Solvency II Update

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Prudential

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Forward Looking Statements

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Solvency II: Overview

Key messages

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- Solvency II approvals successfully address areas most critical to Prudential
- Solvency II outcome confirms strength and resilience of the Group's capital position
- Drivers of capital generation and consumption for Asia, US and M&G are unaffected
- UK in-force expected capital generation is not materially impacted
- Group remains highly capital and cash generative
- Group strategy and dividend policy unchanged

Solvency II: Overview

Key areas of uncertainty remained in August 2015

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- Internal model submitted in June
- PRA decision expected in December
- Strong 1H15 Solvency II capital generation

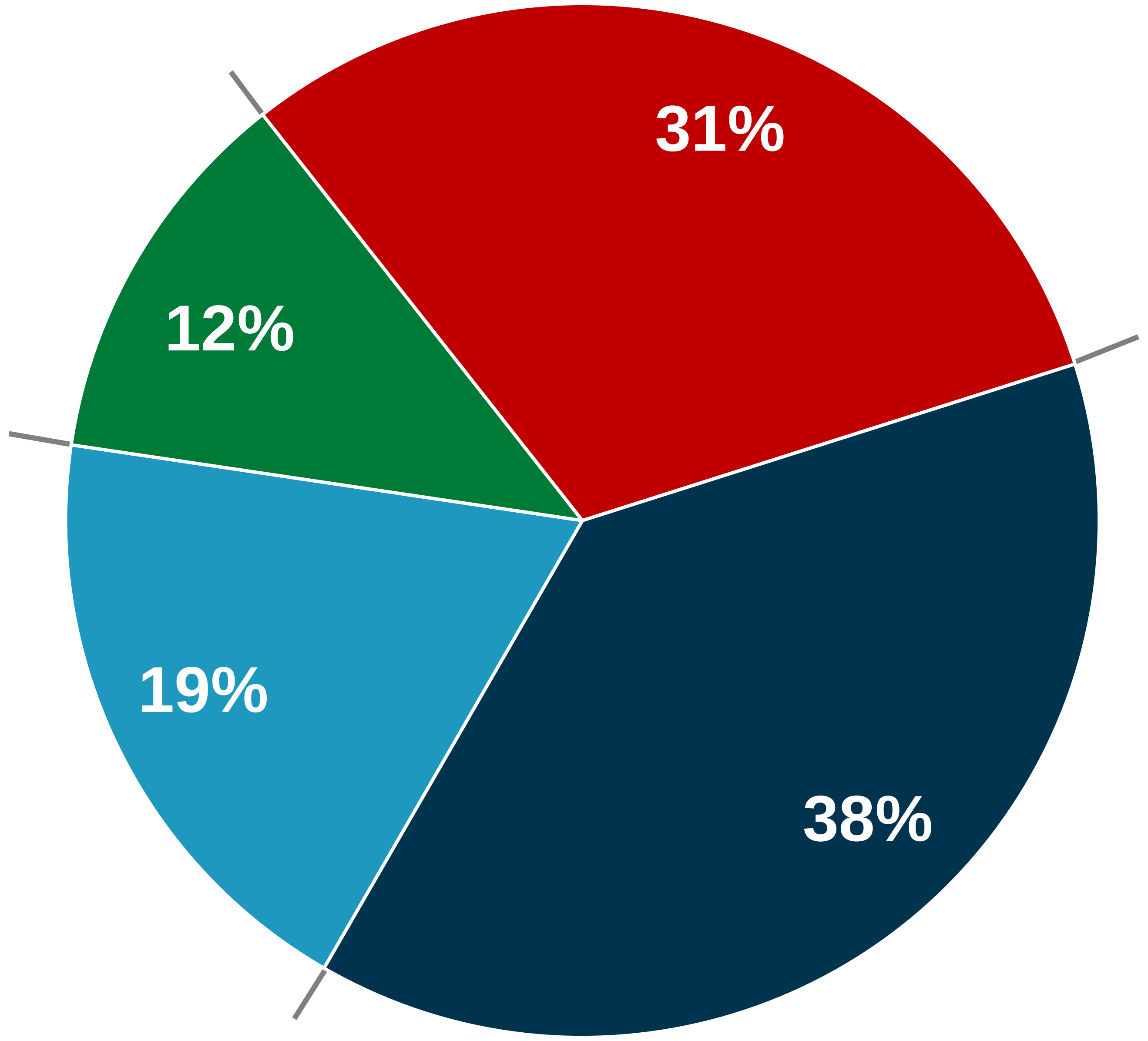
UK Asset Management & GI

- Unaffected by Solvency II
- Continue to adopt existing sectoral rules
- Cash / capital driven by earnings

UK Life

- Risk margin and transitional broadly offset
- PRA confirmed transitional 'good' capital for UK remittances
- Capital generation underpinned by resilient with-profit transfer
- Selective approach to bulks, with reinsurance

In-force free surplus generation, % HY15



Asia

- Health and Protection business Solvency II 'friendly'
- 'Prudent' local statutory basis remains 'biting' constraint
  - £1.4bn of free surplus 'stock'
- Key question is how much of the £10bn VIF can be included additionally
  - Based on Solvency II methodology
  - After 1-200 event
- Cash / capital movement will continue to be driven by free surplus generation

US

- US statutory (RBC) treated as equivalent
- Deduction and Aggregation gives no credit for diversification benefit between Jackson and Group
- Cash / capital management unaffected

Solvency II: Overview

A strong Solvency II capital position

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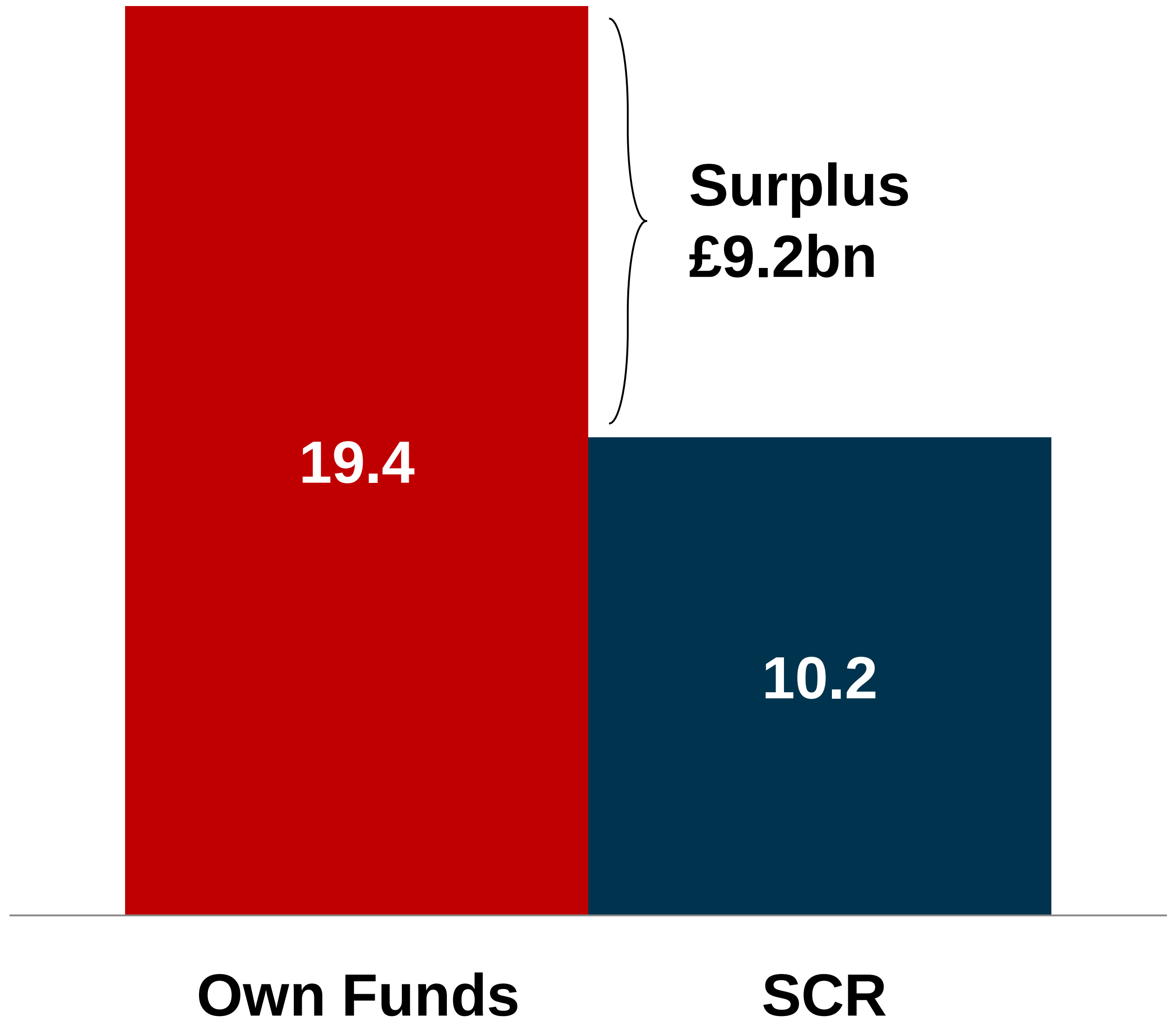
Estimated Group Solvency II capital position[1,2]
HY15, £bn

Solvency cover **190%**



Internal model approval step	Approval date
Matching adjustment	November 2015
Transitionals	December 2015
Asia surplus treatment	December 2015
US Equivalence (Deduction and Aggregation)	December 2015
Internal model	December 2015
Effective date	1 January 2016

Basis of inclusion in Group Solvency II capital position

Internal model	US Equivalence	Sector regulation
UK Life PRUDENTIAL Asia Life	JACKSON NATIONAL LIFE INSURANCE COMPANY	M&G INVESTMENTS eastspring investments

1 Excludes surplus in ring-fenced policyholder funds
2 Before allowing for the 2015 interim dividend

Solvency II: Overview

Solvency II framed to demonstrate ability to withstand severe stress

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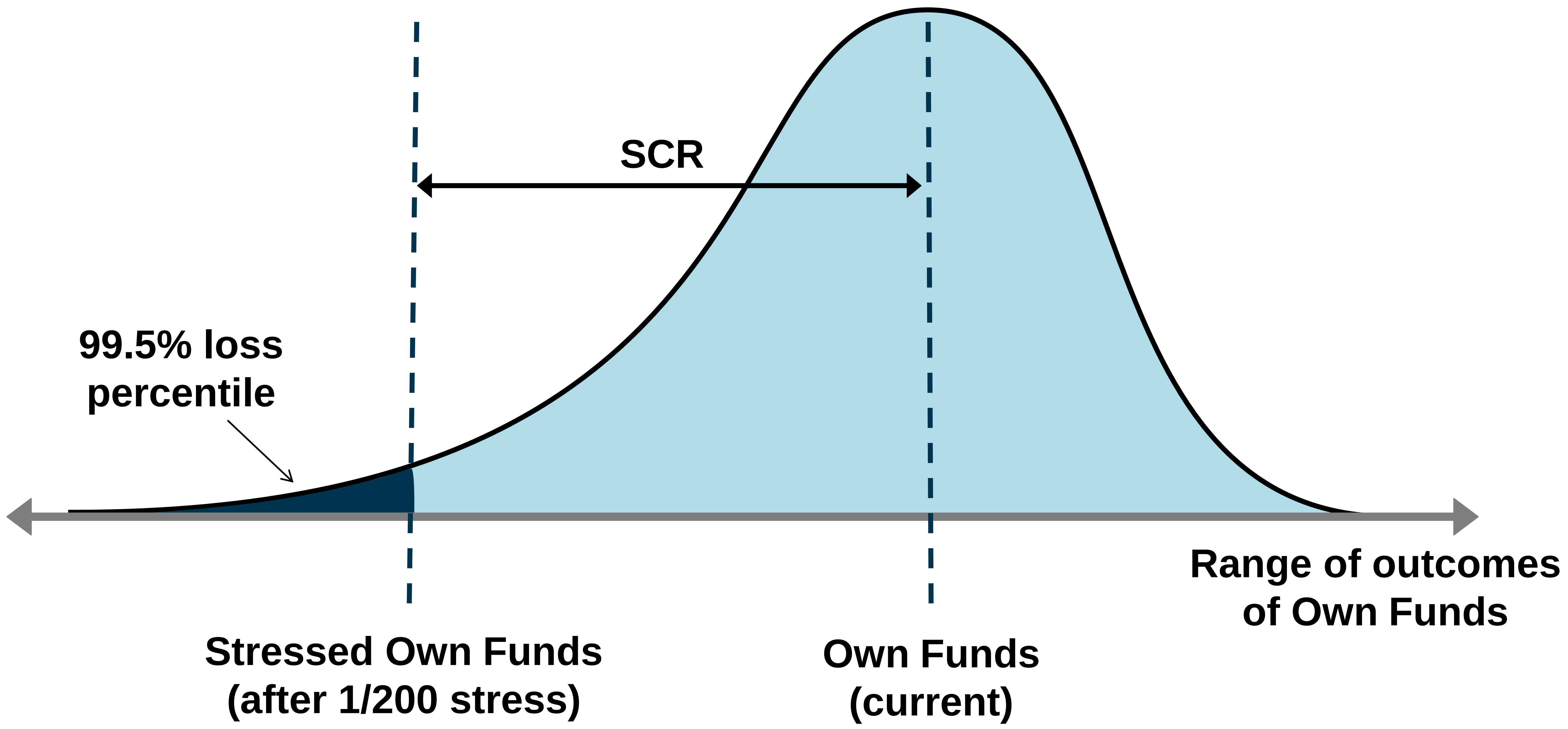
Probability distribution of Own Funds (illustrative)



Solvency II uses a market consistent approach, where the Solvency Capital Requirement (SCR) measures the potential reduction in the value of Own Funds over 1 year, in an adverse 1/200 year event, taking into account all quantifiable risks

