FINAL

Bloomberg Transcript

Shareholder/Analyst Meeting

Company Participants

- Adrian O'Connor, CFO
- Aki Hussain, CFO, Prudential UK & Europe
- Barry Stowe, CEO
- Brad Harris, Chief Actuary
- Chad Myers, EVP & CFO, Jackson National Life Insurance Company
- Guy Strapp, Chief Executive, Eastspring Investments
- Jackie Hunt, Chief Executive, Prudential UK & Europe
- John Foley, Group Investment Director
- Lilian Ng, COO, Insurance
- Michael McLintock, Chief Executive, M&G Investments
- Michael Wells, CEO, Jackson National Life Insurance Company
- Michele Bang, Deputy CEO, Eastspring Investments
- Mike Wells, President & CEO, Jackson National Life Insurance Company
- Nic Nicandrou, CFO
- Tidjane Thiam, CEO
- Tony Wilkey, CEO, Insurance
- Unidentified Speaker, Unknown

Other Participants

- Abid Hussain, Analyst
- Art Invenvi, Analyst
- Ashik Musaddi, Analyst
- Barrie Cornes, Analyst
- Blair Stewart, Analyst
- Bruno Paulson, Analyst
- Chris Esson, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jackie Cavanaugh, Analyst
- James Garner, Analyst
- Jon Hocking, Analyst
- Lance Burbidge, Analyst
- Mann Sisa, Analyst
- Oliver Krisenblair, Analyst
- Oliver Steel, Analyst

- Rob Plant, Analyst
- Scott Russell, Analyst
- Unidentified Participant, Analyst
- Will Elderkin, Analyst

Presentation

Tidjane Thiam {BIO 7518525 <GO>}

Good morning. Welcome to 2014 Prudential investor conference, which is the fifth now under this format. And I think a number of you have attended, I feel, all five of them. And we are very grateful to all of you for coming here this morning. We are in Singapore at an important moment for the country. It's the 50th anniversary of Singapore next year. And we've been in Singapore, Prudential, since 1931. So 83 years. It's a very important presence for us in Asia.

We have really the usual objectives, three objectives. The first one is really to give you insight on our business, allow you to get closer to the businesses, the way we run them. And you'll have several sessions. I'll go over the program in more detail later. But I hope that we can meet that objective. Second one is really maybe the most important for me, is to give you access to our staff and our teams.

We brought 36 people from Prudential from around the world. And we encourage you very strongly to interact with them, ask them any question you'd like to or, not like to. And listen to their answers. They are the people who make the Company and who deliver those results that we present to you regularly. And the third one, a commitment we made since 2010, which is not to leave the room or any room as long as you have questions to ask. So this whole thing will last as long as you want; that we are here. And we are ready, ready to address all your questions.

So let's start then. I will cover the usual points with you. I will give you an overview on the group. Where are we? What is our performance today? I will then focus on Asia. Isabel Mas [ph] challenged me yesterday. She told me how many charts do you have on the Asian middle class? So you will find out soon. I'll do a few pages on the US, on the UK, present the agenda. And then close with a few key messages.

So the group. The first thing I'd like to say is that we have a clear, unchanged strategy that has been working well. This will be supported by numbers later. But we believe this strategy has produced good results and we see no reason to change it. Although we adapt it tactically from one year to another, it is fundamentally the same strategy and it is focused on meeting our customer needs in our three geographies of Asia, the US. And the UK. Maybe the most important word on this page is execution. And we didn't write a sentence there. But it's all the women, the men in this room have a very strong culture of execution. And if there is one thing in this group we are always focused on, it is execution, to deliver growth in cash, which has been now our commitment for several years to shareholders, to investors.

So if we take the strategy first, we are -- the first opportunity we go after and the biggest, the most attractive for us is the significant investment needs and protection gap of the growing middle class in Asia. And really, every word in this sentence is important. It's investment needs, it's a high savings rate region. Those savings need to go into vehicles that produce return and a protection gap. The absence of a welfare system or social safety net in those countries create for those who emerge into a middle-class a need to buy insurance. They are mostly uninsured and so need to buy insurance.

The second one is of the baby boomers in the US. And we've talked to you about that a number of times. Our average customer for VA in the US is 64 years old. So we are not playing in the accumulation space. We are playing into the accumulation space for people who hit retirement, need income in retirement. And to translate, we're 77 million -- to translate the 77 million in a more practical number, it is 10,000 retirees every single day for 20 years. That's what 77 million baby boomers mean. And they control $10 trillion of assets today according to our estimate. So we see on the global scale, we see this as one of the most massive opportunities.

And finally, the UK, close to home. Which we know there is a saving gap but people need to save more and they also need income in retirement. So this creates an opportunity obviously for both M&G, our asset management business and our life business. It's very simple. Three opportunities. We've always said we believe you can only win in business ultimately if you create actual value for your customers. That's the only way to create sustainable value for our shareholders. So we are very clear that, in these three situations, we have the skills and the ability to produce value for our customers.

The best way to look at the performance of the life business -- we always say we're long-term business, we're long-term business, we're long-term business -- but because we have managed every three or four or five years to change how we measure performance, you all know it's very difficult to have a long time series for a life company. So I asked our finance team to work. They worked quite hard and they produced this 14-year IFRS profit chart for Prudential, 2000 to 2013. I'm not sure that you can get to that relatively easily. But we're quite confident that these numbers are good. Because we had to rebuild them for a period before the introduction of IFRS.

So what does it look like? At the beginning, it's not great. We are going down. At that point I would describe Prudential as a traditional life company. We will come back to it. But our first source of earning was spread. So we were basically a bet on markets, like many life companies. And not a very good one, because you see when one market tanked, we go down. I mean this led to a rate issue, as you know. And when we enter the next period, where actually market recovered -- 2005, 2006, 2007 were some of the best years ever in financial markets. So the same model applies.

You go down with markets, you go up with markets. And then you have the more recent period. Which I think it's fair to say marked an inflection. And we'll talk today quite a bit about what happened and why we were able to generate that inflection in the worst markets ever. And I think everybody will agree with that. So the contrast with the preceding period is quite stark, because we have outperformed a period where markets were actually very, very, supportive of us. Really fundamentally we have created two business in that period, two material businesses. One is protection in Asia and the other one is variable annuities in the US.

So if you brought Asia on this, it's very interesting also, you can see. And it's not as if we started in Asia yesterday. We've had a material business in Asia for a long time. The issue we had is that it wasn't profitable. During all those years where you have a flat profile at the bottom, we were growing in Asia and growing significantly. So there's growth without profits. And we then changed the model. And you'll hear a lot today from Barry and his team about what they did and how they successfully changed the model to give some impulse to that rate curve, some slope.

And actually 50% of the additional profit created in that period comes from Asia. So that's really where the transformation took place. When you started at GBP100 million, GBP150 million, you landed at GBP1 billion of IFRS profit in Asia. And that's an enormous transformation. So if you look at that under a different lens which you are more used to, we always go new business profit IFRS and cash generation. New business profit, group level. And on the shorter time horizon, about seven or eight years, a very good performance; trebled since 2006. You move to IFRS, 2.8, