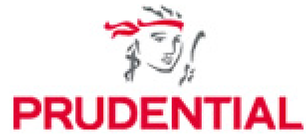

Half Year Results 2012

Friday, 10th August 2012

Business Review

Tidjane Thiam

Group Chief Executive, Prudential plc

Good morning. Welcome to our Half Year 2012 Results presentation. Since I specialise in bad jokes, I am going to start with my Olympics joke, which is that thank God, there are only three million Jamaicans. I checked yesterday. It is 2.9 million; 2,889,000. I cannot imagine what it would be if there were more of them. However, anyway, it is great.

Prudential has produced a strong performance during the last six months and is on track to deliver our 2013 'Growth and Cash' objectives, which we set ourselves at our first Investor Seminar in 2010. I would like to begin by setting the agenda of this meeting. We will follow the usual format. I will start with the highlights of our results for the first half and we will comment on a few key aspects of our strategy; we will focus on Asia. I will then hand over to Nic, who will cover our financial performance in more detail. I will come back at the end to talk about our outlook for the rest of the year, and we will then take your questions. Members of our executive team from across the world are dialled into this results presentation. Collectively, we will try to answer any questions that you may have.

My first slide will be the usual one. I will start with growth which is the first element of our 'Growth and Cash' agenda. We have achieved £1.1 billion of new business profits, which is our key metric, as you know, for life insurance growth, and over £5 billion of asset management net flows. Moving on to profitability, IFRS operating profit is up 13%, consistent with our continued emphasis on this metric since 2008. EEV operating profit is flat. This is largely due to the impact of a lower interest rate environment.

Regarding cash, the other element of our 'Growth and Cash' agenda, each of our businesses remitted cash to the centre in the first half. Among those remittances, I would like to highlight a $400 million remittance from Jackson. This follows the $0.5 billion remittance from Jackson in 2011 and is tangible evidence of the quality of the growth delivered by Jackson over the last few years. A strong capital position with an IGD surplus of over £4 billion estimated at £4.2 billion before dividend, and an interim dividend of 8.4 pence per share. This is a 5.7% increase on the prior period and, consistent with the past, has been calculated as one-third of the prior year full dividend.

Let us now take a look at the performance over a longer period of time than six months starting five years ago, in 2007. Here, you can see our performance across our three overall metrics of new business profit, IFRS operating profit and cash. In managing a life business, of course, there is always a degree of tension between those three metrics, and it is challenging to move all of them forward in parallel.

Over the last five years, we have grown new business profit by 19% annually, IFRS profit by 17%, and cash remittances by 21%. Such growth rates allow us to double in size every four to five years, and during the last five years, NBP has increased 2.3 times, IFRS 2.2 times and cash 2.6 times. This performance has been delivered in a challenging economic and market environment validating our strategy, our franchisees, our geographic footprint with a limited exposure to the Eurozone and our focus on execution.

I would like at this point to make a few comments about the context in which we have been operating for a while and how we are addressing it. The most significant headwind that we have had to face in recent times is clearly the current level of interest rates and the shape of the yield curve. The long-term nature of our liabilities means that we naturally prefer an upward-sloping yield curve as opposed to the current environment with a yield curve that is both at historically low levels and flat. We have been taking a number of actions in this context.

New business is important to us as a growth company but only if it is profitable, which ultimately will be a function of two things, the terms set at the point of sale and the quality of the management of in-force over the life of a product. Those are the two things on which we concentrate. Regarding the terms at the point of sale, we are maintaining our discipline. We have not lowered our return or payback period hurdles for new business. We continuously and proactively address our product pricing and features to ensure we generate adequate returns on capital, and you will see examples of this during the presentation.

True to our value-over-volume philosophy, as a result, we do not hesitate to walk away from business that does not have the right risk-return profile. As I just said, insurance is as much about managing the in-force as it is about creating new business. It is therefore a priority to protect the value of the existing book. In this challenging and volatile environment we are focussed, as a result, on cash generation and in containing downside risks. Our assets are defensively positioned. We adopt hedging strategies at the local and central level to ensure that our capital position can cope in the event of tail scenarios.

Diversification is another effective risk management tool. We regularly talk to you about the make-up for our earnings between spread income, fee income, and underwriting or insurance income. Since we introduced these disclosures in 2008, we have continuously worked to increase our fee and insurance income, which are higher quality earnings with limited market sensitivity. The development of our health and protection business in Asia is at the heart of that approach, as well as the highly profitable and capital efficient growth of our asset management businesses, and I think we do not talk enough about that and that is a key component of our numbers. However, recently, moving on to US, to give you another example, the recently launched Elite Access variable annuity, a variable annuity without guarantees, is another example of this approach, and the acquisition of REALIC from Swiss Re, which will further enhance the diversification of our earnings in the US, is inspired by the same logic.

The current interest rate environment is a direct result of the policies followed post-crisis and of the large fiscal imbalances that can be observed across the Western world. We have been facing, and are likely to continue to face, low economic growth in many large Western economies, the second set of challenges flagged on this slide after the interest rate environment. In that context, Prudential benefits from a few specific factors which have allowed us to continue to grow, albeit more slowly in this challenging environment. The first one, what I call our first growth area, is our Asian focus, which gives us exposure to the fastest-growing part of the global economy, just on the relative basis. The second growth area clearly is in the US, where we are benefitting from the demographic wave of baby boomers entering retirement. The third one, and this may surprise some of you, is in the UK, where I see M&G with its leading position in the fastest growing part of the UK savings

market as asset managers continue to generate strong net inflows, when the life sector itself has been in negative net flows for a number of years. These three growth areas have allowed us to continue to make progress in spite of the weak economic growth that we have all witnessed since 2008.

Finally, we are faced by a significant challenge of future regulatory change, namely Solvency II. Much has already been said on this issue. We are lobbying hard to help deliver an outcome that is beneficial for our customers, our shareholders, and the industry in general, which plays a key role in the economy. With a balance sheet as large as ours, we could never claim to be immune to the global economy, but we have been able to navigate through the turbulence that we have experienced thus far. We are focussed on managing for the challenges described here – low interest rate, flat yield curve, weak economic growth, and regulatory uncertainty – to continue to generate adequate returns for our shareholders.

Let us move now to capital allocation. Since 2008 we are focussed on optimising both the quantum and the composition of the capital we allocate to writing new business. In the past four years, new business strain has increased by 7% while new business profit has more than doubled. At the same time, we have materially rebalanced our investment away from the UK to more attractive markets, with our investment in the UK now one-fourth of what it was in 2008. That is one of the key achievements of Rob and his team in the UK.

As we know, there are factors that impact new business strain that are outside our control across the economic cycle and we have seen this play out in the first half of this year. Strain has increased in both Asia and the US. This is largely due to the impact of a lower interest rate environment, which has both a mechanical impact on the strain calculation for reserves and is also driving changes in consumer demand.

That said, we are comfortable in this context with the IRRs and paybacks earned on the capital invested across our chosen markets. Nic will provide you with more details on our specific IRR and paybacks in the first half for each of our businesses and he will verify this.

Let us now look at our 2013 financial objectives, starting with Asia, because that is the only region where we have set growth objectives. The chart here has the IFRS on the top, NBP on the bottom, and half-year H1 in blue, H2 in red, so you can track the evolution. You can see that we have been able to continue to make progress towards our objective of doubling in four years. Year-for-year for the first half, IFRS operating profit has increased by 20% and NBP by 18%.

Moving to the cash objectives, Prudential Corporation Asia has remitted £126 million to Group in the first half of 2012, and that, of course, is a significant milestone, and will contribute another significant remittance in the second half of the year. As already mentioned, Jackson has delivered a net remittance to Group of £247 million. Mike, we see your contribution for the full year. I am not asking for more. Thank you. The UK has contributed £230 million in net remittances and, similarly to Asia, there will be additional contributions in the second half of the year. At Group level, we are aiming for at least £3.8 billion of net remittances cumulatively from 2010 to 2013, and we have delivered 73% of that. Across the board, we are on track.

Now, I would like to use the rest of my section to talk about strategy and how it is playing out in each of our businesses. The Group strategy as you know is, accelerate long-term growth in

Asia by building out distribution, that is really the core of it, and investing in our brand and operations throughout the region, manage our US business through a cycle by maintaining a disciplined approach to balance sheet and capital management, focus our UK business on the areas of competitive advantage and allocate capital only on the basis of return and payback, and driving our asset management businesses for growth by focusing on investment performance and distribution. You will have noted that the profits of Eastspring, our Asian asset management business declined in the first half of the year, which was primarily due to the particularly weak equity markets in Asia in the first half, as well as investments we made in building our offshore capabilities. You will see that we have been in positive net flows, but the external assets under management have decreased because of FX and investment market movements. With growing demand from investors both in and outside Asia, looking to access Asian growth, the long-term potential of Eastspring, we believe, remains compelling.

Let us now take a closer look at our businesses starting with Asia. As you can see here, Prudential Corporation Asia has more than doubled new business profits in five years while multiplying IFRS profits and cash by almost ten times and eight times, respectively. The IFRS profits in Asia in H1 was more than double the full year profits in 2007, with a clear and direct impact on the Group's valuation. Importantly, Asia's cash remittance in H1 was three times its 2009 remittance. The profit signature of our Asian business has changed significantly over the last five years. We now have a business that continues to grow, that produces profits and cash in parallel. These results are largely explained by our focus on a few key factors: distribution, product development, brand, cash and capital.

In 2012, we have continued to build our distribution. We have grown our agency force to over 260,000 excluding India, and we are now selling insurance via over 14,000 bank branches, I think 14,500 bank branches of our various bank insurance partners. We have continued to invest in the brand and our commitment to a number of corporate and social responsibility activities around the core themes of financial literacy, children and disaster relief means that we are viewed as one of the most trusted financial services companies in Asia, and our research supports that very much. We continually adjust our product suite to meet the changing consumer demand and the economic context, and we have continued to maintain financial and capital discipline. The cash remittance is good evidence of that. We also use reinsurance more. We are optimising the new business strain. On all of the levels of finance and capital, we have been very focussed. Finally, the long-term nature of our liabilities means that we have a natural appetite for long-term Asian assets in local currencies. We are a long term investor structurally and, therefore, an important player in Asian economies. We have continued to nurture our relationship with governments and regulators in this context.

While these are just general principles, I would like to illustrate this with a few country examples. We take our two main channels starting with agency and a few countries. In Indonesia, we have underway a big push in the cities outside Jakarta. You need to understand some of the numbers coming out of Indonesia. Non-Jakarta business now accounts for around 50% of our sales and over 70% of the new recruits. We held recruitment seminars in over 30 cities and at least 30 times a month. As I tell Asia, it is hard to do more: 30 times a month. This has helped drive our Indonesian headcount to 180,000 at the end of June.

If you take Hong Kong, we have been driving our new critical illness product through our PRUmyhealth campaign. We are gaining good traction in cross-selling this product to our existing customers, which generates more health and protection income. We have also launched a new agency recruitment campaign. We have been running in parallel dedicated workshops to help reactivate our inactive managers and producers.

In Singapore, there is a similar focus on increasing the conversion and activation rates of agents. We have launched customer segmentation initiative to target both lower tier and high-net-worth clients.

Finally, in Malaysia, we have continued to build out our Bumi capabilities, by targeting the areas traditionally operated by non-Bumi agents, particularly in the east coast of the country. At the end of the period, we had close to 7,500 Bumi agents and our Bumi training initiatives are helping drive higher productivity in this important growth channel. We feel it is important to talk about that because there is sometimes a feeling that growth in Asia just happens. There is a lot of execution behind the numbers we show you. The team has to work incredibly hard to produce them. These are not just four countries, but there are thirteen. It is a lot of work behind the numbers you get.

Moving to the second channel, bancassurance, we have continued to make good progress in the first half. We have 77 banking relationships, as I mentioned more than 14,000 branches, and the performance of the partnerships has been very encouraging. Sales via Standard Chartered have increased by 42% and those via UOB more than doubled. New business profits from bancassurance sales have increased by approximately 25% year on year, which is a good number.

I would now like to step back to look at an issue which used to be much debated a few years ago. The debate around Prudential often focussed then on whether and when Asia would surpass the UK in terms of contribution to the Group. Looking at the evolution between 2008 and today, so just over four years is interesting. We can see that today, Asia, in red here contributes more NBP than the UK. However, given the growth of a business at a country level, it has a more interesting point. Within Asia, it is a matter of time before the debate shifts to focussing on which individual countries within Asia and when rather than the region as a whole will surpass the contributions of some of our more established businesses. In Indonesia, you can see here, and a lot of the business in Asia is now on par with UK in terms of new business profits, and new business profit, as we know, is a lead indicator of direction of travel for IFRS profits, which is the next slide. You can see IFRS profits where Asia now generates more profits than the UK, so a very significant milestone for the history of this company for a business as young as our Asian business. Within Asia, Indonesia has made considerable progress over the last few years and maybe the first individual country in Asia surpassing the UK at some point in the future.

We know that NBP, IFRS, and cash track each other with a lag, so we believe that the same dynamics will play itself out for cash generation, and this slide shows clearly the direction of travel, with Asia remittances going from being a fraction of the UK's four years ago to now more than half the level achieved by the UK.

Before we leave Asia, I thought I would share with you an analysis which I believe captures well what is happening in the region; we used it at our management conference in June here

in London. The powerful growth that our businesses there are experiencing is a reflection of historic economic transformation on a very large and unprecedented scale. What I am showing you here is the evolution over a long period, 1820 to 2010 of the US GDP per capita in constant dollars. There is no inflation in any of the analysis I am going to show you. All these analysis are adjusted and what we are showing you are real increases in wealth. It is quite striking. You can see what America has done, something extraordinary.

What I have done is I have put Asian countries on these. It is very interesting, because if you take China, the 30 years between 1980 and 2010, the Chinese have seen the same increase in GDP per capita as in America between 1820 and 1940. In other words, the Chinese economy has delivered to its people in 30 years as much as the US economy delivered in 120 years. In simple terms, today, GDP per capita in China is kind of 1940, second World War for America, and have gone from 1820 to that over 30 years. That is an amazing achievement. We have played with this with other Asian countries. I think it is quite interesting.

If you look at Indonesia, same format in 30 years, and they just published 6.5% GDP growth in Q2. In 30 years, they have done 70 years. Indonesia is kind of US 1910, 1915, First World War. Now, if you look at Asian countries at different starting points, in 1980, we took China as very low, Indonesia, and let us look at Malaysia. It started from higher as well here. We look at what they have done in those 30 years, they have done in 70 years. It is what I call the acceleration of growth in Asia and it is quite striking.

The last I want to use is Singapore. You would think that once they get to a steep part of the curve, the speed slows, it does not. There is acceleration there. Look at Singapore, 30 years they covered 60 years of American progress. A lot of belief I have in Asia is absolutely embedded in this chart.

If you bring it together in one slide, what I have done here I have put all our countries on one slide and I think it is a fascinating picture because I think a lot of our story in Asia, past and future, is here. These countries will develop, these economies will grow and their consumers will become wealthier, with all the attached needs for savings and protection. It is what we sell. Our achievements in countries with such different levels of development, as Singapore, we see at the same GDP per capita as the US; Malaysia, kind of in the middle; Indonesia, coming up; Philippines, I just said we grew 50%, I think, in the Philippines. It makes us feel confident that we are well-positioned to continue to capture this opportunity at each stage of the development of the economies and we have labelled it the growth escalator. If you look at where we are really investing, Thailand is an interesting one. As we have said we want to invest there. However, what we do in Philippines and Vietnam has embedded a lot of future growth as things evolve.

I will now leave Asia and move to the US. We have continued to follow a value-over-volume approach in managing our variable annuities business. Over the last few years, we have continuously made changes to our pricing and product features in order to preserve shareholder returns on our VAs throughout the period of declining interest rates. As a result, in a significantly different environment, NBP has declined as you can see here, on the left, whilst remaining at a historically high level. If interest rates had remained flat at levels that they were at in 2009, our annuity new business margin, total annuity that is, would have been 23 percentage points higher than what it is today. Looking at sales, our VA sales on the

right here are flattening off versus prior periods. Actually, our VA sales in dollars have gone down from $9.5 billion to $9.4 billion, compared to the prior year. Some of what you see here is FX and some of it is Elite Access. Our recent launch of Elite Access has been well-received by the distributors and we are incentivising our wholesalers to drive further sales of these product as we move through the second half of the year and beyond.

Jackson has only one form of financial objective, and that is its cash remittance objective for 2013. I have already mentioned the net remittance of $400 million or £247 million paid by Jackson in the first half and the fact that it followed the remittance of over half a billion last year. These large net remittances are proof, we believe, and that our expansion in VAs over the last few years has been done profitably. Our capital position remains strong after payment of the remittance. Our RBC ratio at the end of the period remained comfortably above 400%.

Following completion of the REALIC acquisition, Jackson will be able to remit even more cash to Group going forward and we signalled that by increasing our 2013 cash objective from £200 million to £260 million at the time of announcing the acquisition; on which I would like to say a few words now. On May 31st, we announced the acquisition of REALIC from Swiss Re for £398 million. We had been saying for several years that bolt-on acquisitions of blocks of life insurance business were attractive to us in the US. The open market for life insurance new business in the US is highly competitive with a strong representation of large mutual insurers, and this makes it difficult to generate attractive returns. However, by acquiring a close book of life insurance policies at a discount price and by leveraging the efficiency of our scalable operating platform, we can generate attractive returns on capital from such acquisitions. This acquisition in particular has been signed on very attractive terms for us. We anticipate a return on capital of over 20% and a short payback period. This is competitive with what we generate on organic new business in the US. It is immediately accretive to IFRS earnings by around £100 million on a pre-tax basis and that will essentially double the amount of life insurance income that Jackson generates. It is also immediately accretive to embedded value. EEV per share will increase by around 18 pence when the transaction completes. On that basis, we have increased the cash target from £200 million to £260 million, as I just said. All these figures are pre-synergies, there is scope for additional cost synergies as we transition the policies onto our platform over the next 36 months. In summary, it is an acquisition in line with our strategy which has been completed on favourable terms.

Moving to the UK, in the first half of 2012, the UK team continued to focus on disciplined capital management, concentrating only on the lines of business that can generate high IRRs and rapid paybacks. This focus has led to a further reduction in new business strain in the first half, while new business profit remained roughly flat. We completed, as you saw, a single large bulk annuity deal within the first half of the year. It has been signed on very attractive terms, requiring only a small amount of capital investment and delivering a high return and a short payback period. As you know, we compete in this market on a selective basis and will only complete transactions when the financial returns are particularly compelling, which means that we are also comfortable letting the volumes vary and you have seen that sometimes we have had no deal for half a year, and that is fine.

Despite a challenging environment, we have been able to maintain a strong capital position. The strength of our with-profits fund is a key contributor to our capital position and at the end of the first half, the inherited estate surplus, remained at a healthy level of £6.1 billion. Finally, the UK remitted £230 million to Group, building on the strong levels of sustained cash delivery that we have seen over the last few years.

Taking asset management and M&G last, M&G's performance for several years now has been strong. Over the last 14 quarters, M&G has been the number one player in the UK retail market as measured by net flows. At the end of June, M&G have taken the number one position in the UK retail market when measured by funds under management. M&G now has £39.3 billion of UK retail funds under management. If we include all retail and institutional business, then M&G's total external AUM stood at almost £95 billion at the end of the first half, and adding in the UK life fund takes the number to £204 billion. This asset growth combined with operational leverage has led to a significant increase in profits over the course of the last few years, as you can see on the right hand side of the slide. The central element of M&G strategy has been its focus on investment performance because it is the only way to deliver significant value to its clients. At the end of June, M&G's investment performance remained strong, with 63% of our funds above median and this bodes well for future generations of further positive net flows.

Eastspring Investments, our Asian asset management business, also delivered positive retail and institutional net flows in the period of close to £0.5 billion, I think £426 million. Eastspring's profits reduced in the period as I said earlier due to the market context and investments we are making. However, the demand from Western and Eastern investors remains huge and we think that our investment in Eastspring will help us maximise our long-term profit potential in the region.

Let us move now to the dividend and therefore my last slide for this section. You can see that we have been able to increase the dividend consistently over the last few years despite a challenging economic environment since 2008. Our interim dividend from the first half of 2012 has been declared as 8.4 pence per share, which is up 5.7%. The strength of our financial performance in the first half has given us the confidence to declare this dividend increase.

To summarise, in the first half, our businesses have delivered profitable growth and cash. We have been and we remain focussed on the execution of our strategy and delivering our 2013 objectives. With that, I will now pass over to Nic.

Financial Review

Nic Nicandrou

Chief Financial Officer, Prudential plc

Thank you, Tidjane. Good afternoon, everyone. My presentation will follow the now familiar theme of 'Growth and Cash' with a detailed look at the drivers of our overall profitability before concluding with our capital position and balance sheet. We have provided you with the usual disclosures in the pack, with the only change from last year being the retrospective adoption of the new US deferred acquisition cost rules. We trailed the effect of this change

within our prelims in March and I am pleased to say that the impact on the half-year numbers has been in line with the guidance that we gave you at the time.

Let us start with the financial headlines for the first half of 2012, which are summarised on this slide. The strong growth in new business flows this year and the resilient nature of our in-force book has enabled us to maintain the positive momentum in our key financial metrics despite the macroeconomic headwinds. We absorbed the effects of low interest rates to record our highest ever first half results for both NBP, up 7% to £1,141 million and IFRS operating profit up 13% to £1,162 million. The impact of lower interest rates is more pronounced on our embedded value profits, but even here our focus on extracting greater value from our in-force book has meant that the overall profitability was broadly in line with last year at over £2.1 billion.

Turning to cash, net remittances to Group have increased to £726 million and the free surplus generated in the period after financing growth was strong, at over £1 billion. This overall performance is the result of our relentless focus over the last few years on improving both the quality and the resilience of our earnings, which are now better balanced and more diversified than at any point in our history.

Let us start with new business profit, our primary measure of growth in life insurance. In the first half of 2012, we generated the highest level of sales for any six-month period, and this drove a 7% increase in new business profit to £1,141 million. This translates into a lower overall margin of 56% reflecting the significant drop in long-term yields between the two periods. Even at these low yields, all the products are written above our cost of capital and we are generating internal rates of return comfortably above 20% in all of our businesses.

In Asia, new business profit increased by 18% to £547 million as we continue to prioritise capital allocation to those products and geographies with the highest returns measured by reference to IRRs. As we have said before, margins will fluctuate depending on the interplay of various factors, which for the first half of this year have combined to produce a lower margin of 61%. The positive effects of pricing actions and favourable product and country mix have offset the negative effect of a high proportion of sales through banks. The two-point fall-in margin is therefore entirely due to market effects, which are captured through our use of an active basis of setting economic assumptions. At a product level, the economics remain extremely attractive with higher IRRs and four-year payback periods.

In the US, our new business profit of £442 million represents a small decline of 3% compared to last year, in line with our planned slowdown in the rate of growth of variable annuities. The combination of lower spreads and the 150-basis-point drop in yields produced an 11-point drag on the margin. Pricing actions and changes to benefit structures introduced in August 2011 and again in April 2012 produced a four-point improvement to deliver an overall margin of 61%. While slower than last year, with IRRs of over 20% and payback periods of two years, the overall economics of Jackson's business remain very attractive and are comfortably above historic norms.

Finally, our UK business has delivered a 4% increase in NBP to £152 million. We wrote a single bulk in the second quarter which met our stringent return criteria, generating wholesale NBP of £22 million on APE of £27 million. At the retail level, NBP increased to £130 million, reflecting strong growth in annuity and with-profits sales. The UK delivered this result with a

lower level of invested capital, improving IRRs further and reducing payback periods to three years.

Staying with new business profit, I want to take a moment to explain the key drivers of the movement between the two periods and to illustrate the strong underlying progress that we are making on this metric. In the chart on the left, the grey bar represents the £1,069 million of new business profit reported in 2011. The next bar down, in light blue, shows the negative impact of the drop in long-term yields, which amounts to £116 million. As you can see out on the right, this is equivalent to six points on the Group margin. This reduction relates principally to Jackson's variable annuities, but also includes smaller effects on fixed annuities as well as with-profits in both the UK and Asia.

As you can see, we have taken pricing actions on these and other products aimed at sustaining returns above hurdle rates. These have generated an extra £57 million of NBP, equivalent to three points on the margin. Higher sales volumes have increased NBP by a further £131 million, which brings us to £1,141 million in 2012. Not shown on this slide is the contribution to NBP from pure risk products such as health and protection, which in 2012 was £350 million, representing 31% of the reported 2012 total, up from 26% last year. In summary, we continue to drive this metric forward whilst absorbing the market effects and have improved its quality with a higher content from pure risk business.

Moving on to IFRS, our headline operating profit increased by 13% to £1,162 million. Profitability on this metric remains a key focus for our business and it is pleasing to see that it continues to move forward positively. That strong forward movement is underpinned by a 19% improvement in the life result to £1,184 million. In the next few slides, I will provide you with some more colour on the drivers of the increase, which in overview remain the same as before and comprise the 10% growth in overall shareholder-backed liabilities driven by the strong life inflows in the last 12 months, the continuing shift towards higher margin insurance business, and the ongoing widening of income versus expense jaws.

Looking at the analysis by region and starting with Asia shown in red, life operating profit has increased by 26% to £406 million. While the majority of the growth has come from more established operations of Singapore, Indonesia, and Hong Kong, I am pleased to report positive contributions from every one of our Asian business.

In the US, headline operating profit has bounced back up to £442 million this year, reflecting both business growth and the normalisation of the DAC amortisation charge, which was temporarily higher last year for the reasons we summarised at the prelims. The breakout box adjusts for these effects and shows in light grey the new business strain that is now a feature of our US results, following the adoption of the new rules. After allowing for these items, Jackson's underlying profits have increased, reflecting higher fee income which offset the expected slowdown in spread profits.

In the UK, life operating profit is just ahead of last year at £336 million, which includes a contribution of £20 million from the bulk deal. By way of reminder, last year's bulk contributed £18 million to the comparative.

Turning to the sources of IFRS earnings and starting with the overall shape on this next slide, by increasing both insurance margin and fee income by over 20%, we have made further progress in diversifying our life income and in improving its quality. Insurance margin shown

in red now accounts for 24% of the total, reflecting the ongoing success of our health and protection strategy in Asia. We regard insurance margin as a higher-quality source as it is relatively immune to investment markets. The closed book of term business that we acquired in the US is expected to add an extra £100 million to this source every year. We have also grown the proportion that is generated by fee income to 29%, shown in the dark blue, driven by the continued growth in separate account balances in the US and our focus on unit-linked business in Asia. Fee income now contributes more to Group's earnings than at any time in the past. Spread income shown in the middle blue, remains important to our business and we regard its reduced contribution to the total as a positive development, as this is our most capital-intensive source. We are pleased with the way in which the shape and the balance of our life income is evolving. The overall quality is improving all the time and this underlines the confidence that we have in the future prospects of our business.

Let us move to take a closer look at the sources of earnings for each life business, starting with Asia. You can see in the top left, total income has increased by 13% to £1,051 million. Administration expenses have also grown in the period, but at a slower pace of 3%, highlighting the ongoing benefit we derive from operational leverage in our businesses. Acquisition costs, shown alongside, are up by 23% reflecting both the growth in new business volumes and a shift in product mix. Below, towards the bottom right of the slide, you can see the technical and other margin remains the dominant driver of income in Asia, up 14% to £892 million. This category includes the profits that we make on our health and protection business, which are higher at £256 million, due to the growth of the book, but also due to positive claims experience. The category also includes the margin that we make from premium deductions to cover costs, which are also higher at £636 million, in line with the growth in Asia's premium income.

