Prudential Conference Call

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Introduction

Mike Wells

Group Chief Executive, Prudential plc

Welcome

Well, thank you for joining us everyone. I am Mike Wells. I am Group Chief Executive of Prudential. And today, I am joined by Mark FitzPatrick, CFO and COO, and also here to take your questions are Nic Nicandrou, CEO of our Asian businesses, and Michael Falcon, who leads Jackson, our US Business.

Yesterday, we were pleased to confirm the timetables for demerger of the M&G business. Subject to shareholder approval, trading in M&G plc shares will begin on 21st October, a little less than four weeks from now.

Yesterday, we also published the M&G Prospectus and the Circular for Prudential. You will be able to hear John Foley and his teams summarise the M&G story tomorrow. What we have done for you today is to distil the Prudential circular into a short presentation, highlighting our particular strengths and clear-sighted strategy. Mark and I will talk to some of the key points and then we will be happy to take your questions.

Demerger of the M&G Group from Prudential plc

The demerger will benefit both businesses in a variety of ways. To sum up the rationale it's about two things. It is about alignment and it is about focus. The demerger will help both businesses become more closely aligned to the interests of our stakeholders, that is our customers, our regulators, and of course, you, our shareholders. And the demerger will sharpen the focus of both businesses. Management will be able to focus more closely on improving operational outcomes. And as separate groups, I believe we will be able to allocate capital even more effectively.

Investment case: Asia-led in structural growth markets

There are four core principles that will drive the way we manage the Group. One, we will continue to grow Asia profitably. Two, we will enhance Jackson's ability to generate cash. Three, we will continue to be active managers of the Group's portfolio and to allocate capital with discipline. Four, we will build long-term shareholder value and pay progressive dividends.

Asia-led Group focused on capturing opportunities in structural growth markets

We have a global portfolio of businesses, each of which is executing on meeting a large and growing consumer needs. In Asia, the growing middle-class needs to save more and protect themselves from ill health. In the United States, the growing aging population needs more access to secure retirement income.

And we are operating in markets in Africa, the total population of almost 400 million people. Each of our businesses have leadership positions in their chosen segments, whereas in the case of Africa, are expected to become leaders in the near future.

While our portfolio is diversified across three continents, to be clear, this is an Asian-led group, and over time, it will become even more so. Over 60% of our embedded value will be in Asia, and Asia has the largest proportion of the world's population and almost all the new entrants in the global middle class. Asia is also where, there is the largest unmet need for financial protection and long-term savings services that we continually provide. And the penetration rates on the right-side of the slide are a good proxy for this. Asia is where we see strong community support for what we do. There is recognition among policyholders, that we are an essential element of their broader social safety net and Asia is where we see the fastest technology innovation.

This is aimed at improving efficiency and scalability, as well as expanding the market, again, by improving distribution and creating unique product categories and unique customer experiences. And this is where we see the most attractive investment opportunities for your money.

A leading Asian franchise operating in markets forecast to continue growing >10%

I have talked about the Asian opportunity. I want to say a few words about our capabilities. First, we have breadth. This is a portfolio of 14 different markets, all of which have structural growth. We have depth. We do protection, health, savings and asset management. And our customers range from high net worth individuals in affluent cities and marketplaces to people in emerging markets buying their first-ever financial product.

In China, for example, we are now in 20 provinces and 89 cities, giving us access to regions with about 80% of the country's GDP. And we distribute these services through multiple channels. We have scale. Three businesses produced over £300 million and five more generate in excess £100 million. We are innovating at scale, Pulse our new digital health app is unique not just in the diverse services that offers, but also in its pan-regional size and its ambition.

Our brand and our digital capabilities are making us an attractive partner, for example, with OVO, Indonesia's leading digital payment technology platform. And finally, we have a strong growth-oriented and disciplined management team.

Jackson enhancing cash generation through accelerated diversification

In the United States, we have a very strong business. It is a leader in variable annuities, delivering a great return on equity and consistently producing large quantities of cash for the Group. As we have said at the half year, we can further improve the cash generating power of Jackson and its remittances through diversifying our product mix. We look to do this, both, organically and inorganically.

Organically, Jackson is creating new products to build its position in fixed index and fixed annuity markets. More than 30% of the sales in the first half of the year were from products other than variable annuities. On the inorganic side, we had a strong record here in bolt-ons, most recently buying a book from John Hancock and we have proven capability and advantages in this area.

As we said last month, in funding this diversification, we are open to third-party financing and reinsurance. And to be clear what this means, it is our intention that diversification in the US will be achieved without the Group investing additional capital. Jackson is a good business, which we can improve to drive greater shareholder value. We have clear objectives here and we are executing on them.

