it is we need it on that particular piece.

In terms of the UK capital, in terms of where we are at, we are very pleased with the performance of that business, how it has done with the element of capital creation. We are going to continue to keep a close eye on it, and we are expecting the guys to continue to work hard over the course of this year, continue to keep a close eye on it up to the stage of demerger. We have set out the element that we are aiming for 170%; we will look to see what happens closer to the time in terms of what that ultimate ratio is going to be, and what the ultimate capital position is going to be.

The key thing to bear in mind is that it is in our interest as a plc board to ensure that M&GPrudential and plc are well capitalised, well regarded and set up for success, so we will make sure we will do those things for both those companies as part of demerger.

Mike Wells: Then Ashik, on the US RBC, we do not give off-cycles as we have discussed. December 31 last year is a point in time metric; that is hard mark and Jackson did well on it. Directionally, capital is improving and I think Mark referred to that in his comment. If you were running that calculation now, it would actually be better but we are not going to disclose monthlies.

Andrew Crean (Autonomous Research): Good morning. Just one question. There is an awful lot of talk about growth in the presentation, yet the stock trades on 0.8 times in embedded value, which is the kind of rating that Clive Cowdery would have bought closed books for. There is a major gap in perception here. I wonder whether you could talk a little bit about what you perceive that gap, because it has been around for some time, to be about, and what concrete proposals you have to close it.

Mike Wells: Andrew, I think it is our job as a management team to manage the earnings, the quality, the growth. The share price has some market factors to it that are outside of our control. I think you are seeing the messaging, the deployment of capital, the performance the consistency, all those things that are management's control, but I think commenting on the share price is really a market issue.

Greig Paterson: I will surprise you, I only have two questions this time. It surprised me that you increased the debt by net £1.2 billion, and then I read quickly the release today that post-demerger it would increase a little bit more. Has there been a decision to increase the structural leverage within the Group? Have we seen this manifest, or is some of that money earmarked to redeem some debt and then we will go back to the old level? That is question one.

The second one, and excuse my memory, I saw something about Babylon raising money and whatever, just top of my head, and I had some negative thoughts about why were they raising money when Pru's just injected some money etc. I wonder if you could just update on

– I know it is only just two or three months since you did it before – but how is the Babylon rollout going? Is it everything hunky dory or is there any issues there?

Mike Wells: Mark, do you want to comment on structural debt and then, Nic, do you want to comment on the Babylon rollouts? We probably should stay away from Babylon's equity story, though, just for the record; that is probably outside of our jurisdiction as well.

Mark FitzPatrick: In terms of the debt, the idea is to make sure that we have some flexibility as we go through the changes and the movements in the debt stack ahead of the demerger, so making sure that we have the right debt in the right place and that we have flexibility in terms of the tools that we use to move the right debt in the right place. Then, over time, I would expect to see the debt numbers coming back down but over the course of the build-up to, and immediately post, there may well be, which is why we have highlighted in terms of the MTN as well the fact that it might lift up a little bit.

Nic Nicandrou: On Babylon, the plans to launch this service in our first market, which is Malaysia, are pretty well advanced. As Mike said, first phase was to get Babylon to help us localise the app, both in terms of language so it now exists in Bahasa and also in terms of local illnesses. So that is done. We have engaged with the Health Ministry to get approval as a health information service. So we have gone through that particular step, and of course, it has been very, very heavily tested by our 3,000 or so staff that we have in Malaysia. The launch is scheduled for April. It will include some of the basic features that we showcased in terms of the diagnosis, the system checker, the digital twin. We have added a number of additional services such as AIM's detection service, and also an online doctor consultation, which will be available for free for our own customers, but at a charge for non-customers.

Also, medicine dispensation will be part of that as well. Later in the year, we will add wellness, rewards, chronic disease management and hospital admission. As I said, it is well advanced in Malaysia, we have also started in Hong Kong, Singapore, Indonesia and Thailand.