In the US, Jackson's total life income on the top left is up 10% to £945 million, outpacing the 6% increase in expenses, again, generating positive operational leverage. The improvement has been achieved despite the 4% contraction in spread income to £349 million. As we flagged at the prelims, the tightening of spreads and our more conservative approach to credit has reduced the spread margin from 262 to 238 basis points, and if interest rates remain at these levels, the margin will continue to trend towards the 200 basis-point mark over the next three to four years. Moving along to the right, you can see that fee income has increased by 25% to £408 million, and is now the largest contributor to our US results.

This increase reflects the growth in separate account balances, which were boosted by the very strong net inflows in the course of the last 12 months. It also reflects higher M&E fees following product re-pricing actions which have generated the small increase that you see in the average fee to 108 basis points.

The UK result is almost unchanged between the two periods as the movement in our main sources of income of annuities and with-profits were largely offsetting. Spread income on the left was up 8% at £132 million, driven by the uplift in average reserves. Income from our with-profits business shown in the bottom right of the slide declined by 5% in line with the reduction in bonus rates declared to policyholders.

Turning to asset management and other businesses, where the aggregate operating profit in the first half was slightly lower at £267 million; here, the main contributors are M&G and Eastspring Investments, whose results are analysed in more detail on the next slide. As you

can see on the left, M&G has maintained its earnings momentum despite the volatile market conditions, with operating profit higher at £175 million. The strong level of external net inflows, which in the first half of 2012 amounted to £4.9 billion, was a key contributing factor to this performance. As a result M&G's underlying income, excluding profit-related fees and earnings from associates, was 7% higher at £354 million. This increase also reflects a positive shift in mix towards the higher-margin retail business, generating a two-point uplift in average fees to 36 basis points. Moving along to the right, you can see that our strict cost control has led to a two-point reduction in our cost-income ratio to 53%. As in previous years, we expect the cost base to show a second-half bias. Bear this in mind when looking at your full-year forecast. As a reminder, in 2011, there was five-point difference between the half-year and the full-year ratios. Despite attracting positive external and internal net flows in the period, Eastspring Investments reported a drop in profits to £34 million. Eastspring's lower overall fee income principally reflects the effect of weak equity markets on our third-party revenues. At the same time, costs have increased as we invest in building our offshore capabilities. As Tidjane has said, the long-term potential of the mutual funds market in Asia is considerable. We are comfortable increasing our level of investment in order to maximise profitability over the longer term.

Finally on IFRS, on other income and expenses, nearly all of the difference between the two periods relates to the £42 million one-off benefit we took last year from the RPI to CPI change for our pension schemes.

Turning to our results on an embedded value basis, as you can see from the chart on the left, total life profit is slightly higher, at £2,164 million, equivalent to an annualised return on opening embedded value of 16%.

Asia has become the largest contributor to this result, with EEV operating profit increasing by 13% to £869 million. This has offset the declines reported by our US and UK businesses on this metric, which reflect the adoption of lower economic assumptions at the end June 2012. The effect of the lower investment return assumptions on the in-force result is more clearly illustrated in the top right chart by looking at the part of that chart that is labelled 'unwind'. We estimate that without the negative impact of these assumptions, the £764 million shown for half-year 2012 would have been £110 million higher, which is what you would expect as the business continues to grow.

As was the case last year, we saw a continuation of the net positive experience compared to our operating assumptions. You can see this in the breakout box on the right, which shows a £192 million of positive experience profits in 2012, driven by gains in the US, and the net overall positive results in both the UK and Asia. This outcome is testament and evidences of very strong ongoing focus on extracting value from our in-force book. You can also see that we have made a number of assumption changes this half year, which generated a £70 million benefit. These reflect the findings of our experience reviews completed in the second quarter in Jackson and the adoption of lower tax rates in the UK.

On this next slide, I summarise the movement in items below the operating profits line for both IFRS and EEV.

From an IFRS standpoint, the impact of investment variances is relatively modest, at positive £0.1 billion post-tax. This reflects the absence of impairments on our credit portfolio, which

remains defensively positioned and our very modest direct exposure to the Eurozone. It also demonstrates the ongoing effectiveness of Jackson's VA hedging strategy, and I'll come back to that in a moment. Total IFRS net profit in the period therefore amounted to £1 billion, equivalent to 38 pence per share. As you can see further down the table, we benefitted from unrealised gains on Jackson's fixed-income portfolio or £0.2 billion post-tax and after adjusting for exchange in the payment of the 2011 final dividend, retained earnings totalled positive £0.7 billion, increasing our IFRS equity to £9.3 billion.

Switching to EEV in the table on the right, investment variances were also relatively modest, at negative £0.1 billion post-tax, with the adverse impact of changes in economic assumptions largely offset by unrealised gains on investments. The total embedded value rose to £20.6 billion at end June 2012, equivalent to 806 pence per share or 749 pence per share if you were to exclude goodwill.

Once again, our earnings have demonstrated resilience during a period of continued market turbulence, and as a result, our shareholders' funds have moved forward positively. Before I move on to capital, it is worth dwelling on the growth in shareholders' fund for a while longer. This next slide summarises the increase in the value that we have generated for shareholders over the last two and a half years, growing our embedded value per share at a compound annual rate of 16%. Breaking it down further, the red bars show that the value of our in-force book has grown by 13% on an annual basis over the period, driven by the strong addition of new business profit. The fact that this is comfortably ahead of the 8% per annum growth in required capital, in the dark blue bars, highlights our focus on delivering growth in a capital-efficient manner. The chart also demonstrates the pace at which our business converts in-force value into free surplus shown in the light blue bars. After adjusting for the dividends paid during this period, free surplus has grown at a much faster 38% per annum since 2009. This trend is tangible evidence of the strength of our business model which delivers high-value growth and monetises it quickly.

I would now like to turn to cash and capital. Here, we show the evolution of free surplus which over the course of the period has remained stable at £3.4 billion. As you move from left to right on the slide, you can see the £1,403 million which represents the underlying free surplus generated by our existing book, with all four businesses now making, really, material contributions. The £1,403 billion is a little ahead of last year despite the lower investment returns, again reflecting the very strong focus that we have on extracting value from our back book. We have used £364 million to write new business in the first half of 2012, which is equivalent to a reinvestment rate of 26%. We signalled last year that the 2011 new business strain was exceptionally low, so the small increase in 2012 is not unexpected. Market effects were modest overall, which meant that our free surplus stock increased by 22% to £4.2 billion. This in turn allowed our businesses to remit £726 million the first half and stay at an overall healthy level of free surplus at end June. As you can see, our highly capital generative business model enables us to finance our growth and remit cash to Group. Maintaining a high level of free surplus stock is a crucial factor in satisfying regulators in the various jurisdictions that we operate in that cash can flow freely despite the continued volatility in the global investment markets.

Tidjane has already updated you on the overall cash positions, so I will restrict my remarks on this slide to guidance for the second half. On UK and Asia, we highlighted with our prelims that these businesses are expected to repay £145 million between them on contingent loan financing secured in 2009 and 2010. While these repayments will inevitably impact the respective second half remittances, Group will still receive healthy underlying contributions from both businesses in 2012. As was the case last year, Jackson made the full-year remittance in the first half. As Tidjane has said, you should not expect anything in the second half. Jackson will fund the acquisition of REALIC using its own resources, so there will be no call on central cash for this transaction. Finally, unlike last year, M&G has gone back to paying the first half and the second half dividend. We therefore expect a further remittance in the second half, which would see M&G upstream most of its post-tax earnings. In concluding on cash and capital, we remain on track to deliver the £6.5 billion of cumulative free surplus and the £3.8 billion of cumulative remittances over the full-year period 2013.

Turning to balance sheet, the message here remains simple. We remain well-capitalised and defensively positioned. The Group's IGD surplus, which remains for now the key solvency measure, is higher, at £4.2 billion at the end of June and is equivalent to a cover of 2.7 times. I would remind you that the IGD surplus is calculated after deducting £2.1 billion of allowances for credit defaults on fixed income assets backing our UK annuities, which have been retained in spite of no defaults in the period. It also excludes the unrealised gains on our US debt portfolio which amounted to £2.5 billion at end June 2012. Our overall direct shareholder exposure to the Eurozone is low. We have remained defensive on our approach to credit risk and have retained our conservative stance on hedging. The result of all of this is that our capital, solvency, and liquidity measures have remained robust during the first six months of 2012.

Before closing, I would like to give you an update on Jackson's capital, cost of hedging, and experience in relation to policyholder behaviour. On the left, we provide a high-level summary of the key movement in Jackson's total adjusted statutory capital over the period. As you can see, Jackson generated operating profits of $0.5 billion in the first half and paid $400 million to Group. You can also see that line labelled 'reserves/hedging' shows a nil movement in the period. This means that our hedging programme has once again fully covered the movements in death and living benefit guarantee reserves. In fact, the impact of the 8% rise in US equity markets trumped the impact of the lower interest rates to reduce the overall level of guarantee reserves.

This positive effect was offset by the negative value movements on the equity hedges held to protect us from falls in the S&P 500 index. As a result of all these movements, total adjusted capital at 30 June was higher, at $4.1 billion. We have kept in place the permitted practice, which has the effect of carrying our interest rates swaps at cost, and this means that $649 million of gains relating to these swaps are not included in the $4.1 billion amount at end June. A word on guarantee fees and cost of hedging: in the first half of the year, fees earned from living and death benefit guarantees elected by our customers totalled almost $400 million. This equates to around 120 basis points of our average separate account assets and remains sufficient to cover the costs of hedging the risks associated with these guarantees well into the tail. In line with our normal practice, Jackson has conducted its annual review of

policyholder behaviour in the second quarter of the year. This is a highly detailed piece of analysis performed by Jackson's actuaries. The conclusions of this most recent review have confirmed the high level of prudence that exists within our assumptions. Touching on a couple of insights from this review, lapse experience for both in-the-money and out-of-the-money policies has remained stable year on year and continues to track favourably compared to our assumptions. We have, in fact, introduced further conservatism here by adopting a slightly higher lapse assumption for those policyholders that are out-of-the-money by more than 20%. Furthermore, the review of withdrawal benefit utilisation experience has confirmed that we remain within plus or minus 5 percentage points of our prior-year assumptions across all age ranges.

The aggregate financial effect of updating the relevant assumptions to reflect our latest experience was broadly neutral. Furthermore, the overall impact on capital of a shock persistency stress for in-the-money policies is similar in magnitude to the one we published with our prelims in March. Our experience in relation to policyholders' risk appetite, in particular their allocation of the assets to equities, remains favourable compared to our pricing. In pricing, we assume an 82% allocation to equities. In fact, 54% of new deposits and 63% of total deposits are allocated to equity funds, comfortably within our pricing assumptions.

Finally, on this slide, I also highlight that at the end of June 2012 when the S&P 500 index closed at the level of 1362, only 17% of our in-force variable annuity policies were in-the-money from issued levels. This is a very simple way of demonstrating the health of Jackson's in-force book before even taking into account the benefits of hedging.

In my final slide, I can confirm that our shareholder exposure to peripheral Eurozone sovereign and banking debt remains small, at £344 million. Remember that most of these assets are backing the UK annuity business, where I have already said we continue to carry significant credit default reserves.

To conclude, Prudential has delivered a strong start to 2012 with our key financial metrics of NBP, IFRS, and cash moving forward positively. We continue to improve the quality, consistency and resilience of our earnings, and have maintained a robust capital position, all of which underpins our confidence in the future prospects of our Group. Thank you. I will now hand you back to Tidjane.

Outlook

Tidjane Thiam

Chief Executive Officer

Thanks, Nic. It is time to say a word about our outlook. As you have seen, the Group has delivered a good performance in the first half of the year. However, we cannot claim to be immune to the challenging macroeconomic context in which we operate.

Our track record through the crisis shows that we have managed our business so that it is resilient in times of economic and financial market stress. The balance sheet remains robust and defensively positioned, and we continue to capitalise on the longer-term growth opportunities for our business. The growth opportunities are most evident in Southeast Asia where, I believe, the depth and breadth of Prudential's franchise is a source of strength. Our

businesses are an integral part of the economic and social transformation that has only just started in that part of the world, and will continue to deliver profitable growth for many years to come, long after the current worries that beset the global economy have passed. This really comes back to the heart of why I am confident that we can continue to grow earnings long into the future and continue to create value for shareholders.

Thank you. We are going to move to Q&A.

Q&A

John Hocking (Morgan Stanley): I have three questions, please. Tidjane, in your presentation you mentioned you have seen an impact on new business strain from low rates, and you mentioned presumably high day 1 reserves because of lower liability discount rates. You mentioned consumer behaviour. I wondered if you could unpick those two things and talk a little bit about what the impact was and what you are doing to offset that. That's the first question. The second question, on the fixed annuity business, you mentioned you got a trend to 200 basis points of spread over time if rates stay where they are. Would you comment where spreads are on new businesses, your pricing at the moment, so what the offset is between the back book and new business? Then on the embedded value numbers, there seems to be more of an impact on new business from low rates than on the back book. I am just wondering what you are assuming in terms of rates on the back book and how you are going to change those assumptions and seeing the ultimate rates higher than current yields?

Tidjane Thiam: Thank you, John. New business strain. Most of you have been in various meetings with me. I used to be annoyed by that, John, because I kept saying every year, well, we cannot continue to drive it down, at some point it is going to turn. In a way, I am glad it did because it is just kind of a reality check that we cannot drive it to zero. It is dependent on the context. Yes, the lower rates increased mechanically the amount of reserves you have to hold for any kind of interest rate guaranteed product. What we have done, particularly in Hong Kong where you will see from the numbers that there has been an impact, that we repriced the product. That was a concern. It was a critical illness product, and we repriced it to a level where we were perfectly happy with the performance of the product now.

There was also a universal life product in Singapore that we have repriced. The action we have taken is every time to readjust the pricing and guarantees in the product to be comfortable with the new environment. You see that we fundamentally chose in Asia to increase the strain and in the US too because you saw that the FA sales have increased, which are more capital intensive. The allocation to FA has increased through VAs. The point that Nic was making about the allocation to equity, which has gone down, which means the allocation to FA gone up, and that drives the strain as well.

Michael Wells: You have 18% of the funds now going to the dollar cost average bucket, a little more than that on the VA. The balance between that and the number Nic referenced in the equities is some form of debt instrument, typically, a bond fund. Extremely conservative behaviour right now by US investors that is consistent with, again, as we talked about in Asia last year, the gross flows in the US mutual fund business were about the same percentages.

Crediting rates – your comment on the US, we are at one. We are as low as it could be, and so spreads are holding up on the new sales. The consumer effectively has no place to go right now for yields.

Tidjane Thiam: Nic, do you want to take the spreads in FAs and the trends?

Nic Nicandrou: Yes. I mean, the spreads that we are currently securing on new fixed annuity business are around 140 basis points. You will see that we have moved our embedded value assumption in terms of calculating the new business profitability to that. Part of that reflects the contraction in spreads, part of that reflects what I was referring to earlier: the cautious stance. Effectively, we are investing one grade higher in terms of credit rating at the moment. We are very happy to sacrifice yield, if you like, for now, to keep the balance sheet of a higher quality. The back book, of course, is stronger, and, therefore, it averages to the mid 230s, 238 that I referred to earlier.

Tidjane Thiam: The third question was on EV and differential impact of lower rates on new business and in-force.

Nic Nicandrou: I think candidly that is down to mix. I mean, I think different products, different countries behave in different ways. The movements that we have seen in equity markets, the movements that we have seen in interest rates have not been uniform across our businesses in the first half. Some markets, even in Asia, interest rates have gone up, Indonesia, for example.

It is the interplay of all of that causes the trend that you have summarised. However, the important issue on in-force is that the growth in the book is absorbing it. We continue to drive greater value from our, yet again, prudent operating assumptions. On the new business, we dial up the pricing where we have dropped below hurdle rates. The behaviour remains very disciplined.

Tidjane Thiam: Plus the impact is quite different. If you think about the with-profits, what you get is a lower transfer if you get lower rates. If you have a health and protection, it is the opposite. You are discounting that to lower rates, so the NPV goes up. Actually, in some countries, lower rate benefits us.

What Nic was saying is it is going to be a difficult half year to half year or full year to half year. Half year to half year in Indonesia, for instance, rates have gone down, but full year to half year they have gone up, which is a negative. The net impact is quite complicated to a degree. We toyed with doing a slide on that, but we were defeated so you do not have it. Up until yesterday we were trying to show you how the interest rates impact the Asia numbers. It really is quite complicated.

Kevin Ryan (Investec): Thanks. I have just a question on REALIC. In the US, I think at the time of the acquisition you mentioned that the life of the book was around ten years. Could you confirm if that memory is right? However, also related to that, could you say what we can expect in terms of the cash running off as that book runs down and how rapidly the cash coming out is going to run down?

Michael Wells: I think the duration assumption of ten, we think, is a conservative one and appropriate. I think the best way to think of a signature, not to sound indifferent to the fact its clients, but it is a bit like the energy business where over time, with the mature book, you

are going to get more mortality experience. That is where you are getting the change. That is more likely to occur in ten years; you are going to lose more of the policyholders. It is not as if it goes off a cliff; it is a gradual arc. I think ten years is a fair assumption.

Nicholas Holmes (Nomura): I wanted to ask about economic financial information. I wondered if you are thinking of giving us more economic information about capital and new business. The reason I asked this is that you are now extremely unusual in not providing economic information on either of these. I wondered if I could ask two specific questions: with economic solvency, which most other companies are focusing on, could you tell us where you think you are? Can you tell us how important the equivalence debate is for you?

Secondly, with new business, and Mike, I apologise about focussing on the US. However, with the US new business value, your EEV margin is sky high compared to MCEV equivalent margins. Now, I wondered whether you could talk us through what you think are the main differences and what you would look like on an MCEV basis. Thank you.

Tidjane Thiam: Thank you, Nick. This is a running debate between us. We do not mind being alone as long as we are right. We do not believe in procyclical so-called market-consistent approaches to valuation of insurance companies and insurance income, which is why we did not move to MCEV. We were quite alone in that case. We still think we are right.

