2020 Half Year Results Presentation

Mike Wells

Group CEO

Welcome to Prudential plc's 2020 Interim results and our strategic update. I am Mike Wells, Group Chief Executive.

Disclaimer slide

So here is the agenda for today.

Agenda

I will start with a strategic update, including highlights of our First Half performance.

I will then hand over to Mark FitzPatrick, our Group CFO and COO, who will provide a detailed financial update.

I will then complete the presentation with some closing remarks.

So, here are the key points:

Key takeaways

This has been an important and purposeful half year, characterised by substantial operational and strategic progress.

Our financial performance was resilient in spite of the challenging and volatile operating environment.

The business is evolving and innovating at pace and from a position of strength.

Across the Group our people have done a great job adapting rapidly to remote working and its challenges.

At the same time, we have been active in supporting our customers and communities.

In an important strategic development, the Board has decided that we intend to pursue the separation and full divestment of Jackson.

Once completed, this means that the Group will be exclusively focused on our high-growth businesses of Asia and Africa.

This growth is underpinned by low-insurance penetration, large populations in need of our service, and rising Gross Domestic Product per capita.

And the Group is well-positioned to deliver long-term profitable growth for shareholders with a new dividend policy that reflects the group's evolving strategy.

Let's move to in to the financial highlights.

HY20 Financial highlights

These need to be seen in the context of extreme volatility in equities, foreign exchange and bond markets, geo-political uncertainty, and the operational impact of Covid-19.

Our performance highlights the resilience of our business model, our scale and our ability to adapt and act with agility.

In Asia IFRS operating earnings increased by 14 percent to $1.7 billion.

Sales growth was inevitably impacted by disruptions caused by the pandemic.

However, if you exclude Hong Kong, we saw resilient new business profits - down only 6 percent.

And we saw increases in our new business profits in four markets, importantly including China.

From a capital point of view, the LCSM surplus strengthened to $12.4 billion since the full year with a coverage ratio of 334 percent.

Our US business was above 425 percent RBC, when including Athene's $500 million investment which completed in July.

Asia Embedded Value is $37.3 billion at the half year, despite forex and interest rate impacts.

We delivered a Group operating return on equity of 21 percent.

So let me now go into the operating profit performance in more detail.

Asia – Growth, diversification and resilience

You may recall I characterised our 2019 performance as having three key features: Resilience, Diversification and Growth.

Our performance in the first half of 2020 demonstrated these three strengths once again.

- **Resilience** - High levels of recurring premium business with high retention rates and high-quality revenue sources - with almost 70 per cent of new business profits from Health & Protection.

- **Diversification** – Our $1.7 billion of operating profit is generated by a broad spread of markets operating at scale - with seven businesses contributing more than $100 million of earnings in the period.

- **Growth.** Operating profit growth of 14 per cent was delivered by nine life markets increasing earnings by double digits. In addition, Eastspring, our $220 billion asset manager, delivered 10 per cent earnings growth.

Our strength in Health & Protection is a significant competitive advantage.

The services we offer in this category are not only valued by the consumer, they support the healthcare and financial inclusion agendas of regulators and governments.

Covid-19, if anything has increased both the need for what we do and awareness of our positive social role.

And from a commercial perspective, Health & Protection has the added benefit of being a high-quality source of earnings.

Asia - Resilience through a diversified platform

The diversification of our distribution and product capabilities came to the fore during the half-year.

We were able to successfully manage changes in customer activity because of our growing ability to service customers where and how they want in interact with us.

This gave us resilience and additional stability in our business performance.

You can see this in the way we responded week by week as markets went into and came out of lock-downs at different times.

At the start of Q1, we reported good momentum outside Hong Kong.

Indonesia, Singapore and Thailand saw particularly positive APE growth and the mix shifting to protection sales.

The banca channel in China continued to perform well through the lock-down there.

And domestic Hong Kong sales were supported by tax-efficient seasonal products.

However, as we moved into March, excluding Hong Kong, sales tailed off as lock-downs were implemented across the region.

And again excluding Hong Kong, sales then improved sequentially month on month during Q2, as several markets emerged from lockdown.

China, in particular, had a strong second quarter with sales up 20 percent.

And in July we saw our sales outside Hong Kong exceed prior year levels.

These cumulative improvements reflect two things:

Our growing confidence in executing virtual sales

And the speed with which we are able to ramp up face-to-face activity as local regulations relax.

Hong Kong sales have continued to be impacted by border control measures, which led to the lack of any meaningful traffic from mainland China.

Looking at the half-year overall, a shift in mix to more health and protection in markets outside Hong Kong helped new business profit perform better than sales.

Eastspring closed the half with $122 billion of internal AUM, up 15 percent - with our broad distribution supporting its flows.

So now let’s go a bit deeper into how we are building resilience and developing the capabilities that will support future growth.

Amplifying capabilities to meet customer demand

I will start here with our new virtual capabilities.

Working closely with regulators, we can now sell 90 percent of products - including our higher value products – without face-to-face contact.

This capability has been rolled out across 11 markets.

For our agents, this is an added tool in their kit. They use it when the situation requires it or when the customer prefers it.

During April and May over two fifths of agency-sourced policies were sold virtually.

We also now have end-to-end virtual agency management. We can hire, train and license agents and operational staff online.

Compared to HY 2019, we have grown our agency by 7 percent.

This translates into a total of 72,000 new agents brought onboard during this challenging period.

We continue to improve our agent productivity management – Indonesia has been particularly successful here.

Million Dollar Round Table agents or MDRTs are up 19 percent outside Hong Kong.

An MDRT agent typically demonstrates high productivity with high-margin sales.

We have continued to strengthen our core capabilities:

We have entered new bancassurance partnerships in established and developing markets - such as Vietnam and Thailand.

And we are forging new distribution relationships with digital service providers, such as Ovo in Indonesia.

We are driving our penetration deeper in China to capitalize on our broad geographic footprint.

We are also successfully entering new distribution segments - for example the SME market.

And we are expanding the reach of our distribution and products in order to cater for the full spectrum of household incomes.

So lots of action, innovation and progress - all done in the face of Covid disruption.

At the same time we have also been busy at a corporate and strategic level.

Strategic and operational delivery during the Covid affected period

To recap our key strategic actions over the past few months, we have brought the highlights together on this one slide.

We delivered both the US reinsurance and anchor investment transactions with Athene - adding over 90 RBC points on a pro-forma basis.

In the large and affluent market of Thailand, we have made excellent progress. We signed an important bancassurance deal, and we are already seeing a positive impact on sales. We have strengthened management, and begun integration of the two asset management purchases with speed and care.

Corporately, we raised $1 billion of group debt in three days of global marketing using three different teams all virtually. This was our first deal in the US debt market for many years, and was another example of our competent preparation and execution.

We have accelerated digital development, in particular our customer-focused ecosystem, which is now fully integrated into our regular operations.

In Asia, new business submissions are now 88 percent electronic and we receive 54 percent of our premiums electronically.

In the United States, our day-to-day engagement with distribution partners is now largely electronic – with 7,000 joining our last virtual monthly sales convention.

In Asia and the US, we are increasingly integrating our products directly into the sales processes of our major third-party distributors.

Our new tech hub in Shenzhen is up and running and we expect it will be a major source of future ideas and competitive advantage. This facility was staffed and trained almost 100 percent virtually.

Clearly, we are all using work-at-home technology both in Asia and the US. And this is performing extremely well.

An important part of this process has been the launch, roll-out and development of "Pulse by Prudential", which now has 8 million installs.

Pulse is not just an App that gives medical guidance and information. It is becoming an important source of customer acquisition and new business sales.

It is now available in 11 markets and 10 languages.

It is fully integrated with the life value chain, encompassing new business fulfilment and client servicing.

It provides referrals to doctors for virtual consultations, improving access to healthcare for customers in remote areas across the region.

Our data gathering and AI are now used both to target users directly with simplified propositions and to refer warm leads to agents.

Crucially, Pulse has helped us reach new demographic and income groups – including young people at the start of their working lives.

They want very quick and simple service, and flexibility on ticket size and policy duration.

70 percent of Pulse users are new to Prudential and about 1.7 million policies have been issued direct through the Pulse platform.

Leads generated from Pulse to agents since April have led to APE sales of $60 million.

Internally, Pulse is encouraging a culture of innovation and scaling best practices at pace, which will generate benefits across the organisation.

So again lots of action, lots of progress.

As I look back over the year so far, it does feel like we have crammed years of profound development into just six short months.

Stakeholder delivery during the Covid period

As I mentioned at the time of the AGM, we have extended benefits to existing customers to help them get through these difficult times.

And we have enhanced the benefits available to consumers in multiple markets.

We have not seen a meaningful level of Covid 19-related claims.

We have supported our colleagues and agents during this extended period. Remember, Asia has been managing Covid business impact since the fourth quarter of last year.

We are keenly aware of the challenges a work-for-home model has created for our people and have taken steps to support their mental and physical wellbeing.

We have directly supported communities both through the health features available on Pulse and through a Group-wide Covid-19 relief fund. We continue our long-established community programmes focused on financial literacy and public health, which have moved online where possible.

The next slide brings all of these last few sections together and describes our sustainable business model.

Business Model

We have a clear purpose: to help people get the most out of their lives, giving them the freedom to face the future with confidence.

And that purpose aligns to our strategy.

We serve Asian and African consumers, across a full range of household incomes.

We offer Heath & Protection insurance and long-term savings products and we use digital, bank distribution and agent distribution.

We see powerful long-term economic and demographic drivers as well as strong alignment with government priorities: In particular the promotion of access to healthcare, financial protection and long-term savings.

Long-term track record of building Asia Value

This business model has delivered a great long-term track record in Asia.

In the 10 years to the end of last year, we have delivered double-digit compound annual growth rates in:

- New business profits,
- IFRS operating profits,
- Operating free surplus
- And Embedded Value.

We have done this by investing large amounts of capital: about $11 billion in that ten year period.

And by earning high rates of return on that capital: over 20 percent returns on equities and mid-teens returns on embedded value.

We have achieved this through doing the right things, at the right time and in the right geographies, for example:

We adapted our unique, with-profit platform in Hong Kong to service the mainland Chinese visitors and offered them access to high-quality healthcare and conservative international investment choices.

Since 2009, we have built our asset management business into a regional powerhouse. As I mentioned earlier, Eastspring now has $220 billion of funds under management and profits of over $140 million for this first Half.

We developed pioneering Sharia-compliant products in order to serve the huge Muslim populations of Malaysia and Indonesia.

Most recently, we upgraded our agent productivity management system in Indonesia. In 2019 this helped us grow our elite agent production by 57 percent.

Our track record of success is founded on a well-thumbed playbook:

- Identifying attractive opportunities early
- Executing with discipline and nerve
- And then using our learnings to scale and at pace.

This operational success is supported by strong structural growth.

<u>Asia: significant Long-term growth opportunity - $1.3tn of expected premiums</u>

The Asian insurance market is not only growing, it’s close to an inflection point of even faster growth.

When income per capita reaches around $10,000, this is when insurance penetration takes off.

The chart on the left is from Swiss Re and based on 2018 GDP per capita.

It shows in red dots for our operation and the fastest path of insurance development for Asia markets in red compared to Western markets in blue.

So we have great opportunities in the right markets like China which are close to - or at - an inflection point when demand increases rapidly.

We expect that the current Covid crisis to accelerate this trend further, by reminding individuals and governments of the need to increase provision of financial protection and health. The recent surveys conducted by us and other firms confirm this.

Looking at the chart on the right, the expected growth of the global market is disproportionately going to be in China and Asia, with two thirds of the future global growth concentrated in these markets - where we have enduring competitive advantage.

This is $1.3tn worth of expected premiums – more than half of the existing level of global premiums.

So now we move to how we are going to deliver you, our shareholders, more concentrated access to this growth.

Intention to fully separate Jackson

Prudential seeks to focus in particular on those markets in Asia where we see the largest growth opportunities.

This strategic clarity enables us to focus on deploying our capabilities rapidly across businesses, and further increase the pace of product roll-outs, the drive into new channels and the use of new technology,

The pivot to Asia began with the demerger of M&G Prudential. The Board has decided that we intend to pursue the full exit from Jackson over time. This full separation process began with the sale of an 11.1 per cent equity stake to Athene, and is expected to continue with a minority IPO targeting the first half of 2021.

We will seek any required shareholder approvals before execution. And this is all subject to market conditions and we retain the demerger option.

Proceeds from anticipated new Jackson debt issuance would be expected to reduce Group leverage.

Proceeds from further sell-downs in Jackson following the IPO would provide additional resources to the Group for investment in Asia.

We have also determined that a new dividend policy, which is aligned to this evolving strategic focus, will be implemented with immediate effect. This policy supports the Asia and Africa growth strategy and the intended separation of Jackson.

We believe our ability to deploy capital in Asia in the medium and long term is enhanced by market trends, and by our expanding capability. We will continue seeking high returns with a view to achieving sustained double-digit growth in embedded value per share.

Going forward dividends are expected to grow broadly in line with the growth in Asia's operating free surplus generation net of right-sized central costs.

Dividends will be set taking into account financial prospects, market conditions and investment opportunities.

Mark will cover some of this in more detail shortly.

So before rounding up let me remind you of what Jackson is, as it prepares for an IPO:

A leading provider of US retirement solutions

Jackson is a leading provider in the large US annuity market.

Many millions of Americans are moving from working lives to retirement, and the annuity industry is a crucial part of the financial solutions which support people in this transition.

Total sales for the US industry exceeded $100bn of annuities for the first half of this year.

JNL has capabilities across the annuity product spectrum and a long record of successful risk management and product innovation.

This past half year has shown this again: with Jackson's RBC ratio is higher - despite historic moves in market volatility, growing bond spreads, and the decreases in interest rates.

It has a highly efficient and leverageable operating model with a history of value accretive bolt-on acquisitions. The core administrative cost ratio at the first half of the year was 35 basis points and it continues to lead the industry.

Jackson's distribution and service are also industry leading.

And Jackson will continue to explore further opportunities to diversify its business over time, though an IPO is its immediate strategic priority.

Moving back up to the Group-level, let me try to sum up our strategy.

