PRUDENTIAL

2014 Half Year Results

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Delivering 'Growth and Cash'

Tidjane Thiam

Chief Executive, Prudential plc

Welcome and outline

Good morning, everybody. Welcome to the 2014 Interim Results for Prudential. We believe we have produced good results across the board – a broad-based performance, with growth and cash, coming out of all four business units. We promised you, a while back, more of the same. I think we have delivered more of the same.

I will start with fundamentally taking you through the highlights of group performance and some of the key features of our strategy. Then I will cover Asia and I will do a bit at the regional level and a bit of country by country. I will then cover Jackson. Jackie, because she is almost at her first anniversary with us – and she has had a lively first half in the UK – will take the stage and talk to you a little about her views on the UK and give you a quick update. I will come back to do M&G and talk to you about Cash & Dividend before Nic does the financial review of our business. Then I will come back at the end for Outlook and we will move to Q&A.

Group Performance

Key metrics

If you look at the numbers and results, in my mind they stand out because we have faced a very challenging environment in the first half of the year. If you take into account the macroeconomic volatility in some of our key Asian markets – whether it is in Indonesia or Thailand – depreciation of the US dollar, the events in the UK market, it has been a very lively first year. I think these numbers are very strong in that context.

You will see that we have shaded, in grey, the CER column. For this audience I will not labour the point about exchange rates, but we do run local businesses that have no mismatches in currency. We have no economic FX exposure, so we think if you want to understand the underlying performance of the businesses, this is what you need to look at. With the media, we have used this analogy, that we measure the UK business in UK pounds, so it makes sense to do the same thing in Indonesia with the Rupiah rather than another foreign currency. I think they are progressively accepting that. The currency in which you get your flows is relevant. Assets, liabilities, its all matched, it makes sense. We accept the challenge on remittances, but we are strong in pounds. There is no difference here in the columns. They are up 15%. Free surplus is up 13%, so we think that, across the board, it is a really pleasing performance. Even the toughest metric, which would be AER, has a very good progression, so I think the teams and the businesses have done very well.

Strong track record

We have added one bar to this now-familiar chart that we show every time – NBP, IFRS and cash. We have a very good progression across the board and no major issues.

Effective response to challenges

I think we have been able to deliver, as you say in English, through thick and thin, and probably more thin than thick. This chart, which we have also used a number of times, shows you every year. I have been here seven years; I cannot remember a quiet year.

First, it was the survival of the financial services sector of the economy in 2008–2009. Then we had the challenges to VAs from low interest rates and high equity volatility. Then we had the sovereign debt in the Eurozone. Then we had a potential China slowdown, so through this period we have delivered those steady increases, I believe, in the face of many many challenges.

The two blue ovals are about objectives we have delivered. Some of you may remember that we were aiming to double 2005 in Asia by 2009. We were able to do that, in spite of a crisis. We then promised to double 2009 in 2013; we were able to do that, and that is important. However, you will tell me, 'Well, that is all in the past. We do not really care. It is only the future that matters.' If you look at 2014 I think we have continued what has become a tradition of headwinds. I mentioned the steep currency depreciation in key Asian markets. We also faced the challenges in the UK, the presidential election in Indonesia. I am sure we will come back to that. That was an important factor this year, and it is not over yet. There was a military coup in Thailand. We faced a lot of headwinds and had a very good performance and delivery.

2017 Objectives

The next slide I want to show you is really about the 2017 Objectives. You will remember that we used the same format to track the 2013 objective in 2009, 2010, 2011 and 2012. It is ten half-years, five years, we have done three, so it is still early days so there is no point, I think, in getting overly excited about this. All we can say is that we are making good progress, but it is still very early days in that period.

Group strategy

Our strategy is unchanged. We are focused on three major opportunities:

- the savings and protection gap in Asia;
- baby boomers in the US;
- the savings gap and aging population in the UK.

We always talk to you about those and our main way to capture these is for allocating capital. I would like to take a few minutes now to talk about capital allocation and our track record there.

Capital allocation

It is another chart you are familiar with. We introduced it in 2008. You can see the new business strain. It shows, I think, amazing stability in terms of quantum. Basically, capital invested has been flat over the period and the group has changed scale several times. As you can see on the right, the new business profits have grown 2.5 times for about the same amount of capital.

I will pause for a minute on the 2014 bar. Part of the story is the reduction of investment in the UK. You can see it going up, we have invested £22 million more in the UK. That is basically bulks, and with that we have generated £60 million of IFRS profit and £69 million of NBP, so that is how I would invite you to think of those £22 million. We think that has been put to good use. That is about the extent of a change you can expect in the UK. It is not something that is hyper-material, on the scale of this Group. However, it is a good investment that has generated very good returns for the UK. It has allowed us to more than offset the changes and disruption to the UK market. That is the global story, but first I want to take a look at Asia, the US and the UK in that context.

Asia

What we have done in Asia is well summarised in this slide. We are driving this Health & Protection (H&P) proposition. You can see that we went from 8% of our sales to 30%. That is a very successfully executed strategy. Profits have increased by six or seven times in the period. That is absolutely transformational because it has made the business more resilient to variations in financial markets. We collect premiums, it is not interest rates and it is not equity returns. It has also made it more cash generative, as we have grown a product line that has much shorter payback than the rest of the business. We have enough bars now that we can say this is a real story, and, again, it shows you how we allocate capital and the effectiveness of that capital allocation.

Jackson, US

If you look at the US, we have done a similar thing. Jackson used to be a Fixed Annuity (FA) shop, so mostly interest spread, in terms of income. By basically creating a VA business alongside the FA business, we have changed the income stream and if you look at the fee income, that is part of the good news in these results, the fee income has been going up very strongly. You see that it is currently up 6.6 times in the period and has had a phenomenal impact on our result.

UK

The next example I would like to use is the UK PruFund. PruFund is one of our with-profit products. Most of you were here in 2008, when we decided not to re-attribute the inherited estate on the basis that with-profit was a very good product with very strong prospects. We were making that decision in 2008, when PruFund was £300m. I think that we have been proven right because it is now £10 billion and it has been an extremely successful product in the UK market. It is something that Jackie will talk to you about later, that she will use to drive part of her strategy in the UK whether it is wrapping it into an ISA, or putting it on platform, etc. Again, it is a very capital efficient way, because it is in the with-profit fund, of growing and generating earnings for the Group.

High quality earnings

So if you consolidate all that – and this chart you are also familiar with, it is the evolution of our IFRS earnings by sources of income – you can see that if you combine insurance income and fee income it is going from 24% to 64% of our profits, of a total which itself has almost tripled in the period. That is 90% of the Pru story in the period.

The point I would make there is that I think we have a strong track record of growing material businesses from a small base. If you look at those curves I showed you, whether it is H&P in Asia, or VA in the US or PruFund here, I think it is something the Group is good at, and it gives us confidence. When we see the volatility in the world, whether it is in Africa, or whether it is with SCB, whether it is UOB – UOB is four times what is was four years ago – there is something about our ability to take a business and make it grow three, four, five times. I think we have done that across geographies, and that is a very precious skill that the company has.

Relative performance

It is good to have earnings, but it is even better to have cash. On the next slide we show you the dividend and the growth of the dividend. One thing we would like to emphasise is that we have not just delivered relative growth; we have delivered absolute growth, from pre-crisis levels. There were a lot of dividend cuts during the crisis, so this dividend has grown, not just on a relative basis. It has also grown on an absolute basis. You can see the difference, whether it is with the UK Life Peers, or with Financial Peers. You judge a strategy on a dividend over a long period of time, which is why we took 2006 vs. 2013.

I think a lot of comparisons are made on two or three years, but it matters where you have a cut on it, so we are quite proud of this track record and we want to keep it going. We are committed to giving you a growing dividend. Our dividend policy says that very clearly. Even during the crisis, we grew the dividend at 5%. We are also committed to reinvesting in the business. I will come back to SCB later, but when you see the amount we invested in that deal, that is for strong growth in Asia that has made a good return so we have the ability to reinvest, and we also want to keep some flexibility, because you often ask us, 'Why do you not grow a dividend faster?' We like to keep the jaws between the earnings growth and the dividend growth because the unexpected happens.

If you look at what has happened in the last six months in Indonesia, Thailand and across Asia, you understand the need for a buffer there. I will add, as a last consideration, the need to reinvest in the balance sheet. As the group, fortunately, it gets bigger, the balance sheet has to grow too and we have to retain some capital. When you put all that together, I think we take a very prudent, long-term approach to the dividend. We are committed to giving you a growing dividend, but also to reinvest in the business.

Maybe one comment on our numbers: you have seen that the remittance ratio has gone up. I just want to caution you against reading too much into that. It is mostly timing effects. Jackson has paid a $580 million dividend in the first half, and a lot of the UK dividend has come in the first half. The third comment is that we hedge the Asian dividend intra-year and we got a lot of the benefit of that, and that will unwind later in the year. That is something that Nic will cover in his presentation as well.

Asia

Track record of successful execution

I will stop here for the Group and move to Asia. You see another good, red bar there in NBP. We are particularly pleased with IFRS. You have eight countries in Asia that had a strong performance on a CER basis and grew IFRS at double-digits: India, Korea, China, Taiwan, Indonesia, Philippines, Vietnam and Thailand. Satisfactorily cash has also been very strong.

Single premium sales

I would like to reuse two charts from the December Investor Day because I think they help tell the story. You will recognise the first one. It says that single premium sales are sentiment-led, sensitive to the macro and volatile. We are showing you the MSCI and premium sales; you can see the correlation there.

Performance

The second chart shows the regular premiums and says regular premiums were a source of resilient growth. It is pleasing for us, but that is exactly what we saw in the first half in Asia. The regular premium for PCA, it is up 15% this year. If you look at single premiums, it is down 2%. There is always a textbook reaction to a macro shock. That is what happens. That is what has happened every time, and that is what we have guided you to expect.

So when people ask us, 'Can you defy gravity?' The answer is always, 'No, we cannot. Look at the single premium.' However, luckily we have a strategy that is focused on regular premium. That is the central point, and that is 90% of our sales, so you can count on that. When I see wild swings in our share price, sometimes, on new Asia macro news, I just do not understand.

Sorry, 2% of 97 is not a lot compared to 15% of 785. That is why the APE is 13%. It is very simple arithmetic. This is not a completely verified number, but I had Raghu look at that trend and we think this usually does 4% or 5% (single premium growth). This is 14–15% (regular premium growth) so we are talking about 16-18% (total). What we have had is a drop in the single premiums, as you would expect, given what has happened in Asia in the macro. It should almost be enough to show this slide to explain everything in Asia. It is all in here.

Decisive policy actions

A word on Indonesia because it is always, and rightly, the object of a lot of focus, but we actually think Indonesia is a good story. You all saw what happened last year, with the external shock. We think that the policy response was a textbook policy response. The Central Bank did the right thing. I saw the Minister of Finance in January. He was laser focused on correcting the big imbalances – the current account, the balance of trade, etc. They let the rupiah drop, which is one of the lessons from 1997–1998 – you do not defend unrealistic parities. You have to have flexible exchange rates in an open world, where you trade, so he did the right thing. I think more importantly, and, for me, very impressively, they raised interest rates in the face of a presidential election. I have not done the work to look at various central banks and their behaviour, but I would argue that is on the rare side of virtuous behaviour.

When you know you need to raise interest rates, for macroeconomic reasons, and you see an election coming, to do it is actually quite courageous. It is one of the things that gives me confidence, the fact that, not only do they know what they are doing, they are courageous and they do the right thing. I am really pleased that the markets have rewarded them. The long-term rates are going down. Their equity market is up 19% from 1st January 2014.

For us, it is a good story. The rupiah is coming back. Of course, it has impacted our ability to sell. The willingness of people to make long-term decisions in that type of climate is limited, so what you have seen is, the case size hold up, but you have seen people deferring decisions. That is what comes through our sales, just people deferring. That is what the agents tell us when we talk to our customers whom we have continued to recruit. We always believe in countercyclical investment. We have continued to recruit. Recruitment is going forward, and that has allowed us to be flat in local currency, which, again, I think was a very strong performance.

Structural growth

Maybe a word on the macro and that part of the world. There is a very good study that the IMF published in June 2014. It is called *Emerging Markets in Transition: Growth Prospects and Challenges*. If you have not seen it, I invite you to read it. The conclusion of the study from Southeast Asia is that fundamentally, the slowdown is cyclical, but the structural growth is expected to be at 6.6% and the 1.9% is a potential upside when the US recovers and advanced economies grow stronger. That gives us a lot of comfort, again, that we are in the right place and that these countries will continue to grow faster than advanced economies over medium-term, which will then drive currency appreciation, which I believe is a source of value.

Bancassurance

A few words on Standard Chartered because we have given you some disclosures on that: we are delighted to have that agreement. It is a 15-year agreement. It is all about distribution in Asia. We have secured 15 years of distribution with a prime franchise. In a number of existing countries it has improved the terms. We either have exclusivity where we did not have it before, or preferred status where exclusivity is not allowed – like in China and Korea. However, it is all upside, and we have great business plans in each of those countries to drive sales up.

Then we have new countries. India is really pleasing. I had Chanda Kochhar from ICICI here recently and we are really pleased. We have already started selling through SCB and that is doing very well. ICICI was up 21% in the first half in India. That is a good result.

Then we have new countries: Cambodia, Laos and Bangladesh. That is 178 million people. They are completely new markets. We are quite excited about Bangladesh. Barry and his team can give you more colour when we do a Q&A but it is very promising and encouraging. In June, our sales with Standard Chartered were up 36%. That is a partnership that is going extremely well.

We also have 200 branches in Africa, which is very exciting. They have some existing agreements because, frankly, we were not in Africa up until very recently, so they have some agreements in place, but those will have run out in the next four or five years, and we have a 15 year agreement now.

The last word is on price. We have given you the numbers: £503 million paid this year in 2014 and another £228 million in total, which will be paid in two instalments over the two following years, so over three years, £731 million. We are convinced that we are going to recover that back many times over 15 years and that was a good price to pay, a price that we are very comfortable with.

Hong Kong

A little more on countries: Hong Kong. Hong Kong is up very strongly – 30% in APE, 32% in NBP. The bancassurance channel, which had suffered a little bit, has come back, also very strongly, in Q2. We always said we wanted to drive the H&P sales up in the Hong Kong business and we have launched a number of new products and initiatives, PruMyHealth Crisis Multi-care, that have helped increase H&P by 53%. That is good news and it is very promising, good upside in Hong Kong.

Singapore

Singapore is up 11%. That is an increase in market share because the market did less than that, so we are pleased with that performance. It is better than market. We have continued to drive the agency forward. We have been talking to you about high net worth in Singapore and how it has been going up. In our numbers, the NBP on the high net worth is up 73%. We have had the business rated by S&P. It is a double-A rating. We found that is a great plus in selling to high net worth in the region, it is something they value, so there was a very good performance there.

Indonesia

I have talked about Indonesia a little. We have continued to recruit. As we say here, pushing the recruitment is very important. We have been flat in sales, but the IFRS profit, because of regular premium inflows, was up 32% to a very comfortable and significant number. We remain completely optimistic about the prospects of the country. Nothing has changed in our view. It is still a huge population, growing very well, and we actually see a democratic, peaceful election as having increased the value of Indonesia and not decreased it. It is very good news that they have been able to run this process and do that well.

Thailand

Thailand's profits are 2.5 times what they were over the previous year. Thanachart is a great success with good contribution of IFRS to us. We have doubled market share in one year with no impact, yet, from the political trouble, on our business in Thailand.

Philippines

The Philippines are an interesting case. With top line numbers going down, the underlying evolution is that regular premium is up 21%, that is a number you need to keep in mind. We have shifted the strategy there to focus the agency force on regular premium. When you do that, there is always an impact on your short-term numbers. However, medium-term, it is very promising. IFRS is up 38% and we are very happy with the performance.

Eastspring

That is it for the life business so now just a word on Eastspring: very good performance, very strong net inflows – £2.5 billion in the first half. Of that, £1.6 billion is equity, so equity has increased 3.6 times in the period. IFRS profit is at £42m. That is how you get the £525 million; it is £484 million life and £42 Eastspring, less Asian development expenses of £1m, getting you to £525m. £42 million is more than 20% growth from the prior year. We are very pleased with good performance at Eastspring. We are getting institutional flows in equity. It is a good story and it has taken the FUM up 22% to £67 billion.