Active portfolio management approach with a record of effective capital allocation

Over the past few years, while growing probability and investing for future growth, we have also exited countries, withdrawn from product lines and sold businesses.

This slide sets out just some of the highlights. We have always had an active approach to managing the full portfolio across the Group. To be clear, nothing is off-limits, and the demerger of M&G is merely the largest transaction in a continuing quest to optimise the shape of the Group. The result has been an increasing focus on the most attractive opportunities in Asia.

The stats on the right-hand side of this slide show, in Asia, over the past decade, we have now invested £3.6 billion in running new business. This has supported delivery of £8.4 billion of high-quality revenue. And this has contributed to an average operating return of just under 30% on IFRS equity.

This active approach to the portfolio management and capital allocation will continue.

Building long-term shareholder value

Everything we do is geared toward creating long-term shareholder value. That means aiming to deliver profitable growth throughout this cycle and I have spoken about the focus on structural growth opportunity, our investment in new capabilities and new distribution, and again, our disciplined approach to portfolio management.

A final key element is to focus on resilient high-quality earnings. In Asia, more than 80% of the operating income comes from insurance margin and life fees. The proportion of our sales with this regular premium is 93% in Asia. And our customer retention rates in the region are well over 90%. What sits behind these impressive metrics is a unique mix of skills and distribution, customer service, risk management and investment management.

It is also about deep and trusted relationships with consumers, governments, regulators and business partners, some of which date back almost a century. These attributes combine to create a highly sustainable competitive advantage.

Building long-term shareholder value

I am extremely proud of this Group's track record, compound annual growth across all key metrics over the past decades are well into the teens. Few of the businesses of our size can put up a chart like this.

What drove our performance in this decade are: structural opportunities, quality income, disciplined capital allocation - will continue to drive us through the next decade and beyond. We have an opportunity to further accelerate our performance. We are now better than ever at innovation. We are better at developing partnerships including with the world's best technology players. We are better at applying best practices quickly across the Group. This allows us to scale up even faster at pace. And we have a culture that is more passionate than ever about improving the customer experience and delivering positive growth.

I am confident that for Prudential, the best is yet to come. And now I would like to hand it over to Mark, who can talk about the metrics, dividends, and our disciplined capital allocation. Mark

Financial Performance

Mark FitzPatrick

CFO, Prudential plc

Thank you, Mike. Over the next few minutes, I want to cover off two main areas. Firstly, the key financial metrics of Prudential plc post demerger, covering Asia and the US. And secondly, our approach to capital management. And as part of this, I will take you through our new dividend policy.

Financial profile post Demerger

But before I get into those elements, for anyone who is new to us, a brief financial profile of Prudential plc post demerger. By any measure, we are a growing business with scale and strength. In 2018, for the Asia and US businesses combined, our new sales were £5.3 billion and our new business profit £3.5 billion, with the lion's share of our new sales and new business profits driven by our Asia businesses.

In the first half of this year, our Asia businesses grew both new sales and new business profits by 10% on a constant currency basis. This geographic weighting is reflected in our EEV operating profit before central expenses, which in 2018 was £6.7 billion, of which £4.5 billion is in Asia.

On a similar basis, 2018 IFRS pre-tax operating profit was £4.1 billion, of which Asia was £2.2 billion. At the end of June, on a pro forma basis, our Group IFRS equity was £14.5 billion, and on an EEV basis £43 billion. Our pro forma core structural borrowings of £4.4 billion. And finally, we are strongly capitalised. On the basis of the LCSM measure, that would apply post demerger, our cover ratio, again, on a pro forma end June basis was 338% with a surplus of £7.6 billion.

Although interest rates have fallen since June, our estimated LCSM ratio remains healthy and resilient. To help you better navigate LCSM, we will provide you with the sensitivity with our financial year 2019 results.

Key financial metrics

So having given you that brief overview of our new financial profile, let us get started on our key financial metrics.

Asia

For Asia, this is to continue to focus on generating high-quality growth, driven particularly by regular premium Health and Protection business, which grows embedded value over the longer term.

Jackson

As you have heard from Mike, the objective for Jackson is clear - grow statutory capital to grow remittances.

Group

At Group, we are focused on capital management. Allocating capital to create long-term value and overseeing an appropriate return on that capital, including disciplined focus on central expenses and managing central liquidity. An outworking of this is our new dividend policy, which I will run through shortly.

High quality, compounding business drives growing earnings

So how do we do this? Let us dive into this in a little more detail. As I think about our Asia business, I see that we are well-positioned in growth markets. We have a track record of strong growth and continue to see a very significant opportunity ahead of us. We are focused on selling high-quality business with over 80% of our operating income coming from insurance margins and life fee income, which are relatively less correlated to market conditions.

