PRUDENTIAL

2013 Half Year Results Presentation

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Business Review

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Good morning, everybody, and welcome to our 2013 Half Year Results presentation.

Prudential has produced a strong performance across all of our key metrics and our strategy has now been the same for a few years. It is quite simple; we are focused on capturing three main opportunities. The first one is the emerging Asian middle class, the second one is the 77m or so baby boomers transitioning into retirement, and the third one is really the UK, where we have the second largest asset management market in the world with all the wealth accumulating. Given our progress during the last four or five years, I think the question; "what's next for Prudential", is very often asked. Well, we believe that the three areas we are focusing on are the right ones and our answer is that we will continue to execute that strategy with discipline, creating significant value in the process. So, in a nutshell, as I said in March, more of the same.

This morning, we will follow the usual format with two presenters, Nic and myself. I will start with a few performance highlights for the first half of 2013. I will then provide a strategic update by region, with Asia, then the UK, then the US. Nic will take you, with his usual precision, through our financial results and I will come back at the end to provide my outlook for the remainder of the year. We will finish, as usual, with a Q&A session and we have our leadership team here from all our businesses to answer your questions, as usual, again. So let's start.

We have achieved a strong performance in 2013, delivering double-digit growth across all of our key Group metrics. Picking out a few of the highlights, new business profits, our preferred metric for growth, remained strong with Asia up 20% in the first half. I am pleased with the continued progress we are making on IFRS operating profit since our decision a few years ago to prioritise this metric. IFRS operating profit for the Group is up 22% to £1.4bn. In the first half, we have delivered almost as much IFRS profit as in the full year of 2009, that's not so long ago, despite significant macroeconomic challenges in the period from 2009 to 2013.

Finally, after new business profit, and IFRS, cash generation increased by 12% during the period to £1.2bn and net remittances increased even faster by 16% to £844m. Again, these remittances in the first half are greater than what was delivered for the whole year 2009, four years ago. Within that, Asia delivered 51% growth year-on-year in remittances and we look forward, Barry, to another strong contribution from them in the second half of the year. Finally, we have declared an interim dividend of 9.73 pence per share, up 15.8%. We consider these results good evidence that Prudential is delivering a distinctive and attractive combination of growth and cash for its shareholders.

Let us now put this performance into perspective by looking at the longer-term track record of the Group. You can see here our performance going back to 2008. Over a six-year period, we have emphasised the importance of delivering both growing and resilient results across our three key metrics of new business profit, IFRS operating profit and cash. The quality of our businesses and the quality of execution of the strategy have enabled us to more than double on each of these three metrics at Group level in five years in spite of significant macroeconomic headwinds, I repeat. Of course, within that, the metric we've paid closest attention to is IFRS operating profit and I'd like to say a few words on that.

In 2009, when our current strategy was designed, I committed to growing, what I consider, our two preferred sources of earnings; insurance income, because it is relatively uncorrelated to the equity and interest rate cycle, and fee income, because it is capital efficient and cash rich, two things very desirable in insurance. One of the most pleasing aspects of our performance and our plans is that we have delivered on that promise. The quality of our IFRS profits has been significantly improved over the last four years with more than 62% of income now being contributed by insurance income and fee income from 38%, as you can see here, of a much lower total in 2009. So this simply equates to trebling, in four years, the fee income from £203m to £667m and trebling the insurance income from £217m to £613m. This has led to significant improvements in both our capital efficiency and earnings resilience exactly at the time when interest rates were dropping to historic lows and this is central to our story. We remain well positioned, we believe, to benefit as these trends reverse and interest rates increase.

So now let's take a look at the 2013 objective. We are entering the final six month stretch towards the 2013 horizon and I am pleased to report that we remain on track to achieve all six of these objectives, which are doubling 2009 Asia IFRS profits to £930m, doubling 2009 Asia new business profits to over £1.4bn, delivering cash remittances of £300m for Asia, £260m for Jackson, £250m for the UK. And, lastly, delivering net cumulative Group remittances, which we thought was a relevant number, of £3.8bn over 2010 to 2013, so over four years.

In 2012, as you know, we have achieved two of these objectives early by delivering £988m of Asia IFRS operating profit versus a target of £930m, and by remitting £341m of cash from Asia versus an objective of £300m. During the first half of 2013, we are pleased that we have achieved two more of these objectives by remitting £294m of cash from Jackson and achieving over £4bn of cumulative Group cash remittances versus an objective of £3.8bn by the end of 2013. I want, here, to highlight, particularly, the Jackson cash remittance. That, for me, proves that our strategy in the US is working and is delivering tangible cash returns for shareholders. Finally, regarding the last two, we are making progress, doubling NBP Asia 2009 by 2013 and a UK remittance of £350m. In the first half of 2013, as I said earlier, our

Asia new business profits increased by 20% to £659m and the UK remitted £226m in cash towards the £350m target.

Importantly, this performance has also translated into return for shareholders. To be meaningful, our shareholder returns analysis needs to be performed looking at a few years and that is what this slide does, looking at returns over four year period. Our share price has increased by 158% since January 2009, outperforming the European Insurance and FTSE 100 indices by more than three times, and the market capitalisation of Prudential has increased by over £17bn over this period and we believe there is still plenty of potential here. In addition to this share price appreciation, £2.6bn of dividend payments have been paid out to our shareholders over the period, inclusive of two dividend re-basis made in 2010 and 2012. So our strategy is designed to generate value for our shareholders and we are pleased that this has been happening.

I'd like to pause for a few minutes on a longer-term picture of what we've done and some of the challenges we've had to face. As I said earlier, all that value has been created in the face of significant economic and financial challenges; we have highlighted some of those on this slide. You will all recall that during the depths of the financial crisis, questions were being raised daily around our industry's ability to weather the storm at all. One thing we passionately believe is that our company has a lot of levers we can pull at various points in time to respond to external challenges. We illustrated this in 2008 and 2009, for those of you who were here, with the sale of our back book in Taiwan, all of the SHIFT transaction, to improve our IGD.

Our strategic and financial positioning gives us the flexibility and optionality to adapt to a rapidly changing environment. This is possibly a good place to mention that, as you know, the Financial Stability Board has designated us and eight other global insurers as global systemically important insurers in July, a few weeks ago. At this stage, frankly, the specific implications of this are not yet clear. We are in discussions with our regulator, to understand the consequences of this designation, and as with Solvency II, we will maintain an open conversation with you as the impact becomes clearer. In relation to Solvency II, I think that we are all up-to-speed on the latest developments. We have made some progress, there remain issues, but we have no additional update for you at this time.

Coming back to the present, the main concern, clearly, seems to be at this point, regarding our company, of a potential slowdown in emerging markets. Looking back to the kind of issues we faced, listed on this page, three or four years ago, I would say this is a relatively nice one to have and I think we actually can give you some comfort in that regard. On the ground in our businesses, we have not seen signs of a slowdown and our franchises remain healthy and strong. This is confirmed by our Asian performance in the first half, which you see here. Our track record of growth across NBP, IFRS and cash have continued unabated. We can achieve such a performance over such a period of time because, fundamentally, the drivers of our long-term success in Asia are intact and I'll take a few minutes to talk about these.

What are those drivers? One, it is our exposure to countries and markets that are experiencing strong GDP growth. Second, it is the increasing demand for savings and protection products from a rapidly growing Asian middle class. Keeping in mind that demand for financial services, and particularly life insurance, grows faster than GDP. Third, having focused on the right markets or the sweet spot within the region. And fourth, our track record of execution and delivery. We have both the platform and the people to capture the immense opportunities available in the region.

So we all know that GDP growth matters in our industry, but I am sometimes surprised that so much of the analysis over the long-term focuses on the rate of GDP growth rather than the absolute amounts of GDP growth available. I believe that looking at growth rates only, sometimes, can lead one to underestimate the scale of rebalancing in the world economy that is underway. What I've created on this chart is to show you that Asia is expected to create $21tn of GDP over the next two decades, a long period of time, out of a total world GDP increase of $47tn. You can also see from the chart the increasing materiality of Asia's contribution to global growth, from 10% of world growth in the 70s, so people with a 70s frame of mind put Asia on the sideshow, to almost half in the next 20 years. That is the fundamental transformation of the world economy and I think it illustrates powerfully the point of the difference between stock and flow. I think that thinking in terms of stocks in this world is very dangerous.

To put this growth rate in context, this is the equivalent of creating Germany six times over during the period. It illustrates the power of compounding over the long-term, and in spite of the intensity of the debate on GDP growth rates, which, frankly, we're not very good at predicting, plus or minus one percentage point of growth in China, will not fundamentally change the central message of what is underway. Even if we worked lower, the forecast growth rate for the whole of Asia by one percentage point over 20 years, which is huge, Asia, instead of creating six Germanys, would create five. The new Chinese leadership is determined to reduce some of the imbalances of the Chinese economy to reach a more sustainable growth path driven more by domestic consumption and less by investment and exports, we believe that is the right strategy and that the new government can pull enough levers to implement it successfully.

So the story of Asia's economic growth is largely a story of increasing productivity of factors, particularly labour. The demographic trends that I mentioned earlier, coupled with the compounding positive factors of education, urbanisation, investment in infrastructure, pro-business government policies and sound fiscal balances, translating to economic growth that is comfortably ahead of any other region in the world, even if it went to 5% or 6%. So the economic growth will continue and as we know, the demand for financial services grows faster than GDP. This region and within this region our sweet spot will remain particularly attractive.

I mentioned demography several times already this morning. This is because demographics are a fundamental driver of our business and of our industry. Almost 90% of the world's growth in the middle-class population over this period will come from Asia. This rapidly growing middle-class will drive high demand for savings and protection products. Our product propositions in our key Asian markets are aligned, serving these needs profitably. Now, the fact that this Asian opportunity is highly attractive is not exactly a secret anymore and many companies are working to build a position in Asia, we accept that. So emerging markets can be attractive, but what I think discerning investors increasingly see, as more and more companies are adopting emerging market focused strategies, is that within emerging markets, it is important to choose very carefully where you compete. It is important to be in the right market. To go back to a well-known analogy, the USA and Argentina had the same GDP in 1905, everybody knows that. So it's important to pick the right markets.

The detailed analytic work that we performed in 2008 and 2009, of global profit pools of insurance in the next ten to 20 years, showed clearly that there was a sweet spot in Asia of Indonesia, Hong Kong, Singapore, Malaysia, Vietnam, Thailand and the Philippines. That is, today, $2.5tn of GDP, so it's another Germany and its 500-520m people. We deliberately focused our efforts and effort on that sub-set of countries and said so at the time. The selection of UOB in January 2010 as a partner, which is active in Singapore, Malaysia, Indonesia and Thailand, was not by chance. The recent deal with Thanachart, they are all inspired by this same strategic insight. We were early spotting this opportunity, so we are now the largest player in that region as measured by new business profit, while also holding the top three positions in five out of seven of our sweet spot markets, which I remind you is of the size of Germany and growing at about 6% or 7% per annum in GDP.

Our performance in the first half of 2013 in a number of these markets has been particularly strong. To mention a few, we have grown ourselves by 38% in the Philippines, 32% in Thailand, 21% in both Singapore and Hong Kong, and 17% in Indonesia. We are also taking actions in that context to further streamline our Asian businesses, I am pleased to report that the long running project to domesticate our Hong Kong with profit business is approaching the closing stages. This will better align the legal entity structure with our management structure and we continue to work very closely with our regulators in both the UK and Hong Kong and with all of our relevant stakeholders in order to achieve a satisfactory conclusion for all affected stakeholders. As a consequence of this, we are also reorganising our Asian businesses under one legal entity, which I will chair. This will lead to a simpler and more effective corporate structure, bringing all of our Asian geographies under a single umbrella company.

On the following slide, we have summarised the performance we have achieved in our sweet spot and we believe these numbers speak for themselves. 27% CAGR over four years in NBP and 25% in IFRS, 32% in cash. So it is important to be in the right markets, but it is also important to address the right needs with the right products. In our sector, the greatest opportunity in Asia lies in the growing protection needs of the emerging Asian middle-class. The chart on this slide shows how medical expenses are funded in various countries. For those who were on the 2008 Asia trip, we referred to this.

On the left, in the developed western market, with extensive insurance coverage, like for UK or the US, out-of-pocket health expenditures are minimal and this shows you the value of insurance and benefits of insurance, 9% in the UK out of pocket. There is a stark contrast between that situation and the situation in our Southeast Asian markets, where a significant proportion of these expenses are borne out-of-pocket directly by the consumer. You could summarise our whole Asian strategy in this slide; this protection gap is a textbook example for the development of an insurance market. We can go into such a situation, offer products that will generate huge benefits for all stakeholders, customers, society, government and shareholders.

As the Asian population gets larger and wealthier, demand for quality healthcare is likely to grow exponentially and given finite, and legitimately so, government appetites to fund it, this demand will have to be met by private insurers. We have the expertise and the product suite to respond to this demand. So let me now illustrate, if I may, with a concrete example of what we mean. We are often asked; how can we sustain the high returns that we generate for our shareholders in Asia? The short answer is by creating a lot of value for our customers. The need for insurance in emerging markets is so high that this creates a virtuous circle of genuine value creation opportunity for all stakeholders for customers and shareholders.

The basic function of insurance, I repeat, is to create a consumer benefit, a consumer surplus for mutualisation of risk that the consumer would find more costly to bear on their own. On left side of this chart, we contrast the out of pocket spend for heart treatment in one of our leading markets in Asia. When the individual is covered by a basic government health insurance scheme, he or she saves 19% of the total treatment cost or pays for 81% out of pocket. These savings increase to 73% of the total cost for Prudential policyholders. This is very significant because we are talking, in this case, premium of £9,000, so a difference of, between the person to the left or to the right, is very significant. There is a huge customer benefit and that's where we make our margin. We provide this cover at a reasonable cost and I really wanted to show you the chart on the right, too. It's not that we over charge people, these are very, very reputable international companies and we price 20% to 30% below them for a 50 year old person. So we are not achieving these returns by overcharging.

Prudential compares favourably with competitors on price and this reflects the advantages of scale, of efficiency and underwriting expertise. Ultimately, our protection policy can generate high IRRs with short payback periods, again, because we create genuine value for our customers. Our focus on protection products has changed the economics of our Asian business, which is now increasingly cash generative on the back of this.

So having the right products is important, but, of course, distribution is always a crucial and very necessary condition to success in Asia and elsewhere. We have two major routes to market, agency and bancassurance, each with growing scale and productivity, which only contributes to improving our economics. We have over 280,000 agents in our sweet spot markets and we access more than 15,000 bank branches, enabling us to reach customers across the spectrum of wealth and insurance needs. In a nutshell, we are in the right markets with the right products and the right distribution.

The last thing I would like to do on Asia is to move to a few country updates and I'd like to spend some time talking to you about Indonesia, which is our largest market, the Philippines, where we are seeing, in a very short period of time, a change in absolute scale of what was before, a non-material business for the Group, and Thailand, where we are, technically really, a start-up operation in a market that is already well developed and with high long-term potential.

So let's start with Indonesia. We are the clear market leader in Indonesia with 2m customers, and where our geographic reach is spanning 137 cities. Now, almost half of our APE now comes from outside of Jakarta, that's an achievement we are very proud of, because we believe in the power of first mover advantage, not just by country, but within a country by region and within a region by city. So what we're building outside of Jakarta will generate value for a long time to come. In places like Cambodia, we are doing the same thing today, moving in early and planting the seeds of our long-term success. Here, too, of course, distribution is the name of the game and we have an excellent distribution footprint. I visited that business with Barry in June, and as usual, I was very impressed by what I saw.

Our agent recruitment, on boarding and training programs are one of our key competitive advantages in the country. Our agent get agent referral programme has been successful in driving 27% growth in agent recruitment in the first half of 2013. It's a simple idea in just asking agents to recommend agent and it works very well and we've found that it's a very good source of recruitment. Our agent training programmes, such as “Fast Start Induction”, and continuous professional development have resulted in a 26% increase in active agents in the first half of 2013 and the benefits of that will, of course, materialise over time. In addition to growing scale, we are also focused on improving agent productivity for our registered financial planner training initiative. In addition to agency, our bancassurance platform has seen good momentum as we have grown our reach to 900 active branches across our six partners in the country. We continue to launch new riders, bringing more benefits to our customers and more tailored to their needs in this under-protected market, and also enhancing in the process, our profitability, illustrating again the virtuous circle I mentioned earlier. So over the last four years, new business profits from Indonesia have increased by 4.5 times and we remain confident of our on-going success in this large and rapidly growing market.

Let’s move onto the Philippines. It's an interesting country because the macro-environment in the Philippines is supportive, with the country having better and better macro policies and reporting 7.8% GDP growth in the first quarter. It is one of the few countries on the planet right now that has had its sovereign debt rating upgraded this year. Our focus on the Philippines is to increase the scale of our agency business. We have, what we call, the top priority campaign for agency leaders and its driving strong growth in recruitment with 48% growth in agency in the first half. Our agency force in the Philippines is now there times larger than in 2009, contributing 65% of our first half APE. We are also gaining good traction in bancassurance with APE quadrupling since 2010 and lending a new leg to the business, another illustration of our ability to innovate. We have just signed a new partner, China Bank, in 2013, further expanding our bancassurance reach. That's good progress and we often get asked as to why it is that we talk so much about so called immature or exotic markets. Are we running out of growth? The reason we do so is because of the exceptional and exponential growth that these markets are capable of delivering. The Philippines, for example, you see the numbers here, is currently delivering as much APE every two months as it used to deliver in a year, four years ago, it went from £5m to £29m. And in a country of 99m people, we have a grand total of 100,000 customers, which shows that we have not even scratched the surface in terms of capturing the growth potential of this market.

Finally, let's move to Thailand. As you know we completed the acquisition of Thanachart Life and launched a 15 year exclusive bancassurance partner with Thanachart Bank on May 3rd. We sold our first policy on May 4th. The addition of this partnership gives us access to a fifth largest bank network in Thailand with over 800 branches in the country. I must say, the quality of our preparation in the run-up, between November and May, to the approval has meant that the integration has proceeded very smoothly with our insurance specialists selling in the branches from the first day after closing the transaction. I spent a week in July in Thailand with Barry, and there, too, I was very impressed. I must confess, I had to engage in a bit of mystery shopping in the Thanachart branches, but I was spotted very quickly, so I had to retreat. We have launched our full product suite, particularly accelerating the pre-existing focus of the Thanachart Life sales force on protection products. Results to date have been very encouraging and have been tracking significantly ahead of our agreed business plan. The latest month of sales data that we have for July, which I wish we could share with you, shows Thailand accelerating in absolute terms, ahead of some of our other Asian markets, so it's exciting. As we grow our scale in Thailand, the increasing visibility of our brand will also benefit our agency sales force. Ultimately, we aim to build a strong multi-channel platform in what is the third largest life insurance market in Southeast Asia.

So after our life business in Asia, let's move now to take a closer look at our asset management business, Eastspring. Eastspring is the leading onshore retail asset manager in Asia with £62bn of assets under management and it varies with the pound and dollar, but it was roughly about $100bn, which was an historic goal for us. We talked about it internally for many years, it was above $100bn in assets for a few days and it will go back up. It is well positioned to capture the opportunities emerging from a rapidly growing Asian middle-class and the significant long-term demand from global investors looking to access Asian growth. Eastspring had a record first half with net inflows for £2bn. This is its highest level of half yearly net inflow since the year 2000, so that includes the boom market of 2006 and 2007. These strong flows were particularly evidenced in Hong Kong, Singapore and Taiwan, where we have seen strong flows, mostly into retail bond funds.

So to summarise on Asia, we are confident in the medium to long-term growth potential of the region. Demand for our services will grow faster than GDP for a long time with a focus on savings and protection products, and we have the distribution, the products and the skills to capture a disproportionate share of that opportunity and the best is yet to come.

So after Asia let's move to the UK, where I will start with M&G, leading asset manager in the second largest asset management market in the world, an enviable position. In the first half of 2013, M&G generated £3.8bn of net inflows with a particularly strong performance coming from its expansion into continental Europe. M&G's external funds under management grew by 25%, these funds now representing 50% of the total, up from 31% in 2007. Retail funds under management from continental Europe have grown by almost six times since 2007 from £3.8bn to over £21bn, so they now represent 33% of our total retail funds under management. This asset growth has led M&G to deliver a record half-year performance with IFRS profit up 17% at £204m, so above the £200m mark for half-year for the first time.

Looking now at our second business in the UK, our life company. The UK has maintained its focus on disciplined capital usage, concentrating on the lines of business that can generate good returns. In the first half of 2013, we saw 34% growth in sales of our popular income choice, with profits annuity, which is attractive in this environment. But, as expected, volumes in our savings business continue to be impacted negatively by RDR as distributors, adjust to a new environment. IFRS operating profits for the retail business were flat on an underlying basis, showing resilient delivery in spite of decreasing volumes on the metric that we primarily focus on across businesses. As you know, we did not complete any bulk annuity transaction in the first half of the year, contrary to last year, since the returns available did not compare favourably to those available to us in other parts of the world. Overall, the UK has delivered a solid performance in a challenging context. I would like to thank Rob Devey for his many contributions over the past four years and wish him well. As you know, his successor is Jackie Hunt and we look forward to working with her.

Moving, finally, to Jackson. In the US, we continue to calibrate our approach to a VA market to match our Group risk appetite at this point in the cycle. We have been increasing the proportion of sales of VAs without living benefits. The undeniable success of Elite Access, which you can see here, which has generated $3.3bn of net flows since its launch last year, is at the heart of the strategy. Elite Access now ranks number ten in the league table of the best-selling VA products in the US. Excluding Elite Access, VA sales fell by 10% year-over-year in line with our expectations and VA without living benefits now represent 29% of total VA sales.

Let us now take a look at something that I find really interesting, which is the position of our in-force book. We showed you this chart, for those of you who were, in November, in New York, and you will remember that at the end of the year, 10% of the book was in the money. Only 2% of the book was in the money at the end of June 2013. This is an improvement and reflects the benefit of rising equity markets, which are substantial. The economic benefit of rising markets is not immediately reflected by our accounting, due to valuation and timing differences, as you can see from the IFRS below the line result that we reported this morning. Jackson's success over the crisis period has been due to our focus on hedging, the financial economics, rather than managing accounting volatility, which we are happy to live with. Nic will take you through this in more detail in his presentation. However, the ultimate proof of Jackson's performance should be cash generation. In the first half, Jackson remitted £294m to the Group, equivalent to a growth of 19% on the prior year. Please note, but this represents Jackson's full year contribution for 2013. Please note, also, that with this, as I've mentioned before, Jackson has exceeded its 2013 objective of remitting £260m of cash. Over the last three years, Jackson has remitted close to $1.5bn in cash to Group, validating the discipline and profitable execution of our US strategy.

Let me now wrap up this first section of my presentation. We have made a strong start to 2013 with double-digit growth across our three key metrics of NBP, IFRS and cash. This strong operating performance is the result of our disciplined execution, which allows us to capitalise on the long-term secular trends available in our markets. And having achieved four out of our six 2013 growth and cash objectives, we remain focused on delivering the remaining two in the second half of a year and with this, I will turn hand over to Nic.

Financial Review

Nic Nicandrou

Chief Financial Officer, Prudential Plc

Thank you, Tidjane, and good afternoon, everyone. My presentation follows a familiar theme of growth and cash with a detailed look at the drivers of our overall performance in the first half of 2013 and an update on the capital position and balance sheet.

Starting with the financial headlines, which are summarised on this slide, we have delivered a strong performance in the first half, continuing the positive momentum of 2012. Our disciplined execution and prudent management on balance sheet risks have enabled us to improve all of the key financial metrics shown on this slide. As a result, new business profit rose by 11%, IFRS operating profit increased by 22%, shareholders' funds on an EEV basis were up by 19%, free surplus generation was also higher at 12% and this has led to a 16%

increase in remittances to Group. Our overall performance so far this year demonstrates the quality of our new business franchise, the resilience of our in force book of business and our ability to continue to deliver growth in both earnings and cash.

We proved our flexibility when interest rates fell by taking decisive pricing and product actions throughout the Group in 2011 and 2012. Our performance in the first half of this year has benefited from the recent rise in yields and I will highlight the areas where this is evident as I step through the results.

Turning to new business profit, this metric grew by 11% to £1,268m led by Asia. All three regions continue to write new business at internal rates of return of more than 20%, with short payback periods. These attractive new business economics are underpinned by our strategy of prioritising value over volume and by our approach to directing our investment to those products and geographies with the highest return and shortest payback characteristics.

In Asia, NBP was up 20% at £659m, outpacing the growth in APE with both agency and bank channels increasing NBP at similar rates. The improved profitability in the region reflects our ability to capture profitable growth in the markets that we referred to as our Southeast Asia sweet spot, six of which achieved record second quarter sales. It also reflects our discipline of taking product action, where necessary, such as in Taiwan, where we refused to offer certain guaranteed products, and in Malaysia, where we have refocused the business on health and protection. Finally, the recent rise in yields has also contributed positively to the regions' NBP, most notably in Hong Kong.

In the US, NBP increased by 8% to £479m. Within this number, the new business profit from variable annuities increased from £402m to £454m, representing a new half-year high. This is despite the 10% reduction in sales of VAs with guarantees. The negative volume impact of which was countered by the positive effect of product and pricing actions taken over the last 12 months, the contribution from Elite Access and the beneficial impact of the 86 basis points rise in ten-year treasury yields. We are pleased to see the NBP of the US business move forward positively at a time when we are changing the shape of our US sales.

Turning to the UK. In contrast with 2012, no bulks were written in the first half of year for the reasons that Tidjane has already outlined. At a retail level, although sales declined by 8%, we maintained our new business profit at £130m, reflecting improved business mix and the benefit of re-pricing actions. Overall returns in our UK business remain attractive and are, in my view, market leading. I have summarised, on this slide, the key drivers of the movement in NBP between the two periods. As you can see, higher sales volume in Asia, together with a strong growth of Elite Access, have more than compensated for declines elsewhere to deliver a net £43m positive volume impact. Pricing actions and changes to business mix continue to contribute positively and the uptick in the US and Asia long-term yields have driven an additional £54m of new business profit. Not shown on this slide is the contribution to NBP from risk products, such as health and protection, which, in the first half of 2013, was £440m, equivalent to 35% of the total, up from 31% this time last year. So the key takeaways on NBP are; one, that the higher health and protection content, combined with the lower volumes of VAs with guarantees means that the new business written this year is higher quality and lower risk. And two, that the benefit from the recent rise in yields demonstrates the potential upside to our NBP as rates recover from the current low levels.

Turning now to IFRS. Operating profit at the Group level increased by 22% to £1,415m. This improvement is driven by an 18% increase in both our life and our asset management operations. Starting with our life businesses as you can see the breakout box, we have achieved operating profit growth in all three businesses, highlighting the quality of these insurance operations. In the next few slides, I will set out the reasons for these increases, which, in overview, reflect the growth in our overall book of business, the improvement in the quality and balance of our life income and further economies of scale.

One of the factors that underlines our IFRS earnings momentum is the sheer scale of our life business inflows. Over the last three years, our life operations have attracted total net inflows of over £30bn. In the first half of 2013, net inflows were 13% higher at £5,871m, continuing the growth trend that we have seen over the three-year period covered on this slide, which clearly demonstrates our impressive organic growth. When these net inflows are combined with the effect of positive investment market movements and the impact of acquisitions, such as REALIC and Thanachart Life, total policyholder liabilities for shareholder backed business have increased by £68bn over this period to £179.2bn. It is this increase that has driven forward both our life income and our IFRS operating profit in recent years, with this momentum continuing in the first half of 2013.

Looking at our life IFRS profitability by region, Asia has reported growth of 18% to £474m, with roughly two thirds of the increase coming from our four largest businesses in Indonesia, Hong Kong, Singapore and Malaysia. We have also seen a strong step up in contributions from Thailand and the Philippines, two of our smaller businesses where we are making rapid progress. Compared to the same period last year, the combined operating profits from these two businesses increased fivefold to £20m. I am pleased to report that our acquisition of Thanachart Life in Thailand, which completed in May, is already making a positive contribution to the results.

In the US, we have reported a strong increase in operating profit to £582m, reflecting business growth and the additional earnings from the acquisition of REALIC. As you can see, in the breakout box, REALIC contributed £56m to our US result and it is on track to deliver £115m pre-tax profits in the first year of ownership.

The individual components relating to DAC and new business strain are more straightforward this time around in that they have moved in-line with the scale of the business. This means that Jackson's underlying profits, shown in the dark blue bars on the right, have increased by 16%, primarily reflecting higher fee income.

In the UK, IFRS profit was slightly higher at £341m. As I said at the 2012 prelims, the strict capital criteria that we applied across all of our businesses limit the level of investment opportunities in our UK life operations and this will continue to place downward pressure on the earnings growth prospects of this business. We are entirely comfortable with this, as it does not detract from the important role that the UK plays in our Group.

Turning to the sources of earnings, both insurance margin and fee income are, for the first time, individually larger than spread income, highlighting the transformation that we have made in the overall shape of our earnings. Our bias in favour of risk products, such as health and protection in Asia, along with the contribution from REALIC’s season book of term business, has driven a 46% increase in insurance margin, shown in red. Fee income, in dark blue, is also growing fast at 31%. In contrast, spread income has increased by a more modest 1%, reflecting our lower appetite for spread products at this point in the cycle. So what you can see is a very healthy evolution in both the quality and the balance of our life earnings and one that enhances their resilience as we move forward.

Taking a more detailed look at sources of earnings for each business and starting with Asia, total life income, shown in the top left, is up 22% at £1,267m, driven by a double-digit increase in all of the sources of income. As you can see below, towards the right of the slide, technical and other margin remains both a fast growing and a dominant feature of Asia's life income, up 22% in the first half. Within this category, insurance margin grew by 18% to £303m, reflecting strong growth in health and protection business and a continuation of positive claims experience. This category also includes the deductions that we made from premiums to cover our costs, which are higher at £778m, consistent with the growth in Asia's premium income.

In the US, Jackson's total income, shown in the top left, is up 27% at £1,197m, outpacing the 9% increase in expenses, highlighting, once again, the influence of operational leverage in these results. Fee income, in the middle of the slide, is now the largest source of earnings in the US and is also the fastest growing up 36% to £554m. The uplift reflects the 37% increase in average separate account balances, which benefited both from the $7bn of net inflows in VAs and the strong equity market performance. Our average fees are broadly similar to last year, at 196 basis points, as Jackson continues to take product and pricing actions. Technical and other margins, shown in the adjacent box, was boosted by REALIC's life insurance income, contributing £83m to this slide in the first half of 2013. Finally, on the left of the slide, we have seen an increase in spread income to £377m, principally reflecting the higher level of general account assets. We have held our margin, due to the continuation of the fixed account allocation from new VA business, which attracts a low crediting rate of

1%. This is a temporary effect and we still anticipate that this margin will continue to trend towards the 200 basis points level over the next three years.

In the UK, total income was broadly unchanged, while total expenses were somewhat lower than last year, in part, reflecting lower commission costs as a result of RDR. Spread income, on the left, was lower at a £102m due to the reduction in conventional annuity sales and no new bulks in the first half of this year. I would remind you that bulks contributed £18m to the FY2012 IFRS result. Insurance margin is higher as it includes a £27m benefit from a longevity swap executed earlier in the year for risk management purposes. Income from with-profits, shown in the bottom right, declined in line with the reductions in policy holder bonuses.

Moving to asset management and other non-life businesses, IFRS profit was 18% higher at £312m. As you can see in the breakout box to the right, the improvement in performance is driven by M&G and Eastspring, but also from US asset management, where operations, such as Curian, which were, previously, subscale, are now beginning to make more material contributions. Looking at M&G in more detail on the left, operating profit was 17% higher at £204m. Stripping out performance related fees and earnings from associates, underlying income increased by a healthy 19% to £421m. The increase tracks the 17% growth in average funds under management, which as Tidjane has already covered, reflects M&G success in attracting significant new business inflows and the higher market levels.

I indicated, at the prelims in March, that we would be making additional investments in scaling up the infrastructure of M&G in 2013 and 2014. Reflecting this, expenses have increased by 22% and, as a consequence, the cost income ratio has ticked up one percentage point to 54%. I would remind you that, as in previous years, M&G's cost base has the second half bias, so please allow for these in your forecasts. In 2012, for example, the full year cost ratio was six points higher than in the first half.

Eastspring Investments reported a 19% increase in profits to £38m, with total fee income growing at a faster rate than expenses. A continuation of the consumer led preference for bonds over equities, so average fee levels reduced by one point. FUM growth mitigated this effect, driving income and earnings higher at the half-year stage.

Turning to our results on an embedded value basis, you can see from the chart on the left that the total life profit was 15% higher at £2,497m, equivalent to an annualised return on opening embedded value of 16%. Our life businesses in Asia and the US have reported strong increases in operating profit of 24% and 26% respectively and are both above the £1bn mark for the first time. This performance reflects both business growth and the positive effect of the recent rebound in long-term yields.

The UK reported an 18% decline in EEV profits as 2012 included items that have not recurred, such as the positive effect of reductions in UK tax rates. In line with our established reporting practice, the benefits from the further reduction in UK tax rates, enacted in July, which amount to a £115m, will be recognised in the second half of the year.

Across the Group, our overall in-force profits increased by 20% to £1,229m. This reflects our relentless focus on managing the existing business for value. It also illustrates the positive gearing to higher interest rates, which is evident in the component labelled unwind. This has increased from £761m to £954m and we estimate that £75m on this step-up comes from the rebound in long-term rates.

Despite the on-going global macro headwinds, our focus is on delivering the right outcomes for our customers and managing our affairs efficiently, so all three businesses sustained positive contributions from operating experience and assumption changes. Overall profits were slightly higher at £277m, demonstrating both the quality and the resilience of our franchise.

On this next slide, I will briefly run through the rest of our profit and loss account for both IFRS and EEV. As I have shown you in my presentation so far, rising equity markets and higher long-term yields are beneficial to our overall operating performance. The other positive impact of such market movements is that the guarantees provided to policy holders by certain parts of our Group, such as Jackson become less onerous, as Tidjane has already demonstrated. As you know, under IFRS, the accounting does not fully reflect these effects, which has resulted in negative investment variances in the first half. As we have previously flagged, this is driven by the accounting mismatch from hedges that are fully marked to market and liabilities that are marked mostly to cost. While our total IFRS profits are susceptible to this type of accounting noise, we remain steadfast in our approach to hedging on an economic basis and we accept the accounting volatilities that ensue.

The rise in interest rates has also generated negative value movement, on our holding of fixed income securities, which, under IFRS, come through the investment variance and the unrealised losses on AFS securities line. Again, these negatives are not economic, as we would, typically, hold these instruments to maturity. These factors, combined with the payment of the 2012 final dividend, have driven our IFRS shareholders' equity lower at £9.6bn. On an EEV basis, we can fully recognise the economic benefit of the higher market levels and, as you can see on the slide, the overall investment variance is a net positive. As a result, post tax profit for the period on this basis was 41% higher at £1.9bn and after allowing for foreign exchange movements in dividends, retained earnings boosted our shareholders' funds by 80 pence to 958 pence per share.

Turning to the balance sheet, the overall picture is unchanged. We remain well capitalised and defensively positioned. The Group's IGD surplus at the end of June, after paying the 2012 final dividend and acquiring Thanachart Life, was £3.9bn, equivalent to a cover of 2.3 times. I would remind you that the IGD surplus now includes Jackson's capital in excess of the 250% RBC level, in line with the change we adopted earlier in the year. The Group's liquidity remains sound. The $700m perpetual tier one notes, raised in January 2013, further support the financial flexibility of the Group while taking advantage of low interest rates. Higher remittances from businesses have increased the central cash resources to £1.5bn. We continue to experience no defaults and minimal impairments. We have, nevertheless, maintained the level of default provisions in the UK and generally retain a conservative approach to credit.