Our aims and strategy

Our aim is to deliver attractive and sustainable shareholder returns primarily through capital appreciation.

Our businesses in Asia are well positioned in the growing protection and savings markets.

We want to build and maintain our competitive advantage and scale.

In Hong Kong and in ASEAN we have leadership positions and are broadening them further with new products and virtual distribution.

We have significant operations in the largest scale markets of China, India, Indonesia, Malaysia, and Thailand.

These represent huge long-term opportunities and we have significant investment appetites for growth in these markets.

We are focused on operational discipline: maintaining product pricing, efficiency and the ability to self-disrupt through innovation and implementation of technology.

Another source of competitive advantage comes from our longevity. We have been in Asia for almost a century and we have established a brand, we've established trusted relationships and a high-quality team that are very difficult for a newcomer to replicate.

Crucially, we believe in a multi-channel approach to distribution. And the benefit of the diversification of our operations comes through in the resilience of our earnings, particularly in times like this.

Over many years, we have made substantial investments in Asia and now we have a diversified, scaled and *scalable* business.

Our capital allocation will be rebalanced for reinvestment in growth.

This means a focus on growth with a view towards achieving sustained double-digit growth in embedded value per share.

For shareholders, this means direct and focused exposure to this powerful value creator, from a unique and proven business model.

With that, I am turning over to my colleague Mark.

Mark FitzPatrick

Group CFO & COO

Welcome

Thank you Mike and good day to all of you.

I am speaking to you from our rather empty offices in London where the vast majority of our team are working from home. In this session I will be covering the following three topics:

Firstly, some brief insights into the drivers of our financial performance and the operating environment we have experienced, as different markets have reacted to Covid-19 differently over the first half;

Secondly, some key highlights of our first half results for Asia, the US and the Group; and

Thirdly, I will cover the proposed separation and divestment of Jackson, our capital allocation priorities and our new dividend policy.

Group: HY20: Drivers of financial performance

Starting with the first topic, the drivers of our financial performance and the operating environment we experienced in our different markets. We entered the period with a highly resilient business model which is built on quality and diversification. Quality in Asia through high regular premium, 95% retention rates, and 87% of our IFRS life income derived from fees and insurance margin, the latter, increasing by 19%. Diversification across product, channel and market.

While Covid-19 and its related containment measures inevitably affected our sales and new business profitability, the teams in every market responded to-help and support our customers and people. This new way of living for many people created an environment where virtual ways of engaging were more accepted and encouraged and where Pulse met a real need in the market.

During the half year, macro conditions were extremely volatile. For example, the S&P 500 index finished 4% below where it started, but within that, it fell 34% from its high in February to its low in March, before rising

39% by the end of June. Interest rates fell sharply, with the US 10 year treasury yield down 126bps to stand at 67bps at the 30th June.

Notwithstanding this, our capital and liquidity position remains strong. This provides the underpin which allowed us to make substantial operational and strategic progress, even in more challenging conditions.

Group: Operating environment

I thought it would be helpful to include this next slide to provide some of the context in which our businesses have been operating.

China went into lockdown at the end of January which was then lifted at the end of March. Vietnam applied a full lock-down over April lifting at the beginning of May and has just re-imposed containment measures, while Taiwan did not apply a lockdown but imposed significant containment restrictions over the period until the beginning of May.

Hong Kong has not imposed a formal lockdown, but applied significant restrictions from January to early May and then reintroduced them in July as a result of a third wave.

Most of our other markets entered lockdown towards the end of the first quarter, and those lockdowns remained in place over much of the second quarter, albeit with varying degrees of severity.

Since the period-end, we continue to see a range of moderate to significant containment measures across our markets.

Group: Selected performance metrics

With that context in mind, I'll now move onto the second topic, that of our half year results. This slide provides a summary of the key metrics. There are three points here that I would like to highlight:

1. The Covid disruption in Asia on new sales is evident in the lower level of new business profits. Lower new business profits mechanically reduced our Asia EEV operating profit as well.

2. Our Asia in-force business remains resilient, which is evident from a 13% growth in operating free surplus generation and a 14% growth in IFRS operating profit.

3. Our US capital position remains robust, reflecting strong management of the book in very testing market conditions. Post the Athene reinsurance and allowing for the equity injection the 30th June RBC ratio is above 425%.

<u>Asia: HY20 new sales reflect Covid-19 related disruption</u>

Moving now to look at Asia in more detail. New sales numbers reflect the implementation of Covid-related measures in all markets.

Overall, new APE sales were 34% lower in the period, with new sales in Hong Kong down by 64% and those outside Hong Kong 12% lower.

In our China business, the strict lockdown from the end of January to the end of March adversely impacted sales in the first quarter. As restrictions eased, the sales environment began to normalise, with second quarter sales up 20%. We benefited from our diverse distribution footprint; with banca really helping us in the first quarter and agency coming back strongly in the second quarter, up 15%.