93% of our new business sales are regular premium business and we have around 95% retention rate, thereby compounding earnings and creating long-term value. PCA's first half 2019 performance evidenced the strength of our strategic and operational delivery. Now to bring this up-to-date, our year-to-date sales, excluding Hong Kong, to the end of August, saw broad-based double-digit growth. Hong Kong's first half domestic sales growth momentum has continued, notwithstanding the sector-wide slowdown of sales to mainland China customers. Overall PCA new business sales continue to grow year-to-date.

I also want to point out the strong and growing profit contribution of our Eastspring asset management business, which you can see in the grey on the chart on the right-hand side. In the two months period, since the half year, Eastspring has maintained its positive momentum in both net inflows and FUM.

Eastspring is an important strategic asset, as well as the source of differentiation compared with many of our competitors.

New business profit drives in embedded value. OFSG supports remittances

Our high-quality new business creates long-term value as evidenced through our sustained growth in embedded value. Over the five-year period to 2018, new business profits increased by a CAGR 19% and contributed to a combined increase in embedded value of £10.9 billion as at the end of June this year.

This powers the nearly threefold increase in embedded value for the life business since 2013 to £27.1 billion at the half year. Our embedded value matters to us because it is the present value to shareholders of the future cash flows that would emerge from our in-force life businesses over time. This, combined with the release of capital requirements, as the in-force business matures, creates free surplus. And it is this free surplus, which provides the capital to write new business, fund inorganic investments and support remittances.

As you can see on the right-hand chart, operating free surplus generation from our Asia asset management and in-force life business has been building steadily and remittances have increased broadly in line with this over time.

Jackson enhancing cash generation through accelerated diversification

Moving onto Jackson. I would simply like to emphasise its long track record of resilient capital generation. Since 2012, Jackson's cumulative remittance totalled £4.4 billion and you would have seen that it delivered $525 million to the Group in the first half of this year. Jackson's sales trends in the third quarter show a higher mix of FIAs, continuing the trend seen in the first half of 2019. And for fixed annuities, sales have increased following new product introductions.

The third quarter VA sales are exhibiting similar trends to those at the half year, reflecting the industry-wide slowdown with monthly sales continuing at broadly the same levels seen in the first half.

So to sum up, the Group continues to focus on high-quality Asia-led growth, measured through increasing embedded value and growing free surplus generation over the long-term.

Capital Management

Now moving onto the second part of my session, one of the key strengths of this Group has been the disciplined approach to capital allocation and this rigour will continue after the demerger. Our capital management priority is to drive profitable growth in Asia. But let me take you through the steps we used in the framework.

Driving sustainable, profitable growth and retaining a resilient balance sheet

Firstly, capital is allocated to prioritise profitable organic growth. The key performance metrics we used to drive this are new business profit, i.e., shareholder value created by writing new business and investments in new business, i.e., the shareholder capital required to support this new business.

Secondly, inorganic growth. Given our size and scale, we get to see just about all the inorganic opportunities in our markets, but we are very disciplined about how we use our capital. These are assessed by reference to expected shareholder returns and pay back periods relative to risk-adjusted hurdle rates, which are set centrally. The assessment also considers a range of other factors. These include a strategic rationale for the investment, the extent of diversification with existing risks and our experience in managing similar businesses.

Assessment of these opportunities is also reviewed and approved centrally within the Prudential Group's governance framework in order to maintain a rigorous approach to capital allocation.

Thirdly, we want to retain a resilient balance sheet and associated local and Group capital and liquidity position. As we previously flagged, under the new Hong Kong Insurance Authority-led regime, our regulatory Pillar 1 capital will be the Local Capital Summation Method, rather than Solvency II.

Dividend policy

And the final element is how we view dividends. Firstly, we have set out our expectations for the combined 2019 dividend across both Prudential plc and M&G plc, which subject to financial performance and market conditions, are expected to total 51.82p pence per share. This represents a 5% increase on the 2018 dividend of 49.35 pence per share and is equivalent to a total cost of £1.345 billion across the two groups.

Of this amount, around £425 million represents the first interim dividend already declared in August 2019. Around £510 million is expected to be paid from Prudential plc and £410 million from M&G plc in May 2020. Now please bear in mind that the £510 million expected Prudential plc's second interim dividend will be declared in US dollars and paid in May 2020. This will be translated into US dollars using the 2019 year-end exchange rate.

Of the £1.345 billion total 2019 dividends, £750 million represents the total 2019 contribution of the post demerger Prudential Group, to which our new dividend policy will apply going forwards.

Secondly, we have set out the new progressive policy for Prudential plc, which applies from this level, albeit future dividends for Prudential plc will be declared in US dollars.

In applying this progressive dividend policy, the Board will consider a range of factors looking to the medium-term and beyond, including capital generation capacity, financial prospects and investment opportunities, as well as market conditions.

