PRUDENTIAL

Prudential plc 2018 Half-Year Results

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HY18 Highlights

Mike Wells

Group Chief Executive, Prudential plc

Preamble

Welcome, everybody. I appreciate you coming out this morning. I want to walk you through what we think are a strong set of numbers, and update you on the demerger and a variety of other topics. Let us say we will not talk about Tesla, how is that?

Group

Headline results

The headline numbers, let us go through them. In context, what we have been trying to do, as we talked about in the last few years, is the definition of quality earnings being earning that are recurring, client relationships that carry over year after year. The development of our existing consumer relationships that give us a resilience across the cycle. Obviously the single best measurement for that is new business profit. It does not mean we are not interested in growing every other metric. We are. It does not mean we are not interested in market share. We are. We are highly competitive as a management team but I want to go through some of the metrics and give you a little bit of context about it. Then again, as I mentioned, I will walk you through some progress towards the demerger and Mark will give you a very granular look at the financials.

New business profit up 13%, Asia up 11% and Health & Protection in Asia up 19%. It is a great performance by the team. Group IFRS again on a local basis up 9%. Asia Life earnings 14%, US fee income 13% and M&G Prudential operating profit up 4% but again adjusting for Rothesay and the earnings coming off part of the period for the £12bn in transfer. Asset management business in the UK up 10%. Operating earnings per share up 17%. Free surplus at just shy of £2bn. Again in some ways I think it was fairly consistent with a lot of your models but look back a little bit on the last six months and the markets there has been a lot going on. The resilience of the business is one of the pieces I am most pleased with and the level of execution on the objectives that we have given the teams, I can give you a little more colour on those today, has been outstanding.

Custodians of capital, active portfolio managers, focus on quality

The other thing we have talked about in this room for a few years is we are active managers of the business. That has a lens of we are active managers where capital is deployed, we are active managers of types of risk we want and the combination of those risks, the markets we want to be in, the products we want to sell, all those various dynamics. Part of that means can we demonstrate things we are willing to walk away from and are we doing things we told you we would accelerate, increase our exposure to or build capability in? I think we have a really good six months on progress on that.

Again, in August, we announced the transformation of M&G Prudential. That was not just about getting £145m of cost savings. It was also about increasing their digital capability, aligning distribution, management, product set, getting to market faster, upgrading the back office for the asset manager with the Aladdin platform, and the TCS partnership. All those things are rather done or moving very, very nicely and starting to get what you should see, with the benefits of scale affirming with their capability is. That is progressing very well.

We also again announced the £12bn transfer to Rothesay. That is progressing. Part VII, as we said, is scheduled but we still think that is likely to wrap up middle-to-end of next year. That is one we cannot control. As I think you all know, that is a court-based decision process and the way that process works is very difficult to actually impact the timing of it. However we are ready. Rothesay is ready and the regulatory agencies have been very supportive with us on doing the pieces that they need to do. We continue to progress on that.

You have seen the transfer to Hong Kong progressing well. You have seen new bank relationships across Asia so SCB expanded. That relationship is out of Ghana in Africa. The announcement came out last week about the Babylon Health partnership and that gives us some new capabilities. I will come back to this in a lot more detail in a second. That is ex-China. Tencent has a partnership with the JV with them in China, just to be clear. I think we are in good company there.

Then you saw the Thai Military Bank, both acquisition of a fund management capability inside Thailand as well as the distribution relationship there. Again, further expanding our distribution and our manufacturing capability in Thailand. We have also had a lot of success with our Siam Commercial Bank relationship which is a unique one, in structure for us but is working quite well.

Separation process – next steps

On the separation process itself, how do you look at that, how do you look at the progress? The key steps are, as we outlined before, the debt process so restructuring the corporate debt in a reasonable, balanced way to make two well-capitalised firms that have proper debt ratings and proper access to capital markets. That is continuing at pace.

The operational models I have mentioned. We still need to finalise the establishment of a UK Holdco for the new entity. We are in the final stages of a selection and appointment of a Chairperson for that entity. They will create an independent Board. That continues at pace. We are a bit ahead there.

The unwinding of the Group linkage, a Group our age, as you can imagine, we find relationships that are 170+ years old we did not know we had. Again, managing those as they come up and there is nothing that is material in that. I am being a little bit facetious. There is a lot to do but all of it within the scope and capabilities of the teams working on it. There has been nothing that has taken us off our calendars, cost targets or any other elements of the business. However, there has been a lot of work to do and they are doing a great job on it.

The part VII transfer I have mentioned and the shareholder regulatory approval you saw last week that the regulatory college voted. The way the regulatory model will work is the entire Group will be regulated by the Bank of England through the PRA until the demerger. Then post-demerger that regulator will regulate the M&G Prudential company, as will the FCA and obviously any local jurisdictions they do business in. Prudential plc, the international business, the regulators meeting was considered regulatory college including what the PRA's support and involvement. They actually co-host it currently and they have selected Hong Kong as the new Group-wide supervisor. At the time of the split Hong Kong will assume that role. On a day-to-day basis all of the individual jurisdictions we do business in have a material say in how we operate in those entities and they are all providing input to Hong Kong on how they want to see a Group supervisory role structured. They all get along pretty well and it has been a very cooperative process. Again, I think it is fair to say that we are ahead of schedule on that and we will hopefully give you more detail on what that looks like in November. The early conversations have been they are fine with the transitional relationship that looks a lot like what we have now. Again, I would suggest you to look at the local statutory models have always have been, including under Solvency II, the binding constraint for any capital fungibility, dividend investments. It is a portfolio of businesses and they are governed by a portfolio of regulators. This is the entity where they cooperate.

Again, both of these companies will be based in the UK, both premium listings on the FTSE and we think both should be technically qualified for FTSE 100 inclusion, if that is meaningful to your portfolio or position.

M&G Prudential

A leading European Savings and Investments business

What are we doing with the new company in the UK? I have been asked this a couple of times in the last few weeks. I want to make sure it is absolutely clear. People have thrown out in one-on-one meetings some of the, is it like XYZ firm? Is it like this model? I actually think there is a very, very clear argument that it is not like any existing competitor in the UK market. It is highly differentiated. It is, as you see from the net flows, a very strong asset management franchise with M&G that has funds in the category, the consumers institutional investors want and are disproportionately in the lower risk, higher value or total return or asset allocator spaces where you have a little less impact from passives. Passives affect the industry but you see funds that are difficult to index is the spaces where M&G has done well. The research and fund selection and then moving up towards with-profit, fund allocation capability has produced the returns you see that will make these products competitive. The with-profits fund in itself is unique. It still has £9.4bn of capital in it. It provides smoothing. It has provided excellent returns for the consumer. We have highly competitive platforms on the administrative side on Life and Annuity. All those things give it a unique footprint. It also has scale, 7 million plus clients and the financial fire power to do a variety of different things in the market. It will have the ratings it needs so we think it has got multiple earnings engines. It has got multiple ways it can generate cash, capital, unique product and it is very well-situated for the consumer demand and the opportunity sets that we see in the markets where it is currently succeeding. It clearly has the ability to extend in those markets and go to other markets as well.

Merger and transformation

As far as the ambition transformation, I mentioned a couple of these at the beginning. The transformation is going very well. This is an upgrade as well as an efficiency exercise. There is a lot of work here. You have the partnership with TCS, the integration I mentioned. You are seeing the scalability of common platforms. 95% of the advisors now submit business online on some of the new technology. There is other technology coming. There is a lot of work going on that improves the competitiveness and the consumer and advisor interaction with the firm on top of this integration work and on top of the divestiture work. Incredibly proud of the teams and what they are getting done. Again we are on target for those ambitions.

Cash-generative earnings supported by attractive capital profile

Let us go to cash and capital for a second. Very, very stable asset base. Coming from the nature of the products offered, the level of risk in them, the types of clients that buy, the markets they have raised money in, it is a very good, very stable AUM. Also, well-balanced earnings from multiple sources. The current model in the UK is to have a couple. This has clearly got engines that competitors do not have. The capital side, again you have the excess capital in the with-profits fund, the normal things you would see in a capital stack. Obviously from today's results you will see its ability to generate cash and capital.

A very, very healthy company on all key metrics, very cash-centric in its earnings, which I know in the insurance world at times can be some distance between accounting and cash flow. This one actually the two are quite tightly aligned and I think it creates a very unique combination for multiple shareholders.

Operational performance

Why is it doing that? It is producing proper results for the consumers. I have said this before, you cannot build good companies without good products. The client propositions have performed well. M&G's performance of fund management team, research teams have done an outstanding job, both on the institutional and the retail side. Not surprisingly, you are seeing good net inflows with the PruFund up £4.4bn, another £3.5bn into M&G between retail and institutional. You all know the challenges in the market now but the consistency of the performance clearly drives those flow numbers and I have a healthy queue of clients on some of the funds that are committed but not funded. All the operational performance metrics look great.

Prudential plc

A winning combination

The international business, what can you expect there? Why is the US and Asia? What is up with Africa? All these sorts of things come up again in our one-on-ones. We see it as a very well-diversified player in the best choice of markets right now. Very simply Asia being where the largest growth of population and largest growth of new wealth is occurring. The US, and that is life insurance as well, as wealth management. United States is the largest market for life insurance and wealth management. Africa is the most under-served market for wealth and insurance. We have materially leading positions in two of those three. We have five countries now in Africa. We have a lot of good things going on there. However, at the end of the day we have leading platforms to capture the opportunity set in the US and Asia.

