PRUDENTIAL

2015 Half Year Results

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Mike Wells

Group Chief Executive

Welcome

Good morning and welcome. I think I know most of you. I am Mike Wells, the new Group Chief Executive of Prudential. I am the 21st, if you are counting, in the 167-year history of the Group, and I am very pleased to be up here today, presenting to you our first half results. I think you will see, if you have had a chance to look at them, they are very broad-based, with all four of our business units contributing at a very material level.

We are going to break this into three parts today. I am going to give you an overview of the business, and some of the key highlights. Nic is going to give a very detailed review of the financials and some topics related to that, and then I am going to come back after, and tell you some general views I have on where we are capability-wise, strategy-wise and execution-wise in the various markets and some of the issues we are dealing with.

Business review

Group: Profitable growth and delivering cash

Let us get right to some of the growth metrics: IRFS profit up 17%; new business profit up 12%; free surplus generation up 12%; so all of the operating metrics in double digits, and of course supporting the cash metrics; remittance up 10% and an interim dividend, which again is technical at this point, so a third of the 2014 dividend is up 10% as well, to 12.31.

Clearly the performance is not only generating robust operating income, but we are converting that to cash, and that cash is making its way to the centre to support the dividend, so very pleased with the shape, the structure and the flows in the first half.

Asia: Consistent delivery

Central to our delivery is Asia, and the consistent performance of Asia; the first half sales of Asia are up 31%. The Asia quarterly growth average now, year on year, is 17%, and that is for 23 consecutive quarters, so that is a commendable performance, I think, in any industry, by any team, and certainly one we appreciate and value.

The other piece I think is important to look at here is the regular premium focus along the bottom. Again, this is the consistent performance across market cycles. This detaches some of our flows and earnings from some of the short-term disruptions you see.

The final thing I would ask you to consider on this page is the absolute performance is strong, and so is the relative performance to pan-Asian competitors and the market in general.

Asia: Broad based performance

Looking a little closer at the Asian business, the performance has been very broad based, and again this comes from a pan-Asian model that has got multiple growth engines. Eight of our regions produced double-digit growth, all of our product categories did. The agency distribution force up 32%, our bancassurance partners up 16%. As someone asked upfront, Standard Chartered inside of that APE is up 35%. The productivity and the activity of our agency force is up, the size of our agency force is up; this is an institutional, industrial-size

capability here for us on organic growth, and it is obviously unrivalled in the region and highly, highly scalable, and very impressive.

We have highlighted some of the specific countries and the successes there. I will leave that to you to read in detail, but again, there are numerous stories across the region of success for us, and very pleased with their performance.

Asia: Eastspring

Eastspring: a unique part of our Asian story, relative to peers in the region. The valuable synergies, obviously, with our Life operation, given the relationship between some of the products and the underlying asset management. This is a continuing story for us in the development front.

Great third-party flows, strong performance, increased growth in capabilities; our intent here, as this is a relatively young business in maturing markets, it is to continue to reinvest in their capabilities and grow the breadth and depth of this team and what they can do in the region. I think it is critical for where we are going long term, but I would not confuse our ambitions long term with their short term successes. Guy's team did a great job again in the first half of the year, and will continue to support that business.

Asia: Profitable growth

In total, the consistency in Asia's ability to convert with really a scope and scale, to profits and cash, I think is unique. You are talking IFRS profits up 17%, free surplus generation up 16%; you can see the mix there of Life and asset management, so again, a good mix by source. We are talking about again, a pan-regional franchise that is in the right markets, currently has the right products, the right distribution partners and clearly the right people to execute it.

US: Disciplined execution and delivering value

The US business has always been about balancing the stakeholders, and it is, I think, the single thing that Jackson has historically got right. The core of Jackson's success has come from having very good product for the consumer, but keeping the discipline on the pricing of that product consistent. We have had this conversation pre-crisis, post-crisis: where the growth comes from, where the demands come from. I do not think there is an external metric that does not show Jackson having the best product, best service, best wholesaling. You know some of the cost metrics, I will get to those in a second.

One of the challenges with Jackson has been managing the volumes on the With Living Benefit product; so for the last three years, as you know, we have actually curtailed sales and tried to manage the impact of that with our distribution partners carefully. One of the take-aways from Jackson is that not only are the numbers good for the first half, but there is still again excess demand.

Elite Access continues to be a good demonstration of their ability to innovate, and continues to succeed.

US:Delivering value

How does that look in terms of delivering value to shareholders? A couple of key elements of this: well-built products appreciate for consumers and you see that capital appreciation in the third bar here from the left; the attractiveness of the product, again, retains clients and

attracts new clients, so the cumulative inflows have been excellent; and it produces tremendous results, including operating income and cash.

This is a scale operation that has got very, very strong capabilities to deal with change. Let me get to one of the big questions out front before we start and that is the Department of Labor issue. There is lots of noise around this, so there are hearings going on as we speak, in a few hours they continue in DC on a DOL proposal. This actual project started six and a half years ago. This is not a new idea, a new issue. It was released a little while ago, eight or nine months ago. The attempt is for the Department of Labor to get a fair, balanced advice and product set to clients that have assets in retirement accounts of various types. It is a worthwhile goal, we have a longstanding, good working relationship with the DOL, there are very capable, well-intended people there. I do not personally think that this is the iteration that makes it through next year.

The current version, in an attempt to get a lot of things done, actually adds some complexity to investors, advisors, broker-dealers, manufacturers. However, some of the clear themes in it, and they are important, and I think appropriate: higher levels of transparency, again that does not conflict with anything Jackson does or any other quality provider in the marketplace. There seems to be a preference towards more levelised commission structures; that is new. Again, Jackson is agnostic to the commission structure on the product; let us be clear. If the underlying product has value to the consumer and improves the quality of advice that the advisor provides, the market currently dictates the commission structure. We use multiple commission structures now, and if the appropriate structure under whatever the new DOL rules is more levelised, then Jackson will produce products that meet those needs. The consumer is relatively agnostic to the commission structure, as you can tell by the current sales in Jackson, and our need to cap the excess demand.

Jackson innovates faster and better than any of its peers. The best proof statement I could give would be Elite Access. It has a number of competitors that have cloned it and said, 'We are going to produce a product like that that has no guarantees, that provides alternative asset classes to consumers, that allows them to diversify away from total return bond funds, etc.' I do not think there is another that has critical mass, let alone the success and the growth rate. Elite Access has already dealt with broker-dealers in the last two years that have said, 'Without guarantees, we do not want another qualified plan platform.' You have seen its growth, two thirds of which is grown non-qual.

Again, from a distribution point of view, it is simply a different challenge. I do not think there is anything in the DOL's proposal or direction that does not create a disruption in the market, that does not give Jackson the ability to demonstrate what it is good at. We as a Group, and certainly as Jackson, like minor disruptions in markets. They separate the capabilities of the players; and in this case, if you can produce a valuable product – and we do – the clients will pay for it – and they do. The structure of that is dependent on the market and regulation, and if one of those changes, we will adapt.

Let me give you one external example to go back and look at. The last time the US regulator, the SEC – FINRA at the time – had a preference on compensation structures was around mutual funds, about seven years ago. Now go back and take a look at the B shares, which were the back-end loaded, surrender charge on the back of the sale, mutual funds in the US.

At the time, depending on the firm, they were as much as 25% of sales; they are now about 1% of the industry, because the regulator said, 'We want to see less of them.'

The industry has grown 60% since then. The compensation structure is one variable in the value chain; it does not define the value of good products. If a competitor or competitors do not have excess demand, and do not have a product that will hold up on its own regardless of pricing, that is a different issue for them. That is not our concern. My view on this DOL issue is that we will weather it well, we will come out on the other side advantaged again, and Jackson has the capabilities, the relationship, the distribution, to build whatever product is appropriate under that set and adapt faster and more effectively than competitors.

UK: Insurance

Another example of adapting to changing regulation would be our UK business. Again, dealing with change is in the Group's DNA, and I think that is an important take-away from today. Last April, material change in the retirement market of the UK. The effect to Jackie's team: retail sales up 25%, strong demand for existing product, again led by a quality, high-performing with profits chassis. The quality of the underlying product creates optionality in times of change; that is a key take-away from this. Strong demand for the existing product; excellent execution on new products from flex drawdown to the ISA products; again, staying selective on bulks. We are very well-positioned to capture whatever the change is.

Additionally in this market, in the UK, we have announced a new look at advice, again to expand the range and availability of advice; a bit of the opposite work stream we are seeing on the DOL piece – these are variables – and to look at pensions again. These regulatory and policy changes are a part of what we do, and I am encouraged by the direction on the advice piece and think the pension piece will probably come out with broader fairness, and all those things are good for us. They will allow us opportunities to participate in some or more of those markets.

UK: M&G

Jumping to M&G: an exceptional historic performance. We have seen, and Michael has said numerous times from this very stage, to be cautious about the retail bond flows that are cyclical, some of the money coming out of Europe, etc. You all know the political and rate-related movements of those. Therefore, we have seen some outflows of retail bond funds; this is a well-diversified institutional and retail money manager, with outstanding capabilities, what is a unique and very appropriate culture for a proper asset manager to compete on a global scale. They are seeing, at this size and scale, some elements of the market we will participate in, up and down, but the key is the core offering. How good are they at managing money for institutional and retail clients across the risk spectrum? They are very good at that.

Combine for a moment: in some of my meetings in the City, the questions has been interesting about whether we should have a UK asset management business in the UK Life company, or when we are going to do that. We have asset management capability. It is competitive, I think, with the best firms in London and globally in M&G, and if you combine that with our UK business, which again can compete with any Life company here in the UK or Europe, the combined results: our IFRS profit is up 16%. Again, this competes with any firm or firms combined into that space.

Therefore, our capabilities in this market rival anyone's. That matters if the landscape changes or as the opportunities emerge. We have got the tools we need to capture those.

Group: Capital

Sources of earnings, and sources, more importantly, of Group capital. A lot of discussion lately on capital, Solvency II and so on. Let me start out by just reminding you of sources of capital for the Group. I am using in-force free surplus generation for this.

81% of the Group's free surplus generation comes from outside of the UK Life business. When we think about Solvency II, the biting constraint for dividend and capital movement within the Group is local regulation in those markets. In the case of the asset management piece, Michael's team, that is less relevant, obviously. If you are trying to look into what the impact of Solvency II will be on the movement of cash throughout the Group, you still need to look to local regulation.

Nic is going to do a deep-dive into Solvency II in his presentation, so I want to leave some of the content to him on the details around this, but for us it adds another risk and regulatory screen to our metrics we use already as a management team. We are going to maintain the Group's management and allocations of capital on a multi-year ECAP model. We are not moving to Solvency II as a single metric, but it is for us on the UK business and with our primary regulator, a regulatory capital model that we will respect and manage to, and track closely.

We submitted, earlier this summer, our IMAP. We worked very closely with the regulator; lots of detailed work on that. One of the things I have learned in the last 90 days or so here in London is just how much work they have to do between now and December. You have heard Sam Woods's comments about both the release of all of the UK companies at once in December. Keep in mind that is almost 300 firms they are reviewing between now and then. I think there is a tremendous amount of work to be done there. We are doing everything we can to assist them with ours. We had a lot of dialogues prior to our submission, to make sure we incorporated their comments and concerns. Again, Nic will give you a little more colour on this in a minute.

However, I do not want you to confuse our previous and current conservative comments about disclosure on this with any sort of capital weakness. We just generally think it is a good policy not to comment too much on regulation and process, and our submission is being reviewed now and there is a finite amount of information we want to comment on that, given where we are in process.

Group: 2017 objectives

Turning to the 2017 objectives: obviously a very strong first half moves these along, and given the numeric nature of them, the underlying Asian free surplus, the Asian IFRS operating profits and the cumulative underlying free surplus, the answers here are mostly numeric, and going further gets into forward-looking statements. Again, great progress, good percentage gains, good absolute gains against the targets.

Group: Long term value creation

I think it is important to put the first half results in context of the Group's track record. How are we growing relative to ourselves? I think that is a worthy benchmark. I think the

numbers again are compelling. I think they show the consistency of the Group's capabilities, our ability to create earnings, create future value and convert those to cash. Obviously very pleased with the historic trend as well, and I think they set us up well for where we are going in the second half of the year and beyond.

I am going to turn it over to Nic now, and I will come back at the end with some comments on strategy and some of our opportunities.

Financial Review

Nic Nicandrou

Chief Financial Officer

Overview

It is nice to see that this particular ritual has not changed, the lowering of the lectern. Thank you Mike, good morning everyone. In my presentation I will firstly run through our half year results, highlighting the drivers of our performance in the period, before I briefly cover the balance sheet and update you on Solvency II.

Key financial highlights

Starting with the financial headlines, the Group has delivered a strong set of results in the period, with all of our growth and cash metrics up by more than 10%. The improvement in our overall performance was broad-based, with all four businesses growing their respective contribution. By targeting and attracting higher levels of profitable new business flows across the Group, we are increasing both the scale and the quality of our business, which in turn drives the growth in the profit and cash measures that are shown on this slide.

This is what ultimately underpins the strong performance so far in 2015, with IFRS operating profit increasing by a quarter on a reported basis to £1,881 million. Currency effects were positive in the first half and this has added between four and seven percentage points of growth to our underlying performance, of course depending on the metric. However, in my commentary I will focus on profitability trends, excluding these currency tailwinds, as this is a fairer way of looking at our performance for the reasons that we have previously outlined.

Other notable headlines: new business profit was up 12% at £1,190 million, benefiting from a strong, profitable sales growth in the second quarter. Free surplus generation was also up 12%, to £1,418 million, reflecting efficient capital deployment and a growing contribution from the back book. Cash remittances were 10% higher at £1,068 million, with sizeable contributions from all our businesses. Short-term investment variances were modest in the first half, as the movements in equity markets and interest rates were muted. Our post-tax operating result therefore drops straight through into our shareholders' equity and solvency metrics, which have also risen strongly.

IFRS operating profit

This next slide analyses the contribution to our IFRS operating profit by business and by source. The table on the left demonstrates the breadth of the 17% improvement on this metric to £1,881 million. Our businesses in Asia, the US and the UK each delivered

double-digit growth in the period, collectively contributing over two billion at the half year stage for the first time.

I will cover the reasons behind the improvement in performance for each business later, but in overview: for Asia it represents the outcome of consistent additions of high quality, new regular premium business and an increased contribution from Eastspring. For the US, it reflects increased fee income on higher separate account assets, administered on a low cost platform. For the UK it is driven by the dependable level of earnings from our sizeable back book, as well as the season transfers from with profits. For M&G, it represents growth in fee revenues and close control of costs.

We continue to make improvements in the composition of these profits, shown in the chart on the right. Our objective here is to make our earnings less dependent on the interest rate cycle and to grow the contribution from the more capital-efficient sources. We are therefore pleased with the 20% increase in the insurance result, a source that is not sensitive to investment markets. Fee income from Life and Asset Management also increased by 15% and 8% respectively, while spread income was lower. The fact that insurance and fees together contribute over three quarters of our income is an important feature of these results, and is consistent with our strategy of targeting resilient and high-quality earnings.

Net free surplus generation

As we increase the scale and profitability of our business, we are also improving the ability to generate capital. In the first half of the year, free surplus generation was up 12% to £1,418 million. The improvement of this metric is underpinned by the increasing scale of our Life in-force book, our efficient use of capital and a growing contribution from our capital-light asset management operations. The key driver remains the Life expected returns, which rose by 15% to £1,366 million, reflecting once again the powerful dynamic of adding another cohort of high return, fast payback new business to an already sizeable back book.

The continuation of positive experience of £153 million has augmented our cash generation further. In the top right, you can see that all three businesses are making significant contributions to this Life in-force result. Asia, where the high return, fast payback dynamic is most evident, is contributing over half of the period-on-period increase. This capital dynamic is also present in the US, but its impact is masked by the reduced contribution from positive spread experience. The high UK result reflects business growth, enhanced by a £52 million contribution from a longevity reinsurance transaction completed during the period.

We remain disciplined in the redeployment of our capital, increasing new business strain by 8% to £434 million. The efficiency of this investment has improved in both Asia and the US, principally due to changes in sales mix. The investment in the UK remains more modest and is highly capital-efficient.

Balance sheet

My next slide shows how the free surplus flow in the first six months has impacted free surplus stock on the left, and central cash on the right. Stock has increased overall, driven by our operating performance and the relatively modest market effects. This has in turn allowed us to increase remittances to over £1 billion, retaining £5.3 billion of free surplus in our various Life and Asset Management businesses.

Once again, all of our businesses have remitted substantial amounts to Group. Jackson has made a sizeable remittance for a second year in a row, reflecting continued positive capital formation at this point in the cycle. The increase from M&G was in line with earnings growth. The Asia remittance includes the one-off benefit of the proceeds from the sale of Japan of £42 million, and also reflects our decision to moderate up-streaming, given current foreign exchange levels and the strong overall central cash position. UK remittance was lower, due to the investment we are making in response to the 2014 budget changes, which we flagged last year.

EEV operating profit (post-tax)

Turning now to our results on an embedded value basis: our operating profit here was 11% higher at £2,278 million, equivalent to an annualised return of 16%. Lower long-term yields compared to a year ago generated a £50 million drag on the overall EEV result, but this has not detracted from the strong performance of the business on this metric.

Asia's contribution grew at the fastest rate, exceeding the one billion mark for the first time at the half year stage, demonstrating the rapid progress we are making in capturing the once in a lifetime opportunity in the region.

Total new business profit shown in the top right was 12% higher, at £1,190 million, broadly in line with the overall growth in sales of 13%, with a difference attributed to the small negative impact of lower yields. All three regions continue to write new business at attractive internal rates of return of more than 20%, with fast payback periods.

Total in-force profit shown in the bottom right benefited from growth in business scale with expected returns 15% higher at £892 million. Experience profit added £212 million to the in-force result, with a small reduction attributed to a moderation in spread-related profits in Jackson. The fact that Experience remains favourable overall reflects the ongoing focus of managing our back book for value and the conservatism embedded in our assumptions.

Asia: strong growth momentum

I will now cover the key performance highlights for each business in more detail, starting with Asia. The momentum of our business in the region has accelerated in the first half of 2015, with both Life and Asset Management reporting strong improvements across all of our financial measures. Total new business production in the first half was exceptionally strong, with sales up 31% and new business profit up 30%. There is the usual variability in the individual countries' growth trends that we have come to expect in what are ultimately emerging markets, but the overall result and the fact that eight countries delivered double-digit sales growth reinforces the importance and the strength of our region-wide platform. The fact that sales in our South East Asian sweet spot, sales through agency and sales over regular premium business all grew by over 30% underpins the quality of this performance. The 27% increase in the contribution to NBP from Health & Protection underscores this further.

The improvement in Asia's IFRS operating profit is principally driven by the Life result, which was 15% higher, reflecting the growth in the scale of our business. We measure scale by reference to policyholder liabilities, which grew by 17% year on year, following the addition of another profitable cohort of Protection-oriented regular premium new business to a highly sticky existing book. This dynamic, together with positive claims experience, has pushed our

regional insurance margin forward by 20% and has led to an increase in Indonesia's profits by 21%.

The recent H&P sales success enjoyed by Hong Kong has driven a 23% increase in the IFRS profit from this territory. The combined profit from Vietnam, Thailand and Philippines was up 26%, also reflecting the increased share of Health & Protection sales which rose to 20% of total sales on a combined basis in these countries.

Eastspring has continued to show strong momentum, with new highs of net inflows: net inflows up 79% to £4.6 billion, funds under management up 28% to £85.3 billion and IFRS operating profit up 35% to £58 million.

US: growth in earnings and cash

Moving to the US: Jackson's first half performance reflects its disciplined, value-based approach to managing the business. New business production was down 10% as we continue to manage sales volume with living benefits to maintain an appropriate balance of our revenue streams, and match our annual risk appetite. In line with this approach, we have seen an increase in the proportion of variable annuity sales with no living benefits to 34%, reflecting robust sales of Elite Access. Jackson's new business profit has moved in line with sales, as the negative effect of lower rates was offset by ongoing pricing and product actions. As I showed you earlier, new business strain here declined by 13%, reflecting favourable changes in business mix, commission actions taken last year and other product initiatives.

The economics of all of our VA products remain very attractive and are close to all-time highs. The fact that IFRS profit grows by 13% demonstrates the point Mike made earlier, that Jackson has not relied on top-line growth to generate higher earnings. What drives Jackson earnings is the overall size of the separate account assets which have grown year on year, primarily due to positive business flows. Fee income earned on these assets increased by 15%, broadly in line with the 16% growth in average assets managed between the two periods. Spread income has decreased by 6% as the prolonged low interest rate environment compressed margin by 14 points to 244 basis points. I will repeat my previous guidance, that we expect this margin to trend to 200 basis points over the next two to three years.

Finally, we announced the closure of Curian in late July, and we expect to incur closure costs of around £30 million over the next six to nine months. Our approach to hedging remains unchanged in that we continue to utilise the fees that we charge for the guarantees offered to hedge well into the tail. Finally, policyholder behaviour is tracking in line with what we expect to see.

UK: strong response to changes in environment

In the UK, our Life business has responded well to the changes brought about by the government's pension reforms. Although there was a 56% reduction in sales of individual annuities, overall retail sales were 25% higher, with our various product initiatives gaining traction. These centre on our established market leadership in risk-managed savings and investments products, spearheaded by PruFund, which is now available through a wider range of tax wrappers following the launch of flexible drawdown last December and PruFund ISA in February.

The attractiveness of our propositions has seen bond sales grow by 20%, individual pension sales more than double, income drawdown sales more than treble and ISAs attract funds over a quarter of a billion. As a result, total PruFund assets under management increased by over a third to £13.7 billion. These higher sales volumes have driven a 14% increase in retail new business profit to £80 million. Our selective approach to bulks has seen us write two deals in the second quarter on compelling economics, contributing £75 million of NBP.

Despite the more modest contribution from new annuity business, total IFRS operating profit increased by 20% reflecting the resilient performance of a large in-force book. The result includes the impact of actions taken to unlock value, including £61 million from reinsuring the longevity risk of a small proportion of bulk business written pre-2014. Reinsurance is a tool that we have used over the last three years to manage our overall balance of risks, release capital and improve returns. The £231 million remittance continues to be underpinned by a seasoned and stable with-profit transfer, which remains both an important and a durable source of cash and capital.

M&G: cash-rich earnings growth

In M&G, total IFRS profit grew by 11% to £251 million, reflecting higher revenues on an unchanged cost base. Fee income increased by 6% in line with the growth in average AUM between the two periods. This AUM growth was the result of strong net inflows and positive market movements throughout 2014 and the early part of 2015. The £4 billion retail net outflows that M&G saw in the second quarter has meant that both third-party and total AUM are only just ahead of the mid-2014 levels, and are in fact 3% lower than the equivalent levels at end 2014. This development will moderate fee income progression in the second half of the year.

Costs were unchanged, due to proactive actions taken by our management on recruitment and other discretionary spend. The resulting three point improvement in the cost income ratio to 51%, while pleasing, is unlikely to be sustained at this level.

As you know, M&G's cost base has a second half bias, which typically drives the ratio up by around five points between the mid- and end-of-year points. Furthermore, the investment in infrastructure that I have previously flagged will continue, as this is a necessary underpin to M&G's client offering and its ability to maintain operational efficiency going forward.

As regards trading, the second quarter net outflows reflect sentiment-driven moves by European retail investors out of fixed income, which have continued in July. M&G's other retail offerings, such as multi-assets and property, are attracting good net inflows but not at a level to offset the outflows from optimal income. Institutional net flows were over £1 billion in the first half and there is a healthy pipeline of capital committed by third parties, which has not yet funded, pending M&G securing the appropriate investments.