Finally, our stance on hedging the US variable annuity exposures is unchanged. We hedge on an economic basis, utilising the full 120 basis points of fees charged for providing the guarantees, which equates to a $1bn hedging budget. We have seen no significant shift in customer behaviour and our pricing and reserving assumptions remain conservative when compared to our actual experience. The £294m remittance from Jackson in the first half of the year confirms the soundness of its overall capital position.

Moving now to free surplus and cash generation. Free surplus stock has increased from £3.7bn at the start of the year, shown on the left, to £4.1bn at the end of the year or at the end of June, shown on the right. As you move from left to right on the slide, you can see the £1,548m of free surplus generated by our in-force book, which is 11% higher than last year with strong and growing contribution from all of our businesses. We continue to take actions to optimise capital consumption and have used £396m to write new business, equivalent to a reinvestment rate of 26% in line with last year. After taking into account market movements and the impact of corporate activity, our free surplus stock rose to £5bn, allowing us to remit £844m to the centre.

Staying with this theme for a moment, I want to highlight the scale of free surplus that our business has generated and how this has been deployed since 1st January 2010, the start of the period covered by our cumulative free surplus objective. The left hand column shows that we started 2010 with a free surplus stock of £2.5bn on top of which, in the blue bars, our growing life and asset management businesses have generated a combined £9.2bn of free surplus over the three and a half year period. Moving one column to the left, you can see that from this total, £2.2bn was reinvested in writing new business, £1.2bn absorbed market effect, foreign exchange and other items, £4.1bn was remitted to Group, leaving a free surplus stock of £4.1bn at 30th June, shown in the grey bar, to support the increased scale of our local business.

The £4.1bn of cash remitted to the centre has enhanced the Group's central resources, as illustrated in the chart on the right. This chart shows that all four businesses have made material remittances over the last three and a half years, ranging from £0.9bn to £1.3bn.

Together, these remittances have financed interest and central costs and other corporate activities and provided the cash to pay £2.3bn of dividends to shareholders, including the additional outlay from the two upward dividend re-bases during this period.

So how does this compare to the objectives that we set ourselves in 2010? We expected to generate cumulative free surplus of £6.5bn after financing new business over the four-year period to 2013. Three and half years in, we have already exceeded this objective, having generated £6.9bn. We also expected that the cumulative free surplus would enable remittances totalling £3.8bn to the centre over this four-year period. We have already exceeded this objective, having remitted £4.1bn, which, as you can see, represents a remittance ratio of just under 60%.

So what this demonstrates is the consistency and pace with which our business has been able to generate free surplus after financing new business. It also illustrates how quickly this free surplus generation has translated into cash to the centre and how these remittances have enabled us to grow our dividends to shareholders. Our discipline of managing the in-force book for value and our focus on writing high return, fast pay back new business, makes us confident that this positive dynamic will continue going forward.

So to conclude, Prudential has delivered a strong start to 2013. Our performance in this period is broad-based with our key financial metrics of NBP, IFRS operating profit and cash achieving strong double-digit growth. At the same time, we have improved the quality, consistency and balance of our earnings and have accelerated the generation of free surplus and cash to Group, all of which, underpins our confidence in the future prospects of our business. Thank you. I will now hand you back to Tidjane.

Outlook

Tidjane Thiam

Chief Executive Officer, Prudential Plc

Thanks a lot, Nic. As you have seen, we have had a good first half of the year, so let's now turn to the outlook. A significant long-term opportunity for sustainable and profitable growth for our company in Asia is well captured by this slide, illustrating three key and simple points. The first one is that we have a great platform in Asia. We have the right product and the right people.

The second is that we are well-positioned in the right market, our so-called sweet spot, and, further, that even with the scale we have already achieved, our customer numbers remain a small fraction of the opportunity available in these countries, with between 0.5% and 1% of a population in our customer base.

To put this in perspective, one only has to look at the UK where our customer base of 7m represents 11% of the total population. This, for me, confirms that we have not even scratched the surface in terms of capturing the potential in these markets. This is why we are confident that this company is well positioned to deliver profitable growth in Asia and to generate significant additional shareholder value for years to come.

So, to summarise, the Group has delivered a strong operating performance for the first half of 2013. We have double digit growth across three key metrics of New Business Profit, IFRS Operating Profit, and Cash. Shareholders continue to receive a benefit of this performance through both capital appreciation and a growing dividend. We continue to execute a growth & cash agenda by focusing on delivering profitable growth in Asia and cash generation from all businesses, as Nic just told you. So more of the same – we'll generate over time huge value for our shareholders. And there remain very significant untapped profitable growth potential for this company.

With that, I'd like to thank you for your attention, and we are happy to take your questions. If my colleagues will join us on the stage, we'll move to Q&A.

Q&A

Gordon Aitken (RBC): Gordon Aitken from RBC. There were a couple of questions. Just... I'm interested – I mean, the six objectives you set, three of them were in Asia. I think at the time some of us doubted that you were going to achieve them, and it looks like you're going to achieve them all, but, I mean, in Asia their remittance and operating profit targets – you're already well ahead. I'm just wondering, and presumably when you set the targets you set them with a similar level of buffer and stretch built into them. What... why has it taken the new business profit target, why has it taken longer to achieve that one then...? Was it a tougher target to start off, or was there any other reason?

And the second question: the UK, you mentioned you are not liking conventional annuities quite so much. Why is that?

Tidjane Thiam: Oh, no... okay, fine. I just said, but with profit, annuities were popular in the current interest rate environment in the UK, because they provide a better return, basically, than conventional annuities for customers. It's not... personally, no, I don't have dislike of conventional annuities.

On the first one, it's a really important point. If you wish, when we were setting the target that was... where is Barry? The most heated discussion between Barry and me was about NBP. Because what you don't want to do when you set the target - and also Adrian's nodding there – is to make yourself a hostage to fortune, okay. The simple truth is the one we the control the least is NBP, okay. You see it being moved by interest rates, up or down; you see it being moved by a lot of things we do not control; and it's the one we like the least, okay. We committed to it to give a sense of how confident we were, but it's the one that is the most dependent on things outside of our control, and we don't think it's particularly wise to make yourself a hostage to fortune. We did that really as a sign of our confidence, and I think it's going to happen, if you look at the target; you can do your own calculation, but I think 8% in the second half takes you there...

Barry Stowe: 6.7%.

Tidjane Thiam: Okay, 6.7%.

Barry Stowe: Yes.

Tidjane Thiam: I was trying to be encouraging. Okay, 7% - this is why it's greedy , but 7% in the second half will take him to his NBP targets. So we would have had a lot of trouble doing the target in the first half, so it's one we cannot deliver in the half-year because NBP just moves...

Barry Stowe: Well, it's effectively... it's a sales of target, so unless we were able to write as much... you know, to do it six months earlier you'd have to write the full year's new business in the first six months of the year.

Tidjane Thiam: And you can do many things out of this.

Barry Stowe: Yes. We're good, but we're not quite that good yet.

Tidjane Thiam: So... but, fair enough, it's one we, frankly, we like the least. So it does hold a negative feature as well, what people don't like about, but there we are.

Blair Stewart (BoA Merrill Lynch): It's Blair Stewart from BoA Merrill Lynch. I think I've got three questions; firstly, the domestication of the Hong Kong with-profits fund and the legal entity structure in Asia, we can all have a guess what that might mean strategically. But what does it mean from a financial perspective, if anything, for the company?

Secondly, given that cash levels are so strong, I think you've reset the dividend twice in the last three years, any comment on what your thinking is there?

And, thirdly, in the UK, I think on individual annuities you've got a very passive strategy. What implications, if any, do you expect from the review of that market going on at the moment? You're going to have to become more active, and does that mean lower margins ultimately? Thank you.

Tidjane Thiam: Okay, thank you. On the domestication, maybe I'll let Nic take that one and I'll come back on the dividend, and have Rob on the end.

Nic Nicandrou: Okay, so we're domesticating both with-profit business and also non-profit business. Now, the with-profit business will be domesticated with its share of the estate, and that would provide the appropriate working capital, not only to write new business but also to provide the on-going protection for existing customers.

The non-profit business will also be domesticated. That will also go across with its own capital base, but in Hong Kong it will have to be managed, to clear, if you like, a hurdle above the minimum. Therefore, there will be some marginal friction in terms of the capital that we'll need for the non-profit side, but it's... you've seen the numbers that we've reported both in terms of free surplus and also in terms of the cash that we're generating. That impact is manageable.