Just to manage expectations, our emphasis at the first 12 to 18 months will be on ramping up the user numbers, establishing service partners and connecting to existing and new partners' platforms. We will be tracking the number of downloads that we are achieving and how many of those then convert into monthly active users, and then, in time, how many of those will convert into revenue-generating users. We are also developing our digital marketing tools and looking to put in place a very smooth model to move from kind of online to offline handoffs to telemarketing and agencies, so all of that is pretty much progressing as we expected, and we will be able to give you more updates later in the year.

Nick Holmes (Société Générale): A couple of questions just on Jackson's hedging program. Just to come back to that, I wondered if you could give us more colour about how you handle the basis risk because looking at the disclosures, you seem to be hedging with index options mainly, and I am just interested to hear how you structure the policyholder asset liability management because I think the policyholders have pretty broad asset allocation choices. How do the options reflect that?

Then second question is, looking at the cost of options, I think, Chad, you said the zig-zag markets actually favour options, but I did not quite understand that because do options not rise in cost when markets are volatile? I wondered if you could also just explain and give us more colour on that. Thank you very much.

Chad Myers: I think on the basis risk, Steve covered some of that in Singapore too, so there is some refreshing there too on the slides. Just broadly speaking, when we put funds on our platform, we underwrite them to certain characteristics, and so while there might be good funds out there that generate good alpha, they do not really track well. Those are the types of funds we do not put on our platform. The ones that have more stable investment offerings over time that have relatively consistent betas that are easier for us to track on a basis risk type of basis, those are the types of funds we have there.

What we find is a couple of things; because we do underwrite the funds, they are very stable through time, we do not see a lot of short-term basis risks coming through. Over the long run, we really would not expect to see much anyway because most equity type of markets and most equity type of investments are going to tend to correlate over time. The one exception to that would be more of the international emerging markets and things like that. We do have hedges that we specifically have, and a lot of that is more currency than it is actual direction of equity markets. Although, the last 12 to 18 months has been fairly dispersed across global equity markets, but we do have hedges on EFA [?] and EM in addition to the S&P that have mitigated most of the basis risks that we have seen in the outer lying separate accounts.

Also, what we do not see from our underlying policyholders is a lot of movement, so they tend to make allocations and stick with them. We do not get a lot of in and out activity going on there, so that is very stable through time, which also helps with the basis risks. With respect to cost of options, the point I was making about the zig-zag; so, if you own options going into a market, you are effectively long gamma. To the extent that you are doing like a delta rho hedging replication type program, you are going to see the sensitivity of the underlying equity instruments moving on you, and you have to rebalance the delta into the futures type of position. When you walk into that type of environment with options already in place, which we do, which is expensive relative to just hedging futures and steadily grinding up markets, you are going to outperform because the options are going to have a similar type of gamma to the underlying liabilities, which is a key feature for us in stress times.

With respect to the pricing or the costing of those options, there's things we can do to do things differently. Instead of just outright owning put options, we can do put spreads and take advantage of skew. There are things like that that we do that will help in those environments. Typically speaking, our option book is long enough in duration to get through these V-shaped volatile shocks.

Michael Falcon: One quick comment on the first point; we also have something coming from the asset management side and I am very impressed with this. It is a very large separate account portfolio with a wide diversity of funds. There is diversification and balance in that portfolio itself and there is great visibility, like instant visibility. There is not a lot of change in allocations that end consumers make, but even where they do that, it is instantaneously visible to the team. They can see exactly what is there and there is a level of risk mitigation just in the size and diversification of those holdings. They are not all equity funds. They are certainly not all emerging market equity funds.

Mike Wells: Nick, if you were managing money in the platform, they are seeing your net actual holdings effectively real-time. They are hedging the actual underlying stocks in positions in the subaccounts, not necessarily trying to just track the fund, and then, again, the basis risk.

Michael Falcon: It is at the balance sheet level. The hedge is not at the contract level, which would be extremely expensive and problematic for that reason.

Johnny Vo (Goldman Sachs): Just three questions; in China, as we get closer to liberalisation of the market, how do you see the relative merits of your joint venture versus a wholly owned subsidiary of one your competitors? The second question, just in regard to PruFund, it has been doing extremely well. I am not sure whether it is sold on third-party platforms, and if it is not, are you planning to do that because it could obviously give a boost in terms of sales volumes?

Third question, just in regard to all the movement on the holding company, the debt and various other things, Mike, when would you be in a position to give us more information on the synergies of these holding companies that are demerging and the benefits that you will see from the demerger to the market? Thank you.

Nic Nicandrou: Look, we have been quite open about our desire now that the market is liberalized to own more than 50% of the business. If we are able to do that, then that will give us an instant pick-up, if you like, in our numbers. As Mike said, that is dependent on a couple of factors, which are not entirely within our control.

But I think the market is wrong to underestimate the potential of simply growing this business and the operational leverage within that. Let me just give you some more colour around that, if I may. We put up a slide in Singapore that is showing where our flows in the new business value comes from amongst the now 19 provinces that we have. When you go beyond that, you see that in a couple of places, in Guangzhou and in Beijing, we have penetration of between 1% and 2% in terms of our gross written premiums. Everywhere else we are well below the 1% level.

Overall, we are about 72 basis points of market share. Simply adding 10 bps of market share a year would increase, over that five-year period, the new business contribution. If you then overlay the projected 10% to 12.5% increase in gross written premiums, that becomes 3.5 times the NBP. The operational leverage is huge, and I think these numbers are conservative bearing in mind that over the last five years, our NBP increased five times. Really the challenge is to grow that footprint, which is where we have been investing time. We are now operational in our nineteenth branch and we are preparing for our twentieth branch. We upped the number of the presence that we have in ten extra cities, we are up to 87 now.

That is not the only driver; we have now added 32 new sales support officers, bringing the total number to 214. We have increased our agency count 9% of 44,000 to 48,000. We have signed up three new bank partnerships so that we are now operating with over 40 partners. That gives us access to 5,000 bank outlets in that market. That is 20% up on a year ago, and we have increased the number of wholesalers that are servicing those bank outlets by 28% to 1,400. Therefore, we are just going after that opportunity. We are doing all of that at the same time as focusing on the high-end products. Health and protection are now 45% of our sales. Regular premium has gone up to 97%. Client retention is 94%.

All of these drivers mean that all the key indicators of future financial earnings and value have increased double digit whether it is embedded value, whether it is the gross written premiums, whether it is the size of the assets that we manage in that business. Simply by going after the opportunity systematically, diligently and making sure we are doing quality, gives us huge operational leverage, which is actually much, much bigger than simply increasing our ownership by 1% or by 25% in 2030, as we have said before.

John Foley: We do not sell it on third-party platforms, but how we are looking to grow PruFund is through Europe, so others are busy diligencing us in terms of the product to sell through our bank partners in Europe. That is where we are heading with that product. Clearly, we have got to maintain the integrity of the performance of that product, that is what drives the sales, so that is how we choose to do it.

Mike Wells: Johnny, on the synergies, I think for M&G Prudential, before we announced the demerger, we announced the merger of the two entities and they set cost targets. Part of that was improving service and capability, and you are absolutely seeing that now. Part of that was cost reduction, which, as we mentioned, is on track. As they are adding the capabilities to be a standalone firm, then the governance, the sovereign functions, etc., that is embedded in that model, so that is an added challenge for them.

On the international side, when you are doing this level of work, it creates a sort of inflection point to look at why you do things. Our view as a management team, you could come up with a reason to do that by yourself without any sort of external catalyst, but this absolutely is a catalyst. So there is a soup to nuts look at every process we have, every role we have, how can we get closer to the client, do things faster, all of that. That has some clear cost savings in it, but we would like to announce those as we get to them, not project them. We do see a leaner, closer to the consumer model when this is all done, and I think you need to be to stay relevant to the consumers and in the [inaudible], that is how we should be.

Abid Hussain (Credit Suisse): I have three questions if I can. Firstly, if I can just come back to the debt leverage. I just wanted to get a sense of what the releverage capacity for Prudential PLC post the demerger is. I think, if my math is correct, you end up with an IFRS debt leverage of around 22% to 24% for the international business. So I have allocated about £3.5 billion to the UK. Now, I am just wondering if that is the right sort of level or would you look to increase the leverage from that level going forward?

The second question is also on debt, but regarding Jackson, I just wanted to understand how much of your existing external debt counts towards the RBC ratio, and if there is any room to inject more debt later into the US and what the constraints are around that? Finally, around the demerger timeline, I think I heard you say that you have a court date for the Part VII transfer for the end June, and assuming you get approval at that point, what else is left, and how long would it take? Is there a risk that the demerger might split into next year?

Mark FitzPatrick: In terms of debt, the kind of ballpark that you are talking about in terms of your numbers, I think, are fair. Clearly, we will be looking at our future opportunities in terms of where we are with our debt levels, in terms of the cost of debt. There is still quite a lot we need to do with debt overall in terms of the restructuring of the debt in anticipation of the demerger, so we need to get the debt in the right buckets with the right features and the right characteristics. From PLC going forward, we will be keeping a close eye in terms of our overall debt levels. We will be keeping a close eye on just ongoing opportunities we have in the market, and then how best to be able to fund those.

Chad Myers: The only external debt that we have with Jackson outside of the spread lending business is a surplus note that is due later next decade. It does count for capital purposes, and therefore, for RBC, there is more capacity to do that within Jackson. Anything past that is just more of a question at PLC where the most effective place to raise debt. The size of the note is $250 million surplus.

Mike Wells: On the demerger timing, we have not said it would be this calendar year. Clearly, we have to go off an audited set of financials, so that is one of the criteria, so half year or full year. The debt piece Mark was mentioning, we need to finalize what the balance sheet of both these entities look like, the governance in place for the standalone firm, which is its Board, the regulatory approvals in both jurisdictions, that includes reconvening regulatory college on the international side.

Then, I think the task we have been given by the PLC Board is to make sure that the quality and execution is fit for purpose for two standalone FTSE companies of this scale. It is as much a quality lens to make sure everything is ready to go, but as you saw from one of the earlier slides, a tremendous amount of work has been done to date and we think we have the teams in place and we think we are making very good progress for it. We will keep you posted as we knock back some of these requirements. But I think of one of the dynamics being that the financials date, and we want to go off audited financials, we do not intend to do an off cycle set of books.

Blair Stewart (Bank of America): Thanks very much. It is Blair Stewart from Bank of America. First question is, you gave an indication of the Asian surplus against the local minimums, I just wonder how much of an indication that is to true surplus? Where would you be happy bringing that down to, and how fungible is that as well? I guess, more importantly, have you had anything to share with us with your conversations with the Hong Kong regulators about how the PLC capital position would be regarded?

Secondly, for Nic, two smaller questions; in Indonesia, we have not really seen any impact of the initiatives yet. Is there anything that you are seeing that you can share with us that may be good, bad or indifferent? The Greater Bay Area initiative, do you think that is a signal of a more relaxed view from the Chinese regulator on mainland Chinese business after some tightening they did a year or so ago?

Mike Wells: I appreciate that. I am heading to China next Wednesday night for the China development forum, and Blair, one of the specific questions will be with the various political leadership is their view, including the chairman or the regulator, of cross border. It has come up before. I have never heard the same concern in Beijing or in a meeting with senior Chinese regulators that I have heard in a meeting like this about Chinese. What the concern is, is on penetration rates, levels, quality of product, strength of balance sheet and asset liability. That is the dialogue, and I have been a minimum of four to six times a year since I have taken this role. There has been plenty of opportunity if they had a concern about cross border to raise that, and I have never had that come up, but I intend to bring it up.

The Greater Bay initiative, I think, has got a lot of dynamics to it. The first key to it for us is to make sure we are servicing those clients up to their expectation, and candidly, up to their regulator or government's expectation. That is one of the things you want to define is, what do they see with that insurance connect? What do we need to build to be ready for it? We are assuming stock connect is the model just given the names, but that is the type of thing to validate in one on one meetings and in various sessions with the leadership of the country. We have a shot to do that in the next couple of weeks.

James Turner: In terms of HKIA, we are, as Mark said, actively participating in the HKIA industry engagement on their development to the Group-wide supervisory function. That includes the future capital models because, as you said, in a number of the countries, the local stat is actually the biting constraint, not the Solvency II numbers. That said, we are also continuing to engage with IIS, and also on the ComFrame and ICS, but the discussions with HKIA on the principles of the group supervision in capital have progressed well. We have been working really closely with them for some time now, and whilst it is too early to give you indicative numbers, we will update you once the HKIA's proposals have been published for consultation.

Nic Nicandrou: I do not really want to give a forward-looking statement on Indonesia. There is a lot of work that we are doing to address what I referred to back in November as the strategic I mentioned of the business as well as the operational dimension. On the strategic dimension, if we can segment the market into kind of four buckets; there is the agency linked where we have a leading position, that part of the market continues to be subdued. It is a big part of the market. It is around 25%, but it is not moving.

The product that we launched in September has introduced many customer-friendly features, and of course, it is only available through our electronic platforms. In a country such as Indonesia with over 250,000 agents, it takes times time to effectively train everyone to use those electronic platforms and to also learn about the product. That was taking place through the fourth quarter. We are seeing good take up of the product. We are seeing high cases sizes, but there is more to do and there will be a high net worth version of that coming later in the year. That is our response to that.

The second part of the market is the agency traditional. That is about 11 points in the market, 11% market. Historically, we have not done anything in that space. We launched our first simplified endowment product in January targeting effectively the rookies and the core agents. We are seeing a good momentum in that, about 77% of the sales of that product are coming from rookies and core agents. We are iterating that product. We are trying to simplify it further and we will be introducing further simplifications, such as underwriting with five questions, later this quarter. Again, sales there are picking up. It is making up about 6% of our APE in the early part of the year, and there is a lot more we can do there.

On the banca, which is 40% of the market, we continue to push through with UOB. We have now started doing business with OCBC, Mike referred to that. We are busily onboarding another kind of small/medium sized bank in Q1. Of course, once the Taiwan/CFC transaction completes, we will get access to Shinhan branch network there. We continue to look for opportunities in the retail space because UOB and SCB really are in the wealth space, be it on an exclusive or non-exclusive basis. The balance of the market, which is 23%, is on group business. There, we have had no presence historically.

We are launching, on the 22nd April, our employee benefit business. The systems are built, we are ready to roll that out, and we will target the 27 million SMEs in that particular market. I think we can get some decent traction. At the same time, Babylon is coming online later in Q2, and we are also exploring opportunities to work with non-traditional and platform-based partners. Of course, there are a lot of platforms that are getting a lot of traction in that market.

The operational dimension, which looked at where we were looking to retool, our agency is also proceeding as I would like it to proceed at this stage. We are giving better training, better tools, better products to the elite and the MDRT. That is around 2,000 of our top agents, and their contribution is improving. We saw their contribution to APE rise from around 8% to 19% and you saw that on this slide. We are putting a lot more emphasis on Shariah. That grew 17% last year, it is now about 25% of our agency sales. We have a leadership position in that particular market. We have set that up now as a separate business with a separate CEO, separate budget, and we expect to get more traction there.

When it comes to the agency leaders, we are giving them more support with hiring. One of the things that we saw in 2017 and 2018 is only about 60% of them hired new agents. That number needs to get much, much closer to 100, and we are giving the appropriate support. We are also strengthening the infrastructure that we have to manage to manage these very many branches. We are doubling the internal infrastructure, the number of effective sales support managers, and are reorganizing their management structure, so a lot of work. We have a great business there and a great platform. Withstanding some of the difficulties, it is the number one provider in that country. As I said before, I do not really want to give a forward-looking statement, but the action plan that we referred to in November is in motion.

Mike Wells: Thanks, Nic. Then, Blair, one additional comment on the China cross border. We have had Hong Kong validate and look at, from a regulatory point of view, if we are complying with their rules on cross border and that is a normal part of their governance in their previous form and their current form. We have had those reviews just to be clear.

Again, thank you very much for your time and attention. We look forward to seeing you at the half year.

[END OF TRANSCRIPT]