The extreme version of Solvency II, I believe, personally, is completely wrong. The versions without any countercyclical premium are completely wrong. Economic capital, it all depends on what you put in it. We would absolutely like to be able to discuss economic capital with you. We have seen in this results season versions of economic capital that are RBC-based. If that were the yardstick, we think we are very comfortable with that. I have told you the RBC is above 400%. If we will move into a Solvency regime that is RBC-based and we call it economic, we will give you all the disclosures you want on that and that is not a problem. That is our position. We have been very clear about our belief, theoretical belief about this debate, and we do not believe in putting in the market numbers calculated with methodologies we do not believe in. It is very simple.

We are not going to give you a market-consistent number because we think solvency, to make a bad and easy analogy, is like oxygen. You can breathe with 80% of oxygen in the air. It is only when the oxygen rate drops that you feel that you actually need oxygen. Solvency only means anything at times of stress. The big flaw of Solvency II is that when I joined the Group in 2008 I was told it works: 'look at the June 2007 numbers, we are fine'. However, Solvency in benign conditions is irrelevant. It only matters at times of stress, and it is still my belief that at the time of stress that model breaks down. What is the point of moving into a Solvency regime that is going to blow everything up and force you to sell into a depressed market when, historically, you have played a stabilising role in markets by being a buy-and-hold investor. If it is like that, it does not make sense and I do not see your point in disclosing those numbers because we are in stressed markets and the pure market-consistent approach is, personally, I believe wrong. That is how we designed our disclosures and communications to market.

Nicholas Holmes: Could I just follow up on that? I mean, not denying, Tidjane, that you might well be correct, nevertheless, what happens if Solvency II is implemented and how does Prudential responds to that?

Tidjane Thiam: If it is implemented with a flawed design, we will move. I mean, it is absolutely incontrovertible. If it is implemented the right way, we will be perfectly happy to operate in that framework and sell our products and continue. If it is operating in a way that for us does not make economic sense, we will not operate on that way. I really think we are winning the debate. I read all the Q&As of all the peers and I think things have moved. I think that the fact that French spreads have de-correlated from German spreads is helpful. I think that people have thought about these issues in a very narrow way. I think that stress conditions are very hard to anticipate and markets often move in a way that one would not have expected before.

Under stress, suddenly a camp of people will say, 'Well, this does not make sense. It has not been growing.' We are very happy to give you economic capital based on RBC, if you want it. That is not difficult to do. What we can tell you is we are fine right now. I said RBC is above 400%. Sorry, it is an emotive issue for us because we have been at this for a long time. It has been at time difficult to say what we have been saying. In a way we have been helped by events. That is one of the few ways I am glad about the Eurozone crisis because it is concentrated in the minds of some of our peers, and that is good.

Mike, do you want to continue on MCEV and new business?

Michael Wells: I think the issue in the US, the pro-cyclical regimes get you to the wrong thing at the wrong time. If you look at the US model on the equivalence issue, you have 40% of the capital in the US industry destroyed at the peak of the trough, the crisis. You had it all replaced 20, 22 months out. You had no US defaults. In a US industry, they say, 'This model works across cycles'. They do not think they are fixing anything. When you get into the dialogue on equivalency, you say, 'Well, now you need a pro-cyclical model that would assume you could raise capital at the bottom'. It does not sit well with the US industry folks, and I would be in that camp.

Tidjane Thiam: I think things are moving certainly – all we are being told is consistent. We have been told that there will be US equivalence, some debate on the how. At most senior levels, that is what we are being told. That is, from our perspective, positive.

Andrew Crean (Autonomous Research): I hate to follow-up on this issue about capital because it is getting you hot under the collar.

Tidjane Thiam: Why am I not surprised?

Andrew Crean: Honestly, to characterise Solvency II as market consistent is absurd. It is clearly not market consistent in the two areas where you might be challenged is UK annuities and the US annuities. You have equivalence under one and you have the matching premium pretty well guaranteed under the other. I think what Nick is asking and what we are asking is could we have the economic capital ratio with US equivalence, because if you do not do it, it does make us feel a bit nervous about the fact that you are hiding something.

Tidjane Thiam: I really do not accept that it is absurd to say that Solvency II is market consistent because on matching premium up to 21st March we were told that would not happen, so that Solvency II was market consistent, I would say. However, now we are putting countercyclical measures that would make it look different. It was designed to be market consistent. That is the Solvency II point I am addressing.

Andrew Crean: I agree that things have moved along. We just want to know what the situation is.

Tidjane Thiam: In due course we will give you that information, but sorry, for the time being, our energy has been focussed on getting the right answer on the design of the framework. Once that is done, we will give you all the numbers. I will be very happy to do so.

Andrew Crean: Two other questions I have, one is you gave us the amount of VAs which are in-the-money from the issued levels. I assume that is different. More interesting is how much is in-the-money from the current benefit base? I wonder whether we could have that.

Finally, could I ask on the US fixed annuities? Can you give us an idea on the in-force and on the new business, what are the crediting rates, what are the current guarantee levels and what are your portfolio yields?

Michael Wells: I will do the second one first. You are roughly in a portfolio 340, 350 on the crediting rate. If you are trying to get to how close are the guarantees, which I have talked about before, we are getting near there. I mean, we are about 40 basis points, 30 basis points from the guarantee thresholds.

The other component that is probably important to add to that is you are seeing normal persistencies; you are not seeing any change in withdrawals one way or the other. That helps. You are not seeing suddenly withdrawals turned off. You are not seeing withdrawals or surrenders increase. The book is behaving as a positive or indifferent to the crediting rates, currently. As the rates come down, we are not seeing any change of behaviour. On the benefit base versus the in-the-money, we are assuming half year number.

Chad Myers: That is a good question. What we are trying to get across there on the 17%, if you think about the structural profitability of the contract – so the M&E fees, which is the bulk of the fees we are going to collect – it is basically about pricing assumptions at this point. Structurally, the way these things work since most of them have high watermarks, you are never going to be far from at-the-money. Virtually, everything is going to be more or less at-the-money-type of guarantee. We do not have any deep out-of-the-money relative to the benefit base. Does that answer your question?

Andrew Crean: I think it was 37% last year and at the end of the year which I thought is relative to the benefit base?

Chad Myers: No, it was the same number.

Tidjane Thiam: That was the same basis as the 17% now.

Chad Myers: Yes. The market is better.

Nic Nicandrou: Andrew, on new business, the crediting rates in new fixed annuities were reduced by 25 basis points to around 1.5%, if it is coming through as a fixed annuity. If it is coming through the VA side of things, it is 1%.

Greig Paterson (KBW): I will try and ask non-stressful questions. The first one is, there has been a lot of press about new countries or potential new initiatives. I wonder if you just want to talk about Poland, Egypt, Nigeria, Brazil and Cambodia. What is going on there? Are you entering and what are your plans? The second question is Asian persistency. I noted last

year, if you look at expense and persistency, you had a negative 20 million. You then strengthened the assumption by 120 and the run rate is now minus 180. There seems to be, if you take expense and persistency and times it by two, that is minus 80. There seems to be a significant deterioration in your Asian expense range in those two items despite assumption changes. I am just wondering what is going on there? The third question, I wonder if you can just give me statistics you used to provide the year on year growth in APE per active agent by productivity in your agency ports.

Tidjane Thiam: Thank you, Greig. New countries. Effectively, there has been a story in the media about Poland. If I take a step back from this, what we look at when we look to invest is GDP, GDP growth, demography. We like younger populations rather than older. Savings behaviour and savings rate is very important. And so is a market-friendly environment where you can run a business, make a profit, repatriate it and remit those nice remittances.

If you apply that grid yes, clearly, Southeast Asia ranks very high. I have referred to the past, the average age in Indonesia, 28 years old. I have seen the curve as well, and the GDP per capita. However, it is not the only place, area, in the world where there are markets that are potentially attractive to us. Poland is, we believe, an attractive market. The demography is positive. It is by far the youngest country in Europe. It has good economic growth, very sound economic management, good savings behaviour, very good savings rate, and it is a country where the form of distribution we like, agency, works. It has all those characteristics. I am always tempted to say, unfortunately it is in Europe; it does not look like a European country by most metrics. Fiscally, it is very responsible, a bit like the Asian countries. In the end, you are confronted with something: do I want to create more value or do I want to stick to this notion that Prudential can only do things in Asia. I think on balance, we believe it is a good opportunity. We believe we will create value for the shareholders. We want to go in with a with-profit proposition and we want to build it from the ground up. The, the numbers we discussed are not material. It is relatively small. However, it is interesting.

We are always scanning other markets. The only method of entry we consider is organic. It is always going to be from the ground up. It is not expensive building an agency force. We are sending to Poland one of our Asian leaders, who is very good. He is going to build, I think, a very viable, profitable agency presence in that market, which is good to have.

Now the other countries, I do not know, I think you mentioned Nigeria and a few others. Nigeria is not exactly on the radar right now, maybe in the future, but certainly not today. From my own personal knowledge it is not something I would recommend. We have thought of North Africa in the past. We have mentioned Egypt. We are entering Cambodia right now. That is a promising market – it is a small economy, 14 million people – but we are doing that from Vietnam and incrementally from ground up. Yes, we are always looking at opportunities to do more business and profitably. I think there are such opportunities.