Now since the last financial crisis, M&G has become a material contributor to the Group's overall results, more than doubling its profits in that period. It now has the scale and diverse offering to weather the current retail flow softness, and remain a significant contributor to the Group.

Balance sheet: well-capitalised and defensively positioned

I will now briefly cover the balance sheet and capital position. The key message here is that our operating earnings have driven increases in our shareholders' equity and our Group solvency capital. Under IFRS we have seen small positive short term investment fluctuations in the period. This comprised unrealised losses on fixed-income securities, which were more than offset by positive variances in Jackson, attributed to the net favourable movement of accounting reserves, relative to the hedging instruments, following the rise in interest rates over the last six months.

After the final dividend, shareholders' funds on 30th June were up £12.1 billion. Investment variances were also relatively modest on an EEV basis, which after dividend and foreign exchange saw shareholders' equity rise to over £30 billion for the first time.

Capital position

Turning to capital, the estimated IGD solvency has increased to £5.2 billion and represents a cover of 2.5 times. The value of our UK estate is also higher at £7.4 billion. Our fixed-income portfolio remains conservatively positioned, with minimal impairments and no default losses in the period.

Solvency II

I would now like to provide you with an update on Solvency II. Mike has already commented on our internal model application process and the timeline for approval. We will share the outcome of this process once we hear back from the regulator later this year. For this reason, and in line with the approach we adopted last year, we have not provided you with an update on the economic capital position at 30th June. I can, however, confirm that the strong capital generation we have seen on other metrics has also come through on the Solvency II basis.

Impact of Solvency II

I want to take this opportunity to recap on how Solvency II will impact the various parts of our Group, using the pie chart that Mike showed you earlier on the sources of our capital generation as a guide. Working from left to right, and starting with M&G and other asset management, this segment is unaffected by Solvency II. Here, the current capital rules are retained and cash generation will continue to be driven by earnings.

Turning to our UK Life business, which accounts for 19% of free surplus generation today, here the requirement to hold the risk margin is new, and at today's interest rates it represents a significant add-on. However, it will be offset by transitionals, and the two will broadly run off in sync. The clarification provided by the PRA on transitionals means that capital releases from the existing book will continue to be available to pay dividends or be recycled to finance new business. As transitionals will not apply to new business going forward, this will mean that the capital intensity of new retail and bulk annuity business will be higher.

For Prudential, the former is now modest, generating less than 1% of the Group's profits, while our approach to bulks has always been selective, with the reinsurance offering a mechanism to reduce the new Solvency II strain; provided, of course, it is available at a reasonable price.

In the US, the RBC regime will be considered equivalent, therefore given that this regime currently determines our capital generation and remittances, Solvency II will not impact Jackson. The fact that under deduction and aggregation we cannot take credit for diversification between risks in Jackson and elsewhere in the Group will, however, mean that Solvency II underplays our capital strength, as this benefit is real.

In Asia, our business has a very significant Health & Protection bias, a product that is Solvency II friendly. This produces an overall capital outcome for PCA which is greater than the £1.4 billion we recognise as free surplus in the region. The whole debate here is how much of the additional, how much of the £10 billion Asia VIF can be additionally captured under Solvency II. This will need to be calculated using the prescribed Solvency II methodologies, and be subjected to a one in 200 shock. This calculation involves significant judgement, as the Solvency II methodology was designed with European business in mind and does not travel well. Understandably, given the amounts involved, this has been a key area of discussion with the PRA, but the mood music has been more positive since our March update and the gap between our respective positions has narrowed.

Let me be clear. This debate is not about producing an outcome which constrains capital flows from Asia. From the regulator's perspective, it is about not coming up with an answer which is so positive that it tempts us, for some reason, to over-distribute. Either way, as this is about what additional credit we can take under Solvency II at Group, the local solvency regimes will remain the biting constraint, and our free surplus approach, which in Asia is based on the local regimes, will continue to determine both capital generation and remittances to Group.

Summary

Therefore, to conclude, for 81% of our business there will be no change to our current approach. In relation to the UK, transitionals will effectively mean that capital generation on the existing business will continue to operate on a broadly similar basis to the one we have today. Capital consumption for new annuity business will be greater, but as you have seen earlier, its contribution to our results is not significant and it can be managed through reinsurance. We are therefore confident that Solvency II will confirm the highly cash- and capital-generative nature of our business.

Summary

We believe that the most reliable source of capital is the sustainable delivery of a growing level of high quality earnings. Our performance in the first six months of the year demonstrates exactly this. By operating in markets where consumer demand for our products is both strong and enduring, and by executing our strategy with discipline, we have grown NBP, the key lead indicator of future earnings, by 18% year on year. The capital velocity of the highly profitable business written in recent years, combined with our value-based approach to managing the back book, has enabled us to deliver a quarter more profit than a year ago and improve its quality. This operating profit has driven a 27% increase in both the free capital held in our businesses and in our Group's IGD surplus after financing new business and paying dividends. All this reinforces our confidence in the future prospects of our business.

Outlook

Mike Wells

Group Chief Executive

Clear, unchanged strategy

This is familiar slide to most of you and there is a good reason for it. It is the strategy we have been executing on for a number of years now, and obviously from today's numbers we think it is working exceptionally well. There are some underlying themes to it that again, I think are well-rehearsed in this setting, so I will keep them to a minimum, but we are not in need of a new strategy. That is not my objective, it is not the management team's assessment. We think we have one that is working very well and the focus is going to be on a higher, more detailed execution, increase the breadth and depth of our capabilities. Let me walk you through a little bit of that.

Benefits of scope and scale

We should, at this point, I think, in Prudential's development, enjoy more of the benefits of scope and scale than our competitors. In each of the markets, as we have discussed, we have incredible capabilities. We have everything we need to address what is now expected to be a more self-reliant middle class, and that is a trend across every market we do business in. That could be in terms of Health & Protection in Asia or savings globally; there is an assumption here that middle class households will be responsible for more of their financial wellbeing, and again we are perfectly positioned in our markets to provide the services we need to do that.

Asia's agency force

How do we enhance that capability? In Asia, we continue to scale the agency force and improve the quality, the tools they have and the breadth of product. At 560,000 now, I am not sure how many we need. It is an interesting question I got asked in China a few weeks ago. There are lots of metrics that you could say have correlations to agency growth, but we will grow it as fast as we can at the quality level we are willing to grow at. There is not a bulk target here, but there is capacity in the market for materially larger advice providers, including our agency force. Again, this is a market that is underpenetrated, so you have more demand than you do supply, and that includes the advice sides.

Bancassurance partnerships

The same is true on the bancassurance partnerships. Our penetration in these partnerships is still relatively low, and with the exception of Standard Chartered relatively young partnerships. In meeting with some of these folks, they want more product from us, they want tighter relationships, and the theme you hear is they want us to stay with their client as they change in their financial lifestyles and where they are on that savings and development curve as a household. We are incredibly well-positioned to do that, we have a responsibility in those relationships to provide them the tools and services to maintain those relationships, and no part of the financial service industry understands household relationships better than banks. I do not know a bank CEO that cannot tell you the number of product contact points they have with a household, and again, it is our responsibility to help them maintain that.

Asset management

In the asset management space, you have seen how well Eastspring is doing. It is the leading franchise in the region and it is a young franchise, and it is a relatively young region in terms of asset management opportunities. We have to continue to invest in the technology, the people, the processes and the culture to make sure that we have the place where top managers want to work, where the top talent wants to go and learn the business and where we can deploy into new region and markets people that understand our expectations on the quality and quantity of asset management advice. We are very capable of doing that again as a Group.

US: Jackson

On the US side, we have the market leading franchise, so the question is, best ways to lever that. Clearly you start with a back book that is extremely profitable. The absolute sales levels Jackson is capable of continued to grow. The breadth of product it can offer will again depend on the opportunities in the market, but are likely to be broader and more. Those of you who have spent time with the team in Jackson will know it is a very capable group; we have very good cost advantages, we have technology advantages, and again, we have distribution advantages, so there is a market leading position with all the elements of scale to be levered.