Strong Delivery & Summary

Overall in Asia, we have guided you to focus on two things: it is IFRS and free surplus. IFRS is up 19% and free surplus is also up 19%. We are pleased with our performance. We think that the fundamentals, the structural positives in the region are intact, whether it is the demography – a young growing population – the improving education, the urbanisation and the underdevelopment of the welfare system with an underinsured middle class, remain the strong long-term drivers of a business. They are all in place. We have a superb platform in all of those markets. We run the agency, our bancassurance side and, Barry, do not listen, but we have a very good management team that is able to deliver on everything we promise and continues to deliver profitable growth, so we are very confident on the delivery, extremely confident

Jackson, US

Proactive diversification

Let us move to Jackson. You are familiar with Jackson's strategy. We have driven cash. We have driven earnings. What I want to show you is our VA sales, because it is always much discussed. That is what they look like.

If you look at 2008–2009, yes, we have been opportunistic. We expanded aggressively. You will remember, half of the providers had blown up, and we had margins that went from 40% to 80%, so we have a once-in-a-cycle opportunity to write business at extremely attractive margins, so that since 2010 the business has doubled. We understand some of the nervousness around growth like that and one can be forgiven for thinking that this is uncontrolled growth; it is not. I would like to get under the surface and show you a few of our curves.

The first will be our VA with living benefits. If you track our sales of VAs with living benefits, that is what they are. Through product changes, we went from here to here, and then that is when we started changing, for products, and for the future, to continuously enhance a return on the product and control the volumes. I really think that is not the mental image that people have of our growth or strategy in VAs. How did we do that? Because we have a VA without living benefits, we have created Elite Access here. We introduced it in 2012. We sold $4 billion during 2013, and have sold $7.9 billion since inception. We also have other VAs without living benefits, which sold $2.4 billion in 2013. VAs without living benefits have gone from 11% to 31% of our sales. That is a story we like because it has allowed us to both control the risks and grow the top line.

Disciplined growth

It is a bit our fault that we have not told this story in those terms, but that is what drives all those good numbers you are seeing out of Jackson. Another way to look at this is a quarterly cut, which we have done here. That one we really like because it shows you the sales of VAs with living benefits over 14 quarters. The average is $4 billion, so we have moved between $3.3 billion and $4.8 billion every quarter for 14 quarters.

For me, this does not look like an erratic strategy. I think Jackson know what they are doing. They are very good at controlling their volumes. They are very good at controlling their pricing and their product features to land exactly where they want. That is a track record we are quite pleased with, which we think has generated great earnings – £686 million in the first half. That is as much profit as we used to do per year for Prudential worldwide a few years ago. We have received a very nice $580 million cash dividend, thank you very much, Mike.

Healthy in-force & Successful execution

Overall, it is a good story. If you look at the book, it is very healthy. We keep showing you this slide, which is 1% in the money.

I should say a word about Curian because it is going to come back later. You have noticed that we have had a loss, which is a technical error, which we can explain to you, and Nic will come back to that. I am sure we will talk about it in Q&A. It is a technical error. Business is doing very well. The book is very healthy and this is what allows us to sleep at night and feel comfortable. 62% of the book has been written at 30% or lower than current market levels. That is a very good statistic and we are pleased with that.

The last slide on that is really the dividend. I think what Jackson has been able to do is to limit the downside during the crisis and give us huge upside when equity markets are supportive. You have seen those profits turning into cash, over time.

With this I will stop on Jackson and give the floor to Jackie who is going to talk to you about the UK, for a few minutes. Thank you.

UK Life

Jackie Hunt

Chief Executive, Prudential UK & Europe

Delivering through regulatory change

Thanks Tidjane, and good morning everyone. Now as you well know the UK market has continued to be heavily influenced by an unprecedented level of regulatory and legislative change over the last six months. I think we have delivered a resilient performance against those headwinds with the majority of our metrics ahead of 2013. Nic will go through those in more detail in his session.

The end of compulsory annuitisation and then an increase in the number of customers who have actually deferred converting their pension savings into retirement income led to a reduction on our new business operating profit of £29 million. This financial impact was more than offset by higher levels of bulk annuities and by increased sales of both onshore and offshore bonds, up 23% and 57% respectively.

Now the growth in our bond sales reflects the strength of our investment proposition and a broadening of our distribution capability. That proposition is supported in part by PruFund which Tidjane referred to earlier.

We have also seen a doubling of sales in our income drawdown products, albeit from a low base. When we talk about how we see the product suite developing over the future, drawdown and implementation of a flexible drawdown product is obviously fundamentally important.

It is worth pointing out that in force IFRS remains strong and this will continue to be an underpin to our results as we go forward. When we combine that with the improved sales performance it enabled us to deliver £374 million of IFRS operating profit at the half year.

Leveraging strengths

Now, we flagged to you in December that we see the bulks market as an attractive opportunity in which we want to participate more fully. Several of the deals that we have actually announced through the first half of this year, were transactions on which we began working in late 2013. Our bulk strategy really should not be seen as a response to budget changes, it is really a continuation of what I set out in December last year.

The strong demand for bulk annuities solutions was driven by, we believe, three particular factors. Firstly, the improving economic environment means that there has been a reduction in the level of deficits and that means that the funding gaps that employers and sponsors need to address as they go into a solution have reduced significantly. That creates a good environment in which they can start looking at external solutions to their challenges.

Secondly, we are well aware that those schemes that have large gilt holdings and see a time of potentially rising interest rates and, again, Tidjane has mentioned this as being a good time to look at offloading some of these obligations.

Finally, what we have seen a significant change around is, the willingness of employers and trustees to partition liabilities into multiple segments. That facilitates off-laying some of the liabilities while holding on to those where there may be bigger unfunded gaps as they wait for their funds to strengthen over time.

It is those current market factors which are driving the very significant demand for bulk solutions in the market, which means that we can continue to participate very selectively with significant financial discipline, and I am sure we will come back to this in a second – but in a strongly growing demand based environment.

As we look forward we do expect opportunities in the bulk market to remain both resilient and very profitable.

The UK business continues to evolve

Many of you have asked about the UK's strategy. The UK business continues to evolve its strategy. We see the market challenges that I laid out in December as unchanged. We have a significant savings gap. We have got the concentration of wealth in the over 50s; the transfer of risk from government and corporate to individuals; and also the reduction in the access of advice for the mass market – all creating opportunities where from modest levels of investments we believe we can generate good returns.

Now we expect that investment to moderate the cash remitted by the UK business by around £50 million per annum for the next two years. We believe that our insight and our capabilities leave us well positioned to help our customers through this period of change and I wanted to flag that our programme of product and proposition development, which I have talked to many of you about, remains on track through this process.

If we highlight some of those, we are broadening our retirement income proposition, for example, by developing a flexible drawdown product that has PruFund inside it. Again, focusing on this very strong investment proposition that it is delivered for our customers. We are also evolving our existing with-profits product suite and, again, this is in the form of an ISA wrapper. The budget has made ISAs far more attractive products. That is on track for launch in the first quarter of 2015. Finally we are developing our unique package products. They will fit into the platform market space.

You will continue to see our strategy evolving and you should expect us to see us delivering for our customers with a shortened and a much more dynamic innovation cycle, responding more quickly to customer needs and to changes in the market in terms of our products, proposition, and our distribution.

I want to highlight that all that will be against the back of continued focus on strong financial performance and also the support of what we see as a very resilient portfolio across the UK business as a whole. With that I will hand back to Tidjane.

M&G and Cash and Dividend

Tidjane Thiam

Group Chief Executive, Prudential plc

M&G

Successful diversification

The last thing I have to cover is M&G. The results have been very, very strong. If you look at the retail assets, M&G has been able to diversify very successfully. A very strong performance in continental Europe where they are up 32%. I think anybody who can go up 32% in Europe has done well from year-on-year. If you step back and look at the total assets and internal versus external, very good performance. We have crossed really a point - the external are now more than half our assets which is something that we like. Business is both larger and with a richer mix.

Strong track record

Of course the profitability is better here. The total has grown 1.5 times, with external FUM growing faster at 1.9 times and that is what is driving the profits that you see on the next slide. £227 million is the highest ever for M&G in the first half. I do not know, it must probably be a shock to Michael because he did not show up today. More seriously, he is on holiday but he is following us. Up 11% in profit is a very creditable performance. So another very, very, very good story in the UK. That is our other UK business and very pleasant.

Delivering cash

Free surplus generation

Just to wrap up, all that, in the end, has to translate into cash. We have always talked about that and encouraged you to focus on it. If you look at the free surplus generation and the dividend and the reinvestment rate it is all a very, very nice story. 2.4 times free surplus we generated in 2008 through a crisis. I think that is something where I think the Group has developed a good track record.

Dividend

My last slide will be really the dividend which I believe is a good story, both on an absolute and on a relative basis. 91% growth from before the crisis and the interim dividend of 11.19 pence, as you would expect, it is one third of prior full year dividend. Overall I think we are allowed to say that this was a very good first half with a very broad based performance across the board.