Own Funds are calculated following 1/200 year stress events over 1 year

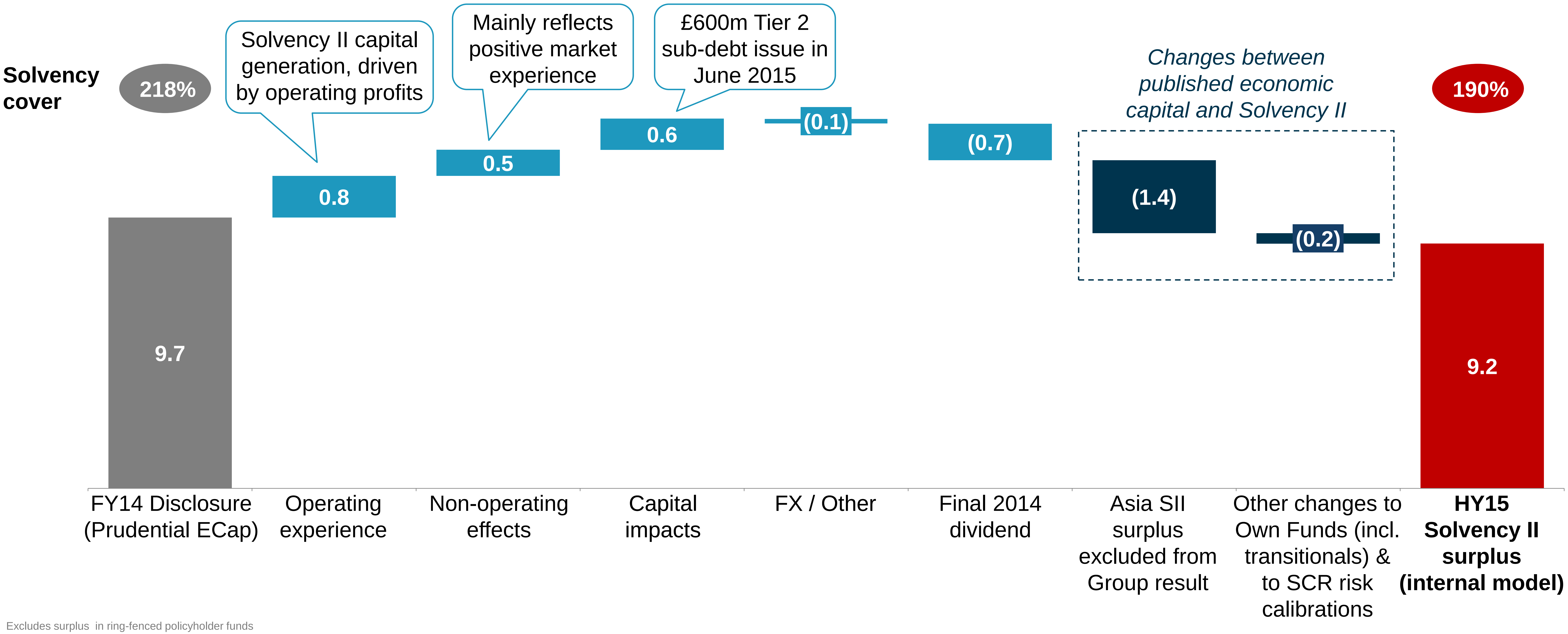
Example 1/200 year stress events (stand alone)	UK	Asia[1]
Equity markets	-47%	-58% to -72%
Fall in long term interest rates	-108bp	-69bp to -364bp
Credit spreads ('A' rated[2])	+259bp to +434bp	+309bp
UK longevity[3] (male aged 65)	+2.5 years	n/a
Lapse rates[3] (all future years)	+70%	+40% to +75%
Mass lapses	20%	20%

1 Range represents variations in stresses used by country / product
2 Range represents variation by term bucket and fund composition
3 Represents the change in long-term assumptions used to calculate best estimate liabilities

Solvency II: Overview

Capital generation mitigates impact of approval calibrations

Estimated Group Solvency II capital surplus[1,2], £bn



1 Excludes surplus in ring-fenced policyholder funds
2 Before allowing for the 2015 interim dividend

Solvency II: Overview

A strong Solvency II capital position

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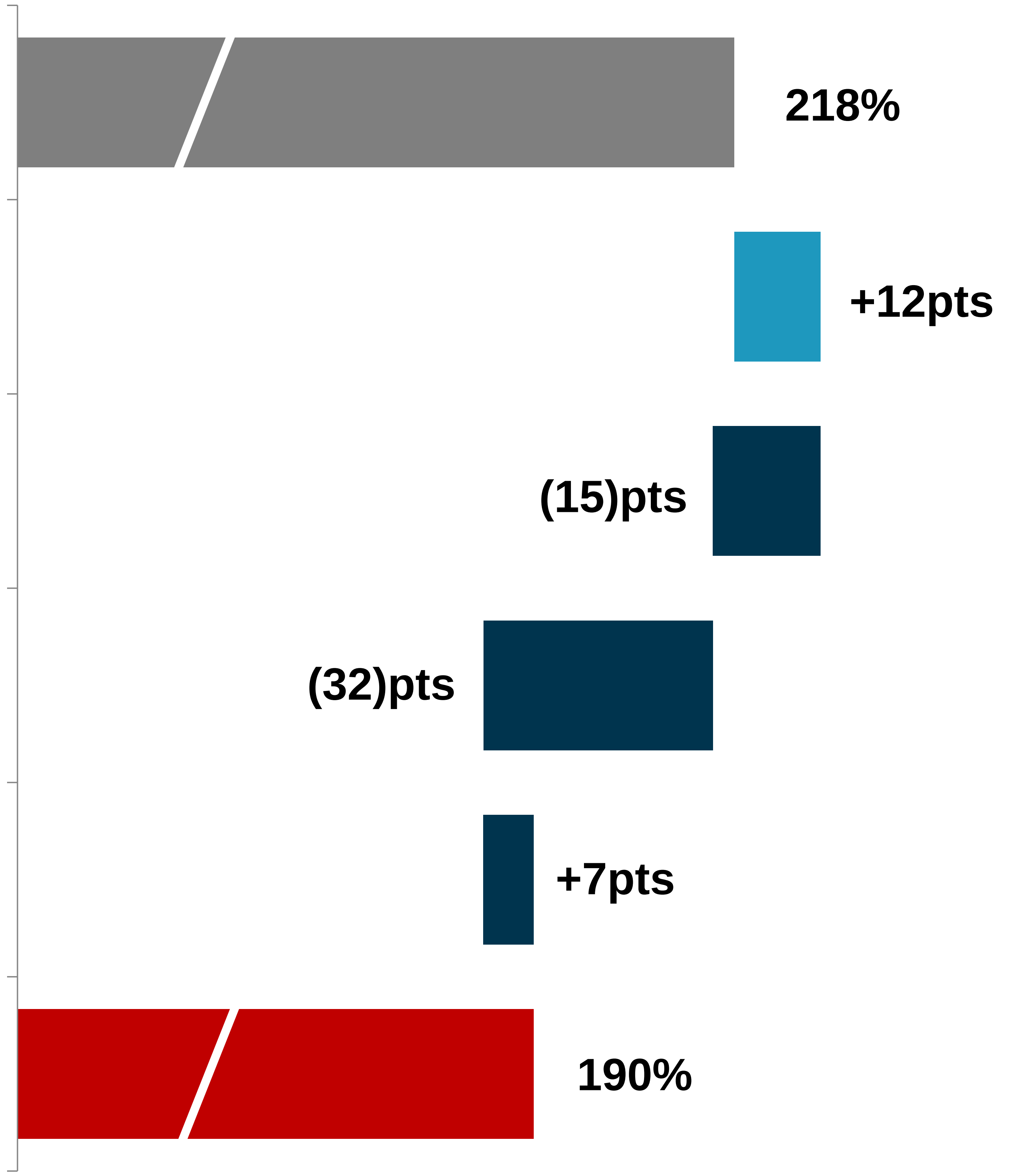
Estimated Group Solvency II capital surplus[1,2], £bn

	Own Funds	SCR	Surplus
FY14 Disclosure (Prudential ECap)	**17.9**	**8.2**	**9.7**
HY15 movements[3]	1.2	0.1	1.1
Asia Solvency II surplus excluded from Group result	(1.3)	0.1	(1.4)
Other changes to Own Funds (incl. transitionals) & to SCR risk calibrations	2.3	2.5	(0.2)
US Deduction and Aggregation[4]	(0.7)	(0.7)	-
HY15 Solvency II surplus (internal model)	**19.4**	**10.2**	**9.2**

Change in Group Solvency II cover ratio



1 Excludes surplus in ring-fenced policyholder funds
2 Before allowing for the 2015 interim dividend
3 HY15 operating and non-operating experience, capital impacts, FX, 2014 final dividend and other immaterial items
4 For Jackson, Solvency II recognises surplus in excess of 250% of the RBC Company Action Level (RBC CAL). This is achieved by incorporating in OF Jackson's Total Adjusted Capital less 100% of RBC CAL with 150% of RBC CAL included in the SCR

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Solvency II: Overview

Well-diversified risks

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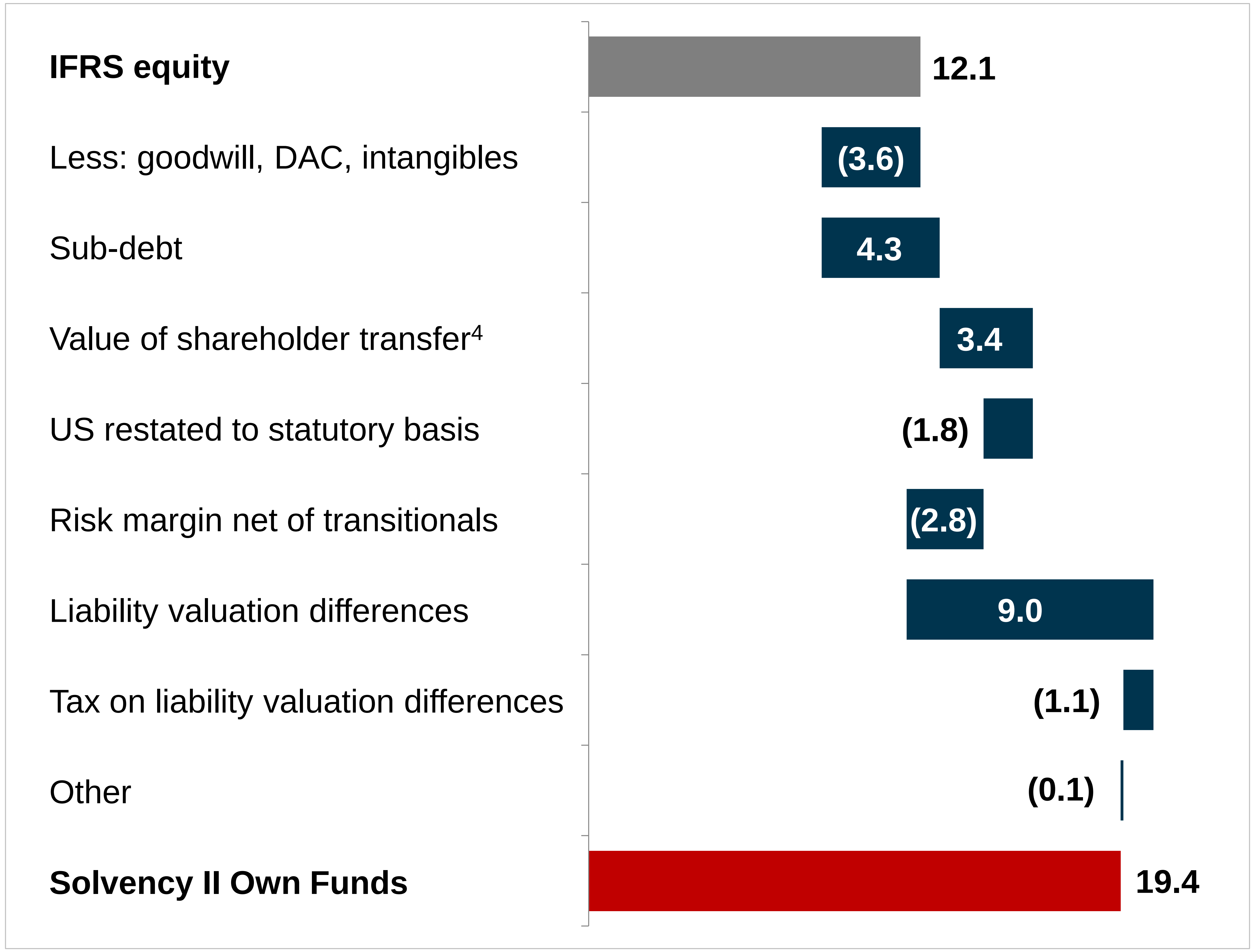
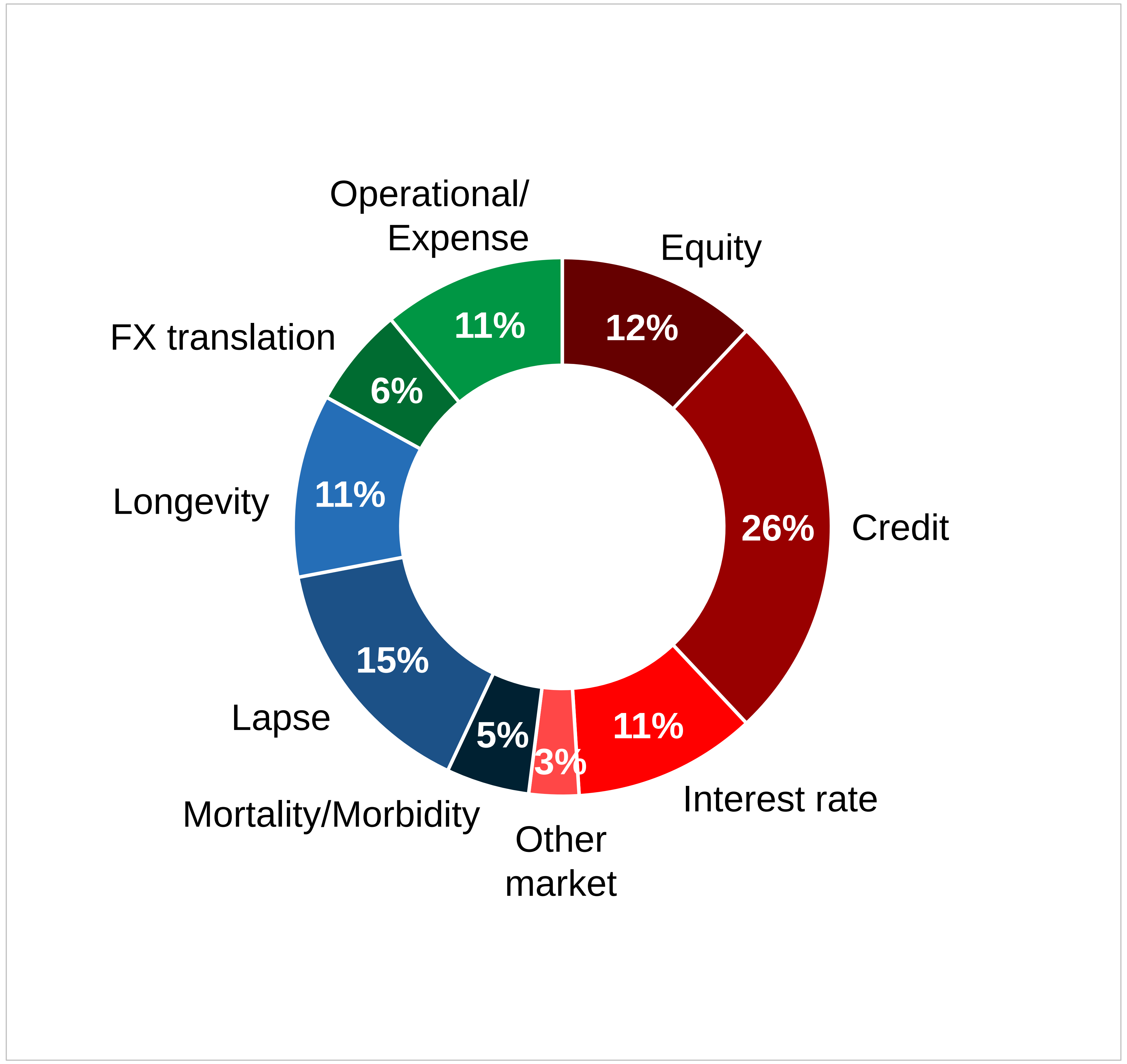
Reconciliation of IFRS equity to Solvency II Own Funds[1,2], HY15 £bn



SCR by risk type[3], HY15



1 Excludes surplus in ring-fenced policyholder funds
2 Before allowing for the 2015 interim dividend
3 Solvency II undiversified solvency capital requirement
4 Excludes the shareholder interest in the UK with-profits inherited estate of £0.7bn

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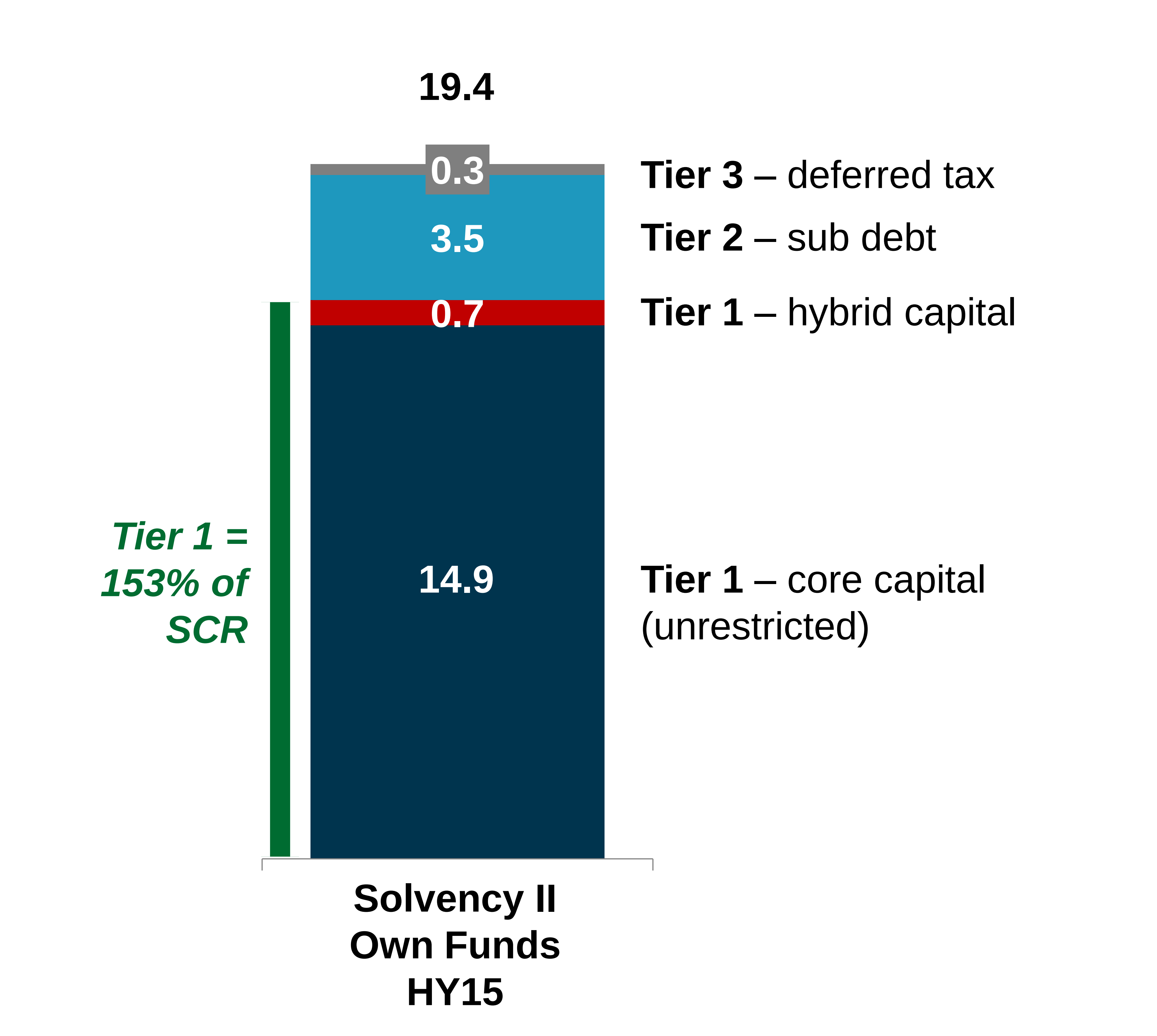
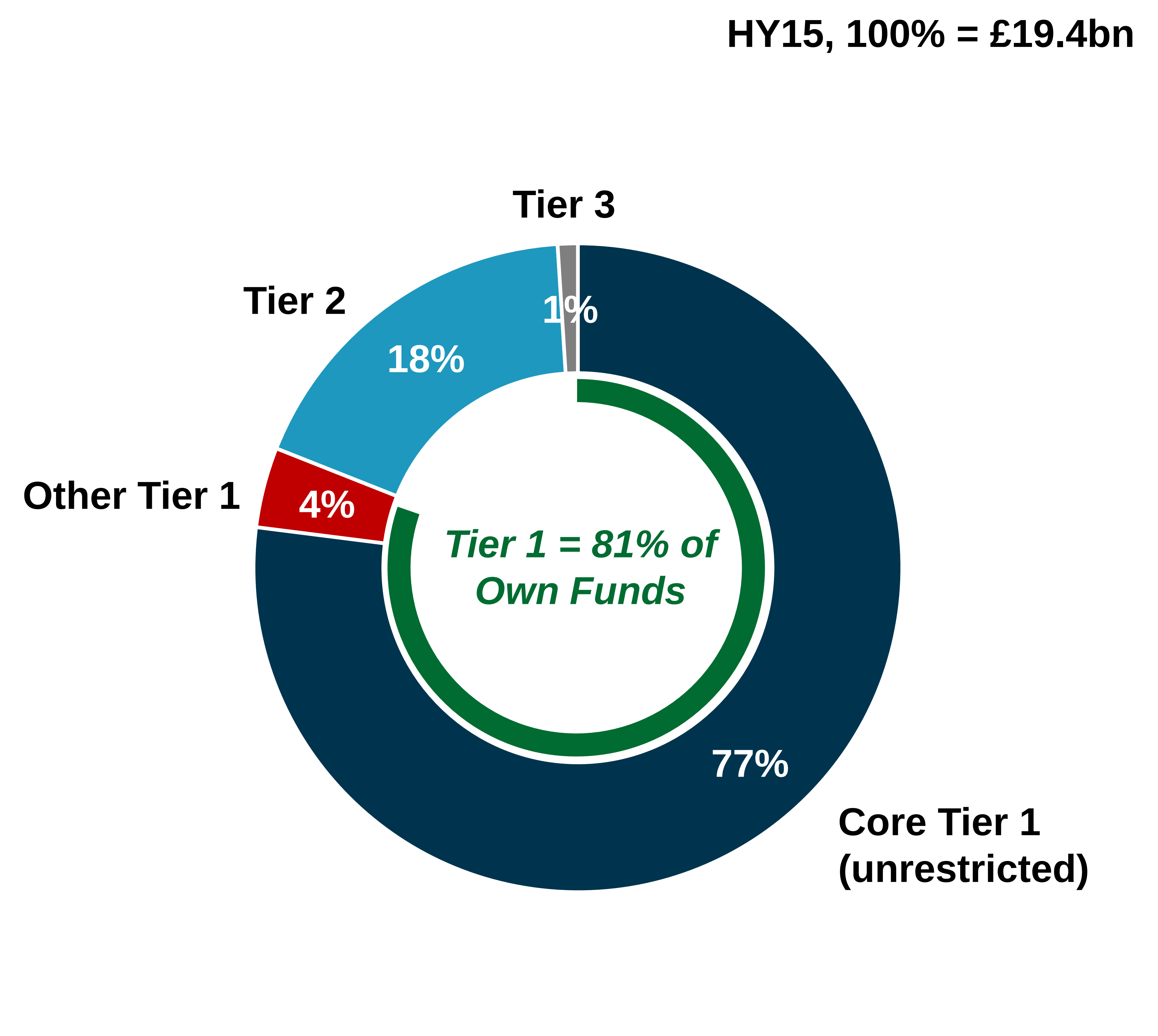
Solvency II: Overview

High quality capital

Solvency II Own Funds by capital tier[1,2]



Share of Solvency II Own Funds by capital tier[1,2]



1 Excludes surplus in ring-fenced policyholder funds
2 Before allowing for the 2015 interim dividend

Solvency II: Overview

Resilient capital position

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Estimated Group Solvency II surplus[1,2]

			Impact on solvency ratio
HY15 estimated surplus	**£9.2bn**	**190%**	
20% equity fall	£8.9bn	189%	(1)%
40% equity fall	£7.3bn	175%	(15)%
50bp interest rate fall	£8.2bn	177%	(13)%
100bp interest rate rise	£10.3bn	206%	+16%
100bp credit spread widening[3]	£8.0bn	181%	(9)%

1 Excludes surplus in ring-fenced policyholder funds
2 Before allowing for the 2015 interim dividend
3 For Jackson, includes credit defaults of 10 times the expected level. For the UK, transitionals are assumed to be recalculated in response to changes in interest rates

Solvency II: Key uncertainties addressed

Asia excluded surplus not a constraint

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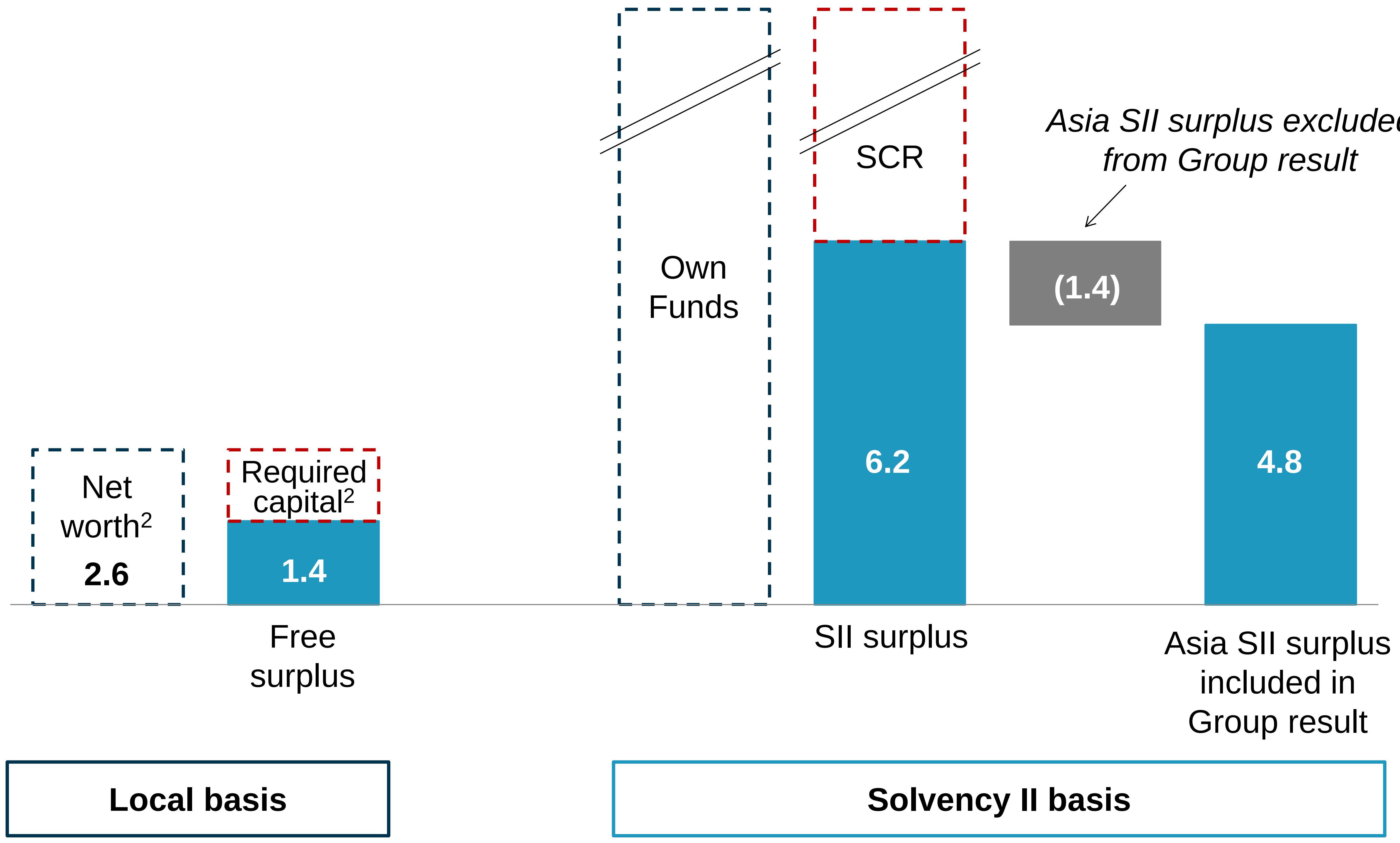
Asia Solvency II surplus[1], HY15, £bn

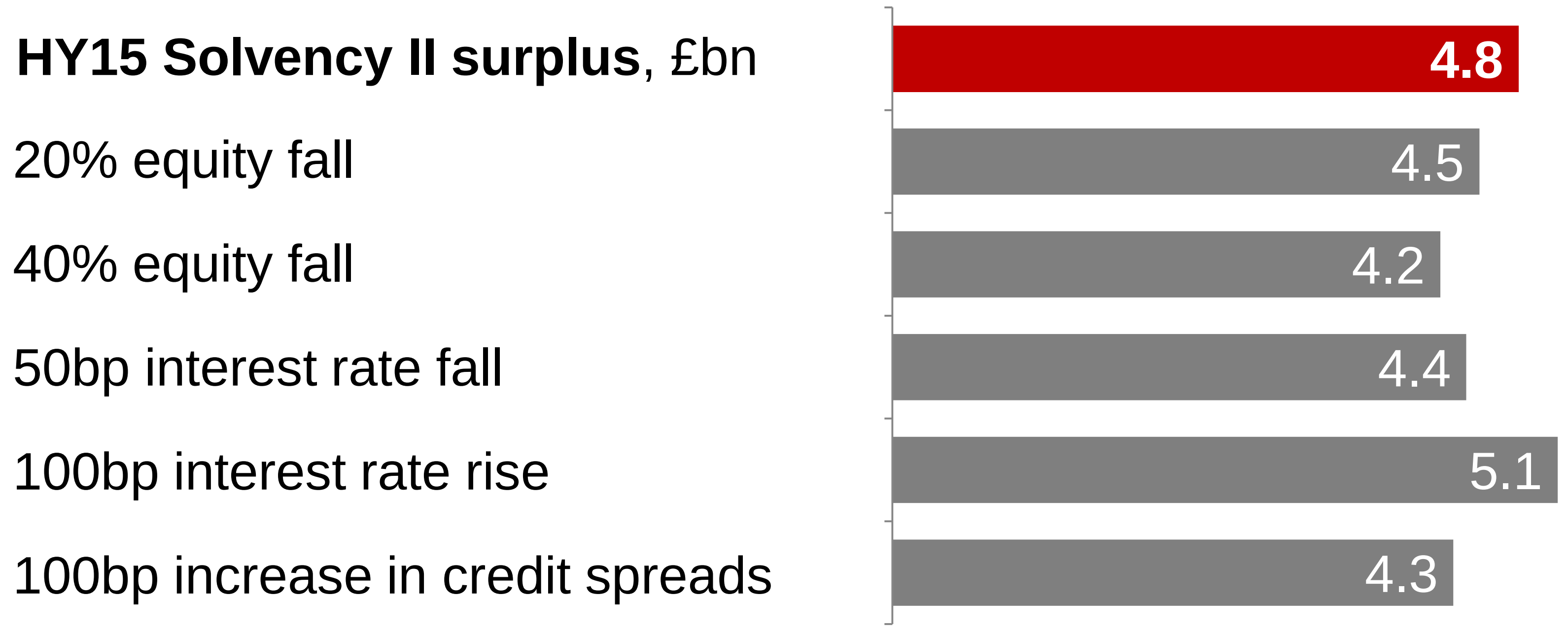


Asia

Group Solvency II basis
- Internal model approach

Calibrations
- Inclusion of stressed VIF in addition to local regulatory basis surplus
- No credit taken for £1.4bn of Asia SII surplus, reflecting a prudent regulatory view

Sensitivities



Binding constraint
- Local regulatory capital basis remains binding constraint

1 Comprises life entities in Cambodia, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Vietnam. Excludes Eastspring Investments
2 Based on Group free surplus disclosure at HY15, with aggregate reported net worth of £2.6 billion and aggregate required capital of £1.2 billion

Solvency II: Key uncertainties addressed

Contribution from Jackson in line with current free surplus basis

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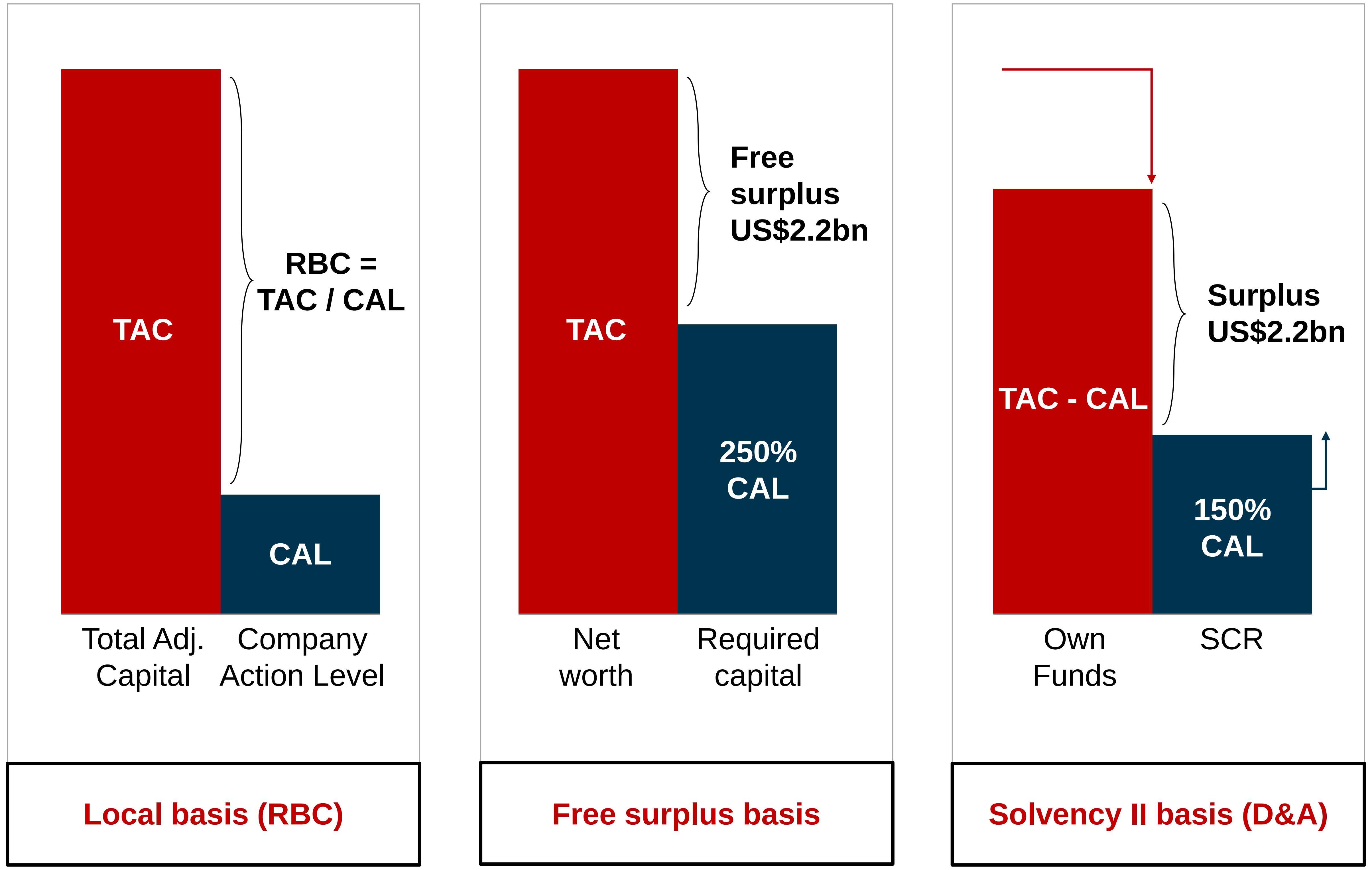
US solvency surplus[1], HY15, US$bn



US	
Group Solvency II basis	• US equivalence (Deduction and Aggregation approach)
Calibrations	• Continue to recognise surplus in excess of 250% RBC Company Action Level • No allowance for diversification benefit with rest of Group
Sensitivities	• RBC ratio remains >350% for published market stresses
Binding constraint	• RBC remains binding constraint

1 Relates to Jackson National Life

Solvency II: Key uncertainties addressed

Drivers of capital generation / consumption and remittances unchanged

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	Asia	US	M&G
Group Solvency II basis	Internal model approach	US equivalence (Deduction and Aggregation)	Capital Requirements Directive (CRD IV)
Calibrations	• Inclusion of stressed VIF in addition to local regulatory basis surplus • No credit taken for £1.4bn of Asia SII surplus, reflecting a prudent regulatory view	• Continue to recognise surplus in excess of 250% RBC Company Action Level[1] • No allowance for diversification benefit with rest of Group	• No change in calculation of surplus, which is modest relative to life businesses
Sensitivities	• Solvency II surplus >3x local basis for published market stresses	• RBC remains >350% for published market stresses	• n/a
Binding constraint	• Local regulatory capital basis remains binding constraint	• RBC remains binding constraint	• CRD remains binding constraint

1 For Jackson, Solvency II recognises surplus in excess of 250% of the RBC Company Action Level (RBC CAL). This is achieved by incorporating in OF Jackson's Total Adjusted Capital less 100% of RBC CAL with 150% of RBC CAL included in the SCR

Solvency II: Key uncertainties addressed

UK Solvency II surplus in line with prior basis

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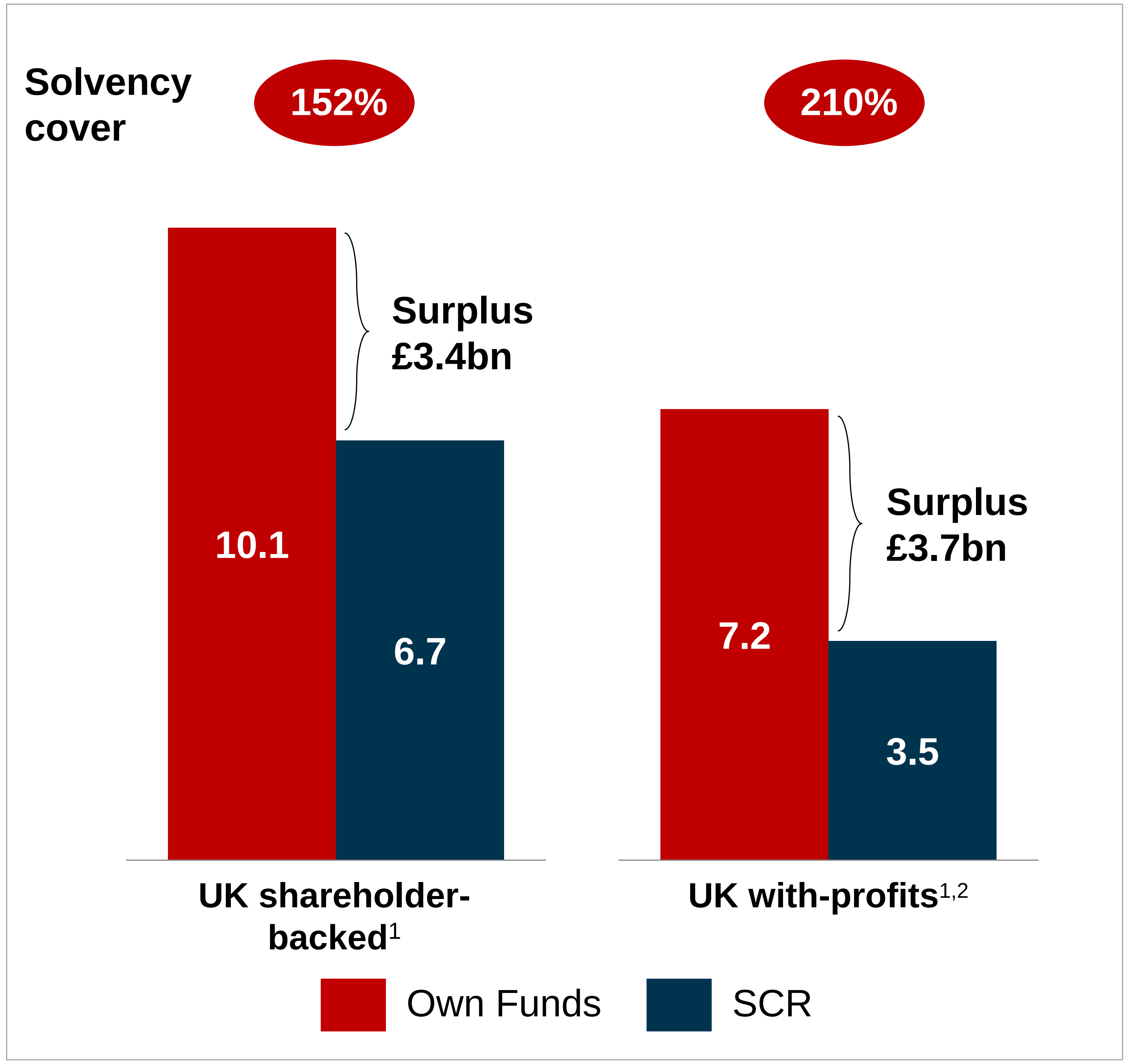
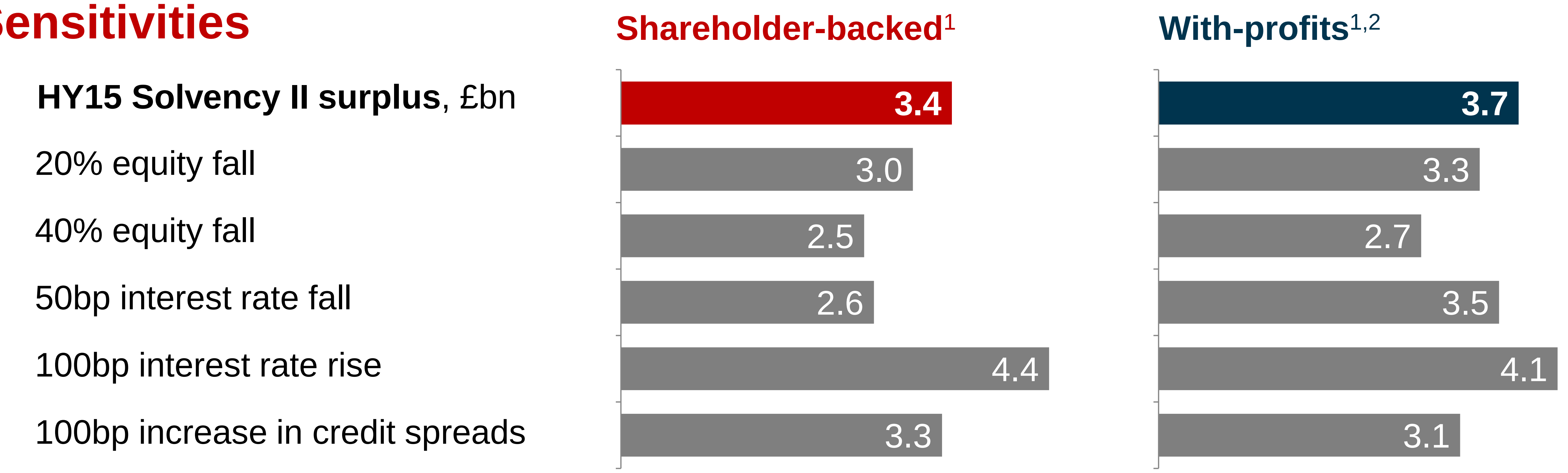
Solvency II surplus, HY15, £bn



Calibrations

- **Credit:** 170bp p.a. credit allowance for annuities[3], roughly equivalent to 1.5x the cumulative default losses over the worst 10 years since 1920
- **Longevity:** The risk margin effectively doubles the capital held to cover longevity risk; in total, capital is held to cover around 3x the largest one-year increase in assumed life expectancy for reserving, since 1950
- Transitionals on business in-force written pre 1 January 2016
- Shareholder interest in the UK with-profits inherited estate of £0.7bn is not recognised[4]

Sensitivities



Mechanisms for improving surplus and mitigating volatility

- Quota-share and longevity reinsurance
- Hedging market risk in with-profits transfers
- Matching Adjustment optimisation

1 Relates to PAC Ltd
2 Includes excess of inherited estate over Solvency II capital requirements
3 55bp for BEL, 115bp for SCR (before diversification benefits)
4 The SCR related to the shareholder interest in the UK with-profits inherited estate amounts to £0.3 billion

Solvency II: Key uncertainties addressed

UK in-force capital dynamics not materially impacted

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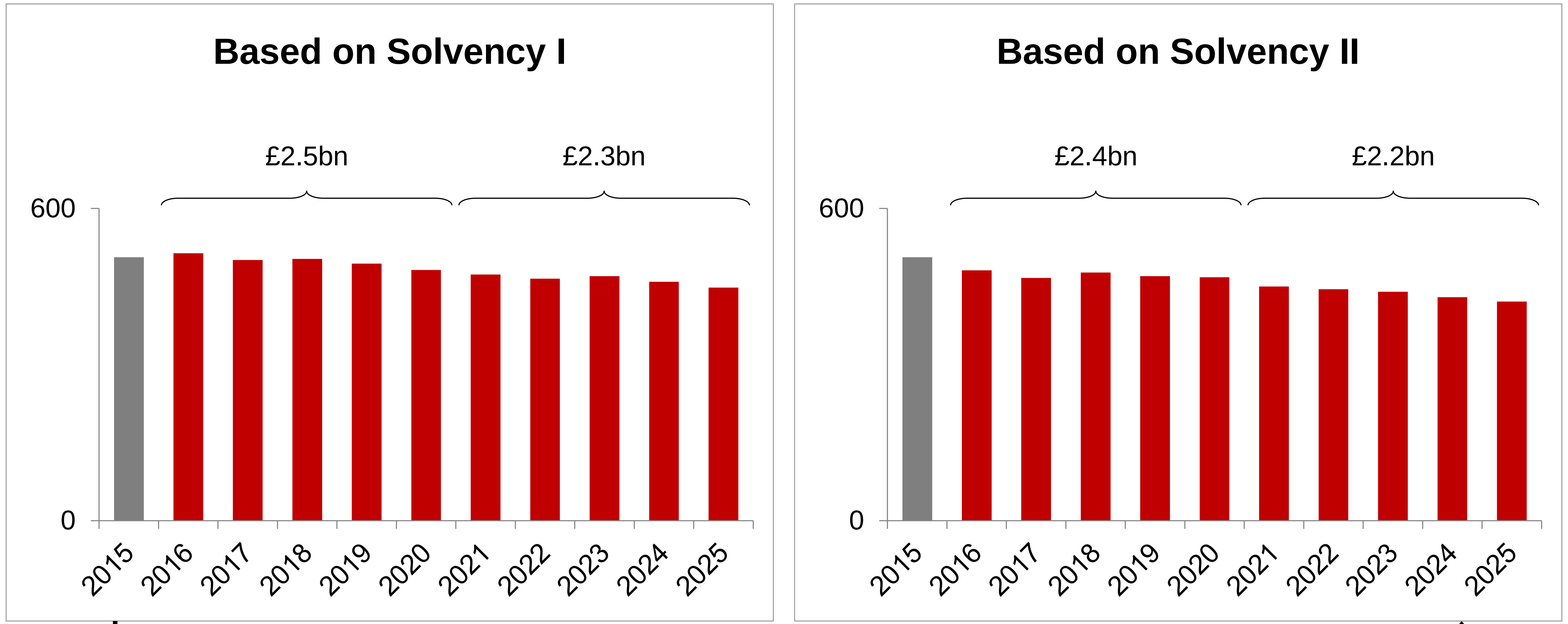
Expected life in-force free surplus generation[1,2], £m



Impact of Solvency II on in-force free surplus generation
(relative to Solvency 1)

- Release of SCR ↑
- Release of risk margin ↑
- Unwind of transitional ↓
- Removal of valuation margins ↓

Broadly offset for Prudential

- Free surplus generation underpinned by sizeable with-profits and annuities in-force portfolio
- Transitional runs off broadly in line with risk margin release

- New business capital consumption higher for products with guarantees
  - Return on capital hurdle unchanged – reduced future annuity volumes
  - Continued focus on capital efficient with-profits savings / investments

Conclusions

- **Robust UK capital surplus**
- **Modest impact on expected free surplus from in-force**
- **Disciplined approach to new business unchanged**

1 For life business, represents the undiscounted expected transfer of value of in-force business and required capital to free surplus as at FY14.
2 This is a pro-forma estimate of the expected impact of Solvency II on UK free surplus generation, based on FY 2014 position.

Solvency II: Capital management implications

Approach to capital management

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Business unit capital	• Capital defined by local capital regulations and local business needs • 'Healthy' buffer above capital requirements • Self-funded organic growth through reinvestment of operating capital generated • Capital generation supports cash remittances to Group
Central cash	• Held to maintain flexibility, fund new opportunities and absorb shock events • Funds a growing dividend • Covers central costs and debt payments
Group capital	• Maintain appropriate capital level, mix and quality • Maintain credit and financial strength ratings