Tidjane Thiam: Okay, cash and the dividend. You know our thinking there; Blair, we've kept the same dividend policy and the approach we've taken is, rather than touch our dividend policy, to rebase the dividend itself every time we've created enough head room. So the logic is simple: we stress-test our cash flows on almost... every metric, and there are quite a few of them – on the kind of rating agency capital, or IFRS, or EEV, shareholder funds, etc, etc, statutory capital. And we set the dividend growth at the level where it is safe; we pay as much dividend as it is safe to pay, and we have no reluctance to do a step-up when, actually, that head room appears. Plus, that there's been a number of favourable factors, and as you can see, your targets, etc, our... we made progress faster than we thought. And every time that has happened we've raised the dividend. That's really all we have to say on that.

We are fortunate enough to have a lot of organic growth available, so we saturate our appetite for profitable organic growth. We continue to build a capital base, because one consequence of this growth agenda, in growth and cash, is that the Group does get bigger. So we do have to retain some of those earnings, not to weaken the capital position of the Group. And, frankly, M&A - as you've seen, we're very opportunistic; we're very, very happy with the two transactions we've done. REALIC was a fantastic transaction and the integration has been very good, the numbers are excellent. Thanachart is phenomenal. I visited Thailand with Barry, and we visited the branches - just a remarkable transaction in a great market.

And it's anecdotal, but I had a meeting with the Deputy Prime Minister, very influential, in Thailand, with Barry, and I told him that we say even in those cases: investing US$500m in your country, it's a sign of confidence; we like the economy, we like the country. And he stopped me: I'm not interested; tell me what we can do better. Immediately I said yes. I want some detail, but what were things we could have improved? To hear that from the leadership of a country, as an investor, gives you great comfort.

So, back to my central point, we have the luxury, if you wish, of not needing to do M&A – we have enough organic growth – so we can really be selective and only do it when it's very attractive. So we don't need to keep a big war chest, or whatever, in prediction of M&A; we do relatively small transactions. So the rest is for the shareholders, really.

Individual annuities, Rob, are we being cautious?

Rob Devey: Happy to pick that up. We've been involved in the annuity review and very comfortably supporting what's going on there. I think in terms of the implication for ourselves, we have to remind ourselves of what our UK pensions and annuities portfolio looks like; it's a very large number of, really, rather small annuities, so the average ticket size is around about £20,000. Those are very satisfied Prudential customers. Our vesting customers get a benefit when they come to us because we give them a better price because we don't have the anti-selection risk that we get there. So we're very comfortable about our pricing in that market.

And we, with the introduction of the Code of Conduct for Retirement Choices that came in in March, we're also seeing very strong feedback from our customers around them being aware of the choices they already have available to them in terms of whether it's different types of annuity and in terms of the ability to shop around the market, more generally. So all be it here will be focus on this, and we're supporting the focus on that, we're very confident, as we look forward, in terms of that book. As you know, we do not play aggressively in the conventional open market, because we think the marginal pricing in that market is not attractive relative to other opportunities we have as a Group.

Greig Paterson (KBW): Greig Paterson, KBW. Three quick questions; one is, just in terms of the inherited estate discussions, Nic, do you still stand by the same – and I think I asked you before – that when the Standard Chartered deal renews you'll be able to finance those renewal costs via the inherited estate, as it was done before, the last time?

The second question is, in Indonesia – and to me that seems like another area where there's potential new distribution deals – I was wondering if there are any regulatory restrictions on how many licences or what deals you can do.

And then, as a final one, I was listening to, you know, your targets in terms of remittances and new business and free surplus generation. I was just wondering, in Asia, out of the VNB and the free surplus generation, how much of that has been acquired through new distribution deals over the period, 2010 to 2013.

Tidjane Thiam: Okay, thank you. Nic, do you want to take the first one?

Nic Nicandrou: Look, I'm not going to speculate on what will happen in, you know, towards the end of the decade when we come to that point, so I don't have anything to add to that.

Tidjane Thiam: Okay. Indonesia, how many licences...? Look...what can I say? I don't really... a bit like Nic, I don't want to comment on speculation in the media. What I can say is that we are very happy with our performance in Indonesia. Sure, we've noticed some of it is an optical, because in local currency it's much stronger than 17%. We are now selling NBPs of 27%; on a business of that scale, very happy with our performance and we think we have enough growth available - again, with 2m customers in a 251m-people country. If we only do what we've done in the UK, we're going to push 25m customers in a reasonable time.

So, no, we're not really worried. But, I don't know, Barry, do you want to say more about Indonesia?

Barry Stowe: There's no regulatory limit on, you know, number of bancassurance deals or, you know, other source structures that we could use to drive distribution. But, you know... and, yes, as we say with respect to Indonesia, with any other market, we obviously see every distribution deal that's available in the market-place, and a handful of those we really go after because we think they make a lot of sense. That's where UOB came from, that's where Thanachart came from. Many, many of these deals, we look at; for various different reasons, we think they don't make sense, so we don't go for them. And we'll continue to, you know, to use that system which we think... you know, you look at it over the last six or seven years, it's paid very handsomely for shareholders.

Tidjane Thiam: So it's a bit of an answer to your third question, because we really don't... you see, we never give you breakups in terms of new deals, because, really, we see... sometimes, when I want to surprise, I say we only have one channel in Asia, and it's face-to-face sell. You know, sometimes it takes place in the bank branch. But we've always seen banking distribution as just a part of our organic strategy; we just add more people, frankly, and it just happens to be involuntary sometimes. But it's not the strategy, a different strategy, from our perspective.

And, you know, those deals, we really... you know, we do post-acquisition reviews, etc, etc, although fundamentally you pay for a business plan; that's why I keep giving you this kind of wink and nod, we are ahead of our plan, comfortably. That means we are doing... we are gaining extra returns on the IRR, we targeted to be, plain language. If everyone had a good deal, you know, UOB has doubled every year. The price we are paying, but you see the business plan we buy - we've outperformed that every time. But we also... we don't say that too much because there'll be future deals and every time it becomes harder, every time we pull that trick it becomes harder the next time to extract a good price. So that's... But we have no doubt, in all the situations, that we are really getting the returns we expected on the capital invested for that, and more.

Andrew Crean (Autonomous): Morning. Andrew Crean here, Autonomous. Three questions; firstly, I think the first thing you did when you arrived, Tidjane, was look at the inherited estate in the UK and decide not to go for it. Now that you are unbolting the Hong Kong business and with the UK inherited estate more mature, with less policy holders, could you give us an idea as to what the realistic value it is and what your plans are, and the timescale on that? Secondly, on M&G, could I get a sense as to what higher rates mean for your retail business, the flows impact on the bond side, and, also, what your views are on clean, clean pricing and how a fund manager views that? And then, thirdly, I think in the full year, you talked a bit about, yes, being prepared to give some of the economic capital data. I wonder how you're getting along with that and what that's showing.

Tidjane Thiam: Okay, well, thank you, Andrew. Maybe, Nic, you can take the – we'll go in reverse order – take the economic capital, then I'll go to Michael on clean pricing and higher rate retail shows, and I'll take the inherited estate.

Nic Nicandrou: Sure. No, we continue to work on that, Andrew, and we'll bring that information to the market in the new year.

Tidjane Thiam: Okay, that was efficient. Michael?

Michael McLintock: Two parts to that question: clean, clean pricing; it's too early to say is the short answer, Andrew. I mean, it's not positive. But we're playing in an awful lot of different channels, an awful lot of different markets; as you've seen from the numbers, there's a lot of growth taking place in Europe, and so there's a whole mix going on in the marketplace and it really is too early to say how this whole thing's going to shake out.

On rates and flows into bond funds, we have been experiencing steady net outflows from our main corporate bond fund in the UK; there are two flagship corporate bond funds where we've been the leaders for, actually, I can now say many years. These two funds were getting very big last autumn and we decided to take action to choke off the flows. And ever since then, they've been... there's just been a steady movement of money out of those funds.

How quickly would rates back up? I mean, you can see multiple different scenarios; if you had rates going up very quickly, it would cause sudden, sharp shock; it could be over before you've even, you even had a chance to sort of analyse the consequences, and suddenly the flow's stable again. On the other hand, you could have a sort of perception that fundamentally inflation is really coming back and rates were going to keep backing out for a long period of time; in which case, that would actually prove to be much more negative. There's a whole... again, there's a whole range of scenarios here; it depends where the money's going to, because what's coming out of bonds is going somewhere else and we've got to catch our share.

Tidjane Thiam: And I think the other question was on the inherited estate, and you and I discussed it a lot at the time. Do you remember things we said when we made that decision? A key consideration was the growth prospects of the with - profit fund and whether the fact that we were going to continue to write new business in the with-profit fund. And we felt that reattribution was a transfer of value between the future policyholders and existing policyholders. And we felt... so our view as a company, that future policyholders actually... could actually benefit from the product. And, also, that consideration was really: was there really a surplus to distribute or not? And that was depending on how you looked at the market, etc. And I think, with hindsight, it was a good decision to have kept that inherited estate. I think, was it... is it £7.8bn? Well, that value is £7.8bn, total, at June 30. Sorry? Inherited estate, inherited estate itself, valuation at June 30.

Nic Nicandrou: No, that's the face value on a realistic basis of... which is Pillar One realistic basis – £7.8bn. In terms of how much of that is included in our embedded value, it's a tenth, but given that we assume the embedded value, that this stuff gets paid out by way of a terminal bonus, it gets discounted down to about 7% or 8% of its value.