Holding company cash flow

Over the medium-term, we would expect future central outflows to be covered by remittances from business units. These central outflows include dividend, debt interest costs and other central expenses, which encompasses central payments for bancassurance distribution agreements and restructuring costs, net of tax recoverable.

So in calibrating your forecast, you should consider the scope of our Asia and US businesses to grow their capital generation, which over time, will govern their respective remittance capacity. We discussed Asia's record of OSFG in remittance growth a moment ago. And in respect of our US business, Jackson has paid the Group a 2019 remittance of $525 million and we expect over time its strategy of diversification to enhance cash generation.

Turning to central outflows, the table here follows our holding company cash flow disclosures. The central outflows reflect the Group’s current pre-demerger structure. There were four key points to bear in mind going forwards over the medium-term. They are, one, net interest paid. Now post-demerger, our annual interest costs on our pro forma core structural debt is expected to be around £230 million.

Two, on corporate activity, the historic numbers here reflect the Group’s current structure. Post-demerger, we expect these costs to reflect our new footprint with two major business units, not three. Note that unlike IFRS reporting of central corporate expenditure, the holding company cash flow does not include the cost of our Asia regional office. Those cash costs are already netted off against the Asia remittances.

You may have also seen from the circular that the M&G Group expects head office and Group function costs in the range of £80 million to £100 million per annum. In the short-term, we expect to incur restructuring costs to align our corporate overhead with our new footprint. We will provide more details on this in due course.

Three, on tax received. After the demerger completes, we will no longer generate profits in the UK, but with the London head office, we will continue to incur some costs in the UK, including interest on Group debt. Post-demerger the absolute level of hold-co tax benefit is expected to materially reduce. Over time, this is expected to be partially mitigated by changes to the Group operating model.

And finally, four other movements. This line includes a number of components, which vary from period to period. And if you double the half year 2018 level you see here, that is more indicative of the annual run rate we would expect over the medium-term from 2020 before one-off effects.

Building long-term shareholder value

In summary to conclude this section, our capital management policy supports our approach of active capital allocation across the Group to create long-term value.

So to sum up, looking forward, post-demerger from a financial perspective, we have a proven powerful Asia life and asset management business and our priority is to drive its growth with embedded value development, a key measure of that. We have a successful and profitable US business in Jackson and a clear strategy. Growth in statutory capital generation and remittances is our priority.

The capital management framework I outlined, which is very much a continuation of our long-established, and I think this successful approach supports these objectives and our progressive dividend policy.

And finally to repeat Mike's message, we have a long record as active allocators of our shareholders' capital. We aim to grow long-term value. The long successful record across measures of growth, earnings and cash that you see here, is powerful evidence of this. I will now hand you back to Mike.

Summary

Mike Wells

Group Chief Executive, Prudential plc

Investment case: Asia-led in structural growth markets

Thank you, Mark. So again, just to reiterate, Asia-led business focused on structural growth markets. We look to Jackson to enhance its cash generation through participation in the world's large retirement market, staying active manager of the portfolio aiming to build long-term shareholder value underpinned by a progressive dividend policy. So again, we think highly compelling.

I want to hand it over to Patrick now, our Head of Investor Relations, to give you a quick briefing on the timeline for the demerger. If you would please, Patrick?

Demerger Timetable

Patrick Bowes

Head of IR, Prudential plc

Thank you, Mike. So onto next steps in the demerger. With the Circular and M&G Prospectus published yesterday, we have the M&G Investor and Analyst presentation tomorrow, Friday, at 10.00 UK Time on 27th September. There is a detailed timetable in the Circular with significant dates being the General Meeting on 15th October 2019 and the listing of M&G expected on Monday, 21st October 2019.

This is in line with our earlier guidance for Q4 completion. To remind you, that qualifying shareholders will be entitled to receive one M&G share for each Prudential share held by them at the applicable record time. Our tickers remain unchanged and are shown on this slide. The demerger does not affect any of our listing.

Going forward, we will report in US dollars. We retain our premium listing in London and membership of FTSE 100, with continuing listings in Hong Kong and Singapore. Thank you, Mike.

Conclusion

Mike Wells

Group Chief Executive, Prudential plc

Thank you, Patrick. And now let us give it please back to the operator and let us open it up for Q&A. I think it is appropriate.

Q&A

Jon Hocking (Morgan Stanley): Good afternoon everybody. I have got three questions please. Firstly, starting with the dividend. I wonder if you could give some more colour about what the anchor for the dividend is going forward? I think if you look at the underlying businesses there is a dividend rebasing that has happened for the Pru plc Group, I just wondered given we do not have a fully developed capital framework to look at, for the Asia business, how is that dividend anchored and how did you decide that this starting level should be obviously lower? And should we think that we will go back into old pattern of periodic rebasing of the dividend upwards? That is the first question. Second question, can you be more specific, please, in terms of the slow down in Hong Kong in August. I think there has been a very sharp fall in the mainland tourists in August. Can you give some quantification about the specific percentage fall in sales? And then just finally, on Jackson, and the remittances. What impact would there be on future remittances if interest rates were to stay where they are now given the elevated level of hedge costs?

Mike Wells: I think we will divide this into three parts, if we could. Mark, if you would please address the dividend issue, Nic a bit of a trading update or just impact on the resilience of the Hong Kong business, if you would. And then Michael, a general comment please on interest rates in Jackson. Mark?

Mark FitzPatrick: In terms of the dividend, when we look at the elements around the progressive dividend and the level of growth and how we think about the elements of the dividend going forward, it is very much in terms of around the capital generation that we have and we will also then be having a good look at the financial prospects and investment opportunities we have as well as the market conditions. So those are the factors that we are going to be looking at and taking into account in terms of where we are at and how we go forward.

Overall, as you have heard me say before, we only bring up to the centre, cash that we need from the business unit in any one year and that takes into account the level of the central cash stock and other potential investment opportunities or uses of central liquidity. And given where we are and given the starting point, we felt that £750 million was an entirely sensible and appropriate number for the business and in light of the capital generation we have in the report that we sent.

Mike Wells: And Nic on Hong Kong just the general feel on the resilience of that business to sales.

Nic Nicandrou: I mean, as Mark said, so in Hong Kong we have been impacted by the sector-wide slowdown in mainland China customers. The disruptions that have been caused are impacting their ability to come across. Now everything that we see indicates no change in purchase intention, and it is simply that the number of visits are being postponed.

Now conversely, the domestic demand and the activity to fulfil that demand, remains robust. Our sales through July and August were actually up in the domestic market year-on-year aided by the new annuity and the health offerings, and actually this lends weight. So I believe that structural purchases are much more resilient and more discretionary or transactional purchases.

Therefore, that Hong Kong picture taken together with the continuation of double-digit growth that we saw earlier in the year in the non-Hong Kong part of our portfolio means that through July and August, our overall sales were up. The activity, as you can imagine, there is no letup in the focus of Derek and his team to push forward. We continue to launch new products. We launched the new juvenile education product only a few days ago. We have launched a number of promotional activities on some of the very bespoke offerings that we have on Evergreen Saver, and on some of the protection products.

We are rolling out Pulse in Hong Kong in the course of the fourth quarter. And actually even though despite the disruption, we are stepping up on agent recruitment. So through July and August, our recruitment was 20% up on the equivalent period last year. So the business remains in good health and keeps on focusing on capturing an opportunity that is structural as we move forward.

Mike Wells: And Nic percentage of recurring premium retention just real quick again on that market.

Nic Nicandrou: Thank you for that Mike. It is 98% recurring premium and the other fact that I think it may be relevant is to mention is that the mix of business that we got through July and August is identical to what we saw earlier in the year and indeed to what we have seen historically, which tells me that the needs that we are covering are structural and real.

Jon Hocking: And can you remind me what the mix is of mainland versus domestic?

Nic Nicandrou: So in the first half it was 63% mainland, 37% domestic in APE terms. And it’s roughly similar.

Mike Wells: So Michael range of interest rates including current trading in Jackson?

Michael Falcon: So there is a couple of things. Clearly and obviously through the first half results, the drop in rates have been a headwind and we saw that in August as well. So I would start by saying that despite that with the hedging portfolio being effective we are within our risk limits on all of our capital and sensitivity measures, so that is important. Going forward, we do have the shift coming to the new regime, the new NAIC regime. And that model is a lot less sensitive to rates.

I think earlier in last year we had indicated based on where rates were at that time, which were obviously much higher that shift to that regime was going to be a bit of a headwind. It is actually at a point we are in the point in the curve now where that shift is actually accretive as well, which we disclosed in the first half year results, the permitted practice, which I will talk about in a second, is also right now a headwind where generally it had been a help.

We are not renewing that permitted practice going forward. And in fact, we will leave that, I think, in our published numbers the capital drag on TAC for the permitted practice at the midyear was about $570 million. So that is a good lift. Again, it is not just that there is not rate sensitivity in capital formation next year, but I think at this point we are more susceptible to further declines, although at a much less sensitive level in the new regime than the old.

David Motemaden (Evercore ISI): Just a question on just the target debt to capital levels post demerger. You are at, I think, 26% pro forma, including short-term securities. I guess where do you want debt to capital to get to and over what time period? Second, just on the holding company cash balance. Could you give us a sense for what the hold-co cash balance will be post-demerger? And what the minimum level of hold-co cash you intend to hold this? And finally, I was hoping to get a little bit more elaboration around the plans to reduce the corporate overhead going forward. Any sort of targets you may have. And separately, just on the TSAs that you have with M&G and Prudential, I guess, how fast are those going to be rolling off and how are you planning to offset the stranded overhead associated with those?

Mike Wells: So David, thanks for the questions. On the overhead, no, we are not going to give targets. We have right-sized the capabilities obviously to the size of the Group and the tasks at hand but we are not going to give a public target on that. On the TSAs, they are fairly minimal between the entities and again both sides have plans to in-house, if you will, various services that are currently shared.

The decision on having TSAs was a function of us wanting to keep the pace and pull forward the timing of the demerger not any capability development issue on either side. So that is more of a when do they sit on a project list of each of the two entities. It is not in our lens. But do you want to go to target on where we are in debt to capital and hold-co cash.

Mark FitzPatrick: David, Mark here. In terms of the debt leverage mid 20, 26 or thereabouts. We are comfortable with that leverage. We think it works for us. And it is not one that causes us concern and conversations we have had with ratings. They are comfortable with that level as well.

In terms of hold-co cash balance at the year-end. As we sit at the half year, the holding company cash is expected to reduce in the second half of 2019 on a level at the half year. But have not set out an exact number and I am not minded to set up an exact number at this stage.

David Motemaden: And if I can just follow up on around the £200 million of other movements that is expected to be sort of a run rate going forward in the medium-term. There are a few different items in there. What is really driving that going forward?

Mark FitzPatrick: As I mentioned, I think there are a number of components in there and those do vary from period to period. And you can see the way those numbers have bounced around a bit. So one of the things we just wanted to give you a sense of is what we think going forward will be helpful from an element of a run rate for your modelling before any one-off effects.

Ashik Musaddi (JP Morgan): Just few questions. So first of all, if I look at this cash plan, which is slide #21 and if I apply some growth for US and Asia, I get the number which suggests to me that there is no net cash accumulation after the payment of dividend based on the new figures. And I appreciate that you mentioned that you take out dividend, the amount that you want but then where is the dividend flexibility from subsidiaries? How much are we talking about in Asia, because I am not sure if there is a lot of flexibility in US at the moment. So any thoughts on that would be great. Secondly any progress on the US diversification plan where are we on that? Any progress? I know we were just talking about this last month. So might be there is nothing at the moment. But any thoughts on that? And thirdly on this other movement, sorry going back to that again. What is that £200 million? Is it like you are giving us some normal numbers for potential M&A or bank assurance payments, or is there some cost that is a recurring cost? So these three questions would be good.

Mike Wells: So let me just comment on the diversification. So Ashik, we are not going to comment on any work in progress we have on strategic issues in the United States. So the answer to that one at this point would be no comment. You want to address the other?

Mark FitzPatrick: Yeah. So in terms of the elements of the cash build, if you look at slide 17 in the deck, it shows the element of the OFSG levels, for example, in Asia across life and the asset management business versus the net remittance. And therefore it shows you that there is actually considerable capacity and capability that we want to be able to hold in the ground close to the businesses to be able to provide the maximum flexibility for the businesses to be able to do investment in growth opportunities on that particular piece.

And as for the other element in terms of that 200, it is, as I run the risk of repeating myself, it is a number of different components and they do bounce around quite a lot. And what we have tried to do is just give an element of what we think would that number could be on a go-forward basis, as I said, before anyone one-offs.

Ashik Musaddi: Sorry, what I was trying to understand on that is, is it a recurring number or is it something like you believe that on a normalised basis some different items may come to this 200 million number? I am just trying to understand that is this a cost today that is there like, for example, a corporate centre cost. We understand it is there. It will remain unless you do the efficiency, etc. So what is that 200 million? Is it like just a normal view of what year-in, year-out should be?

Mike Wells: So as the slide indicates, it is an element of things that includes the element around bancassurance distribution, includes things around restructuring costs and some of those things and some of those aspects as we know are going to shift and change depending upon the volume and depending upon our activity in any one year.

Johnny Vo (Goldman Sachs): Because the LCSM is so new, could you tell us what the LCSM has been over the past few years so we have a track record? And also could you remind us of what ratio you have included the US business in that LCSM, therefore what it would be if the RBC ratio was closer to 400%. Also in terms of the debt leverage capacity, do you have an upper range which you would not want to go above so say 30% range? And the final question is just in regards to OFSG. Is that based on a minimum requirement of 100%?

Mark FitzPatrick: In terms of the LCSM, it is new and therefore we have looked at it for the half year. We have not gone back. One of the things we are going to be spending time on is looking at it from a go-forward perspective in terms of what it is. It is very, very new. But also we think it is potentially bespoke arrangement that we have with the HKIA. And once the new group supervisory standards come out, we will get a better sense of what that is going to be in the future. And as we said at the half year, we expect that to happen some time during the course of next year.