We think that creates diversity that is unique by product, by risk, by credit, by FX and by age cohort of clients, where clients are in their lifestyle. All those things that give us the ability to diversify our risk and maintain our return thresholds. The geography helps. I have said this before, probably our biggest risk as a company is political because as things change that creates uncertainty with consumers far more than economic change does. The only way you can manage that is diversification. Certainly a voice in the process but diversification. We have great diversification. All those things give it a unique footprint.

Then there are financial synergies from the size and strength of the balance sheet, the diversification of earnings, the timing of earnings, some of the longer cash flows versus shorter and equity exposure versus the other types of risk we are taking. All of that comes from scale and then that scale gives you the ability to do larger M&A, more unique partnerships with key vendors and all of the things that we need to do. You have to be of a size to credibly be a player in those dialogues. Africa is still developmental for us but the US and Asia are producing very high returns on the capital and very quick returns of the capital.

We like all of those characteristics. We recognise in each of those greater markets you have people that have had different results than that. We have not. In Asia you need a portfolio. In the United States you need to start correct with pricing and stay correct with pricing. If you do not do those things you take different risks that are more concentrated than we have done as a Group and you have different outcomes than we have had as a Group. We like what we have and it is growing well.

The other question I have been getting is, 'Why leave the headquarters in London?' Fair question. It is not because I have a flat here in London. I do have a flat here and I do like London. I like Hong Kong and I like the US and most of the markets we do business in I would live in. However, the issue is this. The role of Group has never been the operation of the business. I have been here 23 years. The role of Group is the correct allocation of capital, the correct measurement of risk, the governance models, forcing the business units to find synergies, the challenge, the strategic work, the interaction with stakeholders, yourselves, regulators, the debt issuance, the balance sheet work, the consolidated financials and all those sorts of sovereign functions.

We have an outstanding team here capable of doing that and it is where our primary listing is and our largest group of shareholders are. There is absolutely no reason for us to disrupt that. Nor do I think it is reasonable to believe you could pick that up and move it anywhere. You would add operational risk. You would add other dynamics to it that simply do not add any value to our shareholders and would only disrupt a key set of our stakeholders, our employees, who are doing a fantastic job. It does not matter what the business mix has been since I have been here. The role of Group has never been to run an individual business. That has always been delegated to the management teams locally. That does not change.

Someone asked me, do we travel more? We travel now. Just for the record, we travel about two thirds of the time now. That is not going to change a whole lot and often it is to where you are as investors and often it is to where the business units are. I was in China twice, Hong Kong and the US last week. That is part of the job and it is an interesting and challenging, fun part of the job. That does not change how we do business, just to be very, very clear.

Asia

High-quality, diversified growth

Let us go to how we do actually operate a business. Asia, drilling down on the Group numbers a little bit you had double-digit growth across the key metrics with new business profits up 11%, IFRS up 14% and free surplus generation up 14%. Again, eight countries with double-digit growth in new business profits. The one that I am probably most pleased with is not just the year-over-year change in Health & Protection in NBP but also the percentage of NBP that is now Health & Protection, the percentage that is now recurring relationships with consumers and the persistency of that.

The biggest opportunity we have, as we have talked before, is to continue to do a good job for the 15+ million clients we have in Asia. They not only stay with us and continue to fund those relationships and we provide the benefit, but also so they think about us in the second and third transaction. One of the key metrics to how we are doing is the clients that are coming back year after year. When we are talking to Nic and his team and the CEOs: it is a big part. Of course we want to grow the relationships, of course we want to grow new business relationships and we want new distributors, new agents and new bank relationships. You will see some of that. However, the key driver now to our success I think in Asia is our ability to protect what we have and grow what we have, as well as at the same time in parallel grow new relationships.

However, we have to keep focused on it is large enough and it is well worth the time and energy. They are doing a great job there. Hats off to Asia. For the first time they are over £1bn of IFRS profits in the first half of a year. There is a number of records in this but another good performance for the team. Again in an interesting climate so let us go to that.

Significant long-term growth opportunity

You had lots going on in Asia this first half of the year, a lot of political change, some economics and market volatility. We have talked about this for numerous meetings, what you see is nothing changes structurally. If you are in Malaysia and you saw a historic election. I was in China in the early meetings with the China Development Forum when there was this early discussion on the trade war. The order of magnitude they thought would be in the £10-15bn range. I was there last week when you are talking £100bns. These are real occurrences now.

To a person in the street, to a person who is our client, what they care about is the certainty of their job, how much they are taking home and how much things cost in the market. That is true in Beijing, that is true in KL and that is true in Hong Kong. I said this earlier today to somebody, I rarely meet anyone anyplace that can tell you the GDP of their country and what it has changed quarter-over-quarter. What they can tell you is what they read. If they see a lot of news about political instability they are a little slower to make a decision but they are more worried: we are at risk off trade. These sorts of climates tend to be good for us and in Asia, as in the US, the structural drivers do not go away when there is political noise. We are not a quarter-to-quarter business and none of this changed in the last six months. Lots went on.

It was fascinating travels first half of this year in Asia but nothing changed in the structural drivers. A million people still entered the workforce every month. You meet young people that are worried about their future. The one I hear endlessly is how they are going to take care of their parents. Retirement has risen as an issue now in multiple markets in Asia. Demographically it was always there. You could have measured it but it is starting to be more front of mind and more media covered. However, the structural drivers have not changed at all so the performance I think reflects that.

A couple of stats on the retirement side. This was a number that came out earlier that I will throw in here. 450 million additional people will be 65 between 2015 and 2050. Retirement, we are getting questions in China. They are approved to do a pilot in three markets there with a handful insurers for the Chinese government on effectively a tax deferred pension product. You hear about it in Thailand when you are there. You hear about it in Singapore when you are there. You certainly hear about it in Hong Kong when you are there. There is no difference than you see in some of the Western markets. People are worried about how they are going to fund this.

The out of pocket healthcare numbers, with $0.40 of that in Asia being paid by the patient out of pocket of every $1, roughly $0.09 of it here and $0.11 or so in the US. The structural demand for the core products is there. It is our job to make sure we are in front of how the consumer wants to be serviced, that the service levels meet their expectations and that the products are unique enough. Those challenges are real so that goes to capability.

Wealth creation you are just shy of 12% now in mutual fund ownership across Asia. That is still in its infancy where the wealth creation is growing at tremendous rates disproportionately into cash.

Leading pan-regional franchise

You have seen this slide but this is how we address it. It is a portfolio across the region. 15 million clients I mentioned and top three positions in nine of the 12 markets. We were kidding earlier, it took us 94 years to build this but disproportionately built in the last two decades. I actually met people that were deployed in Asia that worked for us that were told to only call the headquarters every 90 days for the 15-minute update on the country they were in and they were the early pioneers. It is fascinating to hear what their stories were when they were sent out with a team of five 60 years ago to run one of our businesses. You all know the scale of these businesses now. It is very difficult for someone to come in and assemble not just the licences, that is an overly simplistic look, but the relationships we have in the market, the brand, the talent distribution we have.

It is a very unique portfolio and it gives us the ability to not only weather those political storms I was talking about as they come up at various sizes and various markets, but also to choose where and when we want to deploy capital in country, product, channel, all of the various dynamics because of the optionality it gives us. Very, very happy with what we have, continues to execute.

Improving our capability set

On capabilities what has Asia been doing? We have to keep moving forward. We have to keep doing new things. We have to keep adding capabilities to the Group and certain to our Asian model. Consumer expectation there rises as fast as any place we do business. There are four major objectives we have given the Asia team. One is to enhance the core. The others are make sure we have best-in-class healthcare, accelerate Eastspring and expand our presence in China. There has been material pick-up in all of those. In the new banker partnerships, in multiple markets the digital both agency and bank aside as well as supporting consumer activity. Eastspring, I mentioned the Thai Military Bank transaction, as well as WFOE in China. Hunan was just approved as a province. That is the seventh largest with 68 million people. In the top-right there in China, the pension pilot with a handful of government approved insurance companies in China to trial a new product in three markets. There are lots of important sub-points here that I am not going to through one at a time, but Nic and the team can walk you through any one of them individually. Tremendous amount of work about expanding the capabilities there.

Babylon fits in the healthcare piece. We will show you more what we are going to do with that as it is built but if you have not seen that there is a really interesting project to do with the NHS here. It is an artificial intelligence doctor. Remember most of our markets in Asia there is not a GP front-end on the hospitals. People go right to the hospital when they are sick so this has a great social purpose. They are aligned with us in their view of helping clients stay healthier. They have some very interesting capability and I think it is going to be a great ad for our clients and candidly to develop some of our markets more thoroughly in line with the governments and other stakeholders in those markets.

US

Differentiated product structure, health of portfolio

There is a lot of noise this half-year in the US and some of it is settling down. The effect of the taxes settled down. You had some regulatory things finally getting put to bed. NAIC has finally voted I guess officially. We are waiting for final SEC rules on client best interest and we are pretty much out of industry issues till the new set arrive. Again, all of which were weathered well by the company. I just want to spend a couple of minutes on why.

Jackson started with a different and better product design. It gave the client a chance to get access to reasonable portfolios from top fund companies but only ones we could hedge. There are firms in this room and firms watching this that have very large positions in us that are very high quality funds but for whatever reason, the nature of the fund, turnover or characteristics of what they buy, were not deemed as something we could actually put in the product because they are unhedgeable. Even if they appeared elsewhere. The selection and management of the fund process is critical. Then you have to hedge from day one, as we have discussed, to offset that risk and make sure you have that correctly balanced.