Tidjane Thiam: So the short answer on that. We'll look at that issue again once, you know, the domestication has been completed. And use the same parameters to make a decision.

Chris Esson (Credit Suisse): Hi, good afternoon. Chris Esson from Credit Suisse. Just a quick question on the composition of Asian new business profits; on page 15 of the EEV disclosures it suggests that Hong Kong saw something like 60% growth and the other markets, which included fairly appealing markets like Singapore and Malaysia, among others, saw flat year-on-year trends. I just want to get a bigger sense of what's going on country by country on NBP.

Tidjane Thiam: Yes, we can give you some colour on that, between Barry and Nic. I don't know how you want to speak there...

Barry Stowe: What happened in Hong Kong was really... it's all economics. I mean, it's increases in interest rates that materially improved. What you're seeing elsewhere, in terms of new business profit movement, generally, is a, you know, continuing strength of health and protection products, and you're seeing a continuing strengthening of margin, a little bit as a result of geographic mix. So, I mean, that's why the margin is where it is. In terms of new business profit progression in other markets, there, you know, there's a little bit of a ding in Vietnam because there was a change in the regulations there on how we split bonuses between shareholder and policyholder, so that had a little bit of an impact in Vietnam, even though the business is growing very strongly there, we had a very good first half there.

Other places, basically, the progression, you know, continues to be good. As I say, you saw in the overall regional results 12% growth at the top line, but 20% growth at the top line that we really focus on, which is NBP. And, again, the factors already mentioned drove that, but it's the exception, really, of those two instances. It's pretty good stuff. Nic, do you want to...?

Nic Nicandrou: No, the only thing I would add is, in places such as Indonesia and Malaysia, where, you know, most of what we write, nearly up to two-thirds, is health and protection, rising interest rates means that you're discounting those future profits at a high rate, and therefore their NPV is low. So, if you like, the headline year-on-year movement in those two countries is depressed by that effect. Places like Hong Kong and Singapore, you see the opposite; the mix of business is such that rising interest rates gives a kicker to the NBP progression. So those are the effects that you're seeing come through and the rest, as Barry said, is a function of what products you sell, with mixed distribution channel, and so on and so forth.

Tidjane Thiam: If you go back to the central point of diversification, and it can be frustrating sometimes, but what we always take you back to is the total performance of the portfolio, because it's a strength of insurance companies; that's how it works, you know. When you discount the insurance income in Indonesia, yes, higher interest rates hurt us, but during the whole period where insurance was going down, it protected us; and that's the way it is. In Hong Kong we suffered when interest rates were going down and now we're gaining when interest rates are going up. That's why you want to diversify your platform. And that's actually what allows you to have those nice progressions on the total Asia performance every time, because it's well diversified.

So at every point in time, we'll come under pressure in a given country, depending on how the macroeconomic environment is; there'll be countries benefiting, countries suffering. And then you get more country-specific factors, of the elections in Malaysia this year, and the total Malaysian market - that's very visible in industry statistics – struggled in the first half, and that comes through our numbers; we were not completely insulated from that.

Barry Stowe: Yes, but, again, I'm not sure what the second quarter was in Malaysia.

Tidjane Thiam: It was...

Barry Stowe: The market was in the first quarter was... the growth rate was 0.2% for the market. So...

Ashik Musaddi (JP Morgan): Yes, thank you. Ashik Musaddi from JP Morgan. A couple of questions; first, on slide number 81, you have given £100m negative impact from economic hedging. That's 20% of your US earnings, so how should we think about that given that it's on an economic basis? So that's the first one.

Secondly, can you give us some colour about your leverage, how rating agencies think about your leverage given that the increase in leverage is supporting your IGD capital as well? And, also, the NAV went down mainly because of just mark-to-market, the bond portfolio?

And, thirdly, can you just remind us when does this permitted practice on interest rate swap ends? Is it October, if I'm not wrong, something like that? Thank you.

Tidjane Thiam: Okay, thank you, Ashik. For hedging, slide 81... do you want to take that?

Nic Nicandrou: Yes. What we've done on slide 81 is to convert, if you like, the IFRS number, with all its shortcomings, into something that is more economic, by adjusting those shortcomings in IFRS. So one of the things, even for those products that are counted on a FAS157 basis, we're only allowed to count in the way you think about those products, only a portion of the fees. So what... the first adjustment we make is to then give ourselves credit for the full portion of those fees. Then you have a whole host of products that are accounted on an SOP3-1 basis, where nothing is economic. So what we've done in relation to that is we've moved those passive assumptions to align with what FAS157, and that also mitigates the impact. And then you have one or two other assets; we talk about having... the way the book is structured, there are some internal hedges or internal offsets that inform our hedging philosophy. And you see the other two bars relate to that.

So, if you like, this is an IFRS-adjusted result. Now, the reason, although it's called hedge results, it's not fully economic, because one of the things we don't do in IFRS is to take into account the additional net present value of the M & E fees, which, as you see from a full set of earnings, are 200 basis points. So, if you like, yes, it's the hedge result on an economic basis, but, of course, the business, because the balance sheet is that much higher, we're able to earn 196 basis points, which is what we earned at the half-year of M & E fees, and that's not NPV in these numbers.

Tidjane Thiam: But, also, we, of course, take that into account when we define our hedging strategy. We take that fully into account. We don't try to manage that negative 100. I don't know if Mike or Chad, you want to add anything?

Mike Wells: No, I think we flagged this in New York, that both IFRS and STAT floor out at these levels, and so, you know, we knew there was going to be a material mismatch. And the firms, historically in the US that hedge to smooth accounting results did very poorly in real economic events, and we stick with the strategy of hedging the economics. So I think this... it's the only way to do it. So...

Tidjane Thiam: The metaphor we've used is, if you own a bunch of umbrellas and there is a drought, that says your umbrellas are worthless, that's no ground to get rid of your umbrellas. So we will hold onto our umbrellas, because when it rains they're going to sell for $20 apiece, that's the way it is. So... and that's what our hedges are; you know, mark-to-market says, okay, not been raining so your umbrellas are worth nothing. I say, don't listen to mark-to-market; the simple way.

Leverage rating agencies – Nic, do you want to take that?

Nic Nicandrou: I mean, the... you've seen both S&P and Moody's have taken us through a committee this year; as part of the process they look at a whole host of metrics, not only the financial ones but also the non-financial ones. I mean, leverage is not an area that we're getting a lot of noise from the rating agencies. Of course, they also look at our ability to cover the interest and that's been, with the increase in earnings, that's been going up strongly as well. So no issue, from my perspective, in terms of the leverage. And, as I said, there's no heat from the rating agencies – quite the opposite.

Tidjane Thiam: And, also, a growing balance sheet creates debt capacity as we go, and that's something we've always - taken advantage of. Permitted practices...?

Mike Wells: It's on annual renewals, and it continues to understate the strength of our financial position, so I think it's, arguably, quite conservative. And, you know, we're going once a year to the Commissioner to go through it. They review the hedges much more frequently than that, but that policy is annual.

Ashik Musaddi: Is it still there?

Tidjane Thiam: Yes, from memory its October, it's every year, it's still there.

Fahad Changazi: Hello, Fahad Changazi from Nomura. Could I follow up on Blair's question, please, if I may? You're generating very strong free surplus emergence, and there's always a line there to add £200m sterling - changes in operating assumption and variances. And, again, it was strong again. Could you give us some guidance on that in H2 and going forward?

And, secondly, just on that basis, again, could we have guidance on investing in new business, because it always seems to be H1-H2 weighted. You said it was... the reinvestment rate was the same as last year and I presume that's going to be the case, going forward. And, finally, the cash balance is significant, £1.5bn sterling. Could you tell us how you think about the cash balance and what you're targeting there?

And just a final question on the US, if you don't mind; you did comment that there were increasing competitive pressures. Could you talk about the quantum and timeframe of these pressures and how you would look at the trade-off between rising yields, risk appetite and market share?

Tidjane Thiam: That's a lot of questions, but we will take them. Okay, hopefully, they are quick. Nic, you can take the first three and then Mike, the fourth one.

Nic Nicandrou: Look, when I think about capital generation, I don't factor into any of my forward thinking continuation of positive experience. You know, I take that, if it happens, but the way I think about it is: assume it won't happen, and if it does then that's upside.

The H1-H2, I mean, candidly, that in part reflects, more often than not mix. The bias is not driven by anything smart that we do with our capital in the second half; it often comes... reflects the mix of business, which, again, is, to a degree, driven by customer preferences.

Tidjane Thiam: Yes, thank you. Mike, on the US market dynamic, competitive pressures...?

Mike Wells: Yes, in 18-plus years here I've never had a market share target, so we've never as a Group said, we want X percent of the market or X ranking in the market. I think with the success of Elite Access it's... you know, you're going to see us have a, you know, the number one slot for a while, but you're comparing a variable annuity with no living benefits to sales of companies' products that are with living benefits. So that ranking becomes a little less clean. You know, it's sort of like the net ranking numbers; there you have players that actually would like their net assets to decline, so that's no longer as direct as it was.