The benefit of our banca distribution strength is echoed across the business, particularly in China, given bank branches have been widely deemed as an essential service. Overall ex Hong Kong, banca APE was only down 6% over the first half.

And we see a similar pattern elsewhere. Sales slow down when restrictions are imposed and then bounce back when they are released. To this end, we have seen improving sales trends in June across all 13 markets, compared with those in April and May.

July 2020 sales continued to show an improving trend relative to prior year. 5 businesses achieved growth as compared to July last year, led by China which recorded its fourth consecutive month of year-on-year growth. Excluding Hong Kong, PCA’s July sales were up 1% year on year.

We remain very focused on driving quality business. For example, 7 markets, including India, increased their proportion of health and protection sales, with health and protection business generating 69% of overall new business profits during the first half. This has contributed to the positive jaws where we saw a reduction in new business profits of only 6% in markets outside Hong Kong where sales were 12% lower.

In Hong Kong our domestic business was relatively resilient in the first quarter, supported by sales of new tax advantaged products. Our sales to mainland China customers were very low reflecting the impact of border restrictions. This has led to, and continues to lead to, very low levels of visitors from Mainland China, with consequent implications for new sales. The border with Mainland China may not re-open in 2020.

Asia: 11% operating RoEV in challenging new business environment

The building blocks of our EEV operating performance are our new business profit, the in-force return and the after tax profit of our asset management business, Eastspring.

The in-force return reflects the impact of lower period end interest rates under our active basis EEV methodology, which reduced our return by $165 million. However experience variances and assumption changes remained positive, contributing $245 million.

Combined, these drove an annualised 11% operating return on embedded value, which in our view, is a credible performance in difficult market conditions. This underpins our belief in the ability of our Asia business to achieve sustained double-digit growth in embedded value per share after the separation of the US business.

We then true-up for the impact of macro-movements in the period, principally lower interest rates. Under our active basis approach we immediately take into account the effect on all future cashflows of the lower interest rates at the period end. This reflects the impact of lower assumed fund earned rates only partially offset by a reduction in risk discount rate.

Clearly, as for any long term business, we continue to actively manage through a period of sharply reduced interest rates. In terms of interest rate sensitivities, which only allow for very limited management actions such as changes to policyholder bonuses, a further 50bps interest rate fall would reduce our Asia life embedded value by $730 million against an overall Asia embedded value of over $37 billion at 30 June.

Asia: Compounding in-force drives higher OFSG supporting higher underlying remittances

Our in-force business has remained resilient, with customer retention levels remaining very high at 95%. You can see the benefit of this here in respect of operating free surplus generation or OFSG, and shortly in terms of the IFRS operating result.

In the left hand chart, our renewal premiums remain a good proxy for our in-force progress and illustrate the benefit of our high quality, recurring premium strategy. Within the renewal premiums, we have higher margin, protection renewal premiums up 10%.

In the middle chart, our in-force free surplus return of $1.2 billion is broadly in-line with expected levels. Asset management earnings, which flow directly into the OFSG calculation as non-covered business, added a further $126 million.

Operating capital generation was also supported by lower new business strain of $298 million, with the impact of lower new sales volumes partly offset by the effect of lower interest rates.

Over time, growth in operating free surplus generation supports the trajectory of remittances. These increased to $400 million in the period. The 2019 comparative included the proceeds from reducing our holding in ICICI Prudential to comply with its listing requirements.

Asia: Resilient, broad-based in-force growth drives IFRS operating profit

These same factors underpin the development of IFRS operating earnings.

The benefit of our focus on health and protection, and our broad portfolio of businesses comes through, particularly in a period of considerable macro volatility. This is evident from the 19% growth in insurance margin which accounts for nearly 80% of insurance income. We also benefited from relatively favourable claims experience. As things stand and based on history, we expect some of this favourable claims experience to unwind over time. However, as you would expect, we have been prudent in the determination of the related reserves.

Similarly, on a market basis our performance remains broad-based. At the half year, we have 9 life markets delivering growth of 15 per cent or more. There are six life businesses producing earnings in the period of over $100 million and of these, three are well over $200 million.

Eastspring's operating profit after tax was 10% higher. A 12 per cent increase in average assets under management supported a 6% increase in operating revenues. Robust cost control improved the cost/income ratio to 50%.

Eastspring's net flow picture reflects a combination of continued steady in-flows from internal insurance funds of nearly $3 billion and modest outflows in respect of our 3rd party institutional business. This was offset by more significant outflows on the 3rd party retail side, and outflows in relation to funds managed on behalf of M&G plc. The 3rd party retail net outflows, notably in a number of retail bonds funds, increased with broader market volatility.

In respect of the outflows on funds managed on behalf of M&G plc, $7.3 billion was redeemed in the first half of 2020 and we expect a further outflow of around $6 billion in the second half of this year.

Although Eastspring is taking broader cost mitigation actions, you should consider this effect, alongside the level and mix of the closing June AUM position when working on your forecast revenues and costs.

Asia: Key takeaways

To sum up on Asia, our business model did what it was supposed to do. It delivered for our customers, our employees and our shareholders. Our financial performance really demonstrates this.

- While new sales and associated new business profits were clearly impacted by Covid related disruption, the business responded well, maintaining new business profits outside Hong Kong only 6% below those in the prior period with an improved margin
- Our in-force business is resilient and the capital position remains robust with a shareholder cover ratio of 308%; and
- We are at scale: notwithstanding the sales slowdown our total Asia weighted premiums of $11.4 billion were almost at prior year levels, Eastspring's total AuM was a robust $220 billion, our EEV shareholder's equity is over $37 billion and our company level LCSM regulatory surplus was $19.6 billion

At the same time, we have made rapid progress in building and in-fusing digital muscle. We have accomplished more, in the last 6 months, than we thought possible in as many years. All of this builds additional capability and capacity for a recovery in sales when conditions normalise.

US: Resilient new VA sales, expected reduction in FA/FIA sales following repricing

Turning now to the US results, starting with sales.

The pricing actions we have taken in respect of our FA and FIA business, in line with the declining interest rate environment, contributed to a sharp drop in new sales of these products. The second quarter was 83% below the first quarter. If interest rates remain at current low levels, I would expect similarly low levels of new general account sales over the balance of the year.

Overall, new sales over the first half were 9% lower than the prior period, with VA sales, including Elite Access, 1% higher. It's important to note, though, that Jackson retained its leading position in its chosen segments of the US VA market. We've seen encouraging growth coming through our new distribution relationship with State Farm and more broadly, significantly increased digital interaction with advisors – for example some 7,000 advisors have attended web-cast 'Jackson National Live' events.

The reduction of 134bps in risk-free rates compared to the end of June 2019, reduced the projected level of future separate account return. This accounted for the majority of the 45% reduction in new business profits.

US: IFRS: resilient operating performance

Turning now to look at our US business through an IFRS performance lens. You can see that at an operating level, our headline numbers were impacted by the effect of unfavourable DAC acceleration in the current period, and favourable DAC deceleration in the prior period. Excluding this effect, operating profit was 6% lower.

Fee income was stable year on year, while the average fee margin was slightly down.

The relative stability of the average Separate Account balance – despite very volatile market conditions - shows the benefit of our VA product design and risk management approach, because by staying invested, customers benefited from the subsequent market recovery.

Spread income was down 8 per cent compared with 2019 reflecting a lower spread margin. Given the Athene reinsurance transaction, and the effect of low interest rates, we expect spread income to decline further.

The core administrative cost ratio is broadly flat year-on-year at 35bps, illustrating the benefit of Jackson's lean model.

Turning now to the non-operating components. The key drivers in this period are our hedging results and particularly the impact of lower interest rates on the FAS157 component of the US guarantee liabilities. FAS157 is a 'fair value' approach using market consistent type economic assumptions. Projected market returns (or drift rates) are based on current, very low, risk-free interest rates. The consequently increased level of projected claims are discounted on rates that also reflect current spreads and low interest rates.

The pre-tax impact of the reinsurance agreement with Athene was $846 million. This reflects the ceding commission received alongside various adjustments to deferred acquisition costs and other factors related to asset and liability valuations at the 1st June effective date. There is a summary of the various impacts of the transactions with Athene in the appendix. As a reminder, the liabilities transferred contributed about $100 million to the 2019 year US IFRS operating profit.

US: Resilient statutory performance in volatile macro conditions

From an RBC perspective, the estimated end June RBC ratio was over 425% after taking the Athene equity investment into account.

We invested $60 million of statutory surplus in writing new business in the period. This is 58% less than the strain we incurred in the first half of 2019 and we expect the level of strain in the second half of 2020 to be significantly lower than in the second half of 2019.

In-force statutory operating surplus generation was broadly consistent with the circa $1 billion per annum we have referred to previously and contributed 29 RBC points in the period. Looking ahead, we expect the reinsurance transaction to lower annual statutory operating surplus generation by about $150 million.

The positive non-operating impact of $1.1 billion you can see on the slide is due to hedging gains outweighing reserve and capital increases.

The Jackson treasury team worked well once again to protect the underlying capital position during a period of huge market volatility.

US: High quality asset exposure, credit risk reduced

Turning now to the asset book. The reinsurance transaction with Athene reduced our overall US general account asset exposure by about 25 per cent. Jackson's investment portfolio is positioned more conservatively now than at the beginning of previous cycles, illustrated by the bullets on the slide.

To add a little colour to this:

- The US high yield corporate debt portfolio is equivalent to 2% of the total US investment portfolio excluding cash and compares with an equivalent weighting of over 5% in 2007. The average holding size is just $5 million.
- If you look out our BBB- corporate debt exposures, these account for only about 5% of the US investment portfolio, again excluding cash, and are very well diversified with an average holding of $23 million.

US: Key takeaways

Summarising the US performance:

Operating capital generation was broadly in-line with our expectations and in addition an effective hedging programme and proactive actions have allowed us to build the RBC capital position over the period. In particular:

- The hedging strategy has once again been effective in extremely volatile conditions.
- We maintained pricing discipline while retaining our leading position in our key markets, and
- The two transactions with Athene have materially improved Jackson's statutory capital position and reduced overall credit exposure.

Group: On track to reduce HQ costs by $180m a year from start 2021

Turning now to the Group view of our financial performance, starting with central group items.

- The total central operating overhead before restructuring and IFRS 17 costs is 25 per cent below the prior period. This reflects materially lower interest costs as compared to the pre-demerger position;
- We remain on-track to deliver the $180 million reduction in annual corporate expenditure by the 1st of January 2021. We have made strong progress, with plans completed to deliver $160 million of these annual savings. This reflects a review of the target operating model of our corporate functions post the demerger of M&G and the change of our lead regulator
- Both restructuring and IFRS 17 implementation costs are higher in the period, with IFRS17 costs accounting for about half of the charge you see here. As a reminder, for the full year 2020 you should expect central restructuring costs of around $180 million and allow for a broadly similar level of IFRS 17 cost in the second half of this year as in the first half, as we continue with the build of the systems.

  Overall, the Group's IFRS operating profit for continuing operations is up 7% compared with the prior period, excluding the US DAC effects I mentioned earlier.

Group: Robust and resilient LCSM capital generation supporting investment in growth

Moving onto Group capital. Our Group shareholder regulatory capital position increased further in the period, to a closing surplus of $12.4 billion, representing a cover ratio of 334%. Note that our senior debt, potentially representing a further 27 solvency points, is not currently reflected as capital in our LCSM results, pending further GWS guidance.

Starting with the movement analysis on the left. In-force capital generation continues to compound in line with expectations, with $1.2 billion of capital generated in the period, providing funding for investment in new business, as well as supporting shareholder dividends and inorganic investment in Asia.

In addition, non-operating effects were strongly positive in the period. This reflects negative market impacts, the benefits of Jackson's hedging programme, the Athene reinsurance transaction, reserving changes in Hong Kong and the solvency regime changes in Asia. As we have previously said, as local solvency regimes become more economic and risk-based we typically see beneficial outcomes for our Asia businesses. By way of example, the new Singapore RBC framework was introduced at the end of the first quarter, which added $2.2 billion to our LCSM surplus.

On the right hand side, our LCSM sensitivities continue to show the resilience of our business to economic shocks, even at these very low levels of interest rates. This resilience reflects our continued focus on Health and Protection products in Asia, as well as our proactive risk management of products with guarantees, including effective hedging, and disciplined product design and pricing.

Finally, to contextualise these LCSM results, the Hong Kong Legislative Council approved the enabling primary legislation for the new GWS in July. Although the timing of the finalisation of GWS remains uncertain, further implementation guidance is expected later in 2020 and GWS is expected to become effective in early 2021. Subject to this further guidance, we currently expect GWS to be largely consistent with the methodology we already apply for LCSM.

Group: Strong liquidity position/continuing to support Asia growth

I'll finish the HY results section of the presentation with holding company cash developments. The key point to note on this slide is that the Group continues to support strategic growth in Asia. In this six month period we have made investments of over $750 million, primarily reflecting payments for bancassurance arrangements, including those with UOB and TMB Bank.

Jackson did not pay a regular dividend in the period and is not currently expected to pay regular dividends before a potential IPO.

We continue to see our local business units as the natural home of cash and capital given the attractive investment opportunities available to them.

Meanwhile, we finished the period with a very strong $1.9 billion central cash position, which combined with our $2.6 billion of undrawn external liquidity facilities, provides us with a large buffer of central liquidity to withstand potential stresses in these very volatile markets.

Path to full separation and divestment of Jackson over time

So, onto my final topic of the day. As Mike said earlier, the Board has decided to pursue the full separation and divestment of Jackson. This will enable the Group to focus exclusively on its high-growth Asia and Africa businesses.

We expect to commence separation by way of a minority IPO followed by future sell-downs over time, subject to market conditions.

If market conditions are not supportive of an IPO, the Group's current intention is that separation would be facilitated through a demerger of the Group's stake in Jackson to our existing shareholders.

You can see the timeline of expected events set out on the slide.

We are targeting the first half of 2021 for the potential IPO, and preparations continue to progress well. The recent completion of the two transactions with Athene represent an important step on Jackson's path to independence.