Then the funds have to be managed for performance so the consumers do well. You stay aligned with your stakeholders. The consumers in this product have done better, as we have shown you, than every other product in the industry. They own it disproportionately for accumulation, tax-deferred accumulation. They also have the safety net of knowing as they slowly withdraw their own money the guarantee kicks in if they withdraw all of it and they have a floor on their income. It is not heroic in its capability but it is well-priced, it is balanced and it produces a very good outcome for the consumers as well as for our shareholders.

It is a simple strategy that could have and should have been copied many times and was not, candidly. It has produced a very different outcome. They put in this time one of my favourite slides from my old role, which is the unhedged cash flows. This is just the guarantee fees, to show you what the current cohorts look like. Again this does not count the other fees. This does not count the value of the hedges. This assumes every counterparty does not pay off, all those sorts of normal cash flow stresses we do being sceptical. However, the book is very, very healthy.

Delivery and resilience

How do you measure that with all the noise in that market right now? The stability and resilience of the capital across the cycle I think is a fair measurement. We do not do midyears but I will tell you that after the tax changes and after the dividend we are still above year-end 2017. Again, this firm is resilient from a creation of capital point of view and it has distributed $4.9bn of cash in that period of time. Profitable book, good outcome for the consumers and well-hedged.

Well positioned with capabilities to capture significant opportunity

Then the capabilities of the firm position it for what comes next. The demand is still there. There has been a lot of noise in this market for the last three years. It is important that the SEC finalise what their expectations are on client best interest because that gives the compliance department to the broker dealers understanding of what should go advisory and what should go commission. A lot of work being done there. A lot of work being finalised. Then of course we have best product, 50% of the industry's average expenses so a cost advantage, largest best wholesaling team, measured externally, top service. Again, compared with mutual fund companies as well as insurers, we got second this year to BlackRock. Enthusiastically trying for number one, reminding everyone, 'It is going to be number one this year.' We have won most years. Then the product innovation is there, the ability to develop product that is appropriate. Appropriate being good for the client and good for the shareholder. Then Barry has been instrumental in putting together the Alliance for Lifetime Income, which is dozens of the industry's firms coming together to support publicly and politically the narrative on why clients want assured income in retirement for some portion of their assets. There is some good early successes with that, that I will let him tell you about in the Q&A.

Group

My last slide, another cohort of consistent performance by the team across the key metrics, and with that I think I will turn it over to Mark. Then we will take Q&A at the end.

First-Half Financials, Business Performances and Capital Structure of M&G Prudential

Mark FitzPatrick

Chief Financial Officer, Prudential plc

Preamble

Good afternoon to you all. I will cover three main topics in my presentation to you today. Firstly, a deeper look at the first-half financials and the major moving parts. Secondly, a reminder of the key financial attributes of each of our businesses. Then thirdly some pointers to help you think about the capital structure of M&G Prudential going forward to the point of demerger.

Group HY18 results

Key financial highlights

Moving into my first topic, a deeper look at the first-half financials for the businesses and the main overall metrics. At a headline level the Group has delivered good progress across a broad range of measures, even though conditions generally remain challenging, emphasising the quality of our delivery through the cycle. As usual I will comment on a constant currency basis as this provides a better view of the underlying financial trends. On this basis all of our profit measures have moved forward and continue to be led by high quality growth in Asia, with Group IFRS profit up 9%, new business profit up 13% and EEV operating profit up 29%. The first interim dividend is 8% higher at 15.6 pence in line with growth of the 2017 full-year dividend and is underpinned by remittances from each of our business units. We continue to operate with a strong balance sheet and solvency position with Solvency II cover of 209%, up 7 percentage points since the year-end.

Key drivers of Group financial performance

This slide shows the long-term consistency in the Group's performance is ultimately driven by our ability to keep building the base of earnings by writing good quality business in the first place and then actively managing the in-force book to ensure we are able to retain it. In Asia this can be measured by the stock of recurring premium income and our businesses in the US and in the UK in the accumulation of assets under management. Across all three businesses the progression against prior year is clear and continues a longstanding trend. I will come back to these themes again in a moment.

Asia

Key financials in HY18 – new business

Turning to the performance of our businesses, starting with Asia. Here the benefit of our persistent focus on improving the mix of our new business is clearly evident with new business profit increasing by 11%. We are seeing both a higher proportion of Health & Protection sales and a better mix within Health & Protection as we shift to higher margin products. As a result new business profit from the segment was up 19%. While yield moved up in most markets the overall impact on new business profit was relatively benign reflecting the broad mix of products across the portfolio. However the scale of increase in yields we saw in Indonesia, up 100bps versus prior year, represented a headwind for new business profit in the period. While first-half APE sales are down, we are starting to see some normalisation in Hong Kong volumes following the recent reduction in industry sales from mainland China. This combined with improving performance in China has resulted in a return to growth in the second quarter.

Key financials in HY18 – IFRS operating profit

Asia IFRS operating profit was up 14% overall with growth of 14% in Life and 13% in asset management. The pivot towards higher-value products is demonstrated here also with insurance margin up 17% reflecting the growing proportion of regular premium Health & Protection sales in recent years. This business also generates an improvement in the quality of earnings as it is not sensitive to investment volatility.

In asset management Eastspring's earnings benefitted from a higher level of average assets following favourable net flows and market appreciation since June 2017. Although external funds were in outflow overall in the first half of 2018, this primarily reflects redemption from a single institutional mandate with better net flows in retail business and equity funds.

US

Key financials in HY18 – new business

Moving on to the US, Jackson continues to attract a consistent level of underlying VA sales despite the ongoing disruption at industry level. To ensure the business is well-placed for the future we remain focused on building product and distribution relationships in the advisory markets as a source of longer-term growth opportunity. At the same time we are closely monitoring developments in the commission-driven market following the recent vacation of the DOL rule. We believe that in the future differences in customers' preferences and circumstances will mean that there is a role for both advisory and commission business in the market. The uplift of 17% in new business profit reflects a benefit of higher rates and lower taxes, in line with published sensitivities and prior guidance.

Key financials in HY18 – IFRS operating profit

The US IFRS result is roughly the same as last year with three main moving parts. In our VA-focused fee business, income increased by 13%. This benefitted from the positive catch-up in average AUM growth following strong investment performance in the second half of 2017. However, this was largely offset by the impact of higher asset-backed based commissions and less favourable DAC adjustments. The DAC adjustments have made a lower contribution this time as a result of the mechanics of the mean reversion calculation. These have accelerated amortisation compared to favourable deceleration in the prior period. These trends are likely to persist for the full year as the balance of 2015 rolls off. Lastly, spread earnings from the fixed account declined 5% reflecting the anticipated decline in both portfolio yields and contributions from swaps detailed in the chart on the right. We expect these trends to persist and we reiterate our guidance for an ongoing moderation in the margin towards 150bps absent a significant uplift in rates.

M&G Prudential

Key financials in HY18 – new business

M&G Prudential continues to make good progress, driven by demand for its differentiated life and asset management product offerings and its investment performance. On the Life side the PruFund investment option remains the key underpin of sales in retirement products such as income drawdown and individual pensions. These were up 16% and 13% respectively driving growth in new business profit of 11%. M&G has continued to benefit from inflows from European retail customers, and institutional clients who are attracted to its multi-asset and private asset opportunities. Notwithstanding adverse market effects, the strength of these inflows saw external AUM increase to £165.5bn and now accounts for 58% of total M&G funds under management.

Key financials in HY18 – IFRS operating profit

M&G Prudential's operating profit has increased 5% in the first half of the year for the areas we define as core earnings. I have shown the prior year on a like-for-like basis after taking out the proportion of the annuity book that was sold in March this year. PruFund's contribution continues to grow in importance, up 25% in the period, and supported an 11% increase in the overall transfer from the with-profits fund. Management actions totalled £63m compared to £188m in the first half of 2017. This was driven by asset optimisation with no further longevity reinsurance. We currently do not expect any meaningful benefit from the management actions in the second half of this year.

The UK Life result also included £166m of insurance recoveries related to the review of past annuity sales. Our previous gross provision of £400m is unchanged. In Asset Management M&G has continued to deliver strong results with core earnings up 9% and overall earnings up 10% after performance fees. Continued healthy net inflows into external funds have improved the revenue margin and mix, another sign of our focus on higher quality earnings. M&G Prudential remains focused on its transformation to a modern savings and investment business and is on track to deliver by 2022 the £145m annual savings we set out this time last year.

Equity shareholders' funds

Operating profit remains key driver of growth

Moving on to equity shareholders' funds and there are three main areas of note I would like to share with you this morning. Firstly, IFRS operating profit after tax is up 17% reflecting the underlying performance in the period and the benefit of the lower US tax rate. It includes costs of £41m relating to the merger and transformation of M&G Prudential, partially offset by lower interest costs following a net reduction in debt last year. Secondly, the sale of the UK annuity portfolio generated a pre-tax loss of £513m in line with our guidance when we announced the sale in March, and this is contained within the loss on corporate actions line. Lastly, overall investment variances are much reduced in the period with positive marks in the US mainly driven by favourable revaluation of guarantees following the rise in yields. This was offset by unrealised losses on bond portfolios in Asia due to higher interest rates and in the UK on widening of spreads. Higher rates also led to unrealised losses on US securities held as available for sale. Shareholders' equity on an embedded value basis increased to £47.4bn at the end of June, equivalent to 1,830 pence per share.

