Prudential 2011 Half Year Results: August 5, 2011 11:00 am Greenwich Mean Time

Tidjane Thiam: Good morning everyone. Welcome to our 2011 Half Year Results Presentation. I hope that Prudential is going to make its small contribution to try and lift your mood this morning.

At our Investor Day on December 1st of last year, we set out how we intend to deliver growth and cash for our shareholders. This morning, I will give you an update on our progress during the first half of 2011, and there are fundamentally three messages that I would like to emphasise.

The first one is that we have a clear strategy that we confirmed on December 1st and some of you will recognise the puzzle we use, which is to accelerate our growth in Asia, to build on our strength in the U.S., focus even further our UK business, and optimise our asset management business. That strategy has an explicit focus on Asia. Asia remains a uniquely attractive opportunity for shareholder value creation within our industry. The sovereign debt crises in the eurozone and the recent concerns about the U.S. have only continued to reinforce the value of our focus on Asia.

The second point I'd like to make is that our leadership team across the group, well represented here today, has delivered strong first half numbers. We are all totally focused on execution supported by our operating principles in red here, balanced metrics, disciplined capital allocation, and proactive risk management. This team here is committed to ensuring that our track record of financial performance continues into the future and the third message is that we are now 18 months in our 48-month programme that we defined '10, '11, '12, '13, Growth and Cash, and we are on track to achieve the 2013 objectives.

So my presentation this morning, we'll start with a quick overview of the results. I will then take a moment to give you some more colour about our businesses, about Asia, the U.S., M&G, the UK before saying a word of our progress on the targets, the objectives we set in December. I will then hand it over to Nic, who will provide you more detail on our financials across the Group's operations, and I'll come back at the end to provide an outlook and, of course, open up to Q&A. Again, our management teams from across the Groups are here this morning. Please do take this opportunity, and I've seen some of you doing it already, to ask questions and tap their expertise.

So we are committed to delivering profitable growth and increasing cash. Starting with profitable growth, the first leg of our December 1st commitments, we have achieved in the first half, an increase of 20% in new business profit, 25% in IFRS profit, 28% in EEV operating profit. For the first time for H1 results, we are up 20% or more across all our three preferred metrics of profitability, hitting a billion pounds on a number of them and, Nic, will explain on that later.

Our embedded value per share has increased by 13% to 745 pence per share and if I move onto cash, the second leg of our commitments, , we have delivered free surplus generation of almost 1.1 billion from our increasingly large back book and 50% increase in net remittances from our businesses driven by a particularly large contribution from Jackson at 320 million, and please note that Jackson has made all its annual remittance during the first half, so don't expect anything equivalent in the second half.

Last but not least, we have declared an interim dividend of 7.95 pence per share. This is calculated as one-third of the prior year's full-year dividend and is consistent with our historic formulaic approach to the interim dividend and Nic will come back to that. Given the decision made to cancel the scrip dividend option, there is, as you would expect, no scrip dividend. Now this performance is the result of the work we have done over the last few years to change the economics of the Group, and I use those words on purpose to change the economics of the Group. Nowhere is this more visible than in the new business profits we are generating from the capital we invest. It is my long-held belief that life insurance is a cash generative business. That is only true though when investment in new business is both disciplined and optimised. By disciplined, I mean by the quantum of investment in new business must be well controlled and by optimised, I mean that the investment in new business must be allocated in a way that maximises IRR and minimises payback period.

So if you look at our performance from that angle, what you see is that our Group new business profits have increased by 90%, almost doubled for the Group over a three-year period while new business strain over the same period was falling in absolute terms by 12%. So we continue to write capital efficient business across our life operations to generate, as I said in March, more for less.

Another metric on which the transformation of the Group is visible is cash. We are showing you here the net remittances from our businesses over a sustained period of time, so '05 to '11. For those who are sceptical about insurance accounting, I know it's shocking but they exist, cash generation over time is a key test of whether a strategy is working. You can see on this slide that the strong trend of increasing net remittances from our businesses has continued in the first half of 2011. As just mentioned, the remittance that we have received from Jackson in the period represents tangible evidence of our profitable and cash generative expansion in the VA market in the U.S. and leaves the business in a strong capital position post remittance because you can imagine that the Michigan* regulator would not have allowed it otherwise.

So let's now look at each of our businesses in turn starting with Asia. Asia, as I said earlier, represents a huge growth opportunity. That's not news and our long track record of top-line new business growth confirms this, new business sales growth. This is APE, yeah. In both, we have built a leading distribution platform in both agency and bancassurance; however, having significant volume growth and top rank market share counts for little if one fails to convert such a position into actual returns for shareholders. Over the last few years, we have deeply modified the economics of our Asian business. PCA is now delivering not only APE growth but growth across all of our key metrics, which are first new business profit, which is up 17% in the first-half of the year. As you all know, our NBP growth has been consistently strong over the last few years and despite increasingly tough comparators, the PCA team continues to drive this metric forward year-in, year-out. In the first half, 9 of our 11 markets in Asia delivered double-digit NBP growth and that's how we incentivise and measure them, not APE, NBP growth. Excluding India, a market whose challenges are well-known, our NBP was up 22%. Picking out a few markets, Indonesia was up 32%; Singapore, up 25%: Malaysia, up 22% in NBP but new business is only one metric. I have always said that it is not appropriate to run a life business on a single metric. The real test for a life insurer is its ability to drive growth across the three metrics of NBP, IFRS, and cash. In 2008, we told you that we would focus more on IFRS and cash. What we have called in our operating principles more balanced metrics. So what have we achieved since then? IFRS profits are now more than four times the level we were at in 2008 and have increased again by 25% in the first half of 2011, so that's quite a strong progression. If we move to cash, net remittances, Asia has contributed over £100 million in net remittances to the Group in the first half. That is nine times more than in 2008, and there is more to come.

So bringing this altogether on one slide, you can see the transformation of Asia's economics since 2008 due to our explicit focus on delivering across all of our key metrics. This profile of financial performance where we deliver both profitable growth and increasing cash is rare in fast-growing companies like ours in emerging markets. So let me now give you some more colour about our Asian operations.

I do not need to stress again, but I'll do it the significant opportunity for life insurance that Asia represents. This largely results from the combination of a number of well-known structural factors, low penetration, high GDP growth, high savings rates, positive demography, and constructive regulatory environment in many markets, especially in Southeast Asia, as showed on the left-hand side of the slide, which is describing GDP growth and penetration by market.

So we are very well positioned to capture this opportunity with our presence in 13 markets on the right-hand side here where we serve now over 12 million customers through a mix of agency and bancassurance.

Those of you who have visited our businesses in the past will agree with me, but the best way to understand the scale and depth of our presence in Asia is to touch and feel our operations. It is for this reason that our investor conference in 2011 is to be held in Kuala Lumpur where we will provide you with lots of access to our Asian businesses and management.

As a preview, let's take a look at some of those businesses and see what they've been up to in the first-half of 2011. In Indonesia, a market with high GDP growth and low insurance penetration, we are a dominant player in the industry. In '95, we had only 250 agents. Today we have over 100,000. We have a strong presence in Jakarta and Sumatra and, in the first half of 2011, we continued our rapid expansion into the other regions of the country where our takaful products are very popular with the Muslim population. We continue to innovate to different detailed sales from the competition. I got an example from our PCA Team, and we have just introduced Pru Hospital Friend in June. It is a great example of our innovation, and it is putting our own people into hospitals to support both our customers and our agents, and we bring that in two hospitals now with great success. This is not only the talking point for our clients, but it is the envy of our competitors' agents. If I take China, which is my second example, we face a completely different situation. China is clearly a market with great potential; however, it is currently dominated as we know by strong local players. We do not let that affect us too much because we are in China for the long game. We operate there via our joint venture with CITIC, and we have a 10% market share among the foreign insurers. Our distribution mix is split evenly between bancassurance, with CITIC bank and Agency and with our Agency force now exceeding 13,000 we are making good progress across the 33 Chinese cities in which we are present.

In the first half of this year, we have launched a new agency recruitment drive called the Apollo Programme, and we are optimistic that this is per Agency group in the coming periods.

Moving now to two markets where we have been present for longer periods. Singapore, we started in 1931 and Malaysia in 1924. Singapore is a very wealthy city with higher insurance penetration than many parts of Asia where our results continue to defy conventional wisdom with high levels of profitable growth. AP was up 37% in the first half of the year. We have highly effective multi-channel distribution and are the market leader for regular premium unit-linked business.

Our partnership with UOB, UOB Bank, has made a strong start and has grown 210% in 2011. We also have excellent partnerships in that market with Standard Chartered, Maybank. Singpost in addition to UOB, and we were relecting that the addition of all our bancassurance businesses in Singapore would simply be the fifth largest insurer in the country. It's not in my script, but we got confirmation this morning, Barry, that we got the June statistics from the association in Singapore. I'm pleased to confirm that we are number one in Singapore over the first six months of 2011, and we are pleased with that.

In the first half of 2011, we've continued to innovate. It's been a key source of value creation and new products contributed 20% of new business profit. We were the first to launch an early stage crisis cover plan, excuse me, and this product supported both new customer acquisition, as well as repeat sales which we know are very profitable from existing customers. We expect continued success from new product roll-outs in the second half of the year. To finish in Malaysia, which I guess is somewhere between Indonesia and Singapore in terms of development, we are also the number one player with 14,000 agents and over a million customers.

In the first half of the year, you probably saw that we extended our UOB relationship to Malaysia. It has been a particular highlight. Like in Singapore, we made a fast start with UOB. Within eight weeks of signing, we had seven products, fully up and running in 46 branches. We officially launched on May 1st and our first two months of APE achieved 150% of our target. I'm sure we'll see further progress with this exclusive relationship in the second-half of the year.

So that was just a very quick whistle-stop tour for a few of our Asian businesses. Our investor conference later on this year will give you much greater insights, and will be an opportunity to do credit to the incredible activity happening across our businesses in Asia with Barry and team, so.

Moving now to the U.S. Over the last decade, Jackson has delivered significant growth in assets driven largely by our successful expansion in variable annuities. These assets are shown in dark blue on this slide. This asset growth has translated into significant growth in profits, and the trend for growing assets and profits has continued in the first half. At the end of June, our total assets had increased to over 105 billion U.S. dollars, driven in the period by $7 billion of separate account net in-flows. Across our key metrics, Jackson has delivered a good performance. New business profits have been growing at a compound rate of 34% since '07 and are up 27% in the first half. Moving onto IFRS, IFRS profits have been growing also, at a compound rate of 14% since 2007 and are up 13% in the first half, driven by the underlying asset growth that I just talked about.

Finally, for cash, Jackson has delivered a net remittance of 320 million. Without question, this is the most noteworthy feature of Jackson's results that we are reporting to date. It is the largest net remittance that Jackson has ever paid to Prudential, and it confirms Jackson's ability to make significant contributions across the cycle. I believe Jackson and our US strategy pass the test of cash generation, that I mentioned earlier, as a key test in our sector with flying colours.

Again, Jackson keeps a very strong capital position and balance sheet after this large cash transfer. So bringing it all together on this slide, you can see that our philosophy is the same as in Asia. We hope to drive the three metrics, NBP, IFRS, and cash.

So I'll move now to the UK. In the UK, as in our other markets, we put value ahead of volume. We have focused our business on the parts of the market where we have a clear competitive advantage, with-profits and annuities. We have been relentless in writing only high IRR, short payback business, and this has produced strong results for our shareholders. A lot of improvement that we have delivered in terms of capital efficiency and return on new business investment, at group level has been a result of the actions the UK Team has implemented in this new, more focused approach. The new business strain, I believe, is the only chart on this slide where you will see a decreasing trend.

So across our key metrics, the UK has delivered: new business profits, growing at a compound rate of 8%, just as we were investing 53% less capital in writing new business.In the first half of this year, NBP has again grown at 8%. IFRS profit is up 8% in the first half and net remittances for the half year at 265 million were maintained at a high level over prior year. Given that first half remittances, predominantly comprise in red here for cash from the with-profit transfer,it is important to look at the full-year numbers to see the transformation of UK cash generation with the shareholder-backed business becoming cash flow positive. As a direct result in the 2½ years since 2009, the UK has cumulatively remitted in excess of 1.1 billion in cash to the group. This is nearly a tripling of the total cash, 411 million remitted in the previous four years between '05 and '08.

Bringing this altogether on one slide, you can see that as with Asia and Jackson, our UK business is delivering the right results across all of our key metrics. Let's be clear, I see our UK business as best in class, high single-digit growth as delivered by our business is an enviable growth rate in the Western world.

So let's look now at M&G. M&G continued to grow from well in the first half. Assets under management have now reached 203 billion, with 93 billion coming from external mandates. Our external assets have grown by £37 billion over the last two years, with 17 billion out of this 37 coming from net inflows. This is an exceptional performance from another one of our teams, the M&G Team. M&G's profits in the first half of 2011 have increased by 41%. As with most asset managers, M&G has a high degree of operational leverage, and you can see this in the rapidly improving cost/income ratio in the bubbles at the bottom that we went from 60% cost/income to 55% between '10 and '11. This strong performance from M&G is often overlooked by the many life insurance enthusiasts that follow Prudential, but it is worth pointing out that M&G now contributes over 15% of the Group's IFRS results and the profits it produces are very high quality and fully fungible. M&G is a high performing business and a very valuable part of the Group.

So in December, we have given you clear objectives from '09 to 2013. Before I end this section of my presentation, I would like to update you on where we stand. We told you we would double IFRS and NBP in Asia in four years. The quality of our Asia operations gives us confidence that we will achieve these objectives by 2013. You can see that over the first 18 months of the plan period, H1 '10, H2 '10, H1 '11, the run rates at which we're growing IFRS and NBP are ahead of a 19% annualised rate that we need in order to achieve the objectives. Put simply, we are on track to double Asia in four years.

Cash generation over time is a reasonable test of the effectiveness of the strategy. Conscious of that, we set a number of cash generation objectives for the Group on December 1st. You can see that here too we are making good progress towards our targets and as at the end of the first half, we are 43% of the way there. Nic will give you more colour on this very soon but overall, we remain on track to achieve 2013 growth and cash objectives.

So thank you very much and with that, I would like to hand over to Nic for more detailed run through our numbers.

Nic Nicandrou: Thank you, Tidjane, and good morning everyone. Now I have presented our results on three previous occasions, and each time I've been in the fortunate position of reporting to you strong growth. Well, this time is no exception. Today I will divide my presentation into two parts, growth and profitability, and then move onto cash and capital.

I summarise on this slide the financial headlines for the first six months of the year. I will not dwell on these, as I will be covering them later in my presentation. I will, however, point out two notable achievements: one, that this is the first time at the half year that our new business profit, our IFRS operating profit, and our free surplus generated have all exceeded the 1 billion mark, and that our EEV operating profit has exceeded the 2 billion mark. Two, that the double-digit growth rates also extend to the balance sheet with both our EEV and IFRS shareholders' funds at record levels. These results provide tangible evidence of the progress that all of our businesses are making towards delivering our strategy. So starting with growth in our top line, life insurance sales have grown by 10% to 1,824 million of APE. This increase has been achieved despite the impact of the regulatory change in India, which continues to disrupt the market as a whole. If we were to exclude this effect, sales in 2011 would be 16% higher, reflecting a 21% APE increase in the seven fast-growing, high profitable markets of Southeast Asia, including Hong Kong, and a 32% increase in our U.S. variable annuities.

Turning to new business profit, at a group level, this amounted to 1,069 million, representing an increase of 20% over the same period last year and 53% over the 700 million achieved in 2009. This growth was achieved even though we invested less capital than last year, reflecting our operational discipline of directing our investment into those products and those geographies, with the highest return characteristics. On this metric, the impact of the market disruption in India is more muted, as the contribution of this business to NBP is comparatively modest. In both half year and in both the half year and the second quarter of 2011, we achieved record sales volumes in U.S. variable annuities, in Hong Kong, in Singapore, in Malaysia, in Indonesia, in the Philippines, in Vietnam, and in China. These are amongst our highest margin businesses, and it is for this reason that both the half year and the second quarter new business growth rates are above 20%.

This next slide provides you more colour on NBP for each of our life businesses. The group's overall new business profit of 1,069 million shown in the top row translates into a margin of 59%, which represents a 5 point margin expansion compared to last year. We continue to write new business on attractive economics with IRRs above 20% in each of our businesses and short payback periods. These remain in my view best in class and represent a tangible example of a disciplined approach to balancing value creation and capital consumption. In Asia, new business profit rose by 17% to 465 million. Our focus on those products and geographies that offer the highest value, which we measure by reference to internal rates of return, have seen margins rise by 7 points from 56% to 63%. Health and protection, which in the first half of 2011 reached 31% of total sales, being 29% in the first quarter and 32% in the second quarter, remains a key source of value, accounting for over half of Asia's new business profit. In the U.S., our new business profit is up 27% to 458 million, with our growth coming entirely from variable annuities, as Jackson continues to benefit from its strong position in the independent broker/dealer channel. The four-point improvement in overall margin to 68% is due to the higher proportion of variable annuities, which accounted for 88% of our sales in 2011, compared to 80% last year. The margin of our variable annuity business is 2 points higher at 73% reflecting the benefit of minor pricing changes made in October last year. New business profit in the UK increased by 8% and the margin advanced to 36%. Consistent with our policy of only pursuing wholesale opportunities that meet our strict financial criteria, the UK completed one bulk annuity contract in the first half. The key numbers of this contract are APE of 28 million, NBP of 24 million, and new business strain of 8 million. At the retail level, we wrote lower volumes of individual annuities this year, following changes to the legislation on minimum retirement age in 2010. Now whilst this shift in business –mix has translated into an overall lower retail margin, which in 2011 was 32%, the overall IRRs on the new business that we back with shareholders' capital is higher than this time last year at over 20%.

Turning to life insurance net inflows, these have increased by 19% to 5 billion, evidencing good, organic growth. The effect of these net inflows, when combined with the positive investment markets in the first half, have driven the value of our policy holder liabilities up by 6.4 billion to 128.6 billion, despite a 1.5 billion adverse foreign exchange effect. This increase in the liability base is equivalent to an annualised growth rate of 11% or 14% if we back out the effects of foreign exchange. The trend that you see in the chart on the right is what underpins the significant progress that we have made over the past three years in driving our life IFRS profit forward. In asset management, we reported total net inflows of 3.3 billion, which as expected, are beginning to normalise following the exceptional performances in 2009 and 2010. The strong inflows in M&G's retail offering continue to provide a solid underpin to the amounts shown on the slide. Our total external funds under management are up by 3.8 billion to 115.2 billion, the high levels of external funds shown on the right underlying the improvement in our asset management IFRS profit that we're now reporting.

Moving to our IFRS result, our headline profit here was up 25% to 1,058 million. This has been a key area of focus for us, and it is pleasing to see that both life and asset management businesses are moving forward strongly. You can see the improvement in the life result on the top of the slide, and I will come back to this shortly. Profit in asset management and other businesses increased by 29% to 280 million. As you can see in the box, M&G is the main contributor to this total. Here, as Tidjane has already commented, profit increased by 50 million to 172 million due to the strong asset growth and the improvement in the cost income ratio. Now when you come to forecast the full year cost income ratio, please bear in mind the seasonal nature of our costs, which last year saw this ratio increase by three points between the half and full year stages. Asia asset management also delivered a healthy increase in profit from 36 to 43 million, again due to the higher asset base and strong discipline on costs. Here the cost income ratio also declined from 62% last year to 59% this year. Other income and expenses shown at the bottom of the slide were lower at 246 million. This is caused by the inclusion in these results of a one-off benefit of 42 million, which represents a reduction in our future pension scheme commitments following the government's adoption of CPI for statutory minimum pension increases. Our solvency II spend of 27 million will continue on this run rate for another 12 months and tail off thereafter.

Turning to the IFRS life result, profit was higher at 15% to 1,024 million, with all three businesses reporting increases. As you can see, Asia grew fastest at 25% with the U.S. up 13% and the UK up 8%. This relative growth shape is entirely consistent with what we're aiming to deliver. Also noteworthy is the fact that in the first six months of 2011, all three businesses are reporting profits, which are broadly equivalent.

I would now like to look at the life result of each business, using the sources of earnings disclosure that we introduced with our 2010 preliminary results. Starting with Asia, as you can see in the top left of the slide, the total life income has increased by 18% to 926 million. Expenses have also grown but at a lower rate of 9%, and you can see that in the middle. So with income expanding faster than expenses, there is a strong positive jaws effect contributing to our earnings growth. Below towards the right of the slide, as highlighted, you can see the technical and other margin is up 16% to 785 million. This source remains the key driver of our Asian income. The margin on revenues shown underneath has increased by 18% to 560 million. This represents deductions from premiums to cover costs, and the increase here is in line with Asia's premium income growth. The insurance margin of 225 million, which represents the profit from our health and protection business, has also increased, reflecting the growth in the book and the continuation of positive claims experience.

Moving onto the U.S., the improvement in the result is principally driven by higher spread and a higher fee income. Spread income, highlighted on the left, is 10% higher at 380 million, and you can see in the box immediately below. This is equivalent to a spread of 262 basis points, up from 235 basis points last year. This increase principally reflects reductions in crediting rates. The 2011 total includes 53 million from the portfolio lengthening transactions executed last year, which will also benefit the second half but at a slightly reduced rate.

Moving along to the right, you can see that fee income has increased by 36% to 327 million, reflecting the higher separate account balances, which have risen from 22.5 billion; you can see that underneath to 33.6 billion. The trend in the basis points fees shown is distorted by the fact that the average reserves are calculated using only the opening and closing balances. So if we refine this calculation, it would produce fees of around 200 basis points for both periods, and this reflects the fact that the pricing for that is unchanged. Total expenses in the top middle are up by 18% due to the higher acquisition costs incurred to secure the 20% growth in sales. These acquisitions costs amounted to 485 million and in line with market practice have been deferred in full, and will be amortised in future years. This deferral is treated as a credit in our results, as shown on the top right of the slide. During the period, we amortised 293 million of previously deferred costs. These are higher than last year, reflecting in part the growth in the book but also the DAC acceleration effect that we have previously flagged. We said that in 2011, DAC amortisation will be temporarily higher than normal, as we effectively repay the benefit that we accrued in 2008 from the use of the mean reversion methodology. This repayment amounts to 82 million in the first half and is included in the 293. I anticipate a broadly similar change in the second half of the year, and we have provided you with some additional disclosures in the release to help you forecast the DAC amortisation for the rest of 2011 indeed beyond 2011.

In the UK, the story is simpler in that the higher IFRS result reflects a rise in our life income and the ongoing benefits of our cost reduction programme. Our main sources of income in the UK are annuities and with-profits. You can see the increase in the spread income that comes from annuities to 122 million, highlighted on the left, which includes a contribution of 18 million from the bulk deal that we wrote. The income from with profits shown on the right was flat at 154 million, as bonus rates were substantially unchanged between the two periods. Turning to EEV, our headline total operating profit of 2,147 million is equivalent to an annualised return on opening embedded value of 17%. The life operations are the most significant component of this total, and this slide analyses the contribution from each business.

As you can see from the chart on the left, total life profit is higher at 2,140 million with all three businesses reporting increases at or above 20%. We are just as focused on the profitability of our existing book of business as we are on new business, recognising that it is an important driver of overall profits and ultimately of cash. We're therefore pleased to see that the in-force profit has increased by 25%, reaching an absolute level of over one billion, another first for Prudential at the mid-year point. You can see from the top chart on the right higher unwind from our existing book is contributing to this improvement; however, the step-up in performance is principally due to better overall experience variances and assumption changes; these total 246 million, which is further analysed by business on the next slide.

In Asia, the negative variances which followed the financial crisis continue to come down. Persistency in particular has improved and the variance now stands at minus 10 million. The Asia team continues to make good progress in eliminating these negatives, which are modest given the scale of the business. In the U.S., spread experience amounted to a profit of 81 million, which includes the positive effect of the portfolio lengthening transactions that I've already commented on. During the period, Jackson's management has successfully operated the business within its pricing assumptions, generating an additional 89 million of profit across a number of sources. In the UK, we benefitted by 46 million from the reduction in the corporation tax rate to 26%. We have not yet taken credit for the impact of the further proposed tax rate reductions to 23%, which when booked, would give us an additional benefit equivalent to four pence per share.

I would now like to spend a few minutes on Asia net flows. In 2010, our net flows posted a modest decline due to an increase in partial withdrawals, which are a feature of the business that we write in Asia. Many of our regular premium savings contracts have no fixed maturity date, so partial withdrawals are an effective way of allowing customers to access part of their savings. The blue dotted line in the chart on the left represents the rate of withdrawals, including surrenders, of our shareholder backed business expressed as a percentage of opening liabilities. Not shown on the slide, the rate in 2008 was in fact just over 4% for each half. You can see that this rate fell in the first half of 2009, principally reflecting a reduction in the frequency of partial withdrawals through the financial crisis. In late 2009 and through 2010, following two years of exceptional equity market performance, we saw a resumption in partial withdrawals as customers took the opportunity to realise some profits from the increased value of their policies. As you can see in the chart, the frequency of partial withdrawals in 2011 is normalising with the overall rate lower than the previous 18 months at 5.1%. This rate is now back in line with our EEV assumptions across all of our businesses except for Malaysia. I would emphasise that even after a customer makes a partial withdrawal, they continue to pay their annual dividend, including the element their annual premium, apologies, including the element that relates to protection riders. If this wasn't the case, then the level of gross life in-flows represented by the red bars, in the chart on the left, would be flat or falling, which is clearly not the case. I would also remind you of our definition of life in-flows. These are not the cash premiums that we receive. They are in fact the amounts by which we increase our policyholder liabilities, after deducting our upfront charges and after extracting our insurance income. In the final analysis, the key point that I would make is that our overall policyholder liabilities continue to grow. You can see from the chart on the right that in the last 30 months, the stock of policyholder liabilities has risen strongly, increasing by further 1 billion in 2011, which ultimately has the effect of driving our earnings forward. We have reproduced a chart showing our annualised lapse rate in Asia, which Barry shared with you in December at the Investor Conference. In fact, we have extended this by six months. You can see that our overall lapse rates remain on a downward trend and are now at a level of around 10 percent. Put differently, we are retaining 90% of our customers, which is an important underpin to the quality of our Asian franchise.

I would now like to turn to cash and capital. Let's start by taking a look at the evolution of our free surplus, which over the course of the period has increased from 3.3 billion shown in the grey bar on the left to over 3.5 billion shown in the red bar on the right. As you move from left to right, you can see the 1,390 million, which represents the underlying free surplus generated by our existing book of life business, including asset management. All businesses are contributing materially to this amount, with Asia generating a similar level of capital to the UK. We used 297 million of this amount to write new business, which is equivalent to a reinvestment rate of 21% below, well below the 27% rate of 2010. Now you should not regard such a low reinvestment rate as the new base. It is artificially depressed by a particularly favourable country and product mix, the latter reflecting the lack of customers' appetite for high strain interest rate sensitive products at this stage of the cycle. The net result is that we have generated an underlying free surplus of 1,093 million, which is above the 1 billion mark for the first time at the half year stage.

Further along the slide on the right, you can see the 690 million that was remitted to the centre, with a balance held in each business where it can be deployed more profitably. The higher overall free surplus base has the effect of improving both capital flexibility and capital fungibility.

This next slide summarises the net remittances from each business in the first half of 2011 and compares these with those in full year 2009 and 2010. At 690 million, the overall amounts are higher than those we achieved in full year 2009, and were well on track to meet our 2013 objectives. Stepping through each component, we have received 265 million of cash from the UK, representing as usual, the shareholder share from the profits, plus a positive 42 million from non-profit businesses. The UK is on track to remit 350 million from 2013, representing a sustainable level of cash without relying on the one-off positive items, which enhanced remittances in 2009 and 2010.

Jackson exited 2010 with a strong RBC ratio of 483% and the capital formation in the first half of 2011 has been strong. This has enabled Jackson to remit 320 million of cash, which represents its full year contribution for 2011. The level of remittance from Jackson, as Tidjane has said, reflects the success of a disciplined expansion in variable annuities and also demonstrates the fungibility of Jackson's free surplus. Now we acknowledge that this 320 million remittance is ahead of the 200 million level that we have set for 2013. You should note that these objectives have been set at a level we would view as sustainable through the cycle, as opposed to the maximum that may be achievable at any given point in time. We have received 105 million of cash from Asia as PCA moves towards its 2013 objective of remitting 300 million per annum. You will recall that 2010 included 130 million, one-off from Malaysia. So at an underlying level, the 2011 remittances are already ahead of those for the full year last year. M&G will continue its practice of remitting substantially all of its post-tax earnings, which in 2011, will be paid in the second half of the year. We're also making good progress towards our cumulative 2010 to 2013 objectives for free surplus and net remittances. You can see that at the end of June, we were 43% of the way towards achieving both of these objectives. Looking at the balance sheet, the overriding message here on this slide is that the quality of our balance sheet remains strong. The Group's IGD surplus at the end of June is estimated at 4.1 billion and is equivalent to a cover of 290%. Our central cash resources now stand at nearly 1.5 billion. In December of this year, we will repay the 500 million euro tier II notes at the first call date. Earlier this year, we increased our committed liquidity facilities to 2.1 billion and extended their tenure to 2016. Our U.S. credit book continues to be positioned defensively. Net unrealised gains at the mid-year amounted to 1.4 billion and impairments in Jackson fell back to only 14 million in the six months. Even though we saw no defaults in 2011, we have maintained the 1.8 billion reserve for credit defaults in our UK annuity book. With all the macro uncertainty, we remain cautious about the state of the economy and its impact on credit risk.

Our holdings of sovereign debt and bank debt in Greece, Ireland, Italy, Portugal, and Spain remain modest. This slide provides you with a full analysis of these holdings on the shareholders' balance sheet. You can see that our investment in sovereign and bank debt in these countries amounted to 53 million and 341 million respectively. I would remind you that these are principally held by our UK annuity business where, as I said a minute ago, we carry sizeable credit default reserves.

Finally, on dividend, the Board has approved an interim dividend of 7.95 pence per share, which is equivalent to a pay cash payout of 203 million. As in previous years, the interim dividend has been calculated formulaically as one-third of the prior year's total dividend. This translates into an increase of 20%. The Group's dividend policy, which is to grow dividend at a sustainable rate from the higher base established at year-end 2010 remains unchanged.

So in summary, we have maintained our 2010 momentum into the first half of 2011, and we continue to deliver broad based profitability improvements across all parts of our business on all metrics. The capital generative nature of our business model, coupled with our cautious approach to balance sheet risk has created over the last three years a group, which is both stronger and more resilient.

Thank you. I will now hand you back to Tidjane.

Tidjane Thiam: All right, thanks, Nick. So I said at the beginning that I wanted to leave you with three key messages: one, that we have a clear strategy. We have a clear long-term focus on Asia. The second is that we have a strong and deep leadership team as we went around the businesses, and Nic talked to you about our financial performance and risk management. I hope that we have provided with some evidence of what this team has achieved. And as a team, I can assure you that we are totally committed to continuing our track record of delivering. So last but not least, 18 months in our 48 months programme, we are firmly on track I believe to achieve the 2013 objective.

So if I look into the remainder or 2011 and beyond, we have to acknowledge that the recent evolution of a macro context has not been positive. The issues of the eurozone, fiscal deficits, high indebtedness, vulnerable banks or the U.S. high deficits, and challenges in political decision making are well rehearsed. The scale and the depth of these issues affecting the west are significant. There is a progressive realisation that the time scale over which these issues can be resolved is likely to be longer than initially anticipated. This team has navigated with success the challenges of '08 and '09, one of the worst financial crises ever, so we are alert to the risks surrounding us and manage our exposures proactively. The key point as I'm about to close is that the quality of our individual franchises, our significant presence in the rapidly growing markets of Southeast Asia where more people are joining the middle class than ever before, positions us well to continue delivering relative outperformance over the medium-term, and our focus on execution and financial discipline give me confidence that we can carry forward our performance.

So thank you once more for your attention and over to you for questions. If we just take a few seconds so that my colleagues can join me on the stage, we'll start with questions. Are you going to direct the… Tidjane Thiam: Yeah. Okay great. Give them a chance to sit down.

Greig Paterson: **I was just wondering why it's a little put - - send some money home to Greece and acquire some of the Greek debt. Was it Cypress? Sorry.**

Nic Nicandrou: I'm on holiday, (inaudible).

Greig Paterson: **We got to get a expense accounts on the - - in the (inaudible). That's what I want to say, yeah.**

Tidjane Thiam: Nic, you want to elaborate on that?

Greig Paterson: Right, it's Greig Paterson, KBW. Three questions. **One is: I wonder if you could give us a stab, the 246 million variances on EV, how much of it is sustainable into the second half just so we get a broad idea of the sustainability of that? Second thing is: I mean obviously with record low bond yields - gilt in the U.K. and U.S. government - I was wondering if you can give us sort of a stab of where you see the margins in the U.K. and the U.S., how they'll be influenced into the second half of the year? And the third point is: in terms of Asian margins with the accident & health being at 32%, and I think Barry previously said that the range was 25 to 30 and he couldn't see it sustainable above that level, I was wondering should we be pencilling a lower Asian margin in the second half of the year as that sort of returns to a more or sort of stable sustainable level?**

Tidjane Thiam: Okay. Thank you, Greig. So we'll take those three questions, see if we can help you build your model for the second half here.

The variances, Nic, 246 million.

Nic Nicandrou: Sure. I mean I stepped you through that. There are a number of one-offs. Clearly the 46 million in the U.K. tax changes is one-offs. As the government approves further reductions, you shall see some effects come through, and we've given you some disclosure in the release for those effects. Outside that, the U.K. did have a 28 million from… which is a yield enhancement from a portfolio rebalancing. That is one-off. In the U.S., I commented on the spread profits, the lengthening transactions are beneficial to us in a lower interest rate environment, so you should see that 53 million repeat. As to what experience will do in the U.S. will depend on our ongoing success to operate the business within our assumptions. And in Asia, the numbers are reducing, so I don't have anything to say in relation to that.

Tidjane Thiam: Okay, the second one was on low interest rates. I mean Asia, it's not really a factor. You've seen the makeup of our earnings. It's a marginal factor.

Nic, do you want to say a little on the U.K. margins or, Rob, and then I'll ask Mike and Chad on the U.S.

Nic Nicandrou: On Asia, the other thing I would add is that the economic assumption changes between the two periods had a minus 2% effect, so it's modest. It's been offset by the product mix and country mix clearly. That's why margins have moved up. In the U.K., there is some sensitivity to interest rates. And if we were to factor in the drop that we've seen in the 10-year, really the effect would've been no more than five or so million sterling, so it's not - - there is some effect, but it's not sensitive.

Tidjane Thiam: High degree of matching asset liability so... The U.S., Mike or Chad?.

Mike Wells: Well I think the correct starting point with the U.S. piece is we're sort of back to where the ten year was in October of last year, so I think that's not what the sort of the current coverage of the rates would be. It suggests we're at some new point, but we've seen this before. We still maintain the interest rate hedges. We don't talk about those as much as the equity piece, but that's about 40 billion notional at this point so very little impact on the back book. We do re-price the products multiple times through the year based on rates. That's one of our assumptions. I think the better metric in the U.S. business to look at when we look at pricing is the 20-year. If the clients stay, if they utilise the benefits, that's going to be a more relevant metric for us. And then lastly, I think the one comment that I just want to clarify is we've talked over the years, there's three sort of emerging product concepts - one driven by us, one driven by Met & AXA and one driven by Prudential U.S. that are very different benefits to the consumer. Ours is the 5% withdrawal of your own money sort of model; Pru's sort of a narrow range of return portfolio insurance model and Met & AXA like the GMIB feature. Interest rates affect each of those very differently. There's not an implied fixed income option embedded in our product. So you get to the rollup rate question, that gets more to be an equity assumption. There's minor issues on capital calculations, but it's - - that product is not quite as interest sensitive as some of the other models.

Tidjane Thiam: All are lapse sensitive and I'm sure we'll have a chance to come back to it. Lapses are not a factor either.

Mike Wells: Yes.

Tidjane Thiam: Asian margins, H&P, it's true that we guided you between 25 and 30 in the past, this time we have 32%. Don't forget that India is a big factor in our H1 number.

Barry Stowe: Yeah, I would've sworn we said 25 to 32 but…. The… I would still say 25 to 30 is about where it ought to be, but also don't - - it's not the only thing that impacts margins. Remember, yeah, the geography mix is….

Tidjane Thiam: Geography was really important.

Barry Stowe: ...was very important.

Tidjane Thiam: As Nic said, all the winds were favourable if you wish in H1, product geography. We ended up having a lot of business in the most favourable geographies and pre crisis India had 3% of APE in H&P. Okay, it's moved to 16% in the first half, but it's still way below the 25 to 30 you're talking about in Asia, and we treat that as an upside actually over time when we say India is going to move in the direction of the other market. I think that H&P in India is going to increase, but it's still below. So actually losing India volume is good and losing India volume which is poor in H&P mechanistically increases your H&P content in your Asian APE

Okay. Next. Jon.

Jon Hocking: Good morning. Jon Hocking from Morgan Stanley. I've got three questions please. **Your net cumulative remittance target looks like you've already quite a long way there.**

Tidjane Thiam: Sorry, which target?

Jon Hocking: **Your net cumulative remittance cycle, 3.8 billion, you seem to be almost a year potentially ahead of schedule. Was the 320 from the U.S. factored in that or is that a positive surprise relative to what you're expecting when you set that target? Secondly, can you comment a little bit on economic capital? Most of your peers now give you some view of where they sit on an economic capital model. You're still only giving us the IGD number and if you comment about the sort of rates and volatility sensitivities there, that'll be helpful. And then just finally, could you comment a little bit on distribution mix in Asia and what you're seeing between the agency channel and the bank channel?**

Tidjane Thiam: Okay very good. On remittances, when I was going over the targets, I was tempted to say, and I held myself, don't start asking us if we can do this earlier because we will not move the target. We're still in a very uncertain world. Seriously, Jon, you look at what happened today, we're doing well. We're happy with how we've progressed so far, but I don't need to stress that we live in an uncertain world. There's a lot of uncertainty out there. On the 320, no, we weren't really surprised. It was factored in our thinking. We have insisted in previous years that the growth in Jackson would be cash generative. We had questions sometimes (inaudible) by the IFRS and the cash would come relatively quickly with the nature of our business, we've been writing and that's what's flowing through. We can both strengthen the RBC, come out in a good position and have excess if you wish cash flowing back to the centre, so actually we're pleased with that. But again, if you look at that chart where it is, you also see that '09 and '10, I think it's 39 million/80 million to a 320, so the 200 again is a target across the cycle. As Nic said, it's a sustainable target. It's not a maximum. And as the cycle moves, you would expect that to move.

Economic capital..., Nic, do you want to…

Nic Nicandrou: Well we… You're right, Jon, we haven't published that information really. The reason we focus on IGD is because that is what actually bites in reality. That is what we're regulated on at the moment until Solvency II comes in. Internally of course we manage the business on an economic basis and we are comfortably in the type of ratios that we expect to be at this stage of the cycle, but I'm not going… As I said, we haven't given that information.

Tidjane Thiam: The reality is: Unless we go to a great level of granularity on the economic capital, I mean there's so many tax government, ...economic capital. Unless we really differ who then show you really what the model is giving you a number in isolation I think is potentially misleading. You just have to get Solvency II and what the growth (inaudible) what we really have in there. We all claim, but it's also in the economic capital model. We can have widely different targets and I don't believe that the numbers that are out right now are comparable in any way. You know what to do with them, the ones that are disclosed by companies, but we just don't know how they are computed or have just been called economic capital. So I mean in due course, Solvency II is implemented and when we know what it is, we're very happy to share with you, but we are at a time of uncertainty. I must say if there's one news in the current market is that it may get some of the designers of the Solvency II to think again. That's all I'm willing to say on that.

So distribution agency, you want to....

Barry Stowe: The distribution in Asia, the mix changed a little bit versus the first half of last year with bank going up from 27% last year to 30% this year. Tidjane touched on the very strong performance from UOB. The outperformance, if you will, in the bank channels was - - there was also a strong contribution from SCB which grew significantly faster than the business in total across the region. Having said that, agency also performed very well. Again, there's really two factors as you know. We've discussed this a lot in the past that drive the agency performance. Some instances, depending on the market, you're really focused on growing scale and others you are focused less on scale, more on productivity. We've got improvements in both scale and productivity in the first half. So I would say the distribution platforms, in general the short answer is they're both very robust, both performing above expectation and such will we'll continue to do so.

Tidjane Thiam: Okay.

Nick Holmes: Nick Holmes, Nomura. **I had a few questions on Jackson, a couple of rather tedious questions of clarification. First one, but then followed I hope by something more interesting. The first two questions are: With the ALM transactions which created the 53 million one-off benefit, which you say will recur to some extent in H2, what are your plans for 2012? Is this the end of that? Then secondly on DAC, is it correct that you have eliminated the mean reversion or you will do by the end of this year, which means that your equity growth assumption will be 8.4%? Those were the two points of clarification. Then just a more interesting question, which is: What steps, if any, are you thinking of taking to curb the U.S. growth, which you've commented the competition is not increasing and the growth is still very strong, and I wondered are you going to take further measures in that respect?** Thank you.

Tidjane Thiam: Okay, thank you, Nick. I'll take the first one at the end, but we can start with the ALM transactions.

Mike Wells: Yeah, I think Chad our CFO is here, so I'll let him go ahead. Do you want to deal with the ALM question on the portfolio lengthening I think…

Tidjane Thiam: Do you have a mic? Oh, yeah.

Chad Myers: With respect to those particular transactions, they do play out over a number of years. As Nic alluded to earlier, (inaudible) transaction, you got a short life to live. If interest rates were to go up, that would diminish the value. If interest rates were to stay low, we continue the benefit from that. That's where the dynamic is going on that. (Inaudible)...

Male Speaker: Sure go ahead.

Tidjane Thiam: Yeah.

Chad Myers: (inaudible)

Male Speaker: Chad, (inaudible)...

Tidjane Thiam: It's on, okay.

Male Speaker: Probably closer. Closer.

Male Speaker: Speak into it and it'll work.

Chad Myers: Okay.

Rob Devey: He's a great CFO, but not much else….

Tidjane Thiam: Life is never boring with Barry.

Chad Myers: What we're saying there is we've moved back within the mean reversion quarter that already exists so that we won't be dealing with the 15% cap anymore, it'll be dependent on where the market is on a go-forward basis, so we'll continue to get the dampening of movements due to the mean reversion technique and there'll be less movements in terms of unlocking period-to-period because we're back within the quarter.

Nick Holmes: **And so the equity growth assumption going forward is what?**

Chad Myers: Well it'll be between zero and 15.

Nick Holmes: Yes.

Chad Myers: Okay, depending on, because we're back within the cap, so it'll be market dependent.

Nick Holmes: **And where is it now? I mean it was 15% wasn't it?**

Chad Myers: Well it was 15 coming into the year, and what we've shown in the appendix you'll see is if the market stays flat for the rest of the year, it'll fall out around 5%.

Tidjane Thiam: It's appendix 67. That's the page I was looking for. We gave you…

Nick Holmes: Okay.

Tidjane Thiam: If you go to…

Chad Myers: To be clear. I've seen this a couple times written up. Our equity assumption is 8.4 in a mean reversion, not - - and so…

Nick Holmes: Yes.

Chad Myers: ...it's a cap. And the other thing that I think is lost on mean reversion, a couple things, one it's standard U.S. procedure. Okay, all of our competitors do this and it seems to draw more attention. Second, we put in place in a year when equities were exceptionally strong to flatten the impact of a good year. It was never… There's not… The…

Clark gave a number I think his last meeting here of what it would cost us to true this up and - - or what the impact is and it's still not material, but it is a… You do want a dampening effect we think on this - - on the - - this non-cash. It's not… It does what it's supposed to do and there's a pretty clear articulation of it on page 66.

Tidjane Thiam: Sixty-six/sixty-seven, it's pretty clear. We've done our best to really give you every year of a period, a three-year but a five-year forward what your - - is in your result and you see there that in 2011, 2008 falls out and because 2008 was so negative, okay, it has an impact then on your - - on what you're applying mean reversion. We've given you a 5% that Chad was referring to. It's not intuitive, but it's a common method in the U.S. I've been asked sometimes if our VA business was viable because we were assuming 15% equity returns and isn't that a bit aggressive and I always have to explain…. No, we're assuming 8.5 and the mean reversion allows you to go up to 15 before you hit your DAC acceleration…

Nick Holmes: **So you are still at 15 using that technique?**

Tidjane Thiam: It won't be… The actual number won't be 15 because…

Male Speaker: It has already come down. It's well below 15. That effect was an 82 million charge as we had anticipated it would be. The steer *[sic]*... Just to simplify the whole thing, the steer is that you should see a similar amount and it will then come back to a much more modest range, so hopefully you won't regard this particular assumption as aggressive, which it isn't. It was never designed to be aggressive or prudent, it was just designed to dampen an effect. But once we get '08 out of the way, this will normalise and hopefully we won't be having these questions.

Male Speaker: And just the last thing on that, Nick, just to make sure we're clear. On the life of a normal contract, the recovery of the DAC is effective in timing but not amount. There is no attempt to defer it out 30 years. I mean over our product assumption period, the - - all of the DAC is recoverable, so it's not - - we're not pricing for 40-year DAC or something. It's not… I want to make sure, this is - - it's a timing issue, not an amount issue.

Tidjane Thiam: Exactly. On the third question, our general positioning on VAs, it's relatively simple. It is a cyclical market. I think I've used those words several times now talking publically. It's a cyclical market where sales are a function of our actions but also of a number of factors we don't control. The first one is the S&P which we don't control, major factor, and the second one is the behaviour of the competition. So every time we look at this, what we do is we set a combination of product characteristics, price and risk that we're very comfortable with and we've always said ourselves will be whatever clears - - whatever market we'll be willing to take and that combination of risk and price, but we only set those two factors in a position that we're entirely comfortable with. So what happened when the competition if you wish took longer to reduce the growth than we thought it's again, we've always used the word opportunistic, that we moved opportunistically again and what we signalled at Q1 was an intention to take advantage of that, to potentially increase the margin or reduce the risk. And I had said this, but I think it wasn't heard, those changes take a long time to go in and, as I speak, they have not happened. I always surprised when I would read speculation or doing part of the changes on our sales in Q2 and I said at the time, "Should I expect Q2 to be at the same level to run at the same rate as Q1?" And I said too at the time. So those changes haven't happened yet and frankly it's close to impossible to foresee what exact impact they're going to have, so all we did is flag. But logically all of the things being equal, they could lead to slowdown later in the year and that's what we did. But we are in a relatively comfortable position where frankly it's a bit indifferent to us because either we make more money or we have less risk. So in any case, it's a win/win for us and these favourable conditions actually put us in a very comfortable situation as a player in that market.

I don't know if you want to say more, Mike.

Michael: No, I just think we've seen, I think we've flagged this a couple... Coming through the crisis, you've seen this flight to quality. As a little entertaining this week in U.S. releases of our competitors, we're now referred as one of the big three and a number of us over the 15/16 years I've been here, the question of scale at Jackson remember used to come occasionally, and so that's -- for me that's a funny piece to read, but there's a rational sort of methodology and sort of there's a calming of the major players and their look at the business I think in this space and we've seen that concentration we told you we thought would happen in the top five or six plus players, so it's not as price led of market as it was going into it. It's not as fragmented. Certainly movement of one of the majors you know Met is currently re-pricing a product that will draw market share away from Prudential and us. That's fine. Meaning again, we're not in this for quarter-to-quarter. We've never projected nor Tidjane has ever asked for top line sales growth or market share metrics, so I think we're in an excellent place. I was with our wholesalers last week and they would tell you they're working as hard as they have ever worked for the sales this year and it's not an easy climate to generate sales and that they are in fact earning them and so I think there's a -- it's a good competitive landscape and some of the uncertainty in the U.S. continues to drive investors towards products that have some form of guarantee income later, so fundamentally it's all good for us.

Tidjane Thiam: I think the point about the market not being price driven is very, very important. We've done well because we have the rating, because we have the capital to write the products, and because we were there with distribution which we have extended hugely, and there are some slides in there, that's (inaudible). The sales have increased because our presence, our footprint has increased several-fold and that's how we increase our sales, not by mispricing it or anything like that because it's not really price sensitive. If anything, we've reduced. We made the product poorer and poorer at the same price, so we had several implicit re-pricings. So you see 95 basis points and we haven't changed our price. Actually we have because the 95 basis point buys you a very, very different content over the last two or three years. So price is not the reason why our sales have grown. If you're not credible in that market, you can charge 40 basis point, however 95 you won't sell anything without making an investment for 10/15 years; it's not price driven.

Nick Holmes: Thanks very much.

Male Speaker: We'll go with James and Trevor and then (inaudible).

James: Good morning. James Pearce from UBS. A couple things. You seem to have re-entered the wholesale market in the U.S. Is that a turn in the water or can we expect you to revert to your old levels of GICs. Second on M&G, are we at a higher water mark at M&G? You've got everything going in the wrong direction. Can we expect that to be maintained or even to improve further from here both in terms of fee to fund and cost income ratio?

Tidjane Thiam: Okay, Michael on GICs and Michael after that.

Michael: Yeah, we - - we're being extremely optimistic in the GIC space. We have the same team we've always had. I think we've explained this to you guys over the past. It's a small crew, less than a half dozen people who both handle the distribution and management of that book. The institutional products we've written this year have been at outstanding margins. What you're seeing on the buyer side of that, James, is there are so few high credit quality issuers that it's not a particularly price sensitive market right now. Most of the buyers are looking for diversification, so we're not looking to ramp that business up materially, but we like it. At a certain price we'll do it and the volumes are not as you see at historic levels, but there's a little bit of it to be done at very high margin.

Tidjane Thiam: Okay. Michael, high water mark for M&G.

Michael: Yes, I hope not, but two things to say. The first is that the cost income ratio in the second half, I think Nic flagged the point anyway, it's flatter than the first half, there'll be some cost from the second half that we'll be catching up what we haven't seen in the first half, so I would certainly expect the cost income ratio to go from the second half. The second factor to say is that the result in the first half of this year particularly reflects the exceptional - - exceptionally strong fund flows we've had over the last two years or so. As Tidjane has said, we've been expecting those fund flows to level off and actually reduce from the very peak levels that we've seen and therefore the rate of accumulation I would expect to slow somewhat and given also there's a bit of cost to catch up, we will be going forward much more dependent on market levels to come through to demonstrate or profit growth, but we would certainly be expecting or hoping to continue to see healthy net fund inflows going forward.

Tidjane Thiam: Trevor.

Trevor Moss*: Hi, Trevor Moss from Berenberg Bank*, busy meetings, Mr. McLintock, today because I'm going to ask him another question.

Michael McLintock: I think I'm going to faint actually.

Trevor Moss: Well.

Tidjane Thiam: We usually have a bet going on this on whether Michael gets a question or not, so this has wide implications.

Male Speaker: (Inaudible).

Trevor Moss: Two in one meeting has been probably more than in the last three years combined. But anyway, **could you just speak a little bit about the business development initiatives you've got going on at M&G? I noted some reference in the commentary about expansion in Europe, and perhaps you can just talk around a little bit what you're doing there and where you see that expansion heading?**

And just a second question actually really on India, obviously some fairly traumatic changes via the regulation and so forth, could you just explain a little bit about the state of India, the Indian insurance market currently, your position within it, and where we go from here, what's the sort of trajectory? I noted some comments, I think from Tidjane, relating to things looking a little bit better by the end of this year, so perhaps if you could elaborate a little on that that would be helpful. Thank you.

Tidjane Thiam: Michael, do you want to?

Michael McLintock: Yeah, sure. We've been operating in Europe for a number of years, we launched in Europe in 2002. The key characteristic of our launch into Europe was that we were selling the same vehicles that we sell in the UK. I hate the word OEICs, I'd rather call them good old unit trusts, but that's what it is, it's the M&G OEICs. So we've been selling the same product as we're selling in the UK, therefore with the same performance track record. And it's an incremental story of just gradually moving into fresh European markets over time, and the current expansion is sort of northwards into the Nordics. We therefore are following that; we'll be operating in most of the major European markets. We see Europe as still an underinvested market with a lot to go for because the banks obviously got a major grip out there with its (inaudible). So it's really a story of incremental growth, and we still see a lot of opportunity.

Tidjane Thiam: We'll do a double up to on India between Barry and me, but we both were in there in July so we have some fresher, fresh intelligence. Look, the problem of India is that we didn't really like the way the market worked before. If you look at our 2010 numbers, I think the NBP in Asia was 396, now 23 million of that was India, and I think in the 465 in 2011, 10 million is India, so just to put it in perspective. There's been a lot of attention on it, but you know it's not a huge, or it's not a material issue for Prudential I can say,. So within that context the market was not, if you wish, operating in a healthy manner. For me, I say it's year one of insurance in India. We now have a proper market where there's a connection between the charges and the value that the products bring and when I was in India with the management team, Barry is the first one to say that, we actually got excited. So it has effectively, and the sales were like 96% unit-linked. It was a market where people were taking a bet on the stock market. As long as India's equity was going 10, 15% up every year, people didn't really mind if they were paying 3 or 4% for protection charges. But that period is gone, and we're now back to a market where we can actually sell protection. So people have redesigned the product suite, we've done a really good job at that; the products have been approved by a regulator. So what's happening now is that we need to restructure our sales force. There's also a need to cut the costs very significantly to protect the margins and that process is under way. So there's a huge restructuring, there's a lot going on below the surface this year. And my comment was simply saying that all the way to Q3 you can't really see anything because you're comparing apples and oranges. You're comparing the new world in all the comparatives. It just doesn't make any sense; you're comparing two completely different regulatory regimes. Q4 will be the first quarter where you will be able to have some visibility on how this new market in India is behaving, but we keep a large sales force and we are a leader with ICICI in that market and we're committed for the long term. We'll pay the price in regulatory changes to win in the Indian market and make.. I hope more than 23 million in the half year. Barry?

Barry Stowe: Yeah, not much more to add other than just emphasise. You know we have basically maintained our ranking in the marketplace; we're still amongst the private companies at the top of the heap. LIC has clearly been the big winner; their market share has gone up, you know the total market. In terms of our relative performance aside from maintaining our market position, as we said before, I think it shows in the numbers that we were better prepared for this and that we had already gone through a lot of cost rationalisation 12, 18 months before this regulatory change. As Tidjane said, that now continues apace. We continue to close branches that aren't productive or combine them, creating larger branches that cover more geography. The key, again Tidjane also said, but I'll emphasise, is retooling the sales force, because you have a sales force that historically was accustomed to selling what looked a lot more like a mutual fund than a life insurance product, and now we're trying to teach them to sell protection. Which in the long run is better for consumers and better for them, and certainly better for shareholders, but in the near term it is painful.

Trevor Moss: **Can I just follow up quickly on that. So when we see the sales figures going through the first half, is that sort of, let's call it a run-off of old style products still being sold by?**

Tidjane Thiam: No.

Trevor Moss: This is new, this is new world.

Barry Stowe: The product changed nine months ago.

Tidjane Thiam: Yeah, it's all new.

Trevor Moss: Okay, thank you.

Male Speaker: Can you pass that mic back to (inaudible)?

Andy Hughes: Hi guys. Andy Hughes, Exane BNP Paribas. Three questions, first one on Asia, next two on the US. **On Asia, as you know, I struggle quite a lot with the 80% of discounted cash flows beyond 10 years in the future and the lapse rate assumptions. And I guess if I look at Singapore, which is the biggest unit linked market and compare you guys to AIA, on the statutory filings, AIA seems to be assuming their unit link contracts are lasting for seven years in terms of premium income, yours seems to be 21, and I'm wondering what makes you think that these contracts are actually undated in Asia, and is that a reasonable assumption to make when you're doing the numbers?**

On the US, one concern is obviously the crediting rates come down a lot for fixed annuities. So whereas in the past people bought variable annuities because they wanted equity market exposure with protection against downside, what makes you sure that they're actually still doing that and they're actually not a different generation of policy holders buying VA's? I noticed in your numbers today there was more people taking income and lower actual surrenders, which would be consistent with a changing policy order behaviour, I'm just wondering what that means?

And the third one is probably simple to answer, to return to Greig's questions on VA's in the current market environment. I mean simply speaking with interest rates 10 years below 2.5% and equity market volatility quite high, this does not seem to be a good market to have sold VA's in, and yet you're saying that their hedging cost has not increased. Can you just explain what's going on please? Thank you.

Tidjane Thiam: Okay, thank you. I'm clear on the second and the third question, the first one, was it…

Barry Stowe: Singapore.

Tidjane Thiam: …Singapore and the assumptions we make on how long the unit link will stay on our book?

Barry Stowe: Right.

Tidjane Thiam: All right, okay. Do you want to?

Barry Stowe: Well there's a, first of all, we've been selling unit-link for more than seven years, and people continue to pay premiums, so we know it's more than seven. I recognise you say AIA are suggesting it's seven. I think probably the key feature that we emphasise over and over again, but bears repeating again, is that unit-link is an element of the product we sell. We sell unit-link laden with protection riders, so the policies we sell represent long-term life insurance protection. It just so happens that the savings element that you see in that whole life product, we happen to give exposure to equity markets where others provide fixed returns or some other mechanisms. We have always sold lots of riders with unit-linked. We are selling even more than ever before, as you can see by the progression of our results. Since you mentioned AIA specifically I'll respond specifically. AIA, when they launched unit-linked, their view was it was not appropriate to attach protection riders, and did not do so for many years. And I think even now still do so to only a limited degree. So that's the fundamental difference I would suggest to you, or certainly one of the fundamental differences is that we package our product differently and sell it as life insurance. Other companies have historically sold it without any protection and have offered it as a shorter term investment product. So ours will behave different because it is structured differently and sold differently.

Tidjane Thiam: And we've been doing this a long time, it would show up in the numbers. If we got that wrong it would show up in the numbers. And I think from memory, I think you have six riders per product or something like that.

Barry Stowe: It varies from market to market.

Tidjane Thiam: But in Singapore.

Barry Stowe: In Singapore it's quite high, it's between five and six.

Tidjane Thiam: Yeah, so to show you just the importance of the riders in the product bucket and how people think about the unit-linked. I think that's right. Then we had the US, the behaviour. There's no change in policy behaviour and are we going to.

Mike Wells: If we can get a mic for Chad up front, I'll let him do the one on the hedging, but Andy, I think to your you're right and your question both I think, there is a change in VA policy holder behaviour, but I think it's different than the direction you're going. The fixed index, I'm sorry, the fixed annuity as you think of in the U.K. the idea that you would take a monthly check and determine that as an annuity contract, is 2-to-3% of the U.S. fixed annuity market, it's a very, very small piece. That is not how retirees take withdrawals, that is not a product that's commonly purchased for that in the states. The material shift in the U.S., post crisis, is annuities, both fixed, you know fixed was often a surrogate for a time deposit because the consumer couldn't afford to live on the yield on a bank CD and it was a way, consciously or not, to extend duration and take more credit risk. I don't think the retail retiree always saw it that way, but they were effectively going out to get more yield to live on. That's a deferred annuity where they're spending the crediting rate. That is very different than an annuitized contract where part of what they're getting back is principal over a stated period of time. That's given the absolute levels of time deposits and the absolute level of fixed annuities is a strain on those retirees. You know they cannot live on these low levels, and so they're moving up the risk spectrum now and in the index contracts and into equities. That's one shift. The more material shift is pre crisis, VA's were used as an accumulation product, I agree with that part of your thesis there completely. Post crisis they're seen as a very effective income tool, and that was not the case before. And that's a shift from U.S. consumers saying, "I have X hundreds of thousands of dollars saved for retirement, I'm fine." To watching that get eroded through the last crisis and realising what I really need is a check a month or some floor on my income. So there's a change in saving behaviour. It's still not driving the bulk of the assets from, you know the deep end of the pool here is still mutual fund or similar type assets. There is the annuity - - the VA business is getting a little more of that, you know those sales than they used to, and a little more of the packaged product sales. So as an industry there's an increase in market share of the client wallet. We have, we showed I think in December pretty clearly, very aggressive, very efficient assumptions, on benefit utilisation priced into our product. We assume clients will do what's in their best interest across the spectrum. I think we put quite a bit out on that in December on our assumptions, and that is how we price, and it is how we stand to it. I'll let Chad comment on the hedging. On the interest rate environment, again, the 20 year is more important to us than the 10. There is no part of our product that keys off 10. The issue with the 10 I think goes back to that fixed annuity client and their timed deposits and their options. So it has a material impact on consumer behaviour, they have less reasonable choices. It has less impact on us from a product pricing point of view. And the only point I'll lead into Chad's piece, I'll let him talk about hedging costs, is another thing that's missed, I think, on us is if you think of the product, first you have the guarantee fee. When we talked in December we talked about how we spend that fee. Then you have the M&E, the core fee and the product that you - - we're not going to - - you know we have no - - we are still within our pricing on the guarantee fees. We still have more than twice that on the base fee. So if hedging costs shot up we would continue to hedge and you would erode the profitability of one year's sales over the Jackson book, which is a nice place to be. And the last point I'd make is, if we were materially wrong over a cycle, in the second year of the client contract we can re-price the guarantees. So there's quite a bit of work and look at what risks we could incur in this, and I don't want to suggest for a second we're not aware of changing macro issues, we obviously spend a lot of our day looking at how to impact our business. But, Chad, do you want to talk about the cost of hedging in today's market?

Chad Myers: I'll see if I have any more luck with this this time. Yeah, so one thing to keep in mind too is that over the, there's a longer product cycle on VA so we can't just pull a product tomorrow and put a new one out there. So we think about the six month type lead times when we price the products. So we got - - we think about what's the likely interest rate environment over that period of time when we look at that, so if you look at today's rates, as Mike mentioned before, we're within the range that we've seen over the last even 12 months. So this is not uncharted territory, it's just it's a very sudden move back to where we were 12 months ago, but it's not new. So I'd say from a rate perspective, that's contemplated in the pricing that we have. In terms of the hedging costs, I don't think we've ever said that we're not experience higher hedging costs. I mean if you think about the conversation we had last December at the investor day, we talked about how we price and the fact that we're pricing out on the tails, and then we're going to have to hedge and experience whatever actually happens. I'd say we're experiencing out on the tails this year as we've continued to over the last couple years. So hedging costs would be higher than we would anticipate on a more normalised pricing basis, but that's in our numbers already. You're seeing it. There's nothing that's not transparent in the financials.

Tidjane Thiam: Okay. Where do we go now?

Andrew Crean: Hi, good morning. It's Andrew Crean, Autonomous. **Could I ask a question on Asian product profitability from a customer point of view? What's the kind of reduction in yield that a customer might suffer, given the charges you have, and I was also kind of thinking of slide 65 where for Jackson you give all the sort of economics of the variable and fixed annuity products? It would be interesting to know how those work in Asia.**

Tidjane Thiam: Okay. There's only one question? We thought we'd have time to look for it while you were asking the rest.

Barry Stowe: Teamwork here.

Tidjane Thiam: This one.

Barry Stowe: It will… Sorry about that. I can barely read it with my glasses. I mean it will vary from market to market depending upon how much protection someone has bought. So, I mean people, the way people tend to look at this is not that I'm paying $1000 and if 400 goes toward protection, only 600 gets invested, I get a yield on that 600 and oh my gosh, it looks like a terrible yield against 1000. People segment in their minds that I understand that I am paying $400 for my health insurance, and for my life insurance. And then there's $600 that goes into the fund, and they look at the return on that element of the product. And historically that tends to be very good. If you look at our investment performance today, in Asia, if you take a blended three year, five year, performance on the funds that we offer in the unit-linked products, what you find is that over two thirds of those today perform at or above benchmarks or peer funds. So our investment performance is better than it has ever been, but I think customers don't look at it the way you're suggesting they do, fundamentally.

Andrew Crean: I'm just thinking actuarially.

Barry Stowe: Oh, actuarially, oh. Well I don't think about it the way you do.

Tidjane Thiam: We got a nut shell. I think Pete is here.

Barry Stowe: Yeah, do you have a sense, Pete?

Male Speaker: Or Neil?

Pete: I suppose our fund charge is varied by the type of assets that the type of fund people choose to be doing 1 and 2% per annum on that component. As Barry said, that goes off to deductions of the charges for expenses and the protection elements of the contract, which can be perhaps 40 or 50% in some cases on our regular premium linked, linked contracts, because that's the amount of benefit or amount of premium that is going on average over the term of the contract to protection benefits. These are very heavily protection benefits in most other countries.

Barry Stowe: Yeah, and it varies from country, but in some places, yes, it's half the premium.

Pete: So you can't look at simply the premiums going into the contract and then a projected surrender value at age 60 sales to calculate a reduction yield because consumers have had the benefit of a huge amount of protection benefits on a wide range of different types of benefits over that period.

Barry Stowe: And the products are sold and illustrated this way. You know we give people a very detailed understanding of how the product will work year in year out for 20 years, 30 years, 40 years.

Tidjane Thiam: So I suggest you continue.

Barry Stowe: Yeah, you can take it offline with Pete.

Tidjane Thiam: I just wanted you to recognise you can….

Barry Stowe: You guys can….

Tidjane Thiam: He's got all of it, he knows it all, he absolutely do.

Male speaker: I think we'll go three last questions maybe? We'll start with Raghu.

Raghu Hariharan: Thank you. Morning. Raghu Hariharan in City. Three questions, two on the U.S. and one on Asia. **Just in the U.S. you mentioned about hedgeable risks where you confront only hedging. I was just wondering, on your GMWB, what does bite? If it's not interest rates, is it age related when the withdrawal actually kicks in and you said policyholder behaviour is changing and people are buying more for decumulation, is that something that could bite? I think we heard it earlier you had actually a positive experience variance because you had seen people delaying their withdrawals?**

The second one really was on U.S. capital efficiency. Capital efficiency has gone from 32% to 20%, which is new business strain upon premiums. I see there's some commentary around the mix changing, a higher proportions of VAs and there's some commentary on product changes. I was wondering what those product changes are and how does it drive lower strain?

The third question really was in China. I know that was one of the Asian markets that you showcased, Tidjane, but if you look at the numbers, the new business margins have come down, it's about to break even, and we know that the bancassurance market is challenged because of regulatory changes, I was wondering how you see Prudential position in China and what progress can we see from here on? Thanks.

Tidjane Thiam: Okay, so we'll start with U.S. Thank you, Raghu. Mike, do you want to?

Mike Wells: Raghu, I think the hedgeable risks and the key risks to your point on VA are the equity allocation of the client, right, so the percentage of equity to debt or non correlated assets or fixed accounts, or any combination of those. The equity, the absolute levels then of equity performance over that period of time, which obviously would produce that. You get the guarantee the roll-up in the absence of the equity piece. So what level of… are they going to be able to pull that withdrawal out on, and then the efficiency of which they utilise the withdrawals? So what we like about those, that said, is those can be calculated at various stresses, and you can assume fairly draconian numbers for each. And as we showed December, we priced them out on a very conservative basis. We also run endlessly, you know just to be clear, tests that are even more efficient than that, and the short answer on that is what you get into is the product is less profitable if the client utilise more. We don't get into scenarios where we're losing money on business and 100% utilisation, 100% equity, that's not the, you know a couple of things happen. The further out you go on your scenarios, the longer the money stays with you. So you do have the present value of the fee stream. And when the client annuitize… effectively withdraws a contract that the most efficient basis in a down market they're with you a very long time. And again, there's not an interest rate guarantee in that or some other element that you're trying to manage as well. Your question on capital strain, does that answer your first question?