That includes bolt-ons. The reason for us to do bolt-ons in the US, they are well-rehearsed in these discussions, is because we can service the clients better and create more value for shareholders from the same block of business that most competitors can. We have capacity in the franchise, we have the expertise to do the acquisitions and do the integration. Those combined create value for shareholders and a better service experience for clients, so that combination is a reason. Yes, it also diversifies the earning streams and there are residual benefits that are good for us, but the core reason is that we own capacity as shareholders in Jackson that can be utilised at cost and technology levels that competitors cannot. We will continue to look at the M&A landscape there actively. Again, Jackson's role will be to adapt to the changes that come at it with the marketplace, and it has a good track record of that.

UK asset management and Life

The same as the UK, both asset management and the Life company: we need to adapt to the market we are in, you are seeing them doing that now. That will continue. Part of that is we need to build out the UK's digital capability. This is not a strategic initiative, this is a prerequisite. We have got to service clients the way clients want to be serviced, we have got to access clients the way clients want to be accessed. There is a little bit of catch-up on some of the back book technology. This goes to service relationships and those consumers being happy and staying with us longer, which goes to the recurring profitability of the book for shareholders, but it also goes to how consumers want to find information about their retirement savings and their products. We are going to deliver that.

M&G

On the M&G side, the key here for us is to maintain the culture and quality and capabilities of this franchise across cycles. That could be across short term interest rate cycles, that could be across political cycles; this is a unique firm. Highly capable, great people, highly scalable

and we intend to keep its capabilities where they should be, and to grow it across the cycle as well.

The disruptions I think we will see in the market, we have the capabilities across our key regions to lever them, to get more out of them than competitors.

Effective response to challenges

Let us talk about challenges as a sort of thematic today. We have seen a few. I think it is fair to day that somewhere in the next 20 years, somewhere over this cycle, you will see interest rate changes, policy changes, equity volatility, rules change broader and narrower on advice, taxes change on products; it is all in here. It has all been a part of the history of the Group and through each iteration of this, the capabilities of this Group grow. We get better at it. We have seen it before and we have dealt with it; sometimes successfully, sometimes not, but that institutional learning is here, and our capabilities to deal with challenges I think rival or are better than anyone's in the industry.

Resilience of market-leading franchises

Let us talk about resilience for a second. Where do I get confidence? Let us assume for a second this is going to be a challenging climate, where does the resilience of the firm come from? One is the market leading franchises.

Asia

Asia has first mover advantages. This is a textbook example of having got there first, done it right, the people, the products, the relationships, the development of new product and the asset management capability. Again, scope and scale executing at a very high level, now recurring cash flow, as well as the growth on the front end.

US

The US, same thing. Market leading franchise, highly talented team, high-quality model, cost advantage. Go back to the DOL for a second; let us say there is a price element in it. Suddenly that middle chart matters a lot. Again, Jackson's options to deal with change are broader and better than its counterparts in the marketplace, and we can bring those capabilities to bear on whatever product or service we need to get to consumers.

The last one that I would point out is if you take a look at the productivity of Jackson's wholesalers relative to its peers, their ability to deliver complex products – and those of you that have been there know we have grown the number of wholesalers and yet we have grown the productivity. The other way to get this number up is reduce the number of wholesalers on the same sales base; we have gone the other way. This is a growing team, growing in efficiency. Same trend you would see in Asia with agency, this is again how the Group executes.

UK and M&G

The UK:. Everyone has an opinion about Prudential. Every taxi driver has an opinion about Prudential. I tell them where they work. The resilience of 'the man from Pru,' and the relationship and the families and their stories are endless and fascinating, but it is, as M&G, an incredibly trusted brand in the marketplace. You do not get the 'My statement was wrong' stories, you get how important it was to their parents or what product they have of ours. This

is one of the most resilient, well-established brands I have ever seen in financial services. M&G, reputation institutionally and retail-wise, directionally the same. High quality, long term focussed, all of the elements you want for attracting long term savers.

The mix, the middle chart: the reason I included this again comes back to the quality product issue. I have met a number of investors, and it is certainly clear if you look at the advice providers we have, the with-profits fund structure and the success of that relative to peers, again we have shown you that in previous meetings on an absolute basis, but it gives you a franchise to do other things. Getting the product right for consumers is a big part of the business reputation versus brand argument. If you are doing a good job, people actually say nice things about you and you do not need to pay for that, and in the UK, some of the products they have delivered, particularly the with-profits franchise, you get some amazingly favourable comments from people. They recognise what it has done.

It is the same sort of argument as you see in the US. You are de-risking that consumer's retirement savings. Often they are further out of the risk spectrum than they may have chosen to be and you are creating an alternative that smoothes that out and gives them institutional asset management capability, and lets them go back about whatever it is they want to do, again, building off a great product.

M&G's diversification by sources of funds and capabilities, I think, is important to highlight. However, from an internal point of view, retail point of view, institutional point of view, this gives M&G the scale and scope again of any global asset manager. From a cost point of view, from a hiring point of view, a talent point of view, all of those elements. I think the surprise, if you spend time in M&G, is the culture still feels like a small boutique asset manager. The awareness of what other people are doing in the building, the attention to detail, the sense of ownership is unique and totally appropriate for an asset management shop.

Resilience of earnings

IFRS income

Switching now to IFRS income by source. Across the cycle, how resilient are our earnings? One, you can measure by source, and I think they are well diversified. Two, you can measure by currency. If there is a global crisis of unimaginable scale, what are the go-to currencies? They would be the dollar and the pound, and you would see a link there; the dollar-linked products we have accordingly. Again, the EAFE currencies and markets have done exceptionally well. I do not think they are all correlated, I do not think you are going to get every market that we have out of the US, including Africa, behaving the same way at the same time. However, that said, if that is your starting thesis, that is the resilience of the earnings from a currency point of view.

Recurring income versus new sales

Last and most importantly, what percentage of our earnings are recurring versus coming from new sales? What happens if you just run the business, sell nothing, that sort of level? For us, that is a dramatic level that creates creation of capital to reinvest in the business, to pay dividends, to look at new opportunities. Often at a time, if you are thinking of a very cyclical market when competitors may not have access to that capital, again it gives us optionality, a key element of our business plan and our capabilities.

Summary

The basic summary, I think we have leading franchises in all the markets. We have obviously a very strong management team, strongly capitalised in cash generative businesses and I think we are well-positioned to take on whatever challenges are coming. Again, thematically I think the major challenge that we are dealing with is getting to investors and to middle class households the solutions they need as they are handed more of that responsibility. Again, that is a global trend for us. There is far more demand in that space than we can provide supply, but we will scale that up, focus on the execution and get more of it. There is plenty of room for us to lever our capabilities internally as a Group, from technology, from people, from capital management, tools we are using in one area that we have not exploited in others: you will see all of that. However, it is all, again, at the execution level. The strategy we have is a correct one.

Long term value creation

I wanted to finish with a slide that we used earlier, and I apologise for bringing it back up, but I think it makes another point. We were talking last night about this. When I got here, new business profits were £80 million at the half year, 20 years ago. £50 million of it from the UK. There was no M&G. the US business had been bought because there was a very attractive product called Single Pay Whole Life, which was a tax-free annuity at the time, which by the way the federal government of the US changed in one day the tax status of that product and eliminated it. Asia was where we sent people to retire. That was a nice way of saying you had two years left and you were going to go to one of our outposts where folks from the UK retire or the military were based or whatever it was. It was not the cutting-edge of our growth as an entity.

There are a couple of things you should take away from that. The people that created this are here. A disproportionate amount of the performance on those charts comes from people that are either in this room, this team or in the various buildings and field offices we have today while we are sitting here. We have built this collectively. It is a unique firm with unique capabilities, and candidly it is why I took this role. I think we have got a lot ahead of us, and I do not see anything in front of us disruption-wise or competition-wise. Our challenge here will be to compete with ourselves and our track record.