Group free surplus generation

Growing contributions from in-force life portfolios and asset management

Moving now to cash and capital generation and looking first at free surplus generated. To capture the underlying progress I have analysed out the expected return from the in-force Life business and the contribution from the asset management businesses. These have each increased given the growth in the Life portfolio and the higher base of AUM in our asset management operations. We continue to reinvest a significant portion of our free surplus in new business. Asia remains the primary destination of our investment here, accounting for roughly half the total given the relative returns and growth potential that our superior market positioning and capabilities provide. After investment in new business the underlying movement in the first half of 2018 before variances and restructuring costs was an increase of 9% compared to prior year. The overall result of £1.863bn included favourable variances of £350m, mainly related to M&G Prudential management actions and the insurance recoveries which I have already mentioned.

Holding company cash

Strong liquidity position

This slide shows how cash and capital generation moves through to central cash. On the left you can see that the net organic free surplus generated of the £1.863bn from the previous slide comfortably funds remittances to Group. Market and currency movements were negative in the period however our approach to maintaining strong local capital positions allows us to absorb these effects without impacting business operations. The chart on the right shows how cash remittances of just over £1.1bn from all of the businesses were used to cover corporate and other costs as well as the growing dividend. We retain the flexibility of bringing funds up from the businesses to the centre as required.

Solvency II

Robust solvency capital position

My final slide on capital generation covers the Solvency II position. We continue to run the Group to a robust solvency capital position with the shareholder solvency surplus of £14.4bn up from £13.3bn at the end of last year, and a cover ratio up 7 percentage points to 209%. The strength of our operating capital generation at £1.7bn in the first-half remains the key underpin of our solvency position and resilience, absorbing market movements which in this period were minimal as well as funding the dividend. In the UK, PAC's Solvency II ratio has increased to 203%, which includes the benefit of the reinsurance of annuities sold to Rothesay Life. You will see at the back of the IFRS statements in your packs on page 77 that we have reproduced the proforma 2017 year-end position to adjust for the completion of the annuity Part VII transfer and the transfer of Hong Kong to Asia. On this basis, PAC Solvency II ratio increased from 150% to 153%.

That brings me to the end of my first topic, overall a good performance across all our profit measures with our focus on driving quality growth yielding benefits.

Asia

Focus on high-quality, compounding growth

My second topic is to revisit some of the key financial attributes for each of our businesses that underpin and characterise our performance in any period, beginning with Asia. What really defines Prudential's Asia operations from a financial lens is the quality of the new business that we write year after year. To put some numbers around that using half-year data, 94% of APE sales are regular premium and 95% of the business is retained from one year to the next. This overwhelming concentration of regular premium business with high levels of persistency means that through the cycle Asia generates income that is both recurring by nature and sticky over a long time period. The outcome of this is a highly compounding base of profitable premium income that has been resilient and growing with every new cohort of business.

Driving increasing scale and portfolio diversification

Another feature of our growth in Asia is the increasingly attractive profile of the earnings that we generate. As we continue to focus on growing the proportion of sales that are Health & Protection so the mix of our IFRS earnings has improved towards insurance margin, which is more resilient and typically offers higher returns. Together with capital-efficient fee income from Life and Asset Management this now accounts for 84% of total IFRS operating income. The consistency of our financial performance in Asia is also the outcome of the strong portfolio effects of our regional business. This provides very effective diversification across multiple factors such as country, channel, product and customer. In addition, as our businesses scale up they benefit from the collective power of the overall Asian business. It is the combination of all of these attributes through compounding growth and increasing quality that has generated a substantial stock of future cash flows. As at the end of 2017 a total of £37.8bn is expected to emerge from the in-force portfolio into free surplus over the next 40 years. Crucially the contributions from new business are adding more to the stock than is coming out from the in-force. Repeated year after year, this creates a powerful growth dynamic that drives a highly attractive outlook.

US

Disciplined management

In Jackson, the financial performance is a combination of its differentiated product structure, customer outcomes and disciplined management. Over the last decade Jackson has built an enviable position in the US VA market. It has remained consistent in its approach and as you can see on the left has resulted in an even spread of sales and a well-diversified portfolio mix with no outsize years. Better still, it has remained profitable through every cohort in contrast with most of the industry. This profitability reflects disciplined pricing and timing, superior product design, as Mike mentioned, and our industry-leading capabilities around our distribution and low-cost operating platform.

Throughout this period, Jackson has operated with a healthy level of capitalisation. The profitability of the VA portfolio underpins the consistent organic capital generation. This is key to its capital resilience, together with its conservative approach to protecting capital by hedging deep into the tails. This approach has ensured that Jackson's capital has remained well-protected through the more volatile investment markets of late. Overall, in the first half of 2018, statutory capital increased from \$4.3 billion to \$4.6 billion, driven by six months of capital generation and a much-reduced level of negative marks on equity derivatives in a period with more modest gains in the S&P index. This has more than covered the remittances to the Group, which, to date, has typically been weighted towards the first half of the year.

It is also worth reiterating that Jackson's capital position is significantly understated by the statutory regime. This is because reserves are currently floored out at a cash surrender value that is materially higher than the true economic reserve and there is a limit on the recognition of DTAs, both of which produce a drag on operating capital generation. Notwithstanding these effects, the payment of the remittance and the impact on required capital of US tax reform, Jackson's estimated RBC ratio remains above its year-end position of 409%.

The NAIC reform of the variable annuity reserve and capital framework has begun making its way through the necessary committee approvals, with the targeted 2020 implementation date. We believe the agreed framework represents a good outcome and should result in a more stable capital regime.

M&G Prudential – seasoned sources of earnings

Turning to M&G Prudential. A business providing customers with reliable long-term returns in a volatile world. Now, it does this through the with-profits fund, which is meeting customers' preference for smooth, consistent returns and by M&G, developing asset management solutions which address both retail and institutional needs in a range of different markets.

Funds under management

Pulling out a few of the key factors that will influence the profile of this business moving forward. In asset management, earnings are cash-rich and are well diversified by asset class, fund strategy, geography and source. In the with-profits fund, which has both scale and financial strength, the transfer to shareholders represents a high-quality profit stream, benefitting from smooth returns, consistent investment performance and an increasing contribution from the growth in PruFund assets, and the annuity portfolio also provides a highly valued and dependable earnings stream.

The different characteristics of these blocks also provide good revenue diversification, and brings increasing scale. The combination of its insurance and asset management businesses has resulted in a large stock of seasoned assets, which drive earnings with a high degree of visibility and security. The full advantages of bringing these complementary businesses together are expected to emerge over the transformation and merger period and beyond, as M&G Prudential becomes a standalone listed business in its own right.

As you can see from that, each part of the Group demonstrates strong underlying attributes that we believe will continue to serve us well as we move forward. We are looking forward to talking to you more about these at the investor conference in November.

M&G Prudential – capital structure expectations

Approach to capital management

On to my third and final topic today, namely that of the capital structure of M&G Prudential at demerger. My intention here is to provide you with some of the building blocks and how we are approaching it at this point, building on some of Mike's earlier comments around debt. To help you as you begin to think about the financial position of M&G Prudential as a stand-alone business, it is fair to say that the business segment UK & Europe in the half year and last year's full-year accounts represents a close proxy to what the new company will look like before any debt rebalancing or additional central costs.

Our capital management principles for this are unchanged. Firstly, we will ensure both businesses are appropriately capitalised at demerger, with a buffer above regulatory requirements. Secondly, we will retain sufficient liquidity with regard to interest costs, central expenses and dividends. Thirdly, we expect each business to maintain strong credit ratings.

M&G Prudential Solvency II capital position at demerger

At the Group level, we have begun the process of managing our debt, including starting dialogue with holders of two of our senior bonds. Referring to the chart on the right-hand side of this slide, and in particular the two larger dotted blue boxes, at demerger we expect that the debt rebalancing will result in M&G Prudential holding subordinated debt at an amount that is up to 50% of the Group's current outstanding debt. A portion of the debt, held by M&G Prudential, will, in turn, be used by Prudential plc to redeem some of the existing plc debt. It is important to note that, in combination, this is expected to be a net positive for the M&G Prudential balance sheet and it would provide a liquidity buffer position for the new HoldCo. Taken together, and assuming no material change from current market conditions, we would expect the components of M&G Prudential's capital position to generate a Solvency II ratio that is, therefore, in excess of the pro-forma subsidiary PAC position that I just mentioned.

As you would expect for this stage in the demerger process, we are not yet in a position to provide the detailed financials for the future M&G Prudential listed entity. As these begin to fall into place, we will be able to disclose more along the way.

HY18 results – summary

To wrap up, we have delivered a good performance in a more challenging environment. Asia continues to demonstrate the strength of its broad, diversified portfolio. Across the Group, we remain focused on executing with discipline, underpinned by careful capital management of our Group, and we look forward to updating you further as we progress towards a demerger of M&G Prudential.

With that, I will hand you back over to Mike.

Q&A

Jon Hocking (Morgan Stanley): Firstly, on the plc, the Pru plc go-forward business, the Hong Kong regulation, I wonder if you could talk a little bit about what methodology the Hong Kong regulator might use in terms of the Group capitalisation or are they just the lead supervisor; is there going to be some additional buffer capital held in Hong Kong at a Group level and how that interplays with the fact this could be listed entity is the first question.

Second question, on the Health and Protection business, is that a first-time disclosure in terms of what proportion of new business profit Health and Protection is, and can you give us a little bit of a colour, please, in terms of how that has trended as a proportion specifically within the products? You mentioned you are changing to more profitable products within Health and Protection, can you talk a little bit about that please?

Then, finally, just in terms of the US, now that the DOL rule is dead, what are your expectations, going forward, about the ultimate mix of distribution between fee-based and commission? Thank you.

Mike Wells: Nic, I will flip the Health Protection trend piece to you and, Barry, the DOL, as well, for comments.

On the Hong Kong, so that is breaking news that we were meeting with key regulators in the region last week. The early discussions are they are open to working on a transitional structure again, so our key stakeholders have metrics that they are used to seeing. Again, this is all post demerger, to be very clear. They are working with the Bank of England and PRA; this will be a very carefully orchestrated hand-off, both agencies are committed to that. I would say their bias is more on a statutory regime, that is fair, so a deduction-aggregation sort of basis, but they intend to develop a more fulsome Group model, as well as the domestic model. Again, I would rather wait till they get further developed before I say anything publicly ahead of that.

I may have mentioned this earlier – apologies if I did not – they are soliciting input from the balance of the regulatory college, so the major jurisdictions are contributing what they see as key discussion points and metrics in that conversation, and we think it will be a productive dialogue. Again, the PRA is in that dialogue and currently is coordinating that. So it is a cooperative, I think well-orchestrated process, and I said earlier, in my view they are a bit ahead of schedule, everyone is on that, and that is very helpful. So they can staff-up now that it is public and the team now need to work on that, and they can have the interactions with the other regulators they need to make sure everyone's concerns are met globally.

On the Health and Protection piece, I will let Nic answer that one, on the trend.

Nic Nicandrou: Yes, thank you, Mike.

Mike Wells: I am not sure its the first time we disclosed that.

Nic Nicandrou: No. I think it may be the first time that we put it on a slide outside a regular investor conference. I think, when I was CFO, I used to provide the figure regularly. It has inched up in the time that I have been here. It used to be somewhere around the 64, 65, 66, 67. We have seen a big uptick up to, as I said, 19% growth, which makes it a healthier proportion of the mix. How have we achieved that? It is pretty broad across the region. We refresh our product set regularly; we had more than 20 either new products or refreshed products. A lot of that tends to take place in Hong Kong, where we are adding different chronic diseases, multi-care propositions. There has been a refresh in the products in Singapore, also in China, but pretty much across the piece. What we have seen is a big step-up in the agency-driven H&P content. That was around 35% in the first half of last year. That has stepped up to 37%; in fact, in the second quarter specifically, agency – this is the mix of business coming from agency in the second quarter – it was up to 38%. The focus is coming through clearly, in absolute increase in NBP, and it is a healthier proportion of the total.

Mike Wells: The other thing I would say, Jon, is in some of the markets, it is the first product, as we have discussed, the clients ever bought. So I think some of the persistency and things you see is, it was a very big decision and, again, I think we are keeping the product current. We clearly have markets, like Singapore, where you are closer to two and a half products per household and they continue to increase that, but it is a little different in each market, Nic, is that fair to say, in the client relationship, depending on per capita income, what financial products they bought before, all those sorts of dynamics as well. So it is actively managed.

On the US, the DOL, so one just general comment and I will flip it to Barry. The SEC has had a view – back up even further – the perception that it was going from, sort of, no client interest is an inaccurate one. There was always a requirement on suitability for a sale of a security and a separate purchase of a security, and variable annuities have always gone through that. So that standard is raised to best interest in the proposed DOL language. The SEC was looking at it, by our understanding, as early as the DOL was looking at it, as is FINRA. So it is not a new workstream for the SEC; they picked it up and were running in parallel with it. I do not think we believe the court's activity changed the industry's ambition to have an outcome that is best interest for the client, but Barry.

Barry Stowe: That is exactly right. I would not put too much emphasis, as you think about this, on the DOL rule and it was there and now it is not so things are going to change dramatically. The tipping point, if you look more broadly at the industry and you look at the number of advisors out there who accept commission versus those who work exclusively on a fee basis, and perhaps, more importantly, if you look at the total scale of assets that are managed on a fee basis versus a commission basis, the tipping point was a couple of years before the DOL rule, with the advisory space exceeding the commission space and growing more rapidly. So, in a lot of respects, saying we need to have an advisory set of products, we need to focus on these advisors, which we have never done, who work only on a fee basis and who hold themselves to a fiduciary standard, having a set of products for them is really just following the money and recognising that this is increasingly what consumers want and that consumers ought to have a choice on how their advisor is compensated.

In some instances, people are very comfortable having a commission paid. In others, people prefer pure transparency, they want to be able to decide what the advisor makes and pay that to them directly. As Mike said, we are strongly in favour of a heightened standard; we think it is very important. As people retire, in many instances undersaved, it is very important that they choose very carefully investment vehicles that will make their money work harder than it has ever worked before and last as long as it is going to last. It probably needs to last longer than they anticipated it would need to.

We are very much in favour of that heightened standard. As Mike said, the SEC is in the final stages, actually, the comment period ended yesterday I think, on their proposed best interest standard. There will be a new, heightened standard very soon.

Your question was what will the mix be? I think it will follow the trajectory of commission-based assets versus fee-based assets. Commission-based assets are gradually declining and fee-based assets are growing at a pretty healthy clip. I do not think you will see a dramatic shift in the mix over the next two, three, four years. However, if we look back at this ten or 15 years from now, there will be a significant percentage of these products that are sold on a fee basis.

Mike Wells: Yes, it took about 15 years, in my view, for the fund industry to move to predominantly fee-based, or that structure.

The other comment I think I would just throw in on it is a best interest standard implies best product, implicitly the best product, which we have. You can imagine we are therefore more than supportive of a formalised process that says the best product should be recommended.

Barry Stowe: Absolutely. One thing that was not called out directly on the slide that we probably ought to point out to you, when we talk about the consumer-centricity of this product, is the investment returns that we have generated, versus our competitors, which are superior. It is best in terms of a lot of perspective. Mike and Mark talked about our industry-leading cost of operations, the high level of service and so forth. However, the actual returns generated from the funds on the platform are superior.

Blair Stewart (Bank of America Merrill Lynch): I have two-ish questions. The first one is just picking out a couple of markets in Asia. I wonder if you can comment, Nic, on China, where I think some of the headline growth rates that you have been showing have slowed. It might be a mix of business effect but that would be interesting. On the other side, Indonesia remains quite sluggish. Could you talk a little bit about what is going on there, if possible? That is one question in two parts.

Moving to the US, Barry, I do not know if you want to comment on the NAIC/Oliver Wyman latest paper. It was described earlier as a positive move. I do not think that was always the case. Have some of the tail risks there alleviated somewhat?

Then I will move onto capital generation, which will get Chad involved, which is always a good thing. I think there was £0.8 billion of statutory capital but I think only £0.4 billion is operating. Could you just talk a little bit about the £0.8 billion of statutory capital generation from the US business? Thank you.

Nic Nicandrou: Okay, just an update then on China. Really the key message for our business in China is that in the course of 2018 so far we improved the quality and mix of the business whilst adding to the footprint. Now, on the latter point, Mike has already covered that so I will not expand on it.

On quality and mix, clearly a big factor on China in this half has been the Circular 134, which has impacted certain types of products. When you look at some of the returns, or the sales results, that many of our competitors there are posting, they are down this year. Our JV did do some business but modest amounts. They were equivalent of 7% of the sales mix in half-year 2017. Clearly that business was not repeated. However, what it did mean is we were able to concentrate the entire bank distribution channel in the agency channel on writing regular premium, protection-oriented business.

The outworking of that was that regular premium, as a mix of the total sales, increased by six points to 98%. It is as good as any of the markets that we have now, in terms of the regular premium mix. In H&P sales, we are up 18% in the course of the first half, with double-digit both in Q1 and Q2, so much so that the mix that is coming from H&P increased from 35% this time last year to 41% this year. In fact, in discrete Q2, it was 55%. That is really as high as we will typically see in places like Malaysia and Indonesia.

We launched some new products in the second quarter. These included an education product to supplement many of our health and protection strategies. All of this pushed overall sales in the second quarter up by 21%.

All of this, really, net-net has seen our market share go up. Okay, it is not a lot: from 80 basis points to 1%. However, we will take that. More importantly, overall NBP was up 15% and overall IFRS profits were up 22%, not least helped by a 97% customer retention ratio.

If you like, all the quality metrics are coming through once you look beyond the top line.

On Indonesia, candidly again what you are seeing coming through in the first half is a continuation of trends that you have observed in the past three or four years. As you can expect, Raghu and I have had a close look at that business from a strategic and market perspective. Really the performance this half, the performance in the previous 2–3 years has a strategic market and an operations dimension. Let me say a bit more on each.

On the strategic market dimension: what we do in Indonesia is we are a very big player in the agency-driven, linked part of the market. We have 36% market share in that particular part of the market. That part of the market has been declining at a rate of 3% CAGR in the last four years. The part of the market that has been growing has been the bancassurance piece, at +12% CAGR, over the last four years, and the traditional piece, which has been growing at around 9% CAGR.

In bancassurance traditional, we have a 3% market share. We have therefore done very well in a part of the market that is growing. That is one area where we are looking to see whether we can shift some of the capital allocation decisions that we have made in the past to put ourselves into that space. It will not be an instant fix but at least it is a big opportunity as we go forward.

In the operational space, candidly, we have probably been a bit too slow in segmenting our agency force, if you like creating an elite team, giving them the appropriate products. We have been a little bit too slow in broadening our product set and segmenting the product set between the high-net-worth, the mass market and the affluent. Operationally, yeah, we should have been a little bit faster in investing in the infrastructure to give agility to that business. We have diagnosed all of those elements, we know what we need to do. We have done it and we have had to do it in other markets successfully. We are putting a lot of effort behind addressing all of that. There are no quick fixes but it is an important market for all of the structural reasons. We have a fantastic footprint in that particular market, given our presence, our scale, the sheer number of customers we have in the region. We are going to work hard effectively to plug those two years that I have just commented on.

Mike Wells: Nic, why not give them an idea of the Sharia product and the new high-net-worth health?

Nic Nicandrou: As I said earlier, we have a big market share in Indonesia. We have about 22% of the market. Our biggest share, of course, is in unit-linked. Sharia is another area which is a core strength for us in that business. At the last count we had around 25% of the AUM for that market. It is an area in which we are pushing very, very hard. It is very important for the business to appeal broadly to all segments, whether they are with a social dimension as well as an economic dimension. We are growing our sales strongly. The sales in the first half in the Sharia space grew at 19%. This is on top of a 16% growth last year. It is therefore an area where we are getting quite a lot of traction and putting more effort to recruit agents to train them to sell those particular products.

The other area where we have done well, even though we have a very small market presence, is on the banca side. We grew 4% in the course of this year, on top of 18% last year. However, we have a very small footprint. We are adding to this through a new relationship with OCBC, which is non-exclusive but important. We are adding to it: as the Vietnamese private finance company sale completes later in the year, we will get Shinhan's branches in that market. However, I think it will still be small and we will need to do more in that space.

Barry Stowe: Mark called this out and I think it is worth emphasising: the work really is largely done. It is baked in NAIC and we are content, happy really, with where it came out. It is a good process. We engaged diligently throughout the process with leaderships across the country within NAIC with whom we have good relationships. We do not have a number to throw out yet because we have not seen the actual wordings yet. We want to wait until we get specificity before we give you more granular detail. However, we do not think this is a material impact to us at all. We think it is quite manageable, fairly limited. Even though it has been a complicated process to go through, ultimately the outcome is positive. While, with everybody in the sector, you will see the RBC ratios go down, not by a huge amount but they will go down, but at that new level then you will see a level of stability and a lack of volatility that we have not seen before. I think that is a good outcome, actually, for the industry.

I do not know whether you want to add any more colour on NAIC. However, certainly on the capital generation, we will throw that to you, Chad.

Chad Myers: Yeah, sure. I guess just one clarification on the NAIC would be, you probably saw we were a little defensive about this, or a little cautious about this, over the last year or so when it was being developed. I think our bigger issue there was there was an impetus underneath it to potentially try to push it to a more market-consistent type of regime. As we saw with Solvency II, that is just not something that works well in the US. That was resolved earlier this year, with the scenario generators being, I think, put in a sensible place, we are not changing that. Once we got past that, that was the big piece of caution. You may have also seen that we had written a letter to the NAIC, just on the standard scenario. We were not so much concerned that the standard scenario was specifically biting to us. However, we were a little bit concerned about the breadth of the policyholder behaviour studies that they had done. They did not include us, for instance, as the largest GMWB provider. That was more of a technical issue. We are more subject matter experts on the policyholder behaviour for GMWBs, given the size of our book. There was therefore, I think, just some concern about the robustness of that data. It was more of a technical point as opposed to something we were overly concerned about. However, we are comfortable with it going forward and it is more stable in the tails, which is good.

Moving on to capital formation, part of what we saw this year was really the opposite of what we saw last year. I think we talked last year about the fact that the reserves on the statutory side have floored out, with the market being as healthy as it was. Effectively, as Mark mentioned earlier, we are at the cash surrender value floor, which has become relatively onerous, relative to more of a principles-based view of the economics. The fact that the market did not move up much in the first half just tells you that we did not have any reserves go up because the market really did not move much. However, it was slightly positive. We had lower derivatives losses because the market was relatively flat, so that was very helpful and again the opposite, effectively, of what happened last year. Higher rates helped because, with the market flat, it means you do not really have a reserve build there. Higher realised volatility on the margin helps us because we own a large option book. Last year we saw no volatility in the market to speak of, the lowest in 50 years. Buying options is really kind of a losing proposition in that type of environment. Having options in a very volatile first quarter, obviously, is helpful because you get pay offs.

Then I would say, finally, as Mark also talked about, we are limited on DTA. The deferred tax assets that we can bring through are limited. As capital expands, or contracts, basically we get a 15% benefit or detriment of that. As capital moved up from operating, as well as some of the net reserve position, we got a little bit of a tailwind off of that, as well.

Ashik Musaddi (JP Morgan): My first question is, there is a little bit of noise that Allianz is looking at Prudential. I am not sure if you have looked at the tape. It says that Ping An is looking at your Asian business as well. I think one of the issues, or concerns, would be the involvement of the US with the Asian bid. I am sure you will not comment on rumours. However, any thoughts that, if someone is interested in your Asian business only, how do you see disentangling the US from your Asian bids? Any thought on that and would you consider such an option? That is the first one.

Secondly, going back to the previous question on the capital generation on the US, which is just looking at the operating earnings, it is not just a phenomena for this year. It has been kind of stable for the past, say, 5–6 years. It has not moved up a lot, whereas IFRS earnings have moved up quite a lot. Any thoughts on that? What is the dynamic that is playing out? What are we missing? Why are the operating earnings on RBC basis not moving up? That is the second.

Lastly, to Mark, thank you for sharing the debt structure for the UK part? Any thoughts on what we do with the £3.8 billion that will be left with the Group PLC? Is that a sustainable level of debt? Do you want to increase it? Do you want to de7crease it? Any thoughts on that would be great. Thank you.

Mike Wells: Ashik, we usually do not comment on M&A, merger comments. However, let me give a little clarification on two things. Clearly as we are shining more light on the quality of each of these businesses, people in boardrooms are sitting around saying, 'Hey, we do not have growth and they have growth.' I am sure that there is an investment banker or two in this city who is thinking, 'I could possibly get paid on this trade if I do a good job,' not that that ever would be a motivation. I have been very clear. My trips to China were, one, to see my son perform two concerts outside of Shenzhen and second, to meet with the key regulators and the folks at the China Development Forum. We are in no current talks with anybody; that is the last time we will comment on specifics. However, since I mentioned the China trip, I feel like I want to make sure I am transparent with you. I did meet with Hong Kong, I did meet with the Chinese regulator, I do on almost every trip. We need to stay close to the regulators that we work with in those jurisdictions, as we do in all of our jurisdictions. That is not a unique behaviour on my part, as Group CEO, or our team's, just to make sure that I am not adding to the rumour mill.

In a general context, we are a growing firm with a very high-quality set of businesses around the world. I am sure people are trying to figure it out. You see it with the new entrants in Asia. I kidded you earlier, it took us 94 years to get the portfolio we have of businesses in Asia. I think you could replicate it faster than that from scratch, particularly if you have done it once but not quickly. So these are highly-valuable businesses, they are running well, you see the results. Am I surprised if someone is sitting in a board room? No. Are we having conversations right now? Not currently. Again, in the future we will not comment but I just wanted to be specific since I made my snarky comment on the China trip. I do not want that confused to be part of the rumour process.

I will give a general comment on capital generation and you mentioned AXA. Keep in mind I have not done the cumulative math on their dividend out of their US business. However, I do not believe, other than that final withdrawal they did when they spun, they have taken a whole lot of cash out. You have to start with the £4.9 billion of distributions. Just in the last ten years alone Pru is in at £600 million on its US business, so it is quite a different cost than ING, AXA, some of the other players that came in there and thought it was a land race. I think you have to look at all the metrics. We controlled the level of sales we accepted in every given year, particularly post-crisis. Doing that flattens the shape of the earnings and the business. We saw it as risk management and being in the business, it was difficult, that was my role at the time, because you are saying to advisors, with very, very little notice, that the product is not available. They have already presented to a client in the first couple of meetings. It was damaging to some very important relationships. We cost departments of financial groups I know in New York year-end bonuses because we surprised them. We are the number-one product in most firms. There are a lot of elements that go to the shape of the characteristics. However, I think the fairest way to look at it is the total return over the long haul. That includes capital injections, losses they have taken, how the consumers have done, how the balance sheet has grown, how the earnings have grown, all those things. I think that business stands up against anybody's, including where it is now. In the distribution it is making versus the proposed buy backs and things in those books, it is multiples of that. I would be curious if any of them can stand up and say every single cohort is profitable. That would be the other challenge. I saw the decks that were circulated when they did the road shows and the unnamed dots and all that. That is US hardball; that is how people play. However, those were on scenarios that were generated; these numbers are of historic actuals to our shareholders. I think there is an important distinction there.

Barry, do you want to add anything to that rant, sorry?

Barry Stowe: I think you did a pretty good job. Everything he said.

Mike Wells: I think that is all. Did I miss any on yours?

Mark FitzPatrick: Just on the question in terms of the debt. We have set out the building blocks at this stage for M&G Pru. I also set out this morning the key capital management principles that we are looking at. One of those is making sure that we have appropriate liquidity. The other one is, as well as making sure that we have an appropriate credit rating, we want to make sure that we have a good standing. As you can imagine, there is a lot of work we have done behind the scenes in terms of looking at the various scenarios. In terms of where we are coming out, we believe it is appropriate and we believe that we will have all the cash flows to manage the appropriate levels of debt.

Andrew Crean (Autonomous Research): Firstly, I think the amount of debt that M&G Pru will have will give it, on an IFRS basis, leverage pretty high in the sort of 40 per cents. Do you have any plans, post-demerger, to sell off the other £21–22 billion of shareholder annuities, which would release substantial amounts of capital to counter that?

Secondly, could you talk a bit about the outlook for variable annuity sales over the next two or three years?

Thirdly, having watched the AXA Equitable spin earlier in the year, do you have any belief that if you were to spin your Jackson you would ever get a proper valuation, or would there just be leakage to a sort of BrightHouse-style valuation?

Mike Wells: You want another rant, I guess.

Barry Stowe: Can I do this one?

Mike Wells: Let me do the last one first. We have been pretty clear there are no plans that we have currently to spin the US business. I think, for a lot of the reasons I mentioned earlier, I like the combination of the two, risk-wise. The board and the management team like the scale it gives us. Asia is at a point now where it funds its organic sales comfortably and even some minor M&A. You see it funds its expansion of capability comfortably. However, on the bigger, strategic stuff it is nice to be a bigger firm and have more earnings and more capital. I do think some of the dispositions and transactions that have taken place on what were predominantly GMIB books, a product that we were not fans of. That certainly would affect valuation of any quality business coming to market in that space. It is not a short-term plan and it is back to Ashik's question, I think. If we run these businesses well, we have structural options. The better we run them, the more options we have. That is a reasonable outcome of doing a good job with the individual businesses.

I think we can stand here credibly and say we are not trying to run this for absolute size. We would not be spinning off the UK businesses; it is total shareholder return. We are very clear. If something came that created massive value for our shareholders, we would look very seriously at it. I do not believe spinning the US into the climate that was created that would do that, personally. I think the kind of multiples we have seen would not make sense. You would probably do a management-led buy-out. I am kidding at that. It's multiples that any of us would want to own it so I do not think that is a viable option for it. However, we are not precious as to how to create value for shareholders. I hope that is very clear by the amount of work going into the demerger.

Mark, do you want to comment on the debt level and the coverage?

Mark FitzPatrick: In terms of the coverage, I suppose the underlying question, Andrew, is one of selling off annuities. There is no plan to sell off further annuities at this stage. When you look at the degree of leverage, in terms of the IFRS, clearly, that misses out a very large component of the business, which is the with-profits fund. If you start taking some of that with-profits fund and some of the SHIFT asset, or related, elements, you see that ratio start coming well down into market-normal levels. That would be far more acceptable and it is a very important component of that business going forward.

Mike Wells: Barry, VA sales outlook?

Barry Stowe: Can I have a little go at him on the other part, as well?

Mike Wells: Sure, go ahead.

Barry Stowe: I have probably confessed to you privately but I will do it again here in public: it is frustrating to be compared to a quote-unquote 'peer set' whose performance, as Mike has alluded to, has been very different historically than ours. We are being compared to companies and in some respects that puts pressure on our valuation because we are compared to companies who have made, on multiple occasions, product design and pricing problems that have created existential issues for their businesses. The word on Mark's slide was disciplined management. Please do not underestimate the value of that. It is gigantic. You have seen us come through the crisis. We had a good crisis. Our ALM policies did exactly what they were meant to do. Our customers have never been disadvantaged, quite the opposite. Our shareholders have not been disadvantaged, quite the opposite; they have been rewarded handsomely for the disciplined, sensible creation and operation of this business.

It would seem like hubris to sit here and say we have no peer in the United States because there are other companies that are trying to do what we do. However, we have performed at a level that no one else has and that, rightly, should be reflected in our valuation and in the way people think about this business.

You had a sensible question, I think. Where will VA sales be in the next 2–3 years? Mike mentioned this Alliance for Lifetime Income that we were instrumental in forming. It is a broad array, right now it is 27 companies and growing, who are making financial contributions to an alliance. We are influencing public policy and consumer sentiment around the importance of having guaranteed income in retirement. Most Americans are trying to live through retirement by investing in mutual funds. They do a great job for them most of the time. However, there are moments when they are volatile. Many of these consumers are undersaved and they are unsophisticated. They therefore really urgently need a guarantee of some sort. Income guarantees are not sensible; the marketplace has spoken on that. However, withdrawal benefits are actually very sensible and have enormous social value for consumers and candidly, for public policymakers as well. Failure to help Americans in retirement, failure to help them navigate the straits of retirement and the volatility that is inherent in investing in the market becomes a public policy issue. If you have a generation of Americans in their 80s running out of money, the public pocket will have to be opened to sort it out. Because of that, there is this enormous drumbeat building in the United States that, 'Gosh, we really ought to have a very strong look at these products, how they work and what they do for consumers.'

That is a long way of saying to you I suspect in two or three years, particularly when the Alliance's media campaigns start in full force, which happens middle of next month, you will see greater consumer interest. This has always been sort of a push product, sold by commission-based advisors to customers. However, I think you will see more and more pull. You will see consumers seeing these ads, going to their advisor saying, 'Gosh, I did not realise I could get a guarantee; I would like to have a look at one of those.' So, three years out, I think you will see a growing market and you will see it growing at a faster clip than it has grown at in some time.

On the legislative question, I know you are all dazzled by the coherence of everything happening in Washington. It is a wonder to behold. There is one thing that actually has made it through Congress, made it through the Senate on a voice vote and is now working its way through the House under the leadership of Chairman Brady of the House Ways and Means Committee. That is a legislation called ERISA, which does a variety of things to make it easier for Americans to get sensible advice and access to products that will help them in retirement. Literally it passed the Senate 96–0. It is moving more slowly in the House because it has been tied to additional tax reform, which in a mid-term election year in the autumn, is not likely to get through. Perhaps it is more something for Republicans to run on and Democrats to run against. However, we are optimistic that the ERISA element of that bill, this retirement focus, will get through the House. We are pushing very hard for that.

Mike Wells: Why does it matter?

Barry Stowe: It matters at a variety of levels. It opens new opportunities, potentially new channels for us, to get to people at younger ages, people who are participating in 401(k) plans. It introduces the prospect of offering these guarantees to participants in 401(k) plans as they are accumulating, as opposed to getting to them when they have already finished the accumulation process. Basically they have kind of baked their cake at that point and most retire with not enough money. It just introduces a more sensible regulatory regime, in a lot of respects, around these problems. It is very helpful.

Greig Paterson (Keefe, Bruyette & Woods): Mike, you commented that Asia is self-financing organically but is only able to do a little bit of M&A. If we look to the next ten years, what is the sort of capital amount that will have to come from the US to finance the M&A in Asia as it has done in the past? That is question one.

Second, could you give an update on the Malaysian minority sale, given the new political context there?

The third thing is there was a mention about credit ratings being strong. Do you mean the rating agency is strong, i.e., M&G will be targeting a single A credit rating, or AA? On the terminology there I was not sure.

Finally, in terms of the residual circa £22 billion UK annuity book, you are not planning to sell it but you are doing continuous ALM and longevity swaps. I was wondering what the potential is for reserve release on that £22 billion cumulatively over the next few years. How far along the journey have we gone?

Mike Wells: Thanks Greig. On the US capital piece, there are a couple of dynamics. It is not predictable. We are not going to say, 'We need £400 million to do this sort of acquisition.' It is opportunistic, and I would say it is M&A, it is capability, it is contracts.

Greig Paterson: Sorry, US financing Asia.

Mike Wells: I know, US financing Asia, I appreciate that. I think it is opportunistic. It could be acquisition. It could be capability. It could be partnership structures that are more attractive to the counterparty because of the size and scale of the business. We get a different price, or a different transaction we might not have got. It is risk tolerance. We have all seen this, as I know a lot of you have followed us for a long time. It is not unusual in Asia that we get one market that has a pop, for whatever reason. You need the appropriate size balance sheet and earnings to handle the successes, as well as if you have an incremental failure. If you had a smaller company, if one market runs, you want to have earnings from other sources to be able to accept that and not have it be a disproportionate, out-of-balance part of your business. So the more large engines we have for earnings and growth that are non-correlated, the more we can accept successes, or if there is a problem in a market. There are a lot of attributes to the US earnings and the nature of those earnings. They are so materially different, as you see, than the developing nature of what we have in Asia that we just like some of the diversification benefit.

This is the actuarial side, sorry but when I see Hong Kong at 95% and China at 97% renewals, statistically somebody should pass, right, given the mortality levels. That would imply an incredibly healthy group, or a young group. Our renewal rates would tell you. If you think about natural renewals, you are going to have some folks die just by the normal age distributions we get. What you see out of those Asian metrics, therefore, is how young the book is. That is one of the dynamics that comes across in that, right?

Probably four years ago we showed you how the age distribution in the US book looks just like the baby boomers. We have not done it in a few years; maybe we will turn it up for Singapore. The book is very, very similar to the age distribution in US retirees. It is therefore an older crowd than our Asian clientele, not every market in Asia but most. Again, these things do not matter until something goes wrong. They are then hugely valuable to have the diversification. It also means the earnings looking out have a different life to the cash flow signatures, not just the shape, when we get paid.

Greig Paterson: The question I am actually asking is, if you look over the last five years, circa £3 billion has been transferred from the US to Asia to finance the renewal of bancassurance deals, new bancassurance deals. That is an ongoing requirement of Asia and something it cannot finance where it is today. I was wondering because people often ask the question, 'Could Asia stand by itself?' The answer is no; it needs a cumulative X over the next 5–10 years to renew bancassurance, to get new bancassurance deals. I am trying to get a feel for what the management is thinking of that sort of budget requirement.