We absolutely look at rising interest rates, volatility. We test the pricing of the products real time. As you've seen, we can adjust them now; 90 days, fairly major change; six months at a full rewrite; and there's levers we can pull at shorter periods. So we're looking at that all the time.

And then the other... you know, there's other levers like where the distribution team focuses; you know, those raise or lower your sales for a given product as well. So we're looking at all that real time. Does that answer your question? I'm sorry.

Fahad Changazi: I was more concerned with what you think the market was going to do and how it's going to develop.

Mike Wells: Oh, okay, so what you're saying, the Variable Annuity market in general? The Variable Annuity market – so it's a very mixed signal now, so you have some players pulling back or stating, you know, targeted caps, if you will; you have a number of companies, maybe five, coming up with more consumer-friendly or more aggressively priced products, depending on how you... you know, if you're a buyer or seller of that, and actually doing very well.

I think, you know, we... you're going to see a larger number of firms share the bulk of the market now. You know, AIG's done a very good job coming back; you have others trying: Allianz. You know, you have some interesting new products coming out of competitors that have, you know, retirement solution, you know, risk limitation strategies built in them.

I think the overall market for living benefits is clearly down, and I think the mistake to make when you look at US market trends now is the top-line-only definition, so if you said, you know, how are Variable Annuities done year-over-year, they're down; it looks down a few percent. If you said the products sold a year ago, it's actually down much more than that, because the new products, including Elite Access, have filled in some of that gap. So it'll be a little more complicated from where you guys sit to compare company by company, I think, going forward.

Tidjane Thiam: It's all very fascinating to watch what happens from here, because as interest rates improve, does it create head-room for some to again change pricing and move in the opposite direction to what we have seen the last four or five years. What impact is that going to have on the... our sales? You've heard us give the same answer over and over and over again, because we don't know. Okay, a lot of what we will do will depend how competition behaves. And, historically, that's been something that's been very hard to predict, because why – we're always reluctant to... we're often surprised by what others do, so just a degree of caution there. And we'll adjust to the environment that we see. An optimist will tell you that some lessons have been learned and we'll go towards a more healthy behaviour in the market going forward, but that will be contrary to past experience; so we'll see.

Nic Nicandrou: Yes, £1.5bn; that is a little... it's optically flattered by the fact that Jackson paid us all the dividends the first half. So... but to your, the substantive part of your question, yes, no, I'd like to keep cash above a £1bn at the centre, and we tend to be pessimists, I guess, at... you know, I want to have the cash if I need to hedge in the event of a market shock. We saw the value of that back in 2008. Last year we also took some action in the lead up to the Greek election, believe it or not – it sounds... feels like an age away. But, yes, we have... we want to have the money to protect the downside, if we need to. And, yes, there needs to be something there, if there is a distribution opportunity, not to have to worry about where the money's going to come from.

Tidjane Thiam: It's almost an management point, when you see the £1.5bn show at the beginning of a period. In 2010 that was absolutely built up on purpose, because throughout the crisis, we believe that optionality would come from having cash available. And if we could do UOB in January 2010, which, frankly, I think, personally, we got at a fantastic price; we know others who were surfing around the target. It's because we have the cash. So, you know, value of cash varies across the economic cycle, but we've always liked to have a lot of cash available. Shall we take one or two more final questions?

Andy Hughes (Exane BNP Paribas): Thanks very much. Andy Hughes, Exane BNP Paribas. A couple of questions on, I guess, the US first, a couple on Asia, if I can. On the US, very quickly, I'm not sure, on GSIFI, I'm not sure really what the message is, because my understanding is that variable annuities were going to be non-standard under GSIFI. And I'm just wondering how we should view that in the context of the Group.

And the second thing, on the US, is the lapse rates I saw from Met and some of the peers in their presentations they've given out since your Investor Day have been a lot lower than yours. I'm just wondering if you can think of a reason why your lapse rates are substantially lower than the expectations of everyone else's.

And, on Asia, a couple of high-level questions have occurred, and the first one is, coming back to your slide on, one, you should buy Prudential because of the need to fund healthcare from out of -the-pocket expenses. I'm just wondering why you think that's a market for you and not a market for employers, because in most of the regions it's the employer that provides the private medical insurance. And, in which case, you know, do you need an agency business with bancassurance to do that?

And the final bit on Asia is, how much of the protection sales are linked to the housing market? So if there was a housing market slowdown in Asia, what impact would that have? Because, obviously, I can see bancassurance have been growing quite strongly over the past year.

Tidjane Thiam: Yes, okay. We can take GSIFI – I'm not sure. You're asking how VAs are classified. The short answer on that is we don't know; we are waiting to hear from the regulators on the SII. And in the US, we haven't heard...

Nic Nicandrou: clearly... yes, when you look at the criteria that they've used in designating variable annuity, sizes of the derivative programme were factors. But so were the size of unit-linked funds and unitised with profits, because it was deemed that those in an extreme scenario, if there is a mass lapse, could create liquidity problems. So...

Tidjane Thiam: That's the debate we're having, but we're telling them that it's never been... the attitude of a retail investor is not to sell at the trough, okay, so the then question is: what happens, if you have £130bn of unit-linked liabilities, what happens if people want to cash them in at the bottom of a market? To which, not just us, but, like I said, many of them, are saying, it's never, ever happened in history, but sometimes they do.

The whole lapse risk is actually when you come out of a crisis, you may have heard that a million times: people invest 100; when they come back to 95, they think about selling. But when they are 20, they don't sell; you have economic history. But how do you prove that it will never... So we're having those types of debates, and that's why we're saying there's still a lot of work to do, on all that, it's very early stages. We haven't even been told formally yet what is the logic behind those decisions; so that's why we're just cautious on everything. So we'll see; we'll engage with them to understand better. I've met several of my US peers, the CEOs, everybody's in the same position and ready to engage with them.

Lapse rate – I'll let you answer on this one.

Nic Nicandrou: I'm not sure I understood your... Are you saying their lapse rates are lower than ours, or our...?

Tidjane Thiam: Yes, it's...

Andy Hughes: No, it's the lapse rates appear to be substantially lower than yours. I think Met was showing a 3% lapse rate in its investor presentation.

Nic Nicandrou: Well, that may have something to do with in the moneyness of their books...

Tidjane Thiam: Exactly, but I think Mike was going to give the answer. Mike?

Mike Wells: The... I like our book better than their book and it's on product design, on the various vintages, the years, so the S&P point at which they were sold. They have a book that's got more exposure and more consumer benefit relative to what they were charging and relative to the pay-out. You know, remember Met effectively has a GMIB-based book, so, you know, it's an annuitisation option; PruFin's is more of a range product, portfolio-controlled product; so they're different product scenarios, different timing of sales, they're getting different behaviour than we are.

Tidjane Thiam: The other thing, then, in Asia it goes to a structure of the economies and sociological structures and culture. Take Europe, you will see that provision of health insurance varies a lot from market to market. The role of the employer – you will see that a lot of the economies that we're talking about have a lot of very small businesses, again, are not likely to provide insurance to their employees. A lot of the employees are very happy to buy that on a private basis and prefer to pay for it privately. So...

Barry Stowe: I mean, that's really... what you're describing is more of a Western phenomenon, most notably in the United States, where it is... you know, seems to not be going as well as some people would like. The... you know, it creates portability issues which having individual cover, you know, mitigates. So there's lots of reasons why it has worked the way it's worked in Asia.

You've seen... as Tidjane said, you've seen virtually no inclination on the part of employers in Asia, generally speaking, particularly in the sweet spot markets, to do full-blown cover. And, typically, where you do see group coverage written, you know, in our part of the world, it tends to be, if anything, life insurance, only term life, you know, basic amounts of group life. And, historically, where medical benefits were provided, they were often provided only to expatriates who were coming from some place where they did need an employer-based healthcare plan. So, I mean, that's what drives that.

Your question about the, real estate and...

Barry Stowe: You're talking about mortgage-reducing terms... Yes, on housing, it's virtually nil; there's very little. There's a little bit of credit protection-type product that gets sold on, you know, for instance, with Thanachart, with... you know, where they... because Thanachart is the number one financer of automobiles in the market. So there's a bit of that, but in terms... you look at it in terms of our overall protection business, and it's miniscule.

Tidjane Thiam: But the simple truth, to be transparent, is we've always told you that protection was an upside of the banking channel. We don't do a lot of protection in banking channel at all, so we want to grow it, so it's not a problem we have today. We don't do that. Yes.

So thank you very much for your attention. I think we are... basically, it's just that the first half has been a good first half, that we are on track to achieve our targets, and we'll update you soon. I think we have an Investor Day – is that in December 3rd? I heard an interesting comment this week which I'd never thought about; someone told me: but, surely, you're going to announce your targets. And I said, why? And someone said, because with the last time, you announced your targets; it was in December, and the other time it was in November, so it invites you not to draw too many correlations there. But the date is December 3rd. We're looking forward to seeing you and updating you on the whole Group then. And have a good holiday, for those of you who are going on holiday. Thank you, good day.