Mike Wells: But Johnny, I think the way to think of it is it is an extremely well aligned look at fungible capital from the local regulator's point of view. It is cumulative look and our regulatory requirements across jurisdictions at reasonable capitalisation. So again, it is a good first look at a true fungibility to capital on a portfolio like ours. So we do not have audited historics on this. It is clearly a lens we have used in the past. You want to do debt?

Mark FitzPatrick: And then in terms of the elements around the US piece and how that is bought in, it is effectively 100% of the RBC basis is how that is bought in, in terms of the calculation as we set out in the half year accounts.

And then from the elements around the debt equity ratio or the debt lever element, one of the things that we keep a close eye on is the element around that leverage. We have 26% is we are comfortable with. We have not an indicated an upper limit in terms of where we would or would not be prepared to go. It is something that we keep under close review and if that decision was changed materially, we would be able to notify the market.

Mike Wells: And then just go back to the capital ratio, we are continuing to use our economic capital and our cash flow strain models internally as they are obviously developed to incredibly high standards, the number or regimes we worked under that it is not a single lens look on how we deploy capital or how we define dividend level or fungibility of capital. And again, we think we see convergence on the regulatory arising between US, European and Asian regulators, so how they look at quality of capital, capital levels, strain, etc. and we think we are ready for that.

Andrew Crean (Autonomous Research): Two questions, if I can. Firstly, on your plan to increase the cash remittances from the US. Could you help us at all with forecasting that or provide some target because at the movement the only information we get on statutory capital. There is one slide in the appendix once a year which provides a statutory operational profit, which is reconcilable to nothing. It is impossible from the outside for us to be able to substantiate the increased cash remittances. Second, as I think you will be aware from your shareholders and feedback, the main issue on the stock appears to be whether to keep Asia and the US together or to separate out the US? Could you say why you are not separating out the US at this time and what the synergistic benefits between the two companies, which you have talked about in the past, what are they and how powerful are they?

Mike Wells: So Andrew, I am going to give you the same answer I think as the half year on the targets. We are not going to provide targets on US remittances, I appreciate the challenge externally that creates but the answer to that is no, there wont be a target. On the US synergy piece, I mean, there is quite a few. The international business has approximately 80% of its earnings in dollars with the combination that goes to the reporting currencies, different risks with that. There is diversification benefits across the two. There is cash flow that goes to supporting our ratings, its capability.

We do not have a market in Asia that is not looking at the most part retirement products, capability in that space. Recognise different issues in the US business on that valuation we have a very different business. And some of those firms had in the US and we will continue to do things that allow shareholders to better understand the value of that business, but we are not going to get into the specifics, as I said earlier, what those are. But those would be just some of the synergies.

Andrew Crean: Could I come back on the first question? If you are not going to give targets, can you please give us more disclosures so that we can actually forecast the dividends in the US business?

Mike Wells: Yeah, we can look at that. We appreciate that in the absence of other information cash and the ability to model cash is a key metric for the markets, so we will continue to increase the disclosures. That is a fair challenge.

Abid Hussain (Credit Suisse): Just one question for me please. I suppose it is coming back to some of the earlier questions. I just wondered if you can clarify how much discretionary surplus capital that you have across the Group because I do not think the LCSM quite provides the true reflection of where you are. So just wondered, can you give us an indication of where the discretion surplus capital is sitting and how much it is? And I guess the second part of that question is what is your ability and what is your firepower for inorganic growth within Asia?

Mike Wells: Let us start with where are no longer, which under a Solvency II basis. We are clearly one of the best capitalised firms under ill-fitting regime. So our intent of this is not capital arbitrage or release capital by shifting jurisdictions. As I said earlier, our view on risk capital allocation has not changed and a lot of our internal tools has not changed and this is true across a number of capital regimes that we managed the business over decades. So this is intended to be a very strong company financially. You want to talk about the specific numbers where to look?

Mark FitzPatrick: So in terms of the surplus in terms of the half year that we have in terms of total insurance asset management, if you look at the half year accounts in terms of EEV section in Note nine, you will see the continued operations number at 5.2 billion for the total insurance and asset management, and then you have got other total of 3.1 billion and Asia maybe just 2.9, just under 3 billion of that.

Abid Hussain: Is that all, I mean, how much of that is actually fungible or currently available to use?

Mike Wells: Well, the quality of capital issues is a good one but that is under, I think, even the most strict regimes. It is a multiple of sources. It is a multiple of measurements. I think it would take more than a couple of minutes there to give you a line-by-line by math. But if you think it is by the most stringent western standards moving to a new regime, I'm not exactly sure I would get into it without doing a line by line comparison of the three capital regimes.