Solvency II: Capital management implications

The Group is highly capital generative

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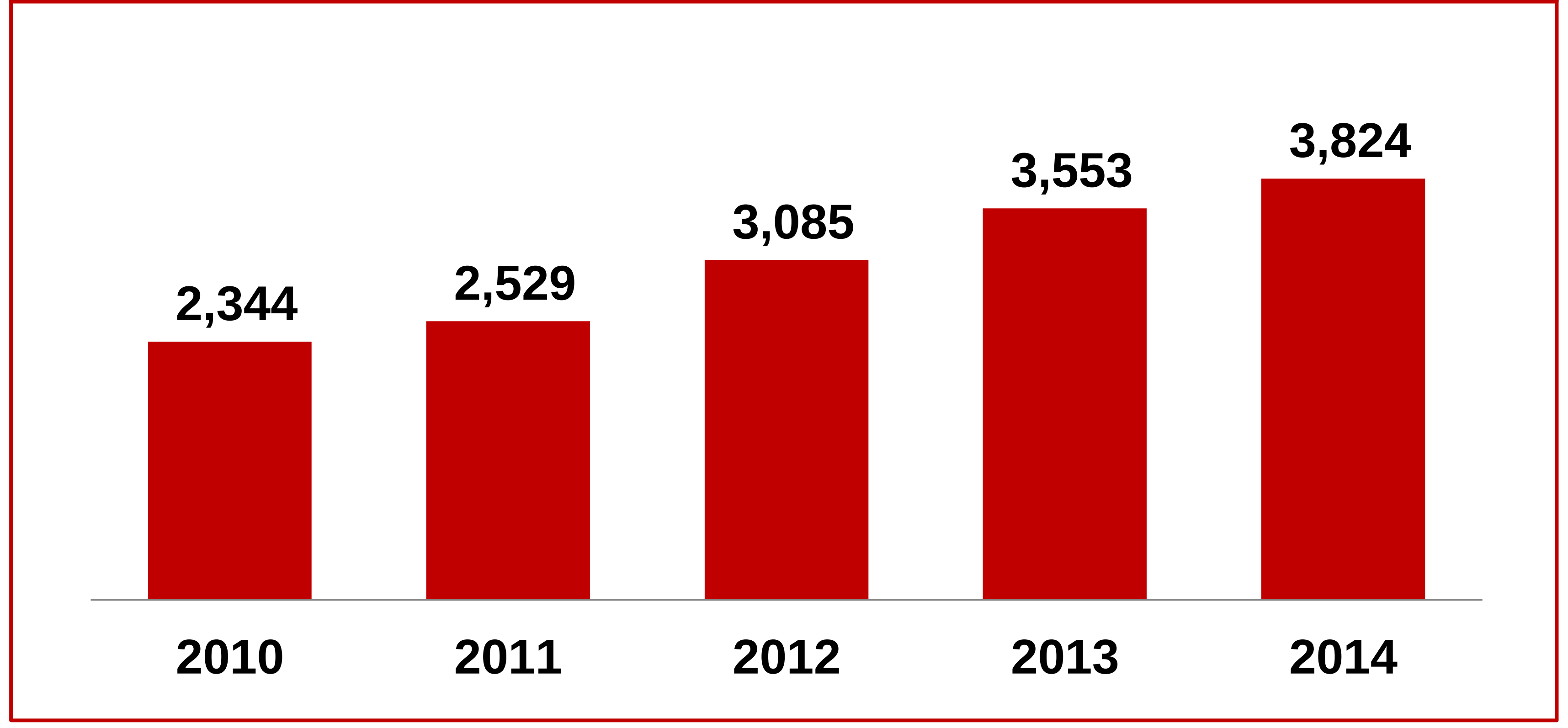
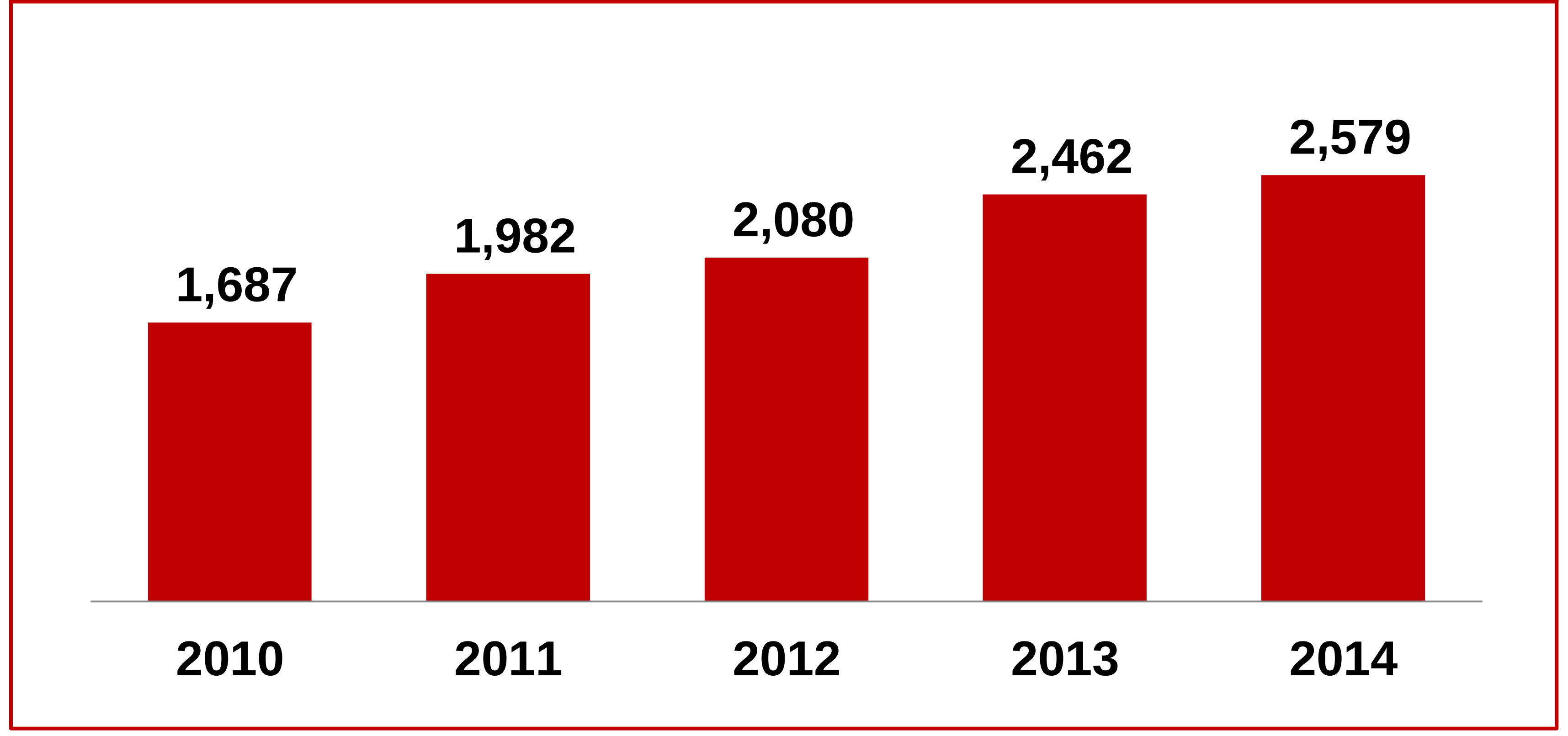
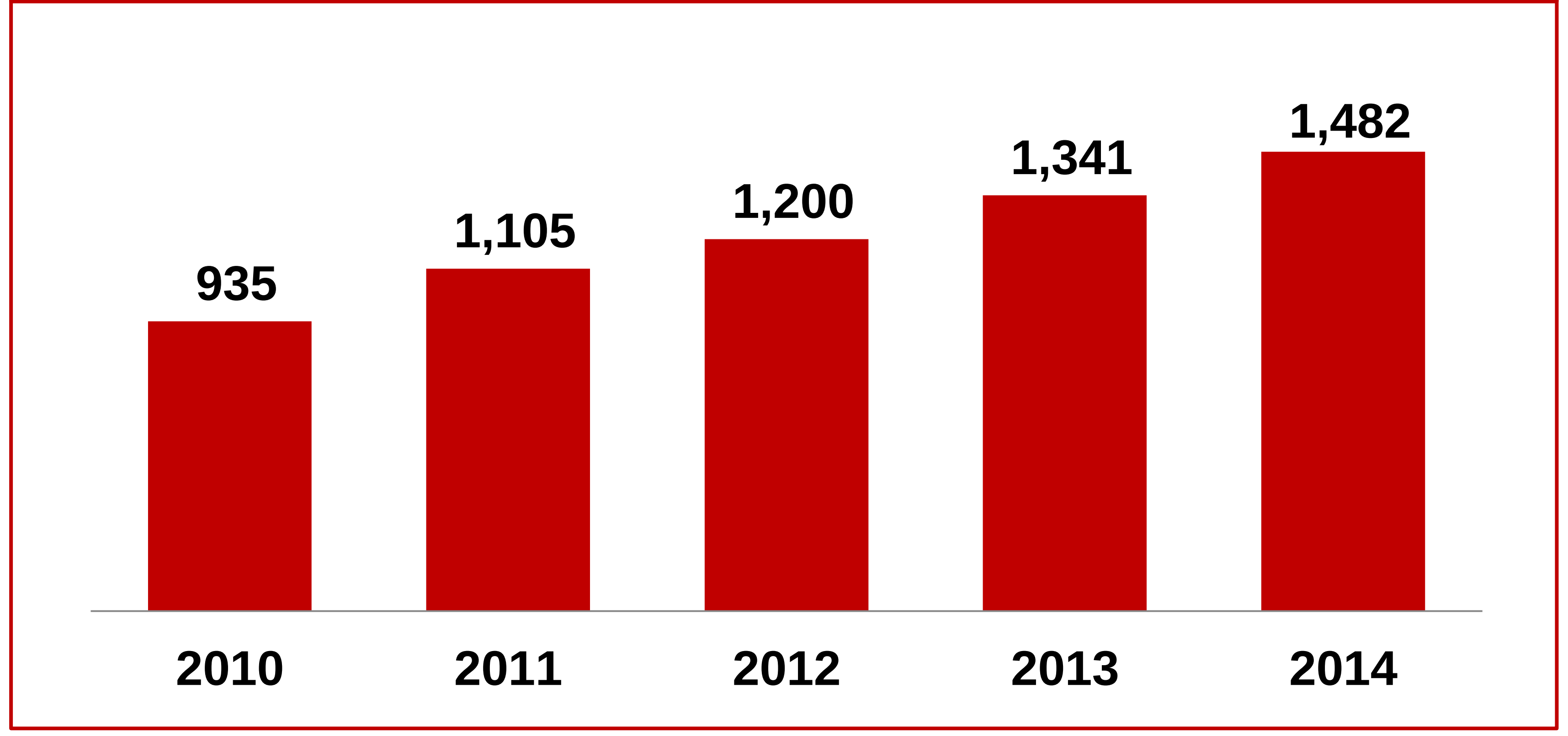
IFRS operating profit[1,2], £m



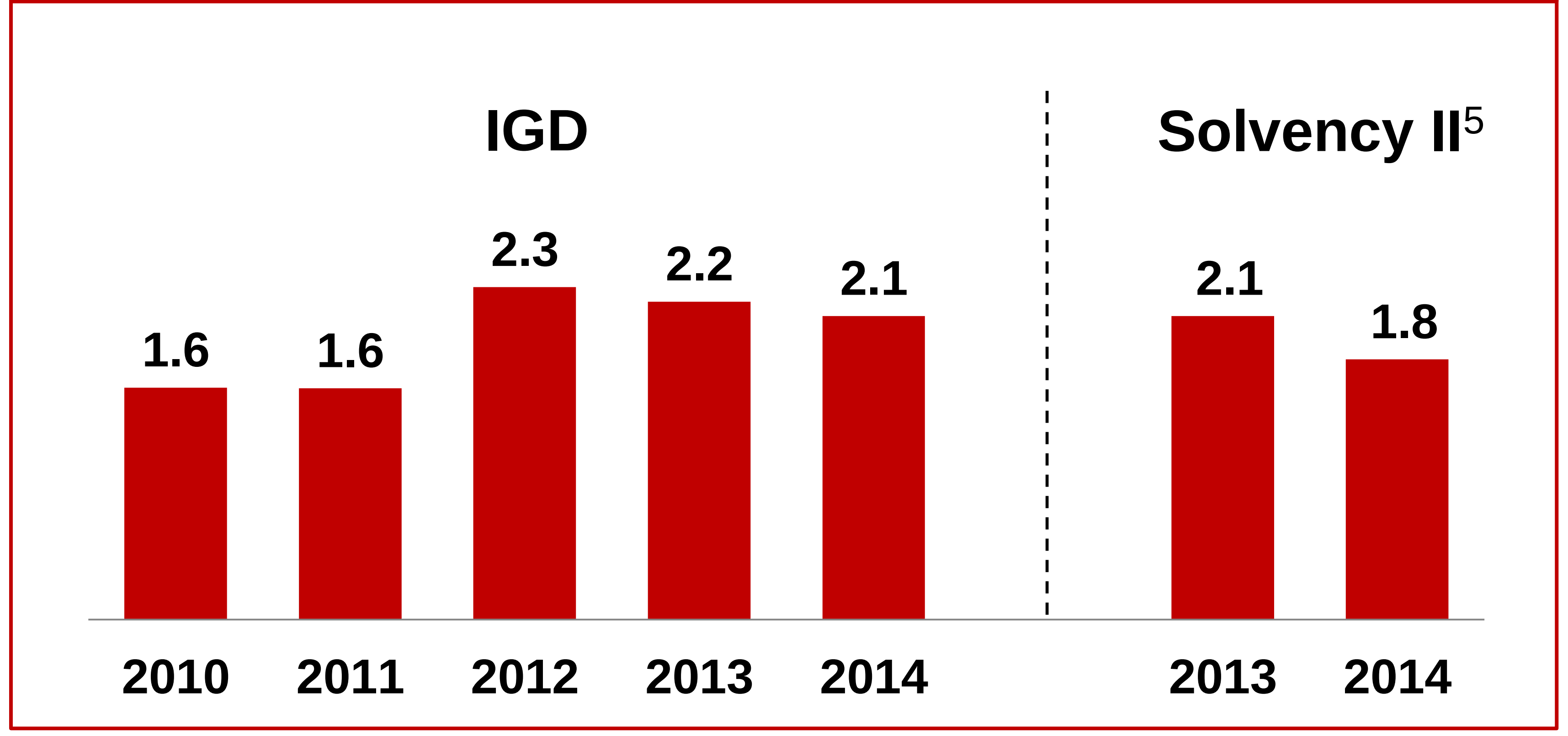
Underlying free surplus generation[2,3], £m



Cash remittances, £m



Operating capital generated[4], £bn



1 Total segment profit, defined as pre-tax operating profit from business units before other income and expenditure.
2 2010-2013 comparatives include the results of PruHealth and PruProtect.
3 Comprises free surplus released from long-term business, net of investment in new business, and post-tax operating profit from asset management and other non-insurance operations.
4 Before market movements, corporate actions and dividends. 2010-2012 IGD operating capital generated have been restated to include Jackson surplus on a basis consistent with 2013 and 2014 (250% of RBC Company Action Level versus 75% previously).
5 Based on previously published information.

Solvency II: Capital management implications

Well-balanced sources of profit, capital generation and cash

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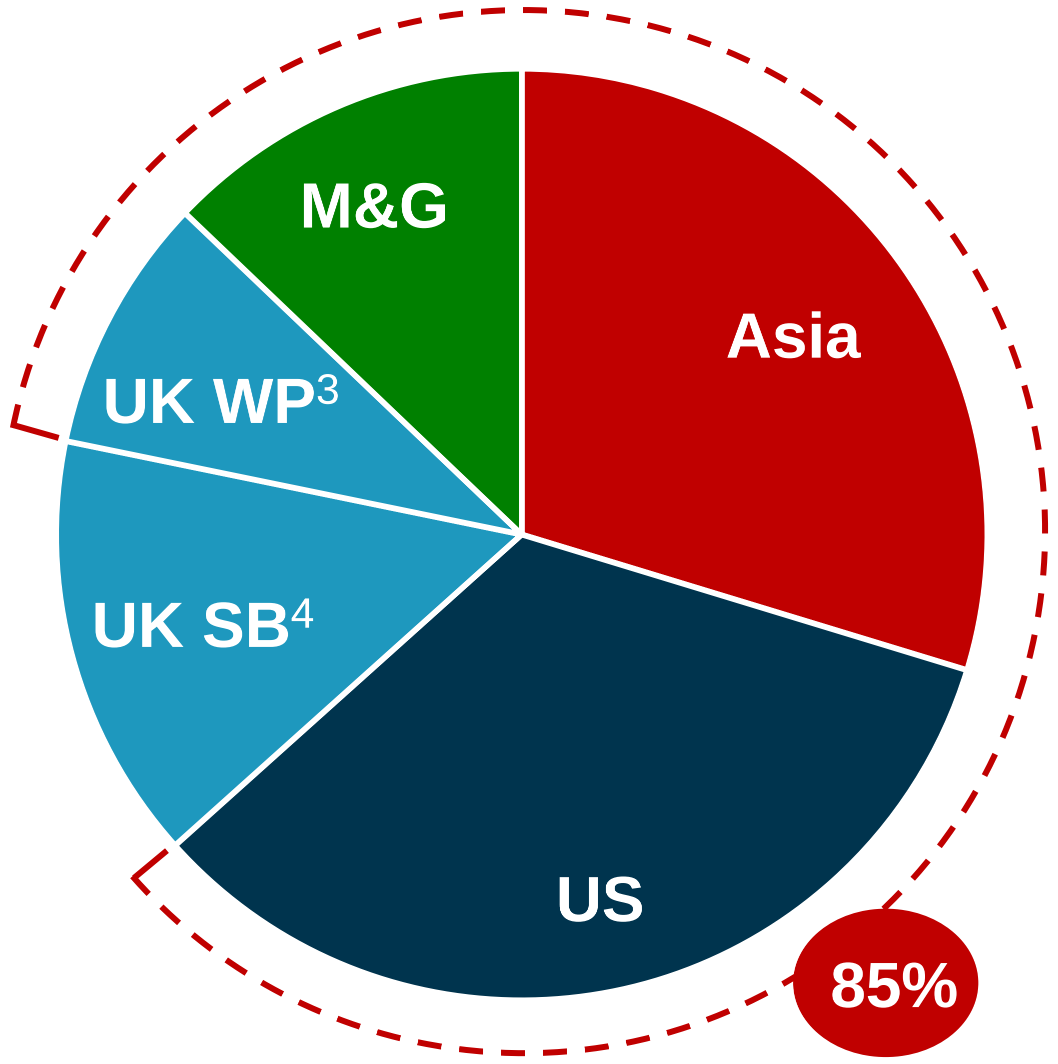
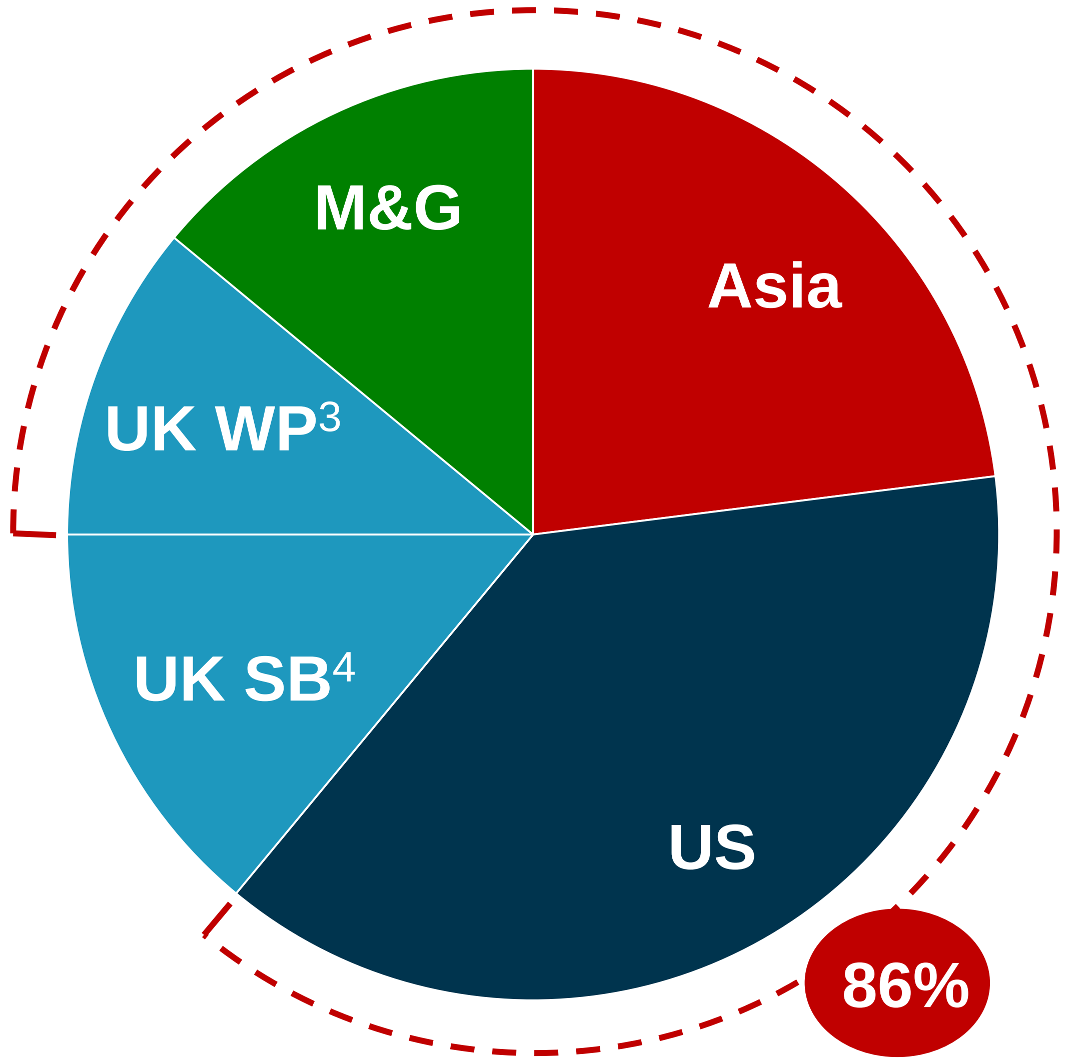
IFRS operating profit[1]

Cumulative share 2010 - 2014
%, 100% = £15.3bn



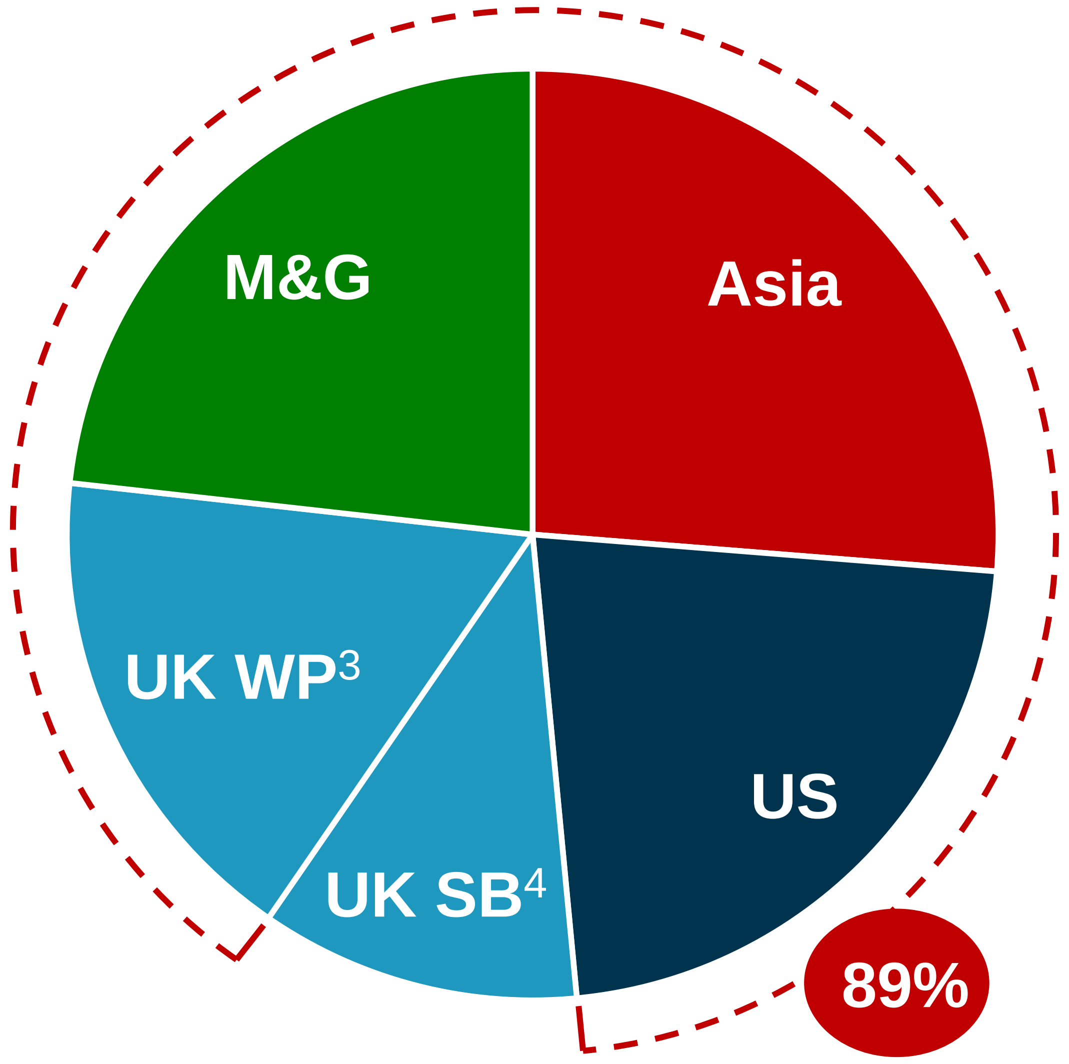
Net free surplus generated[2]

Cumulative share 2010 - 2014
%, 100% = £10.8bn



Cash remittances

Cumulative share 2010 - 2014
%, 100% = £6.1bn



1 Total segment profit, defined as pre-tax operating profit from business units before other income and expenditure
2 Comprises free surplus released from long-term business, net of investment in new business, and post-tax operating profit from asset management and other non-insurance operations
3 UK life with-profits business
4 UK life shareholder-backed business

Solvency II: Capital management implications

Capital dynamics unchanged for majority of our businesses

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	Regulatory capital basis	
	Pre 1 Jan 2016	**From 1 Jan 2016**
Asia	Local	*No change*
US	RBC	*No change (equivalent)*
M&G	Capital Requirements Directive (CRD)	*No change*
UK Life[1]	Solvency I (Pillar 1 / Pillar 2)	*Solvency II with transitional relief*[2]

1 PAC Ltd
2 Includes the benefit of transitional relief on business in-force as at 31 December 2015

Solvency II: Capital management implications

Expected free surplus profiles are largely unaffected

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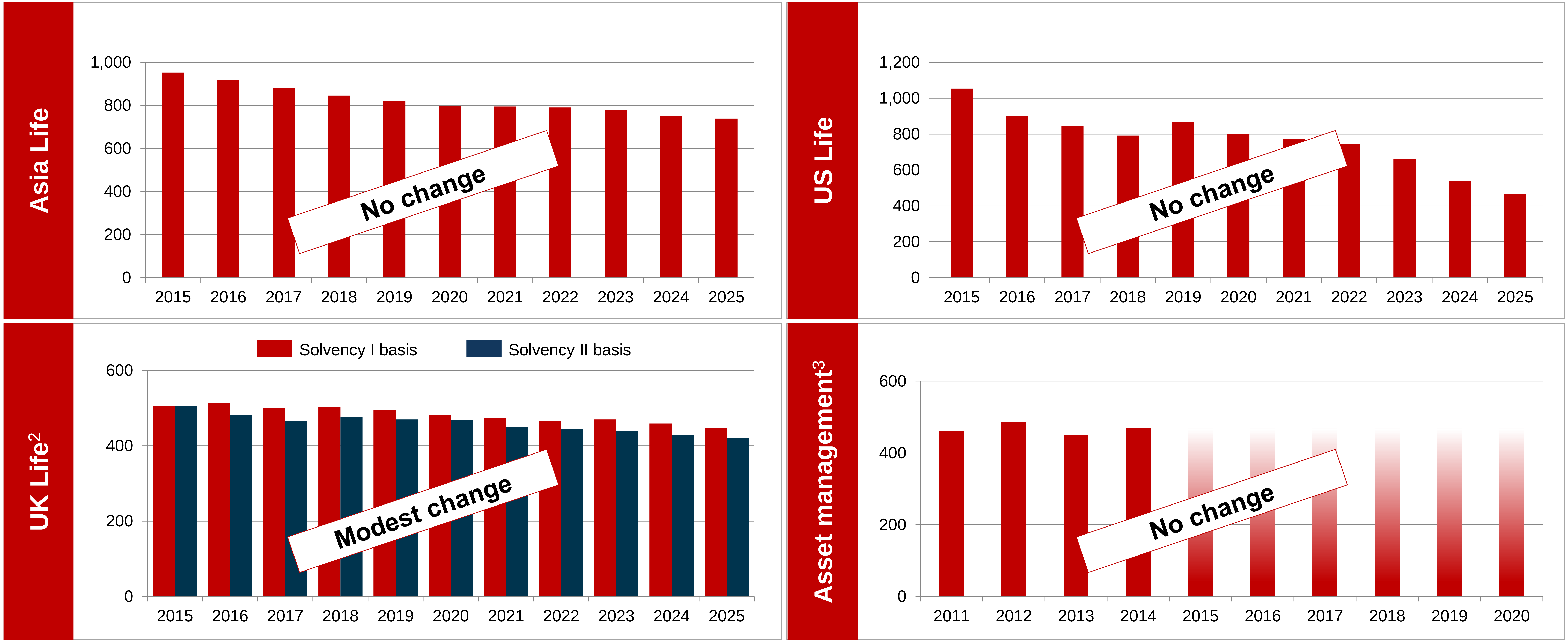
Estimated impact of Solvency II on in-force free surplus generation[1], £m



1 For life business, represents the undiscounted expected transfer of value of in-force business and required capital to free surplus as at FY14. For asset management business, represents post-tax profit.
2 This is a pro-forma estimate of the expected impact of Solvency II on UK free surplus generation, based on FY 2014 position.
3 Asset management: 2011 – 2014 actual; 2015 – 2020 illustrative only

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Solvency II: Capital management implications

No material overall impact on life in-force free surplus generation projections

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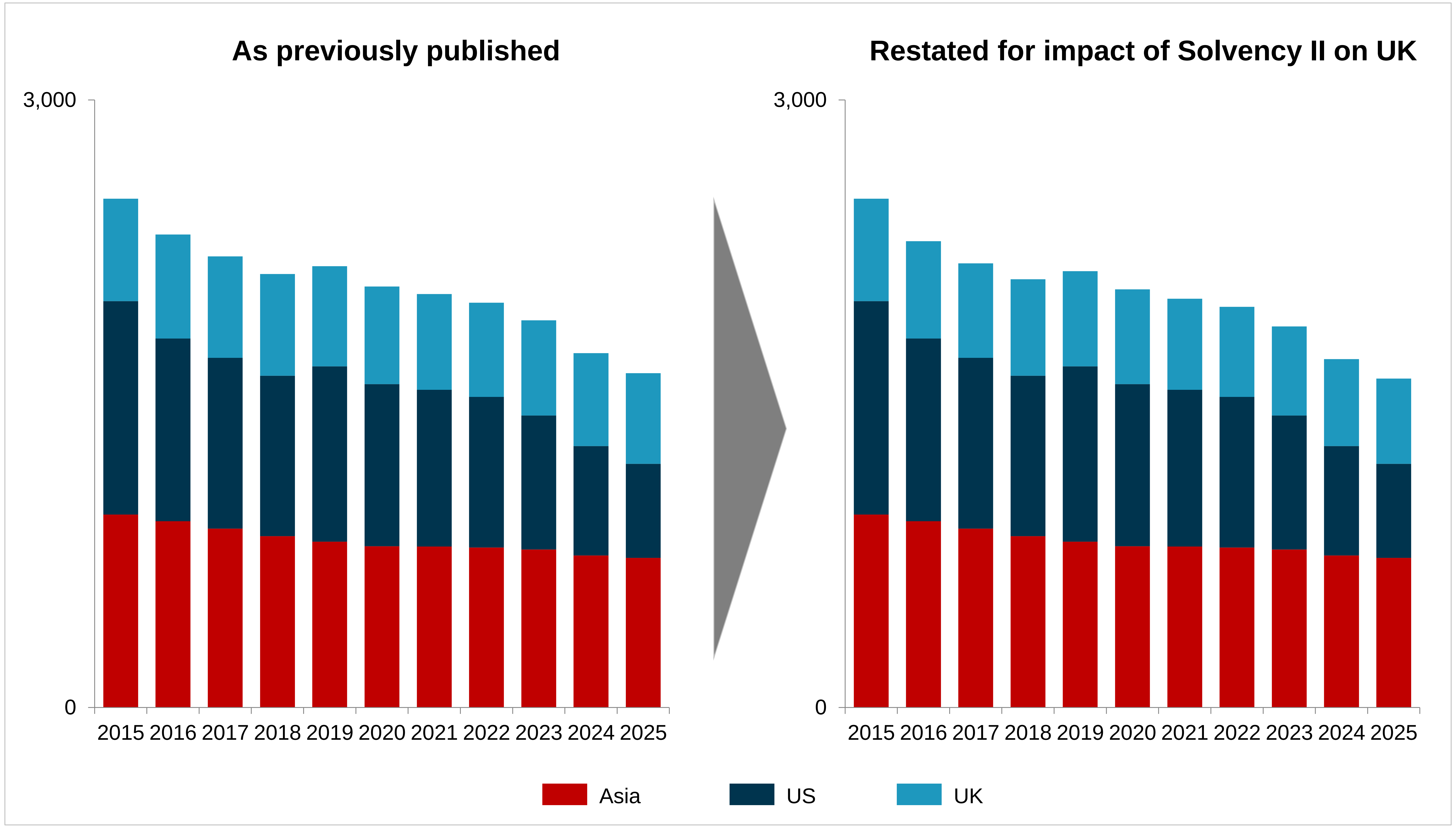
Expected life in-force free surplus generation[1,2], £m



- **Asia and US not impacted**
- **UK modest change**
- **Group profile largely unaffected**

1 For life business, represents the undiscounted expected transfer of value of in-force business and required capital to free surplus as at FY14.
2 This includes a pro-forma estimate of the expected impact of Solvency II on UK free surplus generation, based on FY 2014 position.

Solvency II

Capital dynamics and dividend philosophy are unchanged

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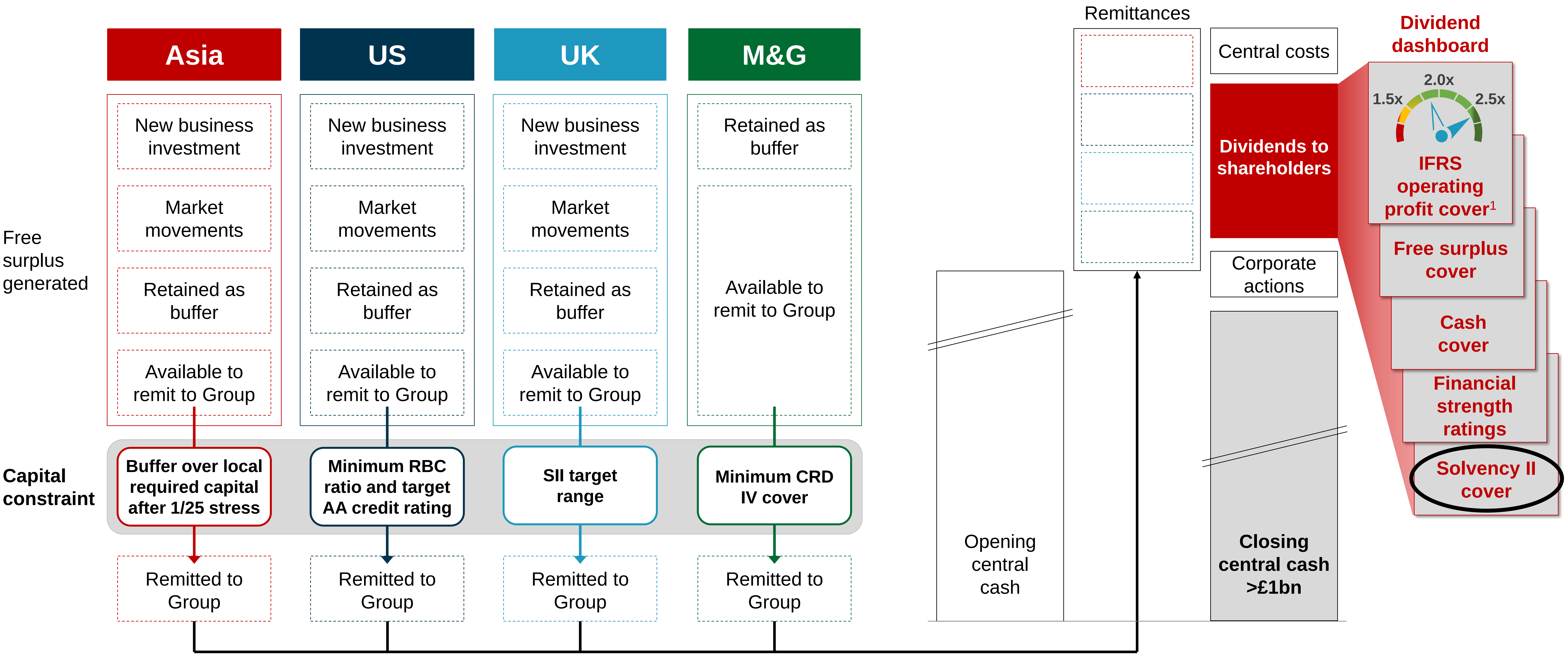

1 Post-tax IFRS operating profit divided by dividends declared. Solid arrow indicates FY14 cover; line arrow indicates FY14 cover after a severe (1/25 year) market event Equivalent to Group-wide scenario with movements in all risks including a 30% to 50% fall in equity levels, a 0.7% to 2.0% fall in long-term interest rates and spreads widening by 120p in A-rated credit and 200p in BBB-rated credit.

Solvency II

Key messages

- Solvency II approvals successfully address areas most critical to Prudential
- Solvency II outcome confirms strength and resilience of the Group’s capital position
- Drivers of capital generation and consumption for Asia, US and M&G are unaffected
- UK in-force expected capital generation is not materially impacted
- Group remains highly capital and cash generative
- Group strategy and dividend policy unchanged

Other items

Group credit portfolio remains high quality and defensively positioned

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Breakdown of invested assets, HY15, £bn

	Total Group	PAR funds	Unit linked	Shareholders				
				Asia Life	US Life	UK Life	Other	Total
Debt securities	**142.3**	**59.0**	**9.8**	**8.3**	**32.1**	**31.1**	**2.0**	**73.5**
Equity	155.3	39.8	114.2	0.8	0.3	0.0	0.2	1.3
Property	13.3	10.8	0.7	0.0	0.0	1.8	0.0	1.8
Mortgage	6.4	0.8	0.0	0.1	3.9	1.6	0.0	5.6
Deposits	6.2	2.0	0.0	0.4	2.9	0.0	0.9	4.2
Other loans	11.0	7.9	1.1	0.3	0.0	1.7	0.0	2.0
Other	8.6	6.0	0.0	0.4	1.6	0.4	0.2	2.6
Total	**343.1**	**126.3**	**125.8**	**10.3**	**40.8**	**36.6**	**3.3**	**91.0**

Continued balance sheet conservatism

- Total group assets of £343bn; shareholder exposure of £91.0bn
- Conservative asset mix: 94% credit portfolio is rated investment grade
- Nil default losses, minimal impairments across all credit portfolios

Debt exposure - high quality and well-diversified

- US shareholder debt exposure of £32.1bn
  - ➢ 96% of corporate securities are investment grade across c.700 issuers with an average holding of £34m
- UK shareholder debt exposure of £31.1bn
  - ➢ 98% investment grade, 76% A or higher
- Oil and gas credit exposure of £3.5bn
  - ➢ High yield exposure is just 0.7% of total debt
  - ➢ Well diversified across 136 issuers and 5 sub-sectors
  - ➢ Average holding of £26m
  - ➢ Maximum individual exposure of £188m

Other items

Reporting considerations

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Solvency II reporting

- Solvency II specific disclosures from FY2015 (updated half-yearly)
- Continued use of EEV and free surplus generation
  - Unchanged for Asia, US and M&G
  - Restated for UK to reflect Solvency II capital (with effect from HY2016)

Other reporting considerations

- Discontinue publication of 1Q and 3Q Interim Management Statements with immediate effect
- Dividends: twice-yearly interim dividend to replace final / interim dividend approach from 2016

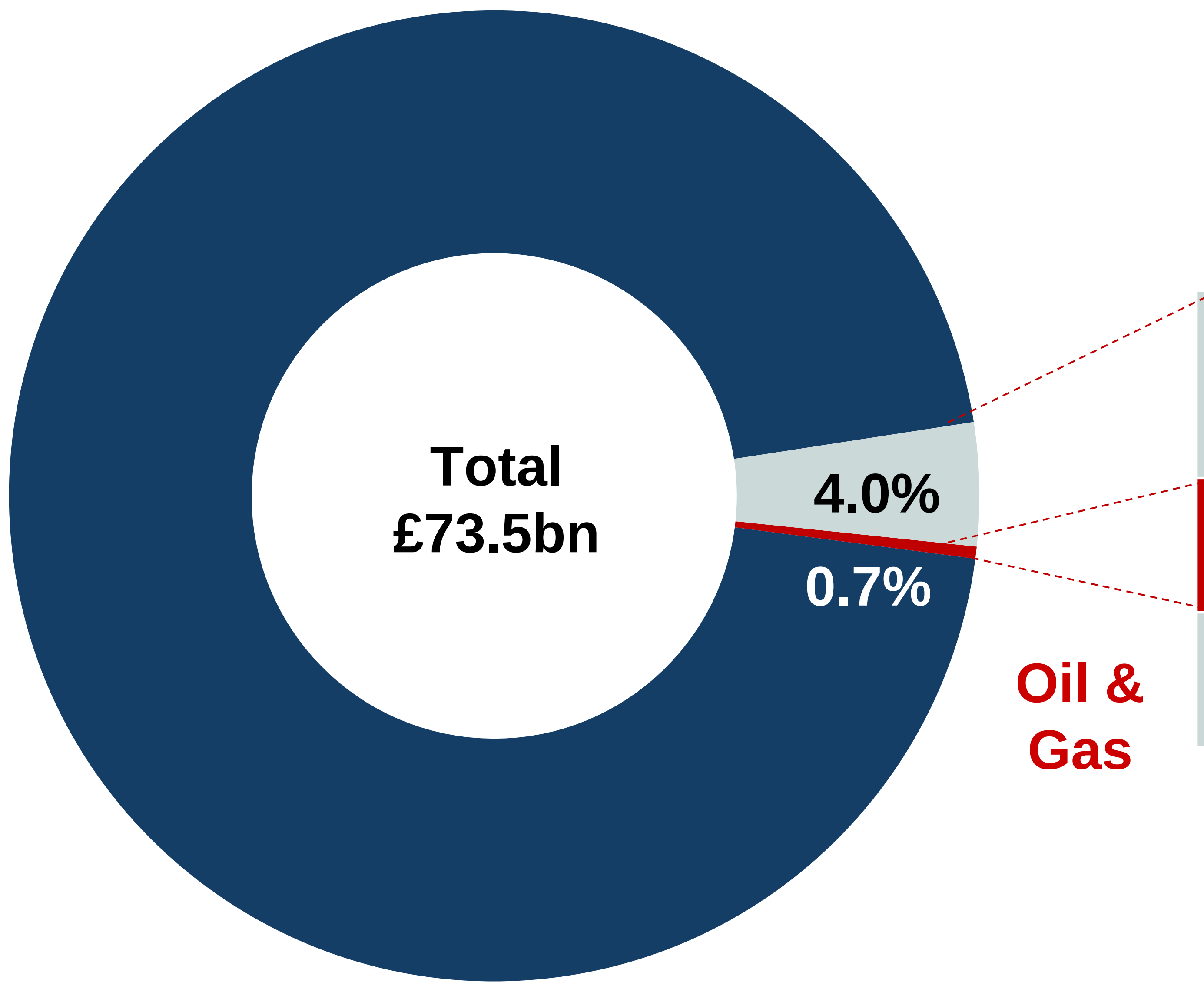
Appendix

Group credit position

Oil and gas exposure

PRUDENTIAL

Breakdown of the shareholder debt securities portfolio, HY15



Breakdown by credit rating and sub-sector, £m

	Exploration & Production	Integrated Oils	Refining & Marketing	Oil & gas Services	Pipeline / Mid-stream	Total (£m)
Investment grade	807	833	215	334	767	2,956
High yield	169	45.	13	138	158	523
Total	976	878	228	472	925	3,479

- **Exposure is diversified across 136 issuers and 5 sub-sectors**
- **Average holding of £26m**
- **Maximum individual exposure of £188m**