Mike Wells: It is a fair question. We have never disclosed the actual specs on any of the bancassurance deals. However, I would say a couple of things. They are changing. Some of them are big and you are right: you need scale for those sorts of events and you need scale to be credible in one of those processes. They have to believe you can cut the cheque. It cannot be seen as a strain. I often get the challenge, 'Well, you could go to the market. You could raise debt, or you could raise equity if you had a renewal with SCB or something?' I can tell you from our side, on John's team and the folks who worked on the Rothesay transaction, if someone did not have the capital in house and said, 'We have to go to the market. We have to go raise debt,' you diminish the value of their bid. We want to be a strong bidder on distribution relationships, on consolidation in the industry, when we bought an asset manager in Thailand. We want them to know that we can deliver on that transaction. That is a dynamic to it, you are absolutely right. They are also unpredictable, what is going to come up and when. There are certain ones I am not going to tell you. We have targets. There are certain targets we would love on the bank side.

The other is the nature of bank transactions and the market is changing. Nic, why not comment on some of the ones you guys have done in the first half of the year? They are quite different than what we did five years ago.

Nic Nicandrou: Sure. Clearly, we are very happy to operate with banks on an exclusive basis. You have seen the success that we delivered over the years with SCB, one of the most enduring and most successful relationships. We are replicating that with UOB, with Thanachart. However, we are equally happy operating on an open source basis. We will always back ourselves to put the product on the shelf, to properly train and push product. The Siam Commercial Bank relationship in Thailand is key. That went through a competitive process. It did not result into a successful bid. They invited us, alongside others, to effectively pitch to provide unit-linked products to the high-net-worth customer set, around 400,000 people. We were the winning bid and then we rolled out all the things that make us great when dealing with banks. Within two months, we trained 1,700 of their RMs. We put four products on the shelf literally within months of agreeing the deal and added 26 different funds behind those in an open architecture way, so much so that in the first five months since launch at the beginning of February, this particular relationship – which is non-exclusive, we are working alongside their captive life company – has contributed to 15% of the sales that we are getting from Thailand. It just shows how, on an open-source basis, we can equally compete. Now, that is new, and all the other deals – with the exception of Shinhan, which is yet to come into the second half of the year – are on that particular basis: smaller-term, non-exclusive, go in and compete on the quality and the power of our delivery. That of course then opens the door for broader discussions, once you are able to demonstrate that you can deliver on that basis, and of course those are happening alongside delivering on sales.

Mike Wells: Greig, the China Bank model, from a regulatory point of view, the banks should have a reasonable offering of product. So, that is an entirely different dynamic and you are not doing an exclusive. Those are varying in duration and how you pay: pay-as-you-go versus pay more upfront. We do not have a chart of what we think each renewal or each contract would cost; it is one-off. Then the last dynamic – or the last two – is how successful the bank has become on digital, because that is going to matter on a 12- or 15-year contract, if we are doing a traditional contract, and what is traffic, and that varies very much culturally by country on the banks you see as being an advice provider in the future versus saying that all banks in Asia will continue to go. I am sure you all see the branch count number and the foot traffic number. So, some are working incredibly well, and we have to stay agile and we have to adjust. There is not a clear draw. I appreciate your historic look at it, but there is not a clear draw on what that is going forward, but thematically you are right. We need, as a Group, the firepower to go into the large transactions and be a credible player, if that is distribution, if that is acquisition, if that is a unique asset on technology; whatever it happens to be, the combined US–Asia has much more firepower to do that, much more credible than either business standing alone.

Then do we hit the credit rating, John, and the residual on the back book and management actions?

John Foley: I am not sure if I have understood the question very well, Greig, but clearly we have been active even this half-year on management actions, what we lump into the non-core part of our business. It has been pretty core for the last couple of years, we have been very busy. Obviously, a smaller book and fewer opportunities to actively manage it, and I think that is part of the impact going forward when we think about releasing capital by selling more of the book, what is the impact across the business? And there are other impacts that perhaps are not clear at first blush. So, if that is what you are asking about, that would by my answer.

Greig Paterson: Over the years, you have released quite a bit, and I am just trying to work out: is there £1 billion to come, £2 billion, £3 billion? Just in layman's terms.

John Foley: Well, that depends. It really depends on the market and the valuation of each of the opportunities in the cohort. For example, longevity: it depends what people want at any given time. We have a team of people who actively manage that, and in fact I think we have enhanced that team over the last couple of years, particularly on the asset side. Putting a number on what might emerge, I think, is not something we can do.

Mike Wells: What we could say is that, as we mentioned at the time we did the transaction, any of their covariance benefits are gone. This is a more capital-intensive book. It is not homogenous: there are short and long-term cash flow signatures, if you think of it that way; average age of participant, those sorts of metrics. I do not think there is a simple read-across from what we have done historically as far as capital release or towards what we could do. I think we have said that about 40% of the book has longevity insurance, to give you an idea. It is quite a capital-intensive book, but as Mark said, right now, there is no current plans to do anything with it, and the question of what we would do later, post-merger, would belong to that board and that management team, that would not be our call.

Nic Nicandrou: Now, on Malaysia, we are waiting to hear what the view of the new government is on the new divestment policy. What is clear is that the timeline has now been pushed back, and as you can appreciate, they have other priorities at this particular juncture.

In the meantime, the business is performing well. Okay, the sales headline was a little soft but similar to what we have seen in other parts of our business. There is a strong product mix focus. NBP was up in the first half in Malaysia 8%; within that, the NBP that is generated from agency was up 13% and profits were up 11%. So, happy with the performance, and we are waiting to see what the new government has in store on that policy.

Mike Wells: Mark, on the credit ratings?

Mark FitzPatrick: In terms of credit ratings, Greig, not necessarily going to be drawn on the individual things at this stage. The general sense is that we want both businesses to be well capitalised, have the right mix of capital at the point of demerger, and we have the board of M&G Prudential that still needs to be created and set up, and as Mike mentioned, when the Chairperson is on board, it will be one of the many things they will be looking at and considering.

Oliver Steel (Deutsche Bank): First, obviously in Asia the health and protection side is going very well indeed, but by implication, the saving side is possibly quite well down. You talked about Indonesia and China, but I wonder if you can just talk a bit more generally about the softness of the savings sales: how much of that is deliberate? How are you expecting that to change over the course of the next 6 to 12 months in terms of any indications of consumer confidence perhaps improving?

Secondly, if you are going to retain the UK and annuity book, can you tell us what the difference is between the profits currently coming off that book and the free capital coming off that book? Because obviously that is going to be quite an important issue for the UK business going forwards.

Mike Wells: Nic, on the health and protection versus savings in Asia?

Nic Nicandrou: Clearly, savings continues to be a major driver, not least because, as you saw in some of the structural trends, you have an ageing population, people are living longer, there is a need to save, not only for education, but increasingly also for retirement. It is an important part. What we have not talked about is that, in our numbers, we have also seen a switch out of the with-profits business and into unit-linked. Unit-linked has been a main beneficiary of a switch in mix in the first half. In fact, unit-linked sales were up 29%, not least aided by the example that I gave you on Thailand, but we have seen switch to unit-linked in places like Vietnam as we diversify the product range in Taiwan, as we also diversify the product range in India as well.

Within savings, there are some interesting trends. The other thing as to what will happen over the next few years, I think structural will trump cyclical. I think that goes without saying, particularly when you see the wealth creation that Mike has put up on this slide.

If I can take this opportunity, yes, the half-year numbers may, on the sales side, belie the quality shift, but we had a very strong rebound in Q2, and maybe I can say a couple of things. Yes, sales were up 6%, but six of those markets were double-digit, and behind that Hong Kong was up 13% and China was up 21%. Hong Kong, specifically, we saw a rebound in the sales that were coming back from mainland China. Mainland China sales were up 20% in the second quarter, which was the reversal of the trend that we have seen over the last four or five. That is an interesting development, and actually what we have seen is we have sold the highest health and protection level of sales to mainland Chinese customers of any point in our history, even at the time of the peak.

We had best-ever banca quarter. Again, it is interesting to see and banca tends to be, to your point, more savings-oriented, although a lot of that came in a unit-linked guise. So, no, we are pleased with the second quarter, particularly with mainland China coming across and increasing.

One other stat on mainland China: what is interesting to see is that about a third of the sales that we get from mainland China in the first half into Hong Kong were repeat sales. What this is telling us is that people are not just coming in and buying a first product. A lot of the customers that we sell to are coming back and dialling up either in protection or doing some top-up on the saving side as we refresh the product set. So, some very interesting dynamics there as well.

Mike Wells: With that, I am going to wrap up. Sorry, what did I miss? Have we disclosed, John? We do not disclose that, right? Not yet. You might.

John Foley: I was just going to say that we will get to that, but we do not disclose those numbers.

Mark FitzPatrick: The general sense is that, if you look at the capital that frees up as the annuity book runs off, that capital that runs off is greater than the IFRS earnings that go alongside that, so therefore you would expect to see the free surplus coming through more strongly than the annuities, just by virtue of the capital intensity of the annuity book.

Mike Wells: With that, I hope you are pleased with the quality of the results and the increase in the capabilities. I want to finish with one last comment: I wanted to thank Anne for her tremendous contributions over the last few years, and wish her every success, and I know on behalf of the management team and the Board, thank you very much for what you have done for us. We will be around after if you have any questions individually for a little while. I know we went long today. Thank you for your patience and your time. Thanks.

[END OF TRANSCRIPT]