Nick Holmes (Société Générale): Just one question. Can you tell us the net impact on RBC of the NAIC reform and giving up the permitted practice because you have changed your view on both of these items, have you not? And I wondered if you could give us a bit more detail on what is net impact of the two is?

Mike Wells: So we do not give RBC, as you know, until the full year. The permitted practice historically renews in October, first week of October. So with the new regime coming being it is the only one of its type, is much good housekeeping as it was anything else. And the intent was to give you directional not the specific basis points on the impact of those because the calculation is not simply on permitted practice. So the big change in imperative times since the historic discussions and this would be the movements in rates effectively.

Michael Falcon: I would add that, one, we have not changed our view. Rates have changed in the market and so the impacts relative to the calculation changes. And we have given, I think, just some guidance that we expect to be in that range of 400 to 450 and we still expect that that guidance to hold from where we sit right now for the end for the year.

Nick Holmes: Okay, so you are just looking at the year-end position. Is your guidance on the negative effect on the RBC ratio from any NAIC reform next year. Is that still the same? The changes in NAIC calculation regime.

Michael Falcon: When I talk about 400 to 450, we are talking about in the new regime, which I think was the guidance that Chad gave last year in Singapore was that we were prepared to be in that range and planning for that. And certainly low rates has made that a bit more challenging but we still expect to be within that range and obviously where rates are will depend where we fall on that but I think we are talking exactly about the new regime.

Mike Wells: So Nick, the new information would be rate and equity movement and a better understanding of the models as we are moving forward, the more information there. So we are trying to give you a current look. I do not think it is a contradiction. Had everything else held the same, we would have different information for you.

Nick Holmes: Okay, sorry to lay this point slightly. But I mean, the inference what you are saying seems to be net-net there is no particular change. Is that your guidance?

Mike Wells: Again, not going to give you a specific RBC target or number or indication or where we are today. We do not do that on intervals. What we are telling you is through combination of the new regime and the strength of the firm we will put it in the range that we have forecasted even with the changes we have discussed and that was the consistent one even though things have changed.

Nick Holmes: Even after permitted practice.

Mike Wells: Yes, giving up the permitted practice, which again as we said would have renewed in October and given us the only one of its type in the States as much it was as much about hygiene if not. If that is a conversation with us and Lansing and [inaudible] and its impact on the new regime, may or may not have been helpful and it was in the conversation.

Michael Falcon: It becomes like the permitted practices do as how the swaps are treated and it is a much lower portion of our hedge book now than it was when it was put in place. And the new regime is much less sensitive to rates, particularly short-term fluctuations in rates. And so it is less of an impact whether it is favourable or negative based on any particular rate or market environment it is just less impactful. And so we are going forward without it and in the new regime.

Nick Holmes: And the number of 570 million that you gave is the permitted practice contribution. Is that correct?

Mike Wells: Yeah, not getting into – That was a midyear. We are not going to do an update on that.

Nick Holmes: That was midyear, okay.

Mark FitzPatrick: No, Nick it wouldn't come down.

Michael Falcon: The impact would have gone up with market. With rate drops, that impact would have gone up.

Nick Holmes: Okay, but you do not want to give us any further guidance on that?

Mike Wells: No.

Patrick Bowes: Yes, I have just got one from online. It is from Jackie Cavanaugh from Putnam Investments. She discusses comparing the value through Asia's AIA, is the market giving you limited value for Jackson. What is the right answer for shareholders?

Mike Wells: Again, I think it is better for management to drive the earnings, new business profit, embedded value, dividend, capability all the things we are doing. I think market prices its view of the businesses. On the US business, I think a fair way to look at it is it is unique in its space.

Everything about the business has done, what it was priced and built to do, its outcome for its consumers has been excellent. It is pricing. Integrity is there. This is not a business that has come back to you with assumption change after assumption change. The original pricing and the original integrity of its model has held. And it is in an environment in the States over the last 36 months with regulatory turmoil and competitors, who have had some challenges. So I think the right thing for us to do is to try and give investors a clearer view on the value of that business, a clear view on cash generation of that business so that it appeals to a broader set of investors and makes it easier for it to value. But the actual reaction to the stock is something and its value and I do not want to comment on.

All right, guys. Well, I want to just thank everybody for your time today. Obviously, thank everyone for their support. We made a conscious decision in this journey to go as fast as we could and get you information when it was printed and true versus forecasting when we might know something or might have something. I appreciate that has created some uncertainty. Thank you for your patience and during that we have created two very successful, very good companies. They are both I have not seen in my years here either side of this transaction these firms any more tuned up, any more focused on what their objectives are. And I think they both are going to be extremely successful in their space. And I just want to thank you for your support and your time today.

[END OF TRANSCRIPT]