I will now hand over to Nic who is going to give you much more detail and much more colour on how all these numbers were generated by our businesses.

Financial Review

Nic Nicandrou

Chief Financial Officer, Prudential, plc

Key financial highlights

HY 14 continued strong performance

Thank you Tidjane and good afternoon everyone. In my presentation, I will provide you with a detailed look at the drivers of our financial performance in the first half of 2014 and give you a brief update on our balance sheet.

Starting with the financial headlines the Group has delivered strong performance in the first half with good progress in all of the key financial metrics shown on the slide. This performance stems from the disciplined execution of our strategy which has seen us continue to attract sizeable and highly profitable new flows and manage our in-force business for value.

As a result, once the currency translation effects are removed, IFRS operating profit increased by 17% to £1.5 billion. Free surplus generation was up 13% to £1.2 billion. New business profit on a post-tax basis rose by 24% to just over £1 billion and embedded value operating profit also on a post-tax basis was 18% higher at £1.9 billion. With long term yields at the end of June being broadly similar to those a year ago interest rates are not a significant factor when comparing the performance between the two periods. The rise in equity markets has provided tailwinds for our fee income businesses and I will highlight the effect of this as I step through the presentation.

Currency Mix

Currency translation effect

As we report in sterling, the main external market influence on our headline results are the currency translation effects and I would like to tackle this first before turning to the underlying business performance.

As the pie charts on the left show, the majority of our profits are earned in US dollars and in various Asian currencies which we translate into sterling when reporting our headline results. In line with our previous guidance and as illustrated on the right for our major markets, the translation effect of the stronger pound has now worked its way through the 2014 reported numbers.

I would reiterate what Tidjane has said, that this effect on our results is purely translational. We run local currency businesses in each of our markets where assets and liabilities are currency matched and have no transactional cross-currency exposures. Therefore, for the purposes of my presentation I have expressed the 2013 comparative results on a constant exchange rate basis.

The slide shows the effect of this re-translation on the four main financial metrics that I am about to cover. You can see the impact on each metric that comes from Jackson in dark blue, the impact that comes from Asia in the lighter blue. If the half year average exchange rates persist for the rest of 2014 I would expect these translational effects to repeat at the full year albeit at a reduced level. We have updated the full year sensitivities that we provided back in March and we have included these in the appendix to your slides.

With this covered, I will now focus on the underlying drivers of our business performance.

Key financial highlights

Broad based growth

Looking at the contribution of the four businesses to each financial metric you can see that the improvement in performance has been broad based. Asia has delivered strong double digit growth across all measures, demonstrating the effectiveness of our execution, the benefits of ongoing investment in our distribution capabilities and our well known preference for regular premium business with a high health and protection content.

In the US, Jackson's improved results reflect the continuation of robust trading inflows and the significant growth in the market value of separate account assets over the last 12 months. Jackson's disciplined approach to writing new business on attractive economics while appropriately managing the balance of risks remains central to its success.

In our UK Life business we have increased our selective and profitable participation in the bulk annuity market which has offset the pressures on our retail business and has enabled us to deliver higher overall new business and operating profits.

Finally, M&G has continued to attract positive flows in the first half resulting in record funds under management, profits and cash.

IFRS – Group

Growing profit and improving quality

I would now like to look at each financial measure in more detail starting with IFRS. Total operating profit increased by 17% to £1,521 million which is equivalent to an annualised return on opening IFRS equity of 24%. Within this total the contribution from our life operations increased by 20% to £1,543 million.

The chart on the right analyses the overall increase in Life IFRS profits by reference to the various sources of earnings. We continue to have a bias for fee and insurance income ahead of spread income as these two sources are more predictable and more resilient to volatility in economic and investment market conditions. It is therefore pleasing to see that these two higher quality sources are driving most of the increase. Life expenses are also higher, reflecting our business growth.

The £158 million shown in the chart represents an 11% increase in the expense base which was outpaced by this 16% rise in total life income. This evidences once again the benefit of operational leverage across our businesses.

IFRS – Asia

Continued strong growth in Asia life profits

Turning to the IFRS results for each business and starting with Asia, our overall profit from Asia was up 19% with strong growth in both life and asset management. Life profits increased to £483 million, reflecting the benefit of our focus in Hong Kong and South East Asia, which together accounted for over 90% of the improvement.

Noteworthy within this was the result from Indonesia, which increased its contribution by 32%. Furthermore the smaller South East Asian businesses of Thailand, the Philippines and Vietnam have doubled their collective contribution to £63 million and now represent 13% of the life total, up from 8% a year ago.

The improvement in profit is directly linked to the growing scale of our life book driven by the high and rising level of regular premium sales each year. As you can see in the chart in the top right our growing scale is represented by the increase in policyholder liabilities which were 16% higher than this time last year. A major factor in this positive trend has been the ongoing growth of premium in flows from our in-force book. These flows have increased to £1,192 million in 2014, reflecting improved customer retention and the addition of another sizeable cohort of regular premium new business.

The chart below shows how this growth in scale translates into higher profits. As you can see insurance margin has grown fastest at 20%, reflecting our ongoing focus on health and protection. You can also see that, taken together, the various sources of income are growing at a faster rate than the 8% increase in costs net of DAC, highlighting the operational efficiency of the business.

The slides showing the detailed analysis of the sources of earnings that I normally walk you through are included but this time I have put them in the appendix. The dynamic of layering new highly profitable regular premium cohorts on top of a very sticky in-force book all processed through a scalable platform remain a powerful underpin of our earnings momentum in Asia.

Eastspring profit up 24%

Turning to Eastspring briefly, IFRS profit was up 24% to £42 million. As shown in the box in the top right, the improved performance is driven by a 13% increase in fee income and a four point reduction in the cost ratio. The rise in fees is directly linked to growth in average AUM which are up 12%, as shown in the box below.

Eastspring has seen record in flows both from its internal and external client mandates with an increasing flow of assets into equities over the period, driving a positive mix effect and improving the average fee margins.

IFRS – US

Jackson Life growth of 28%

Turning to the US, IFRS profit was up strongly at £681 million, driven by 28% increase in Jackson's Life result. You may recall that the 2013 result was itself 29% up on the prior period, which demonstrates the momentum of Jackson's business model, particularly when the macro and market conditions are supportive.

The step up in Jackson's profitability has been accompanied by an improvement in the mix of earnings as illustrated in the chart in the top right. You can see fee income and technical margin are the fastest growing sources and between them they now represent nearly three quarters of the total.

Spread income has also increased albeit at a slower rate as the average crediting rates continue to fall faster than the reduction in the gross yield. Technical margin has benefitted from a £100 million contribution from REALIC. This is equivalent to seven of the 24 percentage points shown in the chart for this source.

Underpinning the 28% increase in fee income is the growth in the scale of our variable annuity business shown in the box underneath. Separate account assets have increased by 34% between the two periods to just over $122 billion. As you can see, this is driven by the high levels of positive net inflows and the rise in the S&P 500.

The progress that Jackson has made with Elite Access has contributed roughly $4.5 billion of the $13.8 billion of inflows shown in the chart. Elite Access AUM now represents about 7% of the separate account assets – 7% of the $122 billion – which is a testament to both the wholesaling capabilities of Jackson and its focus on improving the overall risk profile of the business. Even though the risk-adjusted returns of Elite Access are excellent, the absolute fees charged are lower and this has the effect of diluting slightly the overall increase in fee income.

Earnings related to Jackson's other operations are lower this year at -£5 million. Following an internal review, we detected that Curian may have breached a small number of ERISA rules on client fees. The 2014 result therefore includes a provision of £33 million relating primarily to the potential refund of certain fees by Curian.

IFRS – UK

UK Life growth of 10% in challenging market

Moving to the UK, the overall increase in IFRS operating profit is driven by a 10% rise in the Life result to £374 million. This is analysed further in the table on the right. You can see in the dotted box that the £60 million contribution from bulks exceeded the £29 million reduction in profits from new retail annuities which at £25 million represent a modest proportion of the overall Group result.

The main source of annuity profit is the sizeable in-force book, which has contributed £147 million in the period. This component, together with the with-profits result, represents a reliable and sustainable source of future IFRS profit for our UK business.

We remain selective in our approach to the bulk annuity market and we will only write the business when the returns are sufficiently attractive to us. This approach will mean that the UK Life result will be a little more uneven as we move forward.