Q&A

Oliver Steel (Deutsche Bank): Two questions, both around the DOL proposals. You said a few months ago – actually I think it might have been Tidjane who said a few months ago – that you thought an industry worst case would be down 15–20% in terms of sales. How are you feeling about that now? I appreciate it is still uncertain.

Then secondly: it does not sound as if you are expecting a huge sales fall in your own situation, but if there was a sales pullback for yourself, how would you be considering what you would do with the capital thus released from the years?

Mike Wells: Well, Olly, I will flip this to Barry in a second, but given my time with the DOL in the US, let me take a shot at this first. We now know what the details of the proposal are. And again, I think the proposal is unlikely. Predicting politics is not something that I am paid to do, or I think anybody is good at right now in the US, but I think the DOL's intentions are

good and clear. I am not sure that this current proposal gets them there, and I think that has been the universal feedback they have from both sides of the aisle, regulators and the marketplace. So again, they tend to adapt well to new information, so I think we will get something different. However, if you said levelised commissions; that is one element. Transparency is not material. We have broker-dealers now that have full disclosure on all commissions paid on variable annuities and products. Again, that does not change the marketplace. I think it is good practice.

The question becomes, I think, two things out of the current proposal. If it passed in kind, there would be a preference for level commissions, no question. That is the only product that would work in the structure. So there is an element of: what is your current qualified sales? Now, that is a different question for Jackson versus peers, because we have excess demand for that product than we are willing to fulfil in the market place. So you have to have add that excess demand back on and then say, 'Well, how much of that would be qualified?' and then say, 'How much of that would you lose?' It is a little bit complex, a little more convoluted really.

Some competitors have a different play. So I will let them answer it for you. I think one of the key things in it is: does your product stand alone, ex-commission? And that is a harsh bright light on some variable annuities. I think ours does well and I think those of you that talked to advisor firms in the US on some of those tours know that it is generally viewed as the best client proposition in the marketplace. Again, we will deal with the pricing issues on the structure of commissions.

So the second part: how does it affect sales? It does affect sales. I think it affects the timing of sales in Jackson. So you release some of the leverage you pulled to control volume. Depending on how much notice you get on what the structure of the product is – and they are generally pretty good about that, the regulators in the US give you some indication of where they are going to go – but how fast do we react? We know how fast we can get product to market. We know it is faster than competitors. And if it is a simple change, we know we can do it very quickly. If it is a material new product, that may take the better part of a year.

However, I think the more important issue overall is it changes the shape in the year of the sales. So we may have a bigger first half and a flatter, lower second half while we retool, that kind of thing. We are dealing with that now, in the US franchise. There is no question, as we turn on and off the core products. You have seen each year, it changes quarter to quarter the shape. Years ago – the first one of these meetings I did was 15 years ago – we talked about the fact we would do most of our sales in the first five months. Part of that was because competitors were not tuned up in January and February and we always had a really good start, when we were smaller than them, in the first part of the year, and we always tried to take advantage of that. Well, that has changed as we have controlled volumes, because we have to rebuild those volumes as we have turned off product at yearend. Sorry, that was a very long intro to what Barry wants to say. My apologies Barry.

Barry Stowe: I agree with everything he said. Seriously, Mike covered the landscape pretty well. I can understand why some competitors would be very concerned about this. We are less concerned, and as Mike said several times through the presentation, that has to do with the quality of our team and the platform that they have built, the infrastructure that they have built. We do a better job at lower cost and we have a track record. You have seen it

time and again, with Elite Access being one of the most recent examples, of this organisation thriving on disruption and actually turning it to commercial advantage. It is a characteristic you see throughout the group. We have done it in Asia. We have done it in the UK. We certainly do it in the United States.

It would not be right to say we are not worried about this, but we think we have it fully in hand. I am encouraged about the outcome of the hearings, which began this week and continue. I think a lot of people, including the White House and the Department of Labor, have been surprised at the level of concern that has been expressed about this and the bipartisan nature of that concern that has been expressed. Actually it does not happen very often in Washington right now, and to Mike's point about it being difficult to predict politics, I do not think even two weeks ago anyone would have predicted that we would now have 13 Democratic senators who have come out and made some pretty harsh comments about this.

So I absolutely believe that there is scope to change the shape of this. We are working hard to – we are involved in that shape-changing exercise. We are spending time in Washington, we are making the case about how hostile this is, particularly to middle class Americans. This is another one of these perverse things where the government comes up with a well-intended proposal to focus on and protect the middle class and the outcome of what they have designed would have the exact opposite effect. Because, as Mike alluded to, what would happen is advisors would run from qualified money. That could be one of the impacts. They just say, 'You know what? I am not going to bother with it. I am going to go to high net worth customers with lots of unqualified money and I can advise them on that.' If you look at middle class Americans, they are overwhelmingly in qualified money. Most of these people do not have lots of assets outside of their 401K or their IRA or something like that. That is where the preponderance of their cash is and they are going to have increasingly levels of difficulty getting advice on that. So again, fingers crossed, a lot of work to be done but I think this is more than survivable.

Blair Stewart (Bank of America Merrill Lynch): Three questions please. The first is on Asia: perhaps an update on the Indonesian business where sales are quite flat. So an outlook statement there would be great, helpful.

Then on Hong Kong where the opposite is happening, and sales are going through the roof. The impact from mainland China and the disruption there, I guess, could be argued in two ways: it either negatively affects the business or you see even more mainland business trying to diversify out of the country and the currency. So a Hong Kong update would be really useful too.

On economic capital: Nic, could you comment qualitatively on what has happened to the economic capital in the first half of the year, given the earnings and the interest rate moves? It would seem that that figure should have gone up, although I appreciate you do not want to put a number on it.

Finally, I think on some of the headlines on the screen, Mike, there was a comment about the Group moving towards two times dividend cover over time. Could you perhaps clarify that comment please? Thank you.

Mike Wells: Okay. I think on the dividend cover, that is one of the easier ones. The statement stands for itself. I think we should maintain two-plus times dividend cover, and

depending on where we are in the cycle we will allow it to go a bit higher than that. I think one of my bigger surprises, candidly, in the new role was looking at dividend cover and some of the stocks on the FTSE. A growing dividend is a key discipline of any good management team, but I also think a proper level of conservatism in our industry is appropriate from a cash and resource point of view. So our role is to balance those two all the time, and I certainly think our dividend cover and our targets are appropriate for it.

On Asia: Tony, I will go ahead and flip first the Indonesia question and then the Hong Kong to you.

Tony Wilkey: Sure. On Indonesia, we are experiencing economic headwinds. GDP is running around 4.7%, which is the lowest rate it has run in about four years, and a lot of President Jokowi's initiatives have really not got in as much traction as quickly as was anticipated. So there are some headwinds in it. That is flowing through to consumer sentiment; consumer confidence, as measured I think in Q1, was at the lowest rate in two years. In that regard it feels a bit like 2009.

What does this mean to the business? It means that what we see on the coal face is: we continue to build out the business by growing agency. In the first half of the year, we hired an additional 74,000 new agents. However, the key metric to look at is cases per active. This is a measure pf productivity, and cases per active for the agency force has come down. What this translates into at point of sale is that agents have in the tougher time closing and/or consumers are deferring decisions. This is reflected in the flat numbers at the half-year.

I think the macros remain incredibly compelling: 250 million people, it is a trillion-dollar economy, and the penetration rate is still less than 2%. Again, we saw the change in cases per active in 2009, which had an impact. And as the economy rebounded and consumer confidence with that, we moved back into a very solid growth profile.

So Hong Kong. First, I think you need to look at the Hong Kong business, Prudential Hong Kong Life, in a couple of segments. The domestic business, where we are selling to local Hong Kong people, was up 48% at the first half. Then Standard Chartered Bank, as Mike mentioned. We met with Bill Winters last week, the new Group Chief Executive, who is very appreciative, respectful of the relationship and very bullish on doing more with us. So that segment is also growing well.

The mainland business is growing at a faster rate within that. It is important to note that we are not new to the mainland business. We started this initiative over ten year ago when we had less than 3,000 agents. We now have, in Hong Kong, over 10,000 agents and survey says it is the most productive agency force in Hong Kong.