Jackson intends to seek a strong credit rating and capitalisation. It is expected to target an RBC ratio in the circa 425-475 per cent range at the point of the proposed listing. This would include the proceeds of any primary equity issued by Jackson at or before the IPO, and the benefit of target financial leverage raised at the Jackson holding company level in advance of the IPO.

Jackson's holding company would currently be expected to target financial leverage in the circa 20-25 per cent range, with this financial leverage defined as debt to debt plus equity. These ranges are subject to market conditions and will be kept under review. As I just mentioned, this target financial leverage would be expected to be raised at the Jackson holding company level in advance of the IPO.

The Group intends to maintain its very strong financial strength rating in the AA range following separation and will manage its debt levels accordingly. Any pre-separation returns of capital, including from Jackson's debt issuance, would principally support related Group debt management activities through redemption of some debt, at par.

The Group will also continue to align its head-office costs with the evolving footprint of the business. We aim to deliver a further annual cost reduction of around $70 million by 2023 on top of the $180 million cost savings by 2021 previously announced.

Driving compounding capital generation

Under our new strategy, we intend to prioritise investment in Asia, and particularly in our largest markets where we see the greatest opportunities. We continue to expect them to generate profitable and sustainable compounding growth, and high risk-adjusted returns for our shareholders. This virtuous circle is represented on the left hand chart.

Starting on the right of this cog, it represents how capital is invested at attractive returns, building value. Moving clockwise, it shows how management pro-actively conserves and further develops that value. And then how value monetizes into capital available for further reinvestment.

This demonstrates how investment in profitable new business in turn drives growth in embedded value. With new business profit growth rates that are expected to substantially exceed GDP growth, the post-separation Group would focus on growth, with a view to achieving sustained double-digit growth in embedded value per share.

Our framework continues to apply internal hurdle rates to organic and inorganic investment opportunities ensuring attractive risk adjusted returns. In Asia, over the first half of this year for example, we delivered IRR's on new business above 30 per cent.

This discipline also applies to the mechanism by which we invest, for example our history of investing in partnerships and JVs, such as in India and China.

To help demonstrate the value uplift, we show here the value multiplier in respect of the new business profit generated per unit of capital invested. For 2019 with Asia standalone, this was 5.7x, and over the four years between 2016 and 2019, this averaged 5x. Even in the testing conditions of the first half of this year, this multiple was over 3x.

Considering the significant opportunities in Asia, the new dividend policy looks to rebalance the allocation of capital, from cash dividends to reinvestment into the Asia business and will apply with immediate effect.

New dividend policy

This slide sets out the policy wording and the considerations which the Board will apply when determining the dividend path going forward.

We carefully considered the appropriate and prudent way to finance the opportunities available to us in light of the new strategy. In developing this new policy we have also been conscious that many investors place considerable importance on the validation of value conversion that a cash dividend provides, particularly for a long-term business such as ours. So we have tried to strike the appropriate balance.

In respect of the new dividend policy, the key points to bear in mind are that:

- The new policy will apply with immediate effect, with an estimated 2020 total dividend of around $420 million.
- The total 2020 dividend will be subject to market conditions and financial performance in 2020 remaining in line with expectations, and is based on current estimates of Asia's full-year 2020 operating capital generation.

The dividend is expected to grow broadly in line with the growth in Asia operating free surplus generation net of right-sized central costs, namely after the announced cost savings.

Using the multiplier of new business profit created per dollar of capital invested, based on the 2019 experience, every dollar of capital invested organically in Asia new business created nearly six dollars of value. While this ratio will vary, it's an indication of how powerful each marginal dollar of investment can be, given our opportunity set.

Group: Key take-aways

To close, I want to leave you with these key messages:

- Our strategic priority is to drive Asia growth
- We have set out a clear path to the full separation and divestment of our US business
- Covid is acting to disrupt new sales; however our in-force business remains resilient and we have maintained our focus on quality. We have accelerated our digital capability and reach with customers, agents and operationally by enhancing our efficiency
- Our capital positions, and the capital generation which supports these, remains robust and in-line with expectations
- Our new dividend policy is aligned with revised Group strategy

I will now hand you back to Mike.

Group Investment case

Thanks Mark. So to close off let me set out our investment case.

- We see multi-decade structural growth opportunities ahead of us in Asia.
- We are diversified and have scale with leadership positions across our products, channels and geographies.
- We have a business model that delivers efficiency & increasingly digitally advantaged results with quality earnings.
- So we have learned, experimented and tailored our product suites. We have created whole new forms of distribution. We have dramatically accelerated the cycle of innovation, testing and rolling out at speed.
- Our long record of capital allocation and robust risk management and governance underpins a resilient capital position.

With the separation completed, Prudential will be focused on growth with a view towards achieving sustained double-digit growth in embedded value per share.

Thank you for your attention and I look forward to speaking to you in due course.