IFRS – M&G

M&G IFRS profit up 11%

Staying in the UK and turning to M&G, IFRS operating profit was 11% higher at £227 million, reflecting the increased scale of the business. As shown in the box in the top right, the improved result was driven by a 10% increase in underlying fee income. The rise in fee income is directly linked to the growth in AUM, shown in the box below. Total AUM at 30th June exceeded the £250 billion mark for the first time, following another six months of strong third party inflows totalling £4.2 billion and positive market movements.

The increasing proportion of higher margin retail business has seen M&G's average fee income improve to 38 basis points. The higher overall fee income levels have helped absorb a larger cost base, reflecting M&G's continued investment in people and infrastructure. As a result, the cost income ratio was 54%, unchanged from last year.

I would remind you that as in previous years, M&G's cost base has a second half bias so please allow for this in your forecasts. In 2013 for example, the full year cost ratio was five points higher than in the first half.

Net free surplus generation

Increasing free surplus generation

I will now move to free surplus, which is a measure that we use to track the internal cash generation of our Group. As you can see on the left, free surplus generation before investment in new business increased by 11% to £1.6 billion. The main driver for this was the expected return from the Life in-force book which increased by 14% at £1.1 billion, demonstrating once again the powerful capital dynamics on focusing on higher return, fast payback new business.

Positive experience of £187 million which this time excludes any assumption change effects, has augmented our cash generation further. On the top right you can see that all three Life businesses are making significant contributions to the in-force total with a strong uplift from Asia and the US where the capital dynamic I referred to earlier is most evident. In the UK free surplus generation has been maintained, as this measure is relatively insensitive to the disruption in the retail annuity market.

We remain disciplined in the redeployment of capital, directing our investment towards low strain, high return and short payback opportunities. In the first half, investment in new business of £382 million increased less rapidly than new business sales and profit, highlighting the capital efficient nature of our growth.

As you can see in the bottom right, Asia's new business strain was in line with sales, while that for Jackson was 11% lower, despite the increase in sales volumes. This reflects the beneficial effect of higher valuation interest rates, proactive actions to restrict sales of higher strain products and changes in the overall sales mix. Consumption in the UK has increased, reflecting additional capital for bulks and a modest rise in unit costs on individual annuities, driven by lower volumes.

Underpinning cash to Group

My next slide shows how this cash generation has impacted the stock of free surplus on the left and central cash on the right. Starting on the left, you can see that market movements which include a negative currency effect have been relatively benign in the period. The increase in the overall stock has therefore been driven by operational performance and this has in turn enabled our businesses to remit £974 million to Group.

I would remind you that our approach to remittances is underpinned by our stance that the natural home for capital is at the local business level. Decisions on the level of remittances to Group are driven by balancing the desire to retain capital locally so it can be invested in profitable opportunities with the need for cash at Group to fund central cost dividends and corporate actions.

The remittances by business units in the break out box on the right, captures the outcome of this approach. The 14% increase from Asia to £216 million reflects the cash generative nature of our growth in the region. Jackson remitted its full year dividend of £352 million in the first half which represents a new high as you have heard already, reflecting its strong performance at this point in the cycle. The UK remittance is also higher and like Jackson it has a strong first half bias, as it includes the with-profits transfer of £193 million. The increased remittance from M&G reinforces the importance of this business to the cash dynamics of our Group.

Remittances so far this year have been supported by our approach to hedging sizeable non-sterling flows up to 12 months in advance. This approach has sheltered the US and Asia cash flows from the full effects of the sterling appreciation observed around this time last year. The transitory benefit of this approach will therefore unwind through the second half of 2014 and into 2015. Furthermore, as highlighted by Jackie, the investment that we are making in response to the budget and other regulatory initiatives will have a moderating effect on UK remittances, reducing these by up to £50 million for the next couple of years.

Now, for a Group of our size, these effects are manageable. I would reiterate that cash flow from the businesses to the centre continues to be underpinned by a disciplined approach to capital generation and consumption, and the powerful business dynamic of growth with cash.

Finally, included under the item marked corporate actions in the right hand chart is the £0.5 billion initial upfront payment to SCB. As Tidjane said there are two further payments totalling just over £0.2 billion which will be settled in two equal parts in 2015 and 2016.

EEV operating profit (post-tax)

Operating return on EEV of 16%

I will now briefly cover the EEV results before turning to the balance sheet. On this basis, total operating profit was 18% higher at £1,943 million, equivalent to an annualised return on opening embedded value of 16%. As shown on the left, the result is driven by our Life operations where profits were up 19% to £1,997 million, reflecting strong double digit increases in all three businesses.

With interest rates at June 2013 and 2014 being broadly similar the impact of economic assumption changes is less than £20 million. The improvement that you see in the result is purely performance driven. There is no economic assumption effect.

The chart on the right analyses the contribution from new and in-force life business. New business profit was up 24% and I will come back to that in the next slide. In-force profit was 15% higher at £982 million. Again, every single of our three businesses reported double digit growth in their in-force result.

As shown in the break out box, the overall increase reflects the growth in our book which comes through the line labelled 'unwind' which is 16% higher at £749 million. Favourable experience totalled £224 million, reflecting our focus on managing the back book for value and our prudence in setting EEV assumptions.

Finally, other than in relation to a small regulatory driven change, we have deferred the booking of any assumption changes to the second half of the year. You should not read anything into this, not least because experience was positive so far this year.

Value creation through increasing NBP – up 24%

New business profit shown on this next slide was up 24% to £1,015 million. The table on the top right analyses the drivers of this growth, with items under management's control, namely sales volumes, bulks, pricing and product actions, driving most of the increase.

All three regions continued to write new business at internal rates of return of more than 20% with short payback periods. In Asia, new business profit was 15% higher at £494 million despite the broadly flat result from Indonesia, highlighting the benefit of having an extensive and diversified regional platform. Our NBP performance in the region is both robust and resilient, underpinned by a 15% increase from our South East Asian sweet spot, a 15% rise from agency and a contribution from health and protection which was 14% higher.

In the US NBP increased by 31% to £376 million. Although interest rates remain low, the beneficial impact of product initiatives implemented in previous years has enabled us to write new business in 2014 on economic returns that are close to post-financial crisis highs. Almost the entire improvement is attributed to VAs including Elite Access, which together have reported an NBP increase of 29%, ahead of the 24% growth in sales.

UK NBP was 45% higher, driven by bulks which contributed £69 million. At the retail level NBP was 24% lower, reflecting a reduction in the contribution from individual annuities, mitigated in part by the higher NBP from with-profit bonds.

Equity shareholders' funds

Summary of movement

Moving now to the rest of the profit and loss account, which is summarised here for both our reporting bases. In IFRS, investment variances were neutral. This reflects the offsetting effects from the falling yields, which generated positive value movements on our fixed income portfolios and the US interest rate hedges, and the rise in equities which generated negative value movements on Jackson's equity hedges, net of changes to related guarantee reserves.

In 2013 the negative value of effects of the rise in interest rates and equity markets compounded which is why IFRS profit after tax has increased by 214% year-on-year to £1.1 billion. The fall in US yields in the first half of the year also gave rise to £0.5 billion unrealised gain on Jackson's fixed income assets which are accounted as available for sale. After deducting the final dividend our overall IFRS retained earnings were positive £1 billion, equivalent to 37 pence per share.

Investment variances in EEV were also neutral in the first half. Therefore the operating result was the main driver of the increase in the Group's embedded value to £25.9 billion, equivalent now to £10.09 per share.

Balance sheet

Well capitalised and defensively positioned

I have provided you on this slide the usual update on the balance sheet. In short, the overall picture is unchanged and we remain well capitalised and defensively positioned. The Group's IGD surplus at the end of June was estimated at £4.1 billion, after deducting the full upfront SCB fee of £0.7 billion. As you can see IGD surplus is higher than this time last year and is equivalent of healthy cover of 2.3 times.

We continue to work towards the implementation of Solvency II and as previously flagged we will provide you with an update of our economic capital position based on our internal model at full year 2014. Our roll forward estimates indicate that the surplus position at the half year stage has not changed markedly, with the positive contribution from trading activities and market movements being offset by the final dividend payment, the effect of the SCB initial fee, the impact of Hong Kong domestication dis-synergies and foreign exchange.

We have renewed our liquidity facilities, raising them from £2.1 to £2.4 billion and have extended their term to 2019. We experienced no defaults in the first half but have nevertheless maintained our UK credit provisions and remain generally conservative when it comes to credit risk.