The mainlanders who come and typically buy our products are not day-trippers. These are people who, on average, come six or seven times a year. They look and sound a lot like Hong Kong people. In fact, the majority of them come from the neighbouring province of Guangdong. To put that in context, Guangdong is about the size of the United Kingdom geographically, but it has 120 million people. So in terms of demand, I think we have quite a significant amount of headroom. We are always looking at leading indicators, and we have not seen anything to indicate any slowdown in the mainland business at all.

Nic Nicandrou: On economic capital, qualitatively we continue to produce a strong operating performance. You have seen that come through other metrics. You see the contribution on IGD, but typically we produce somewhere between 16 and 20 points each year. So I will let you prorate that. Market effects were positive, albeit a little negative on the FX because currencies closed a little lower or sterling was a little stronger than the point at the beginning of the year. We raised some debt. Of course we paid the final dividend, but we feel good about the formation of Solvency II capital in the first half.

Gordon Aitken (RBC): Mike, You said there was no need for change in strategy. I was just wondering; there must be some areas, some products, geographies, distribution channels, which you maybe were looking at over a number of years, or are looking at now and saying, 'I think we will just put a little bit more emphasis on that one or a little bit less emphasis on that.' So if we can talk about that.

Also, just in the UK: do you have a panel of reinsurers that you would use, and are they all based in the US?

Mike Wells: On the reinsurance question, there are multiple reinsurers we use, and they are based globally; they are not all based in the US. You have a variety of players. Reinsurance is not a new tool for us, in the UK or even in the US or Asia. It is opportunistic sometimes and it is strategic and risk management others. So it continues to be available. The bulks that the UK business attracts, if you think of that market, it tends to cut into different pieces; some on size, some on credit. We tend to be the desired home for the larger, more credit sensitive, brand sensitive bulks. So that continues; we are not saying any unusual there. So reinsurance is available to us. We have used it, as you have seen. There is not any difference there or any concentration with the given counterparty in it.

On strategy, I probably neglected the African team a bit. We are continuing to expand there. I think it is the next iteration of what we have learned. From an earnings point of view, it is not material to this meeting, but it is chance for us to take a new market with the emerging middle class and digital and emerging bank trends, and go in there with everything we have done in Asia and other markets to produce good solutions for clients and build something that we know is scalable. So there is not an appetite to artificially accelerate that but we are looking at lots there.

From a product point of view globally, it depends on the partner. I referenced this earlier. I think we have to be careful that, with the well-earned relationships we have with distributors and with clients, we do not let somebody else come in and take as they mature in assets and in demands. So we do not intend to let that happen. Part of that is some big data work where we take a look at some of our relationship clients and make sure that we have the right product set in front of them to keep those relationships. That is true of agency, that is true of bank, that is true in the US. You use the term sometimes, share of wallet, but there is also a household share of wallet. If they have made a selection and trust us on something very emotional, like protection, and we have asset management capabilities or we have some protection product that they are not buying, we are the logical place for that advice provider to go again.

So I want to make sure we cover that. I do not want to get into specifics, I do not want to brief competitors on this as well, but you will see us follow the clients. I think that is a fair

expansion of the strategy. Again, part of that is by channel and part of that is how you do it technology-wise; there is a lot of elements to that. We will keep you abreast of what we are doing there as we do it.

Abid Hussain (Société Générale): Coming back to the Department of Labor, what are your options if the Department of Labor decides to abolish payment of upfront commission, especially given that VAs are a push product?

Mike Wells: B share Mutual Funds were a push product, I think if you ask the broker dealers at the time. Again, one of the things that defines what an advisor sells is the alternatives. I think one of the pieces of advice that the DOL got, which I thought was from a regulator, was, 'Let us come up with a set of standards that apply, qualified and non-qualified; we should not have better advice for qualified money than socially is allowed outside.' It was an interesting discussion, the FINRA letter was fascinating to them. However, if the commissions are levelised, the question is: does the consumer see value in what we are offering? We have advisors now that are effectively on a trail. Some of our other L-Share products and things, they could clearly pull those assets out and roll them into a front-end commission product. It is not good business, but if that was their character, they could do that – and to a competitor. They could not do it with us. However, you are not seeing that behaviour.

I think the product has tremendous value, and if the advisory gets paid differently on it, and that is the only option in the market for qualified plans, then that is what will happen. Will there a change? Yes. Will it require good wholesaling to change it? Yes, mostly on process. This is fairly material; these changes have infrastructure implications. So for those of you who have done the US tour, those boring tours of the data centre and the IT people talking about having one product engine; that is a lot easier to address if you need to do a pricing change than if you have dozens, just a reality of technology. So who will get there? Who can design a product correctly? Who can get it back into the advisor's business? Barry's team is already working with all of our key distributors on plans. I mean, I do not know if you have too much to tell.

Barry Stowe: Absolutely. You adapt. In a word, what you do is you adapt. As Mike said, we have gone through changes in the past that have the potential to be more disruptive than this does. You have a lot of VA product that moves in the United States already, from various different providers through fee only. 25% of the market or something is fee only already. So we survive this. We retool and, as Mike said, the process of retooling for us is less complicated than it is probably for any of our competitors. We have a higher quality platform and we are more nimble.

However, the real concern is that, again from a substantive perspective – set aside the commercial impact – it is bad for consumers. These products exist because they are important. They have a right to exist. The living benefit guarantees that we put on these products are extremely important, and the further you go down the socio-economic food chain, the more important those guarantees are. These products will exist, and back to the political point, I am convinced that what is going to happen is not going to be extreme. I think there is too much bipartisan acknowledgement that there is a little overreach in the way this initial draft has been pulled together, and it has unattended consequences.

Ming Zhu (Canaccord Genuity): Two questions please. First one is the UK. You have had very strong retail new business growth, and some of that came because of the delay in decisions from the retirees. I would just like to have a picture in terms of going forward, what sustainable growth you think you can achieve, and how much growth you think you need in order for the new business profit to be sufficient to offset the run-off back book please?

My second question is on M&G: with the outflow you have experienced in your optimal income fund, you have guided further outflow in H2. Could you give some sort of view in terms of when do you think the outflow will normalise? Also, what actions are you taking: are you launching new funds for the growth in your focused market in Europe?

Jackie Hunt: You are right, we have had very strong retail growth; on a net basis that is up 25% half-year on half-year. Actually, if you break it down, the new products and the savings and investment products that we have in situ are generating about 40-odd percent growth, being offset by the 56% reduction in retail annuities.

In terms of the outlook for the business, we did see some pent-up demand in 2014, as you say. Some customers did delay their decisions more generally. Most of those customers – in my view, and it will take a while for the trends to stabilise – will be individuals looking for cash. So like much of the industry, we saw a quick uptick in the sort of 'dash for cash' in the first few months, and that is starting to slow down quite considerably. Actually, if you look at 2014 and then early 2015, we had seen such low levels of people actually exiting products across the industry that I think some of that pent-up demand was really just 2014 demand working its way through the market as a whole.

In terms of outlook: if you then look at, in terms of our own positioning against pension freedoms, my colleagues have talked about making an opportunity out of change and that is what we have done. We have really said, 'Change is coming. How do we best position ourselves? We have got this fabulous franchise, great retail brand, really good investment proposition, huge love amongst our existing customers and external customers. So how do we best position ourselves for that?' So we focused on a range of savings and investment-type products, and we are having considerable success in those. You would have seen income drawdown. Those who are no longer annuitising tend to go into an income drawdown product. We issued a flexible version of that drawdown product at the back end of last year. It is advised only at the moment. There is a plan to move onto a non-advised version later this year, and our sales are up about 228% against the product. We are attracting new customers, new advisors, new intermediaries.

Equally, you look at our existing bonds product, 20% growth; individual pensions, I think about 125%. So very broad-based attraction around the existing savings and investment products as people change the way in which they look at retirement, and they no longer look at it as a point in time but a transitional period.

The other thing that I would point to is: alongside, there has been a lot of focus on pension freedom and what it meant for annuities, and the reduced need to annuitise. Less focus on the ISA allowances, and those were obviously raised very significantly. We talked about the PruFund ISA. So we wrapped in a different savings form our existing PruFund product. That

has had an incredibly fast launch, so £260 million of assets under management after we launched in February.

That is not just new savings into an ISA form. A lot of that is actually transfer business. That is attracting, in majority actually, money that is sitting currently in cash ISAs. So actually if you step back from all of that and say, 'What is the outlook?' I am very bullish actually about the amount of momentum in the business. I think as the comparators start pulling back with retail annuity fall-off, the first quarter obviously still had the pre-budget changes in it, you will see that growth rate continuing to escalate.

Mike Wells: Michael, on funds?

Michael McLintock: Yes, on optimal income particularly. The bond bandwagon has run out of steam, and we are not alone. You will have seen other large players in the market having significant net redemptions from this asset class. It is very difficult to say when this is going to stop. To some extent, I can sort of bounce the question back to you, which is: what do you think is going to happen with long-term interest rates and fixed income markets generally? Because of course, they have started to yield negative returns. You can construct a range of scenarios, from markets staying roughly where they are to actually falling out of bed, yields backing up quite significantly and suddenly perceptions of value re-emerging. It is very difficult to know what is going to come to pass. At the moment, I have to say to you we do not see any change in the trend in relation to optimal income.

However, at M&G it is a game not only of what happens to funds when that outflow is being experienced, but what also happens with other funds which are going well. For example, our multi-asset range of funds are performing extremely well. Property fund is still seeing a lot of interest. Frankly, our equity fund range is performing disappointingly on the whole, with some bright spots at the moment. That is another question which you have to ask, because of course we are living in markets where equities that deliver perceived 'safe', growing income streams, are being driven to very high value levels, which is actually not where we are playing. That is why we are getting some poor performance in some of our funds. Again, we would expect that to change at some point, but I cant say when. So I am afraid it is an uncertain picture. We are seeing some good areas of interest away from the optimal income fund, but I cant actually give any precise prediction on timing of when this will all come back into balance.

Andy Hughes (Macquarie): A couple of questions, if I could. The first one is on the DOL stuff and what it does for the product. I am not sure I completely understand what you are saying, because my understanding of the product is it is reliant on, in the US, on lapse rates, and so if you move to levelised commission structure with much lower lapse rates across the industry, presumably you have to drop what you offer the consumer dramatically under the current product?

Second question is on Asia and the trapped capital. I am trying to understand what that means. Is that the reason behind the two times coverage on IFRS? What is the statutory surplus coming out of Asia in H1, and what options do you have to access this retained surplus in Asia? Presumably you can use it for M&A, but are there any other options to unfree the surplus there? Thank you.

Mike Wells: So Andy, there are now registered advisory-based With Living Benefit products in the US. One of the larger distributors, Linsco Private Ledger asked five or six companies to build them one. It has not had material traction yet. It requires different pricing, different option strategies which again are not outside of our core capabilities. Let us get the rule and then we can tell you what structures work in it, but on a levelised product, you have a couple of new variables but they are not difficult to – think of it as a product with its surrender charge expired. I think that is the simplest way to think about what it gives up from a liability point of view, so again it is not something we have not seen before or cannot deal with. Is it the optimal structure for value for the consumer? No. In any product – fixed indexed annuities, VA – the longer the client gives up liquidity, the more we can provide in the terms of value, and again that is a discussion that is part of the case with the DOL. So we will see how that turns out.

On dividend cover, it is not related to Asia. It was pre-Solvency II. Nic, do you want to address the broader context?

Nic Nicandrou: Yes, let us just be clear. Subject to a small caveat, which I will come back to in a moment, there is no trapped capital in Asia. If you look at our free surplus disclosures, you will see that we have, in our Life businesses, £2.6 billion of net worth backing our own levels of required capital of £1.2 billion. The accumulation of local regulatory is under £1 billion. We tend to use a higher measure.

So all of that £1.4 billion is available. Why do we keep it there? We keep it there to fund business. We keep it there because we like nicely capitalised businesses. I have said before, if you want regulators to allow you to move capital freely, then you have to be responsible. When times are good, you do not take everything out so that when times are less good, they allow you to take stuff out. That is the responsible behaviour.

The only caveat is that there are a small number of businesses – and we are talking about a couple of hundred million of that £1.4 billion – where the accounting reserves are negative because they are growing, so in the start-up phase they will incur losses. Eventually profits will come through and remove those losses, and therefore you will have distributable reserves on that basis. However, given the very strong growth that we are seeing in IFRS, within 18 months or so we will grow ourselves out of that little constraint. If we needed to access that very quickly, we could restructure the capital. So there are no constraints, capital can flow freely.

Lance Burbidge (Autonomous): I am afraid I have got some questions on the DOL as well. This is a relatively simple one. Mike, you talk about releasing the levers to control sales. Presumably those levers are increasing in price, so reducing the price presumably would reduce your profitability of new business. I just wondered, sort of as a follow-on to that: if the price comes down in a market that much, what threat is there to your in-force book, which is obviously the big driver of profits currently?

The second one is for Tony on Hong Kong: what is the major driver of mainland Chinese actually buying a product in Hong Kong? Is it price, is it product that is better than in China, or is it diversification from a currency perspective?

Mike Wells: Okay, so I will answer on the DOL. Some of the in-force levers, if you remember, is we pulled down available guarantees, so that actually increases the profitability

of the product, if we were to go back that direction. Again, I am not trying to do a primer for what our competitors should do in this climate, but if you think about some of the things we have done the last three years, if we reverse some of those, it actually improves the margin on the product. So it is a little counterintuitive. It is going to depend on what makes sense for the consumer in the structure we have, but I think that is directionally the way to think of it.

On the in-force: there has not been, in my 30-plus year career, a retroactive treatment of policy. So again, that is an interesting question of: would the DOL do that for the first time? Possibly; highly disruptive. If you think about: if I had a real estate limited partnership in my retirement account, I cannot meet some of the requirements in this for liquidity, dealing advice and so on. So am I supposed to sell an illiquid asset and pay the tax on it? It is hard to imagine that that would be the intent or the outcome. It is possible in the tails, but I do not think it is the realistic outcome we will get.

So this comes back to: why does the quality of the product matter? Why does how you service the client matter? Why does the having the advisors feel like you protect the reputation? We have a very happy back book. These clients have made a lot of money with us and done far better than they would have any place else, and the value of the variable annuity has been demonstrated to them. So we do not have a tension with the clients, whether a) they are looking for a way out or, as we have told you, we want them out or do not view any relationships as particular profitable. Measurement of that would be our openness to additional premium and the various vintages. So it is a little more payback for having done the right thing for the consumers across the cycle. It gives us options that, again, I think some folks may be a little more challenged with.

However, I do not think you are going to see retroactive legislation. It is very, very rare in the US. It has happened one time, and again in the funds space, and it was on share class application. It was just an enforcement ahead of policy, it just said, 'Go back and give your clients whatever you should have' sort of thing once. It was a very odd, very politically heated climate on who was the proper regulator, and we all complied. However, that is the only one I have seen in my career, so I am not anticipating that it is disruptive for our back book.

On Hong Kong, the vast majority of our premium there is recurring. You are talking about 8,000–9,000 average transactions. The process is well established, both from the consumer and our side.

Tony Wilkey: Yeah, I think you might have answered your own question. Why are they buying? They are diversifying away from other assets that they may hold in the mainland. They are buying other assets as well, it is not just insurance that they are buying in Hong Kong. They are buying real estate and so on and so forth. Do not underestimate the power of a trusted brand to the mainland Chinese. Our name in Chinese is [Chinese], which is 'UK Prudential', and that is a very important component of our value proposition to these people. So it is diversification and it is a trusted brand.

Mike Wells: Okay, great. Well, thank you very much for your time and your attention, and I appreciate the questions. We will see you 19th January. We are going to host an investor day. I hope you will be able to join us here in London, get a little more depth into the

strategy and some other elements of the business. We will be able to give you details on Solvency II at that point. So again, thank you for your time and attention.

[END OF TRANSCRIPT]