Nic Nicandrou: On Asian persistency, I am not sure if I follow your numbers here. However, the experience that we reported in the first half was minus 18. Candidly, when you are talking about 13 countries, you start talking about very small numbers. It continues to be slightly outside where we have moved the assumptions on Malaysia withdrawals. It is still a very active programme there, but it is normalising. However, as I indicated at the prelims, it was not going to revert to nil instantly. We are seeing that come through. In Japan, we are

closed to new business. Again, we are seeing a spike in exits there as well. On an embedded value basis, that is not a very big number.

You make a good point if you change assumptions but I would also point you to the same trend also on the mortality and the morbidity. We made positive assumption changes at the end of last year and some of significant size. Yet, you are seeing a higher mortality and morbidity profit coming through in the first half of this year, notwithstanding moving the assumptions closer to the experience that we are seeing. There are a number of big moving factors. We continue to monitor them and react to them, and that is the strategic plan.

Tidjane Thiam: In the Appendix are the net flows; that gives you a sense of the persistency?

Nic Nicandrou: Net flows in the cash side.

Tidjane Thiam: Yes.

Nic Nicandrou: It is the cash side of things. That information is there.

Tidjane Thiam: It is there.

Nic Nicandrou: It has always been there.

Tidjane Thiam: Yes.

Nic Nicandrou: I think Andy had a request last time to help break out some of the items in relation to India, which we agreed. They do distort the trends. They do distort the ins and the outs. We have added a slide in the pack, just to show ex-India.

Tidjane Thiam: Ex-India.

Nic Nicandrou: You will get a better understanding, but that is on the net flows.

Greig Paterson: The persistency and expense annualised are running at minus £80 million in the first half. That is point one. The second one, if you look at the unit-linked flows in Asia, annualise it as a starting point, it is minus 13% outflow on surrenders. It is minus 13% if you take the surrenders, times by two and divided by the starting balance on unit linked. In your pricing assumptions you have shown slides over the years, which effectively assume that your product stay on the book for 30 years and other surrender penalties and that sort of caveating. To me the implication of the flows is that the duration of the books is at ten years and in your modelling assumptions you are assuming 30 years.

Tidjane Thiam: Premiums and flows? The flows are net of expenses and commissions. There is always going to be a significant difference between premiums and flows. We can get into the detail but that is a fundamental thing you are dealing with. You cannot just go from premiums to flows. The flows will be net of all the cash you have spent upfront when you are growing and it is significant. I think that is a big part of it. We are happy to elaborate.

Nic Nicandrou: Yes. I am happy to go into the outline. However, my overriding message is, as I said in my presentation, that net-net Asia on the experience was positive. It is the first time it has done that, albeit by a few millions. This is the first time it has done that since pre-crisis. I think that is a positive development, particularly when the size of the book in embedded value terms is much bigger than it was back in 2007.

Tidjane Thiam: Barry, do you want to say a word?

Barry Stowe: Greig, you had also asked about productivity of agency, in terms of measuring APE per agent, is that right? Was that the question?

Tidjane Thiam: Yes, that was the question.

Barry Stowe: Yes. First of all, I would say that I think measuring productivity by looking at the APE per sale, per agent, is a blunt instrument because it can lead you to conclusions that are not necessarily valid. For instance, as Tidjane pointed out on one of the slides in his presentation, we have spent a lot of time and effort in Indonesia in the last year in expanding in the areas outside Jakarta; half of our agents in Indonesia are now in more rural areas. We pretty much got what you could characterise as full geographic coverage in the country, which is quite a task when you consider the thousands and thousands of islands, just the geographic logistics. However, the result of that would be that those rural agents, who are in less economically developed areas outside of Jakarta, will typically write a lower average premium. It is not that it is worse business; it is just that the economic realities of Timor versus Bali or Jakarta are different. You would expect people to have lower average premiums. If you look at it in real granular detail, you will look at spots within markets or markets where average premiums might be going down and in other places where they are going up strongly. Overall, our agency productivity is up 12%. However, it is lumpy and you really have to look at it with a little more precision. I am happy always to sit down and have a conversation about that.

Tidjane Thiam: That is a fantastic question. Can we have some slides back or is it not possible? Can we have the escalator slide with all the Asian countries? Because it is exactly what Barry said, we have had this conversation, Greig. When we add sales, you need to think about where they come from. We are doing a number of things that will drive the APE per active agent down, structurally. If the new growth is coming from Indonesia, which is poorer, or Vietnam or the bumi population in Malaysia, it is coming in here. Actually, it is good because it is profitable. It is going to create value for the shareholder. However, if you take a measure like APE per active agent, it is going to go like that. So that is why you have to look at it country by country.

Greig Paterson: He said plus 12%. What is the year on year change APE per agent assuming at that number?

Tidjane Thiam: I think it is flat. I am pretty sure it is flat. We can give you the exact number, but I am pretty sure it is flat.

Andrew Hughes (Exane BNP Paribas): A couple of questions. The first one is on Asia being on track in terms of growth. When you started the target, were you really expecting the kind of booming bancassurance that you have seen over these set of sales we have seen here and in previous periods? If market by market the bancassurance bit is actually pulling up the other markets that were due to grow when or if the bancassurance sales normalise, does that mean you are actually below target in terms of where you were before?

The second question is on the US. I have seen this stuff about a contingent deferred annuity working party and the issue which seem to affect you, to do with the interaction of the VA, the AG reserves that you set, together with commentary about making sure people utilise their benefits a lot more. I just want to know what is going on with that. It was from

February this year, so I am not sure what the progress or what the regulatory pressure on utilisation of benefits in the US would be.

Michael Wells: I think there are two elements that we are talking about. The more important one to us is the state by state, so what does New York and the State of Michigan think. For them, it is similar to an S&P or a Moody's type review, which is specific contract years, clients or do our assumptions align with the experience we have seen and the industry information they have from that point of view. We have seen no change. They were focussed on that before and they are focussed on that in their reviews of us now. I do not think there is material change there. I think there are numerous places in the industry where you can get discussions about reserving. It has to do with some of the write-offs you have seen coming from competitors and some of the competitive behaviour from some of the firms. We do not see that as a Jackson issue. We think we are well reserved with our products. As we mentioned, we just reviewed our experiences and assumptions and we are quite pleased with them. We have got every rating agency in and the regulators in. I am pretty comfortable with that.

Higher communication, it is a sleeping dogs lie argument. Do you get higher or lower returns if the clients are more and more informed? Do you get higher or lower surrender charges if they are more and more informed? There are pretty robust rules now on communication with shareholders. I would say the bigger issue for the industry on that direction right now is some of the firms trying to go back and buy back their books or create a lower US exposure by trying to convince clients to sell them back a policy at some premium or exchange. There is a lot of discussion. The most noise in that space now is how would you communicate that fairly and accurately? It has to be a case-by-case review with the broker-dealers: when do you include them? There is a lot of dialogue there. However, I have not heard much candidly on the other topic. The buybacks have the current noise in that space.

Nic Nicandrou: However, remember, we priced and reserve for near efficient behaviour. At the end of the day, if you have that discipline, whatever happens from a regulatory perspective or otherwise, you are in a much stronger position.

Michael Wells: To be clear, the only reason we are a party to any discussion on buybacks is because we have broker-dealers that sold product. It is not that we are, as an insurer, interested in that sort of action.

Tidjane Thiam: On the first question, I think we should be clear. The position we always want to be is that all products we write create value for all the channels. The bancassurance business is perfectly fine. The return on capital is comfortably above the cost of capital and in our book that creates value for our shareholder. Frankly, we are not too fussed about where the growth comes from. What we have committed to you is we have taken the 2009 numbers and we have told you multiply them by two by 2013. Now the notion that the 409 million of IFRS profit, the life IFRS profit, do not come from the right source, therefore we have missed the target, baffles me. We grew in Asia, we grew profitably and we are hitting the numbers.

Nobody knows the future and this is exactly why I refuse to give you targets by channel or by country. When we announced the targets, there is a lot of, 'Oh, can we get more granularity?' We said no, because we run a large business. We are very confident we can hit

those numbers, not knowing what the future macroeconomic conditions will be because we have enough levers that we can pull at different times.

For me, I am not bothered that in this period we have delivered a lot of bancassurance growth. That is one. Two, I have this chart which shows you asset ownership in the retail financial market by GDP per capita. That is the justification for doing bancassurance.

What you see is that when you cross something like, it depends on the region, let us say between $3,000 and $6,000 per capita, all that money that is in deposits starts flowing into financial products. That is the point. That is what you are trying to capture. That is why bancassurance is at the core of our strategy in the region. That is why it is going to continue structurally to grow faster than agency. I have studied this closely in Poland in other countries: when a middle class appears in the country, first thing they do is they get a bank account; their money starts in deposits and as they get wealthier, the bank is ideally positioned to sell them products. This is why it is vital for us, strategically, to get inside the banks. Agency has its own growth trajectory.

You see that in Thailand where all the growth is in the banking sector and you are going to see that in many, many countries, market after market as wealth level rises. You need to cap a roof on agency and the extra growth is going to happen in the banking sector. We are not surprised at all by the trends. When we did the strategy in 2008, 2009, we expected bank to grow two or three times faster than the agency. That is going to be the trend. It is not a surprise to us.