Our balance sheet assets remain cautiously invested in high quality securities. We continue to have minimal exposure to troubled European sovereigns. Our direct holdings of securities and corporates that are on the Russian sanction list total £4 million, while holdings in Banco Espirito Santo amount to £28 million and we have no exposure to Argentinian sovereign debt.

Finally, on Jackson our stance on variable annuity hedging is unchanged. Policyholder behaviour is in line with our pricing assumptions. We remain focused on being properly diversified within the VA book, be it by vintage, types of guarantees offered and benefit levels. Updates to the usual additional information that we provide you on Jackson are included in the appendix to your slides.

2014 first half summary

To conclude, our disciplined execution, combined with our relentless focus on cash generative growth from our attractive and increasingly diverse business portfolio has delivered strong high quality and broad based financial performance. This along with our conservative approach to risk management underpins our confidence in the future prospects of our business.

I will now hand you back to Tidjane.

Outlook

Tidjane Thiam

Group Chief Executive, Prudential plc

Summary

I think you will agree with us that this has been a strong first half and I think Nic's presentation confirms the breadth and the strength of our performance. I believe it underlines the quality of our strategy. We have the right strategy. The quality of the execution of all our teams across the world and many of them are in the room today. I also think that we have been effective in allocating capital and we have given you a few examples. It is very easy to underestimate the value of the levers we have, the optionality we have, the breadth of business and channels we have and how that allows us to generate at Group level the best outcomes for the shareholder. I must say that having said everything we have to say about CER, I think the Group numbers, even on AER are very defensible. It is a really, very strong performance in a very challenging environment.

Back to the macro and this is really our outlook, on the positive side we believe there is a recovery in the US, in the UK and is very strong. That is a strong tailwind for the company going forward in the US and the UK for our businesses in those markets but also in Asia to which we are exposed very significantly.

On a more cautious side there is geo-political uncertainty. We are aware of what is going on in the world. There is also the transition to a less accommodative world, particularly in the US. We remain cautious regarding the potential unintended consequences of that. You see us holding on to a number of reserves and being very strongly capitalised because we are always keeping an eye on credit and credit risk in that scenario. It is a risk but we think we are well positioned to deal with it.

Looking at it regionally, we have discussed some of the short term cyclical headwinds in Asia. We believe that they are completely short term and completely cyclical. Our belief in the long term potential of those economies is intact. We firmly believe they are going to outperform the western economies in terms of growth. We believe that will drive appreciation of our currencies in the medium to long term and that view has not changed. We remain extremely bullish on Asia.

In the US, with the recovery on top of all the rest and the strong position, the quality business we have, again very bullish, very strong. In the UK, as illustrated in the first half, there are new opportunities. We believe we have all the skills to take advantage of those. Really, in a nutshell, a very good first half, a very bullish outlook for the rest of the year and I think now we are ready to take your questions.

Q&A

Jon Hocking (Morgan Stanley): Good afternoon, I have got three questions please. Firstly, I want to talk about the hedging impact on cash in the first half. There was also some phasing impacts. I just wondered if you could break that out a little bit more in terms of what the hedging benefit was on the cash for the first half, please. Secondly, on the US I just wondered whether you had made any pricing changes to the living benefit product given how well equity markets have done in the US? Have you changed the features at all there? Finally, just on Solvency II, I wondered if you could give us an update on what your expectations are for equivalence in the US and also the PRA implementation of the matching adjustments for the annuity book? Thank you.

Nic Nicandrou: I am not going to give you a running commentary on the effectiveness of our hedging or otherwise. There are many moving parts. We only hedge part of the remittances. It is not everything. We only hedge the sizeable ones. The timing and the size will vary depending on the type of instruments that are available to us. Indeed, when we know that we have outflows in currencies we factor that into our cash planning. Beyond that, the reason for raising is that I did not want to give you the impression of the cash that you have seen from Asia in the second half of last year, indeed in the first half of this year, was after, if you like, absorbing the currency effect that is to come through. It will come through as we go through in the second half of the year and beyond.

There are no one-offs outside that. We have said before we are not looking to increase the remittance ratios. If you now go deeper into the internal remittance ratios we guided you in the past that remittances from the business will grow in sync with free surplus generation. We like the buffers that we have in those businesses. We always said that in the past that we would retain enough capital, not only so that we can direct it to the most profitable opportunities and there are many in these countries as you have seen in the results but also for uncertainty. As you have seen the overall, even though free surplus stock has increased, the coverage ratio has remained broadly unchanged, reflecting that the book is growing all the time.

Jon Hocking: Any hedges in place now or all the hedges have rolled off pretty much in the first half?

Nic Nicandrou: It is a rolling thing so as we look into the second half of this year and then into next half, we have started that process. No, it is up to 12 months that we hedge. The drop in currencies came around this time last year.

Tidjane Thiam: We hedge more for budget reasons than for economic reasons. It is something that pre-dates when I arrived at the Group, it was already the policy. We have kept it, because it is just to cover expenses. Fundamentally, we continue to believe those currencies will appreciate. We do not want to hedge too long into the future because we think that is economically wrong. Also, as Nic said, a lot of those countries do not have forward markets anyway. In some of them we cannot hedge. I would say at one level you are going to have to trust us on that. If we focus on the free surplus generation that is really the hard data you need to look at. Is the business generating the cash? After that, where we leave the cash? This is why we are always reluctant to give you short term remittance targets.

You have seen old remittance targets are always cumulative. We are very confident that over four or five years we are going to extract *x* amount of cash. Within that it is a bit of management call. Sometimes you leave it in this place because you know you have an outlay coming. You wait a little. There is no economic value attached to that. We will manage it, optimised of course.

Ultimately we are valuing pounds. It is hard to tell you in H2 15, we are going to extract this much because currencies may move in a way. We are going to hedge the Korean Won because there is a deep liquid market in forwards but frankly you are just going to wait in Vietnam because the currency is weak. We should probably extract it next year. Those factors are at play, but the key take away is the dividend is not at risk. It is so well covered, so deeply covered, we have so much cash at the centre and so much capital.

That is why I wanted us to be in that position where you do not end up doing silly things that are economically silly for cosmetic reasons. That is value destructive for the shareholder. We have enough capital and we are very comfortable. We can meet all our obligations and on top of that do a kind of economic optimisations. I would not worry too much, given, as Nic said, those amounts are not material at the scale of the Group. You are talking about £10 million here, £20 million there. It is not worth if you wish to show a big optical number in H2. I think destroying economic value. That is what you will be doing.

The second was pricing changes in the US with the S&P level.

Mike Wells (CEO of Jackson National Life Insurance): Yes, Jon, in April Q2 we did a commission reduction and we did a suspension of certain withdrawal and death benefits. We have the ability to turn those back on if we choose to. The net effect of those, the benefit piece was effectively about 31% of the sales going into that cycle. We are not seeing a dollar-for-dollar reduction in sales but just to give you an idea of the magnitude of the change.

Tidjane Thiam: The other thing I should mention in addition is that we are also using the current environment to, as we have always done, to hedge deeper into the tail - very, very low volatility, very high equity market levels. That is the right time to go a bit further, a bit deeper in the tail. I think that is a good move to make at this point.

Solvency II, we are developing our internal model. I think that is progressing well. On equivalence we are probably more optimistic than we have ever been. The provisional equivalence with the US looks very likely. We do not see any real reason to worry there.

The other development I should probably mention, I know other companies have commented on it, is the BCR. If you think of G-SII it is a positive development. That is also moving well. I think our regulators have done what they said. In meetings, they had told us that it would be set according to what it is called which is a Basic Capital Requirement so a relatively low hurdle. Everything we have seen there makes us feel quite relaxed about it.

Blair Stewart (Bank of America Merrill Lynch): Thanks very much. Three questions starting with the US. I think every time you report you say that the spread income will start to come under pressure. It never seems to, so just an update on that. This has been relatively good again.

Secondly, in Asia, was Singapore a little disappointing? It was not one of your double digit markets I think.

I guess one for Jackie, maybe a few words on the new product initiatives. You seem to be spending £100 million or so over the next couple of years. Is a lack of a platform a draw back when you think about draw down etc.? Thank you.

Nic Nicandrou: You will see that the size of our general account is not increasing. I will just give you a little more colour. What is happening is you have new business coming in and it is mostly from the fixed annuity option that is offered as part of the VA offering. On that, the crediting rate is 1%. Yes, we are investing it in new securities that will have lower yield but the crediting rate is lower. As you put more of that on to the book and some of the older stuff moves on, you will see the average crediting rating, and the average yields come down. Roughly, that explains the statement I made earlier. We did enter into some swaps back in 2010 and candidly the benefit that we got from those has lasted longer than we expected, not least because interest rates have stayed lower for longer which is why that is coming through. Interest rates will normalise at some stage so I stick to my guidance to you that this thing will come down. It will head towards the 200 basis points level. This is typically where we have operated so that is where we are headed. My prediction of getting there by around now has not proved right but I did not think interest rates would stay as low as they have done.

Tidjane Thiam: It is one case where you are happy to be wrong. It is okay. Barry, were you disappointed by Singapore?

Barry Stowe (CEO of Prudential Corporation Asia): No, not really. Obviously, 11% growth is not as good as 25% or 30%. That is always more fun and easier to explain. The reality is in most of the markets across the region we are experiencing headwinds of different kinds. Singapore is not immune to that. At 11% growth we gained share in Singapore. I think that is probably the key takeaway.

Bank came off a little bit. The Maybank relationship that we have had there that deals with the middle markets, one of our smaller relationships. It has been a good relationship. They are taking that in house. They are bringing Etiqa, which is their own company from Malaysia, in to Singapore. That impacts us a little bit. It is not huge but it impacts us a little bit. We are making up for that really in the near term with agency where we have actually recruited some additional agents, some experienced agents, which is unusual in Singapore. You usually do not see a lot of agency growth. You just try to focus on remaining highly productive. It is already a highly productive agency force but even having said that in addition to growing the scale we also improved the productivity by about 5%. I think it is a good result.

Tidjane Thiam: Thanks for flagging that. Please note, we are losing some distribution in Singapore. Two sides to every coin, I think our success and how transparent we are about it does attract a lot of attention, sometimes unwanted. We are losing SingPost.

Barry Stowe: SingPost, which was quite small and then Maybank.

Tidjane Thiam: We are happy to lose it because you will never see us chasing volume. You will see us chasing value, not volume. At the price at which it went, I am pleased we are losing it. It is fine. I wish good luck to the new operators. Generally when you see us losing bancassurance volume it is for value reasons. We are losing SingPost. Maybank, as you said, they are taking it inside.

Barry Stowe: Maybank are taking it in house.

Tidjane Thiam: They stopped working. Basically the thing in Singapore you have got very good market statistics. Market went up 1.4% so 11%, Barry was being modest, in a market that went up 1% is very good. Within that agency went up 21%.

Barry Stowe: Yes. Yes, we are still number one in linked. We are still number one in health shield products. It is actually quite a strong performance.

Tidjane Thiam: The pressure is on the banking.

Tidjane Thiam: It is the region.

Barry Stowe: Yes.

Tidjane Thiam: It is volatility in the region and the uncertainty. Singapore has an explicit strategy of having a beta greater than one to the regional economies. Of course when there is a bump they get hit.

Barry Stowe: It is also, just one other point, a lot of our competitors are driving most of their growth by selling universal life to high net worth customers. A lot of those customers come from Indonesia. The Indonesia play, what is happening there plays directly into what happens in the high net worth space in Singapore.

Tidjane Thiam: So, actually, the profitability is quite strong, and we're under pressure in bank. That is why we are very pleased to have SCB where we can work in quality for 15 years. We have 15 years with Thanachart; we have 10 years with UOB. Other relationships, I think, will be transacted, because some people are so desperate to show Asian growth that they will literally pay any price for any Asian volume. We have a big enough platform but we are just not willing to do that. So from time to time someone comes to us and says 'Pay five times,' and we say, 'No.' Then we have to stand here and explain to you why, in market A or B, we went backwards. But there is a bank story embedded in these numbers.

We only have limited time. We had slides on that too, and we have not put them up. However, there is some pressure on the banking side. We lost distribution in the Philippines. HSBC basically closed down.

Barry Stowe: They stopped selling.

Tidjane Thiam: They stopped selling. That explains the numbers and some pressure from Citibank. That is why we are so happy that our bank distribution is mostly long term deals where we have really long term partners to work with, and that is very good. Sorry for the long answer. So, Jackie: new products in the UK?

Jackie Hunt: Yes. When we talk about moderating the cash remittances to the Group to the tune of up to around £50 million per annum, it is actually a very broad-based range of products and propositions and, in fact, some of our core systems that we are investing in. The ones we have been vocal about and talked about in the past: PruFund ISA, flexible draw-down products, getting onto external platforms. I should say the platform solution, we think, is critical. But actually, it is single-digit millions in terms of it as an investment, so pretty modest.

And then also just broadening our digital capabilities. We have almost no way in which customers can interact with us on a digital basis. And some new business strain. So I think it is a mix of a very wide range of potential solutions and longevity solutions. We think annuities will remain a suitable product for many customers, as we go forward into 2015. They are likely to buy it later in their lives, but actually, many will still be looking for some kind of longevity protection.

So it is really looking at the opportunity the budget has given us, and we think, actually, the underlying direction of travel is very positive for the UK business because we think releasing the need on the compulsory annuitisation will encourage people to save more, and I think that creates opportunities for us and it is broad-based in its nature.

Tidjane Thiam: I think there is a question on platforms. You were asking, is not having a platform an issue?

Jackie Hunt: I talked in December about my view on platforms. If you look at money, it is moving onto platforms; it is where customers want to deal with us, it is the way in which our advisors want to deal with us. I do not think we necessarily need to own a platform. We need to have technology and products that can work on various solutions. I think the lines are actually blurring between wrap platforms for example and some of the policy admin systems, and so I think, directionally, moving into the digitally-enabled world is important for us. it is part of this underlying investment. But it is not in the kind of way in which we might have talked about this three or four years ago. I think it is just a much more blurred sort of environment now.

Andy Hughes (Exane BNP Paribas): My first question is on the US, on the provision you have made there. Presumably, given it is the US, it is not too rude to ask how much the fine is likely to be, rather than whether you will have a fine. Presumably you are not the first to make this kind of error. Have other people who have done this before been fined for this? And if so, roughly how can we estimate what range it might be?

The second question is on Indonesia. I am a bit confused with the message on Asia, that it is very robust and regular premium and therefore not subject to the economy, but then in Indonesia we are saying the long term investment decisions that fall off. Just going back to the full year results when we said, obviously, when the election was then the concern at that stage, I think we said in March that the agent sales were up 19% year-on-year. So I am just trying to work out what has happened in terms of election since March when things appeared to be at their worst?

Mike Wells: To put some colour around the Curian issues. Through an internal review, we have found that certain fees that were collecting around the wrap-fee portion of Curian probably are not compliant with ERISA. So we self-reported to the regulators. That's all the US regulators and the PRA. We sought an external-sourced investigation to go through the entire process to make sure that both Curian and Jackson's funds and platforms were reviewed. We are almost complete with that process Andy; there is no suggestion of any intentional wrongdoing.

To your point on fees, the issues seemed to be around ERISA, which would be Department of Labour, which generally charges a percentage tax; we talk to them every week to the process but we have yet to get to a point with them where we are discussing those levels. So beyond that, given we are engaged with the regulators on it, I do not really have much more I can tell you. We think the provision that we have put up is what we estimate the effect to be and by year-end, any fees that were collected that should not have been will be rebated to the clients plus the tax implications. And that system is working and is in place now. So, again, nothing to do with the main Jackson business, to be clear.

Tidjane Thiam: The next one was Indonesia. Can we just explain better what's happened here?

Barry Stowe: So the reason that we are flat and everyone else in Indonesia is down, most by double digits, some pretty significant double digit drops, is because of the resilience of our agency force. So the agency force is stable. I think Tidjane alluded in his presentation that recruitment continues; number of active agents is up about 4% in the first half; case sizes are stable; but the number of cases per active is down slightly.

And so again what you're seeing is not that people are buying less; what you are really seeing is that people are delaying, and one of the reasons they are delaying is because interest rates have been moved up. Government took the smart decision to do the right thing, which is in some respects is painful; but they did it, and you have seen a corresponding increase in deposit rates.

So what are customers doing, in an environment where there is some an uncertainty? I will come back to that point in just a second. They have a choice to say, 'Okay I've got $1,000 I am either going to agree to give you $1,000 a year for the next 20 years, or maybe I will put the $1,000 in bank at a pretty high interest rate and wait three months and see what's happening.' And that is effectively what is happening.

We have seen it happen before in markets when interest rates go up. It particularly hits the bancassurance players, because deposits are now so attractive that our competitors – who are heavily reliant upon on bank distribution, which we are not in Indonesia – have seen their results really crater. Again, I suspect that will continue in the short term until things stabilise.

As to the political situation and what impact that has had. There were two elections this year; the first one was in April.

Tidjane Thiam: The legislative election.

Barry Stowe: The legislative election. Right. The first one is legislative, and everyone expected Joko Widodo's party to dominate that parliamentary election, and that would be a read-through to what would happen in July in the presidential election. His party won but by a fairly narrow margin, and so that is really when people started wondering what was going to happen and if, actually, they had predicted the right horse was going to win the race.

Ultimately as you know we got to the election last month; Joko Widodo did win with 53%. His challenger is now contesting that in the constitutional court which does create, again, some uncertainty and disruption. That is not without precedent; I mean elections have been challenged before. Susilo Bambang Yudhoyono was challenged before when he was elected.

The expectation is that the election was fair and clean; it is a pretty reasonable margin of victory. So most people assume that he will be certified some time later this month or early next month and then you will get to an inauguration of a new President towards the end of October. And our hope is that by the fourth quarter then things will perk back up and will stabilize. But that's essentially what it feels like on the ground right now.

Tidjane Thiam: I think that is exactly right. Q3 is going to be very much like the rest of the year; no fireworks. And the upside is in Q4, really, once the president is inaugurated in October.

Barry Stowe: 24th October.

Tidjane Thiam: 24th October. After that, we will have a much clearer horizon.

Oliver Steel (Deutsche Bank): Three questions, if I am allowed that. The first is just going back to the US re-pricing and changing of terms. Normally there is a bit of lag effect where volume actually sometimes goes up after you have changed that. So I was wondering if you could quantify that and perhaps give us some easy guidance looking forward into the second half.

Secondly, in the UK, the extra £50 million a year, or rather the reduced £50 million a year, of cash remittance. Just so that it is clear, how does that sort of breakdown into the IFRS effect versus cash? How much is new business strain and capital strain rather than just straight costs?

The third thing is, the US remittance certainly surprised me on the upside.

Mike Wells: Good.

Oliver Steel: Is that just normal remittance or is there something behind that and perhaps I suppose linked to my question, I thought you were looking to make bolt-on acquisitions in the States, and yet you do seem to have raised remittance quite strongly.

Tidjane Thiam: Okay. Thank you Oliver. US re-pricing, more detail on how it is going to play out in terms of volume.

Mike Wells: So Oliver, I think one of the competencies now the US carriers have to have, including us, is you have this balance when you are re-pricing your product between giving the advisors notice to not surprise them when they have trades in process and meetings they have done with clients, again it is typically three or four meetings with a consumer before they actually select a product. The more notice you give them, the more of a fire sale before the changes you get, the sooner you have to make the changes to get to the desired sales level you want. So it is this very interesting relationship in the two.

The reason you see this surge in sales with us and competitors after the changes is the 10-35 pipeline. So the amount of exchanges from other VA contracts that come to us, those can land anywhere from three days to weeks later and so we get this back up of business that is processed in a typically forwards falling. So it gives the impression you had more sales after the change, you actually had them leading right up to the changes, okay?

I gave you an idea of the scale of the business impacted by the changes in my earlier comments. I think we have a Group risk appetite on how much VA we want to write with living benefits, obviously the EA franchise is outside of that. We clearly have strong demand for products, every time I have been up here we have talked about the product changes. We have made them all the way through the post-crisis, every quarter almost, and the key is I think is the core product is really good. And for the consumers it is still, I think, the best variable annuity contract a consumer can buy, both in performance inline funds, control of funds and pricing. So you have that.

The commission change was a unique one for us; we have never done that before. However, again, we are trying to keep the consumer proposition right where it needs to be and I think if you talked to US advisors when you are there, I think that is the consistent view: it is the best product on the street. So you see it in the earnings growth, the percentage of clients who actually participated in the market on the way up, consistent with the allocations to equities. So we have lots of demand, we will continue to manage it to the levels that the Group, and Jackson have chosen to bring them in at.

Tidjane Thiam: Yes, absolutely. IFRS and cash impact of a lower remittance.

Jackie Hunt: Yes, Oliver, it is not a straightforward question: so how is the cash to play through into IFRS? If we talk first about the product initiatives, they are split– between those that will be written as to with-profit fund, clearly anything that benefits with-profits fund, they compensate for some of the investment costs associated with that. And then there will be an element of new business strain and new business strain is not one for one into IFRS results either.

Very roughly I would say if you are looking first half of this year, new business strain was up about £22 million. Roughly double it, and this is not a forecast, I would say you can kind of come at a sort of £40 million and then sort of £10-15 million development kind of feels of the right sort of order. Clearly, many of these things are at an early stage of development, we have not really gone through all of the process yet.

Tidjane Thiam: We discuss very much whether to give you a number or not, we are giving you one so you understand that it is non-material. Yes, there is investment, and on the scale of a Group and/or commitments we have, it does not change anything, it does not move the needle. But it will have a very beneficial impact on the UK business we hope.

Why such a big remittance when you have bolt-ons? I will take this one. We do not store cash in the US if you wish in the expectation of bolt-ons, the way we manage the Group is that we remit what we can. There is no major friction on that level, the business is left on an RBC of 427% after paying the dividend, it is really comfortable. Happy to have it at the centre. Frankly it is not exceptional, it is justified given the size of the businesses, the size of the upside and the scale of the profits generated, which are very, very, very strong. We are just pleased, and this is playing out positively. It is a very, very strong dividend. So thank you again.

We like to have the cash at the centre. I always listen to my IR. I think we should take one more question, so one more and then we will stop.

Abid Hussain (Societe Generale): Afternoon all. Just two questions, one on US fixed annuities, can you talk about your appetite to write fixed annuities, should US rates rise over the next two to three years?

The second question is back on the UK. In the UK the payback period increased to five years, is that driven by bulk annuities and can you tell us how should we think about that going forward?

Mike Wells: Fixed annuities and the fixed index annuities, in particular, we really like. I think that both require both higher rates and better spreads. It is not just the rate increase you actually need to be able to generate some yield above treasuries that you are happy with the risk you are getting. So if both of those two were more normal, yes we have a definite appetite. The FIAs, as we talked before, is a natural offset to the withdrawal benefit on the VA but if you look in the documents you have got, that we are shorter on duration, higher on credit. We keep being conservative with the portfolio right now. I know we have some competitors out there selling a lot of the stuff, but it just does not feel like the time to be pushing that part of the product.

My biggest concern is whether when those rates go up those clients will need to surrender and will be able to afford to surrender to get in newer higher yielding products if you think of a material shift in rates - couple 100 basis points. So this will not be as sticky a vintage in my view.

Tidjane Thiam: I agree. Yes. The UK payback periods, Nic, or Jackie?

Nic Nicandrou: It is an average of course, depending on the link to the products that we are writing. The major change has be the fact that we have written less retail annuity. Retail annuity had a positive strain so it was almost an instant payback in that sense, so the fact that we are writing less of it means that the average is longer.

Your question on bulks, when we say that we only write bulks on attractive economics, we do not only look at the IRR but we also look at the payback. So it is not bulks, there is no relaxation or change if you like in the payback pattern that we are expecting from the bulks that we are writing. It is purely the effect of mix and retail annuity is just coming back a little.

Tidjane Thiam: That is a really important comment because with bulks we are focused on the high end of the market because really when we talk about capital allocation and the competition for capital inside the Group, it is real. The only way Jackie can hold her head up is if everybody thinks that I am not giving her an easy pass, literally, or giving her a pass on capital when she is writing. They are quite merciless in their competition. So, basically, the capital that goes into the UK has a good risk-adjusted return, otherwise she does not get it.

So really, the bulks we write, we are actually very proud of. We can look anybody in the eye and say this is good value and that is money I am happy not to invest in Asia, or not to invest in the US because if it was not the case she just would not do it, we do not do things for volume reasons or cosmetic reasons. So the deals she has done with the team are really excellent. So you should not expect deterioration of any of our core metrics because we are starting to write bulks, other than the strain and, I gave you the magnitude in H1, £22 million. It is not going to deteriorate anything.

Closing remarks

So with that, thank you for your patience. You are cordially invited to join us in Asia on 1st December, it will be a two part trip: Singapore, where the main event will be, and we will show you a showcase of the business and talk about other parts of the Group too. And then a special for Jakarta, that will be optional. We will lift the lid on Indonesia for those who have never seen it, or for those who want to see it again, and it is always a very worthwhile trip.

Once again, thank you for your patience and have a good holiday.

[END OF TRANSCRIPT]