Raghu Hariharan: Yeah, it does.

Mike Wells: Okay. On the capital strain piece there's a couple of things. Product mix matters materially. In this market we are not writing a lot of fixed annuities or fixed index annuities for a number of reasons. We're fairly defensive; we've talked in the portfolio right now. You know I think there's a question arising fixed at this absolute rate level, how persistent that business would be if rates shot up? If from an absolute level of if rates go up from 3 to 6, those clients will leave because it's in their best interest regardless of how good a job we do at taking care of them. And those products were discussed, and I think it's in that illustration reference earlier on 65, are much more capital intensive. So our mix shifting to the VA has a huge impact on lowering our capital amount. We have, as Tidjane referenced, de-risked and made the VA product less capital intensive multiple times over the last three years by reducing the absolute level of guarantees, by some of the structured changes we made, the fee changes we make, and also last year, making the fixed contract in the VA more restrictive, less attractive, lower absolute yields, that sort of thing. And that is, again, that's effectively a fixed annuity inside of the VA. So by making that more restrictive on withdrawals, lower on absolute rate, lower on guarantee, you know eliminating the ability to flip in and out of it, that sort of thing, that lowers the capital strain because the regular view that as a far less risky asset than if that account was fully liquid and the client could jump in and out and arbitrage your fix to short-term interest rate, say a money fund. So that's the other major reduction in capital strain.

Nic Nicandrou: And the other factor is the unit cost that contributes to the strain is lower because we're just selling so much more than we did before, so that operational leverage that you've heard me describe in a number of places, also applies in terms of its contribution to the new business strain.

Mike Wells: And maybe one other point in that we actually have had a number, I think a pretty good track record of positive variance because we are trying to maintain conservative pricing and then hedge for a more conservative, a less optimistic model. I'm not sure how to balance that correctly to make sure I'm saying. We assume still most clients leave us, not stay with us after stronger periods, those sorts of assumptions. So that comes through in some of the positive variances you've seen as well.

Tidjane Thiam: And I think Nic mentioned the mix. We went from 80% VA to 88, that's one factor, the fact that the allocation to FAs within VAs has decreased quite a bit as a result of the changes we made, plus the scale factor. Put all that together, that gives you your movement in efficiency. Barry, do you want to take China?

Barry Stowe: It's channel mix. It's the, you know basically the very rapid growth in the bank channel that has had the impact on margins that it has. Margins are still good, but we have a very strong relationship obviously with CITIC, as you would expect us to, we'd be very disappointed if we didn't. SCB is also a major partner, but we distribute thorough a number of others as well like ICBC and so forth. And that does have a… in some of these banks there is an element of open architecture, not so much in our larger relationships, but the smaller relationships does tend to mute the profitability of the business over what we're accustomed to. It's not to suggest that the agency channel however is not doing well, it's just that bank is doing so well. Agency, you know we're up over 10,000 agents, closer to 12 actually. We're - - we've not been as focused in the first half of the year on growing the scale, although we do have, as Tidjane mentioned from project Apollo there to build the agency for us. Not in a huge way, but in a thoughtful and disciplined way. So the scale of the agency I think in the first half only increased less than 5%, 2 or 3%, but the productivity was up over 20%.

Tidjane Thiam: Good point. It's long-term battle we are fighting to take everybody away from margin. We don't like margin. I don't like margin. We don't run the group based on margin or for margin, we run it based on IRR. And if you listen to Nic's comments on his margin page, he went back to IRR every time. So what we'd like you to accept is that the IRRs of these products are good, all the margin is telling you is product mix, that's why you want majorly to channel mix … all the products are value creating. And then depending on what the customer does and the channels the margin will move around. Anyway, at some point we'll get there. It's one of our medium term projects where we can really discuss IRRs rather than our margins that are not that significant.

Okay, last one?

Toby Langley: Hi there, it's Toby Langley from Barclays Capital. **I've got three questions, two on Asia and one on the U.S. Looking at the Asia**

IFRS profit drivers, it's the margin on revenues that looks to be the single largest driver of the upside in Asian profits in the year? And a number I don't think you disclose is the base of recurring premiums that drives that margin of revenue, so I'm wondering if you could give us a sense of that number and perhaps articulate how much that's changed year on year?

Secondly on Asia, can you let us know what the first half attachment rate in terms of riders is? I think at the year end or the investor presentation you said it was about 2; has that changed materially?

And then on Jackson, I think slide 70, 71, you give us some details on crediting rates and charges. As we stand today, have those numbers moved, are they representative of how you behave in the market as we speak?

Tidjane Thiam: Okay, thank you. Thank you, Toby. Who take IFRS, Nic, do you want to?

Nic Nicandrou: I'll do that. Yes, the marginal revenues is the charges that we're able to apply in a number of the territories that we currently operate in the first couple of years of a regular premium contract coming on board. We don't, I mean we don't give you a detail analysis of the premium income by country or indeed the source. But overall premiums are going up and you'll see in one of the notes that we disclosed, that they've gone up in Asia from around the three billion mark this time last year to 3.6 billion. So premium is increasing. It's shifting. I kind of think the mix of shifting towards those countries where we're able to levy charges in the first few years of premium, and that is what's driving the expansion of that particular line. Also though within our technical margins, don't forget the very rich profitability that we're able to derive from the health and protection products, where again our claims cost experience is well within our expectations.

Tidjane Thiam: And really good premium means it's above 90% in general, which I think was one of the questions.

Nic Nicandrou: Yes, in terms of sales. Sales is a very healthy proportion. It's stickier business as well. So regular premium accounts for the vast majority of premium income in any given period.

Tidjane Thiam: Yes. It went up during the crisis, because actually, contrary to what you people expected in '08, '09, the only thing that collapsed is the volume of single premium, which went down by 90%. Luckily it's only 10% of our sales. And that's what you'll see in Asia when equity markets go, etcetera, it's the single premium. Players selling single premiums, tends to be bancassurance dominated players, selling a lot of single premium will be very much effected.

Barry Stowe: It's products with a much purer investment orientation. You don't put riders on single premium products; I mean it's a savings product.

Tidjane Thiam: Exactly. It's one of the things that really make us so robust and relatively relaxed, even in the current environment. The regular premium with riders, are very, very resilient. Which moves us to attachment rate of riders.

Barry Stowe: Which continues to be very good. It varies from market to market - two, it's actually on the low side, it's usually more than two, but it does vary by market. So that remains very robust. I mean one evidence of that is you've seen the product mix shift, that's because we have done really well in the first half with health products in fairness. It's also because the unit-linked, because of what's going on in India the unit-linked as a percentage came down because India was virtually 100% unit-linked, as Tidjane said. So that sort of flatters the health and protection, but it continues to be very strong. When Tidjane was running through some of the countries he pointed out some of the new products that are out. We've had some instances where new health products have represented a pretty significant percentage of the new sales in respective markets, so it continues to go very well.

Tidjane Thiam: Jackson rediting rates?

Mike Wells: I think on the charges, which is more the question, is that correct? What we're trying to do, you know I think that chart illustrates a couple of things. There was a price war we've talked about numerous times in this room in other meetings that we sat out, so at one point we were seen as not following the industry and I think that's illustrated there in the guarantee, the charges for this particular guarantee. The other piece of this I think that matters is we have over the last three years changed the benefit offered and tried to keep the price relatively constant. So you can reduce the roll up, you can reduce the age availability, you can band the ages, there's a variety of things from an actuarial point of view you can do that improve the profitability, de-risk it, and are still competitive offerings. And that's been more our choice. One of the considerations we look at with the VAs is you don't want a product that is so fee laden that it can't produce investment returns that grow their savings. So our preference in this climate, for example, if our determination was we needed to make some product change, we'd much more likely reduce a benefit than increase the price. And it has the same impact for shareholders as that group of stakeholders. But if you think of our stakeholders that are the clients that own this, you know you don't want to rob their - - you know you don't want to load the product up so heavily in fees that their assets can't grow, they need these assets to grow. Most, you know you've read lots about American's being under saved, some of these products in the industry can get approaching 4% in total costs with some very good guarantees on them, but that makes it very difficult for equity markets to provide any sort of upside for that. So our preference it's sort of at this point in the cycle and what you've seen over the last couple of years from us is decrease the benefit or decrease the age availability and try to keep the fee a constant. That's it.

Toby Langley: Can I just come back. **So the charts are still flat lining if we were to extrapolate through to today, is that the right way to see it?**

Mike Wells: We're not - - directionally that's how we like it. Now there's other, again, the other challenge with this one is if you think of our product as a matrix, where most contracts are more static, competitors are more static than that. We can turn on and off features, you know you can choose a bonus, you can choose to have multiple types of guarantees, you can strip the contract of all of its guarantees, so it's very hard to give you a single answer on how it would look going forward. I'm not trying to be evasive here; it's just more of a grid than it is a single spreadsheet. But conceptually we like in this point in the market a reduction in benefit more than an increase in fee, if that helps, on any of those lines.

Tidjane Thiam: All right, well thank you very much. I'm sure there are more questions, but we tried the ten hour version in December and some of you were there, so we'll do a shorter version today. The last thing I have to do is to invite you to Kuala Lumpur; it is my pleasure to extend this invitation. We have our investor day in December. We're already working hard to prepare it; we're going to try to make it really worth it. And Barry and the team will showcase Asia. And depending on how markets (inaudible) we may also update you on other parts of the group, that's something we haven't completely decided. It's going to depend on what happens to the world between now and then. But at the minimum you'll get a full review of Asia and we'll all be there.

So we thank you again. It was a difficult day to present our results, but we think these are our best results ever and we're very pleased to present them to you. We will see you in November, I hope, in Kuala Lumpur. Thank you.