Ashik Musaddi (JP Morgan Chase): I have a couple of questions on the US. In 2011, there was a $900 million of voluntary reserving in the VAs. Can you give some more colour on what that was and where does that sit as of first half? Secondly, can you give some colour on what the ROE on the new business VAs that you are writing right now and how does that compare with the back book? I am trying to compare what MetLife has said that their ROE is in the range of 13% on the new business VAs after repricing announcement.

Chad Myers: The way RBC works in the US is, it is more of a factor-based approach, typically at a triple B level type of confidence interval. At that level, you are going to assume in the US a well-capitalised insurance company is going to have, we call it 400% RBC, which is going to be shifting from that BBB lower threshold up to a more AA type of look. With AG 43 and C3 Phase II, that is more of what you might consider a European solvency regime where it is a CTE approach, you are already in that AA type of framework.

Tidjane Thiam: Can I just say for those who are not actuaries AG43 is basically the average of the 30% worse scenarios and C3 Phase II is 10%. That is correct?

Chad Myers: Yes, it is 30%. It is 70 CTE for reserving. It is 90 CTE for capital. Thank you. The interplay there is that you can get a lot of volatility in the interaction between those two because you are not calculating on an exact same basis. We and others will use voluntary reserves because what you are going to set is the reserve level, what it is, and then the C3 Phase II capital component goes into the denominator. However, that is a very levered number by its nature. You only carry capital in excess of the reserve.

What we do and what others do is use voluntary reserves effectively to set reserves equal to capital. You then do not get the leverage effect of having the RBC moving all over the place

from period to period. That particular part that you saw at year-end, the $900 million is now reduced to about $500 million. However, it is really part and parcel of the same calculation. It is the only thing that is really moving around. In fact, you can think of the way we set reserves is at the C3 Phase II, the 90 CTE level, and the reserve, the AG 43, 70 CTE level kind of gets to be a by-product, okay?

Mike Wells Actually, we have not given a by vintage ROE targets out or releases out, but generally, what we said is above 20. I think from the slide we posted on embedded value, you can see that the last few years have been unusually profitable. That number, if you took that slide back another 10 years, where the room was smaller over here, was more in the 40s. Post crisis, it has become more profitable; that would be a good way to look at it.

Tidjane Thiam: Different companies have very different starting points.

Mike Wells: Yes. We have a very different expense structures and key on the VA is different guarantees.

Tidjane Thiam: Some of them have been starting from low point trying to drive it up for us. We have started from a very high point, so that is different.

Ed Houghton (Bernstein): Would you accept the premise that the group is trading at a discount to the sum of its parts? If so, could you set out the strategic options you have considered to unlock that value?

Tidjane Thiam: Thank you. That is a fantastic question. First of all it is easy, yes. We have considered, frankly, every option. We just had a Board strategic meeting in June and there is only rule of that exercise we all look at. We look at absolutely every single recombination, reconfiguration of the Group. I can say from selling Asia to selling the US to selling the UK, selling M&G, selling the whole Group, everything. The way it works is you look at that and then you look at what is left. I think I have been open about that.

The real issue for our group for a long time has been IFRS; that is why we talk about it so much. If you are going to be able to pay a dividend and service some debt, you need a good IFRS cover. The history of this Group is that it is IFRS poor. It came from a place where it was making £700/£800 million a year of IFRS, of which £500/£600 million came from the UK and is the reason why we have been on this journey to build alternative sources of IFRS. The voice inside my head was saying a £1 billion of IFRS out of Asia. The target is £940 million; and when I was saying that we were at 170. People forget but that is three, four years ago. £1 billion seemed really out of reach then. We are doing £400 million in half year. We are on our way there. Once you get to £1 billion, then you can play with reconfiguring the Group and have something viable afterwards.

Just to have the discussion, if you take out the UK, when you do not have enough IFRS, it is a disaster because you are going to breach debt covenants. You get some proceeds which are going to go back to pay the debt and once you have done that, the Group that is left cannot be leveraged because they do not have enough IFRS and cannot pay a dividend; so you have been downgraded. On the day of announcement of a transaction, you announce that you will not pay a dividend anymore. However, fundamentally, your shareholders have to live with thin air or whatever; so it does not work. That is why we have been saying, the way to

unlock value is to develop alternative sources of IFRS. Until and unless you have that, all that is just idle talk.

We are building a lot of IFRS from the US and from the Asia. We still have the UK with good IFRS. M&G, there is pure IFRS, pure cash; it is a fantastic, a capital-efficient machine then you can think about, yes, ways to create value by breaking up the Group. However, even once you have done that, it does not mean necessarily that you are going to pull the trigger because it is going to depend on market conditions and the actual feasibility of things. However, that is really the journey we have been on. We need enough cash and enough IFRS from each part of the Group to have, once you have done a transaction, a viable company. In the history of the PRU we have never reached that point. I think we are getting closer to that point. The direction of travel is good, but we are still some way away from that.

James Pearce (UBS Investment Bank): Good afternoon. I wanted to ask about Elite Access. Specifically, where are you getting the capacity from, given the publicity recently about hedge funds shutting down, giving money back and so forth? Also, in the scheme of things, I think at the moment about 5% of your separate account assets have no lifetime benefits on them. Have you got a target in mind and is Elite Access intended to get that percentage of no guarantee liabilities up to any particular level?

Michael Wells: If you compare apples and oranges for a second, James, if you look over the last three years, because it is the number we just ran and if you include Curian which is the missing piece, our initiatives to keep our percentage of sales with living benefit guarantees down, you have seen 20%, 25% of the sales go into products that have effectively no withdrawal benefit or protect guarantee. Elite Access is clearly targeted there. Obviously, we are very pleased with the launch. The capacity is an interesting question. We had a lot more managers apply to be in the product than we felt we could launch with. The enhancements we are making to the product initially, which are ongoing now, and their filings – I cannot get too specific – would go to adding more options to the sub advisor line up types of options. What we are finding is kind of what we hoped. The consumer and the retail advisor are very concerned about diversifying away from highly correlated assets to equities. They feel like they have got a ton of money in US debt.

I am sure you guys all see pieces on the percentage of funds going into the total return bond funds in the States and they are looking for an alternative there. I think it is an excellent demonstration of our distribution franchise. It is a hard product to wholesale. It is very complicated, very sophisticated. Service of those types of funds is unique. For all the years we talked about not having a brand but a business reputation, advisors clearly are comfortable with us bringing something that sophisticated, which I am obviously very pleased with. We trained our wholesalers for over a year before we launched the product on this, and our service people as well. What we are hearing so far is the firms are extremely hungry for the training we are bringing. There are capacity issues there. There is only so much of it you can do. However, the launch has gone very well and the reception from the types of broker-dealers we do business with, I am hearing indirectly, is very good. Yes, this is one product. It is not intended to be the new Jackson. It is intended to be another business line that we can run concurrently with everything else we are doing. However, I think for the consumer and the advisor, there is nobody in the US you think of as the leader in of the alt space. Who is the fund complex? There is not a name there. I think we are bringing value to the advisor,

and I think it is a great product for the consumer. That seems to be the reception so far. The sales cycle is a little longer; it takes a while to get people to get comfortable with it but it has been good.

Tidjane Thiam: I think because we talked about it first in the quarterly call, we probably have not said enough about the product. The reason why it is called Elite Access, you can correct me, Mike, but it gives access to alternative asset classes which are very hard to access for the basic investor. Also, the reason why it is without guarantee is that it eliminates the usual basis risk so you do not have to hedge it. It makes perfect sense to offer that without the living benefits. It is a win-win. It is risk reducing for us and it gives our customers access to a product they will not have otherwise. It is very hard to predict the volume.

Michael Wells: We are with various firms in various stages. No one has ever had a variable annuity without any guarantees before to approve. More than a few firms have told me, you have given me work. We have not gone down this path before and they somewhat are a little less appreciative of that than others, candidly. However, in almost every firm that goes to their Alt area, it goes to their VA area, it goes to their risk committees to get approved. It is very difficult now even with good relationships with some offices to launch a product quickly in the US, and I think that is a healthy element of the business just maturing. I think it is good that firms holistically look at products they add. However, the response to it has been good. We are obviously pleased. As you saw, the year-over-year growth in the VAs has come from it. It is an early launch. I would argue weeks and couple of months in a reasonable scale with it.

Tidjane Thiam: The last thing I would say about that is it is going to be additive.

Michael Wells: Yes.

Tidjane Thiam: It is not a cannibalisation of our volume because it is addressing the different buckets of demand people want to invest in Alt, not our usual clientele.

Shall we take one last question, if there is one? I think the impact of the time we chose for this meeting during the Olympics on a Friday has worked. Thank you very much for your patience. I wish those of you who are going on holiday, a good and happy holiday. See you at our next results.

We have not cancelled the Investor Conference. It is still happening in New York in November. I was just too hungry, so I am just trying to skip this. Seriously, it is going to be a good opportunity to talk about Jackson. It is the third one we have done in London, whenever it was, two years ago that launched that. We did Asia. A number of you were there last year. Now we are going to go to the US and we will have a really good big spotlight on Jackson, and you will get to ask, again, as many questions as you feel like.

Thank you and see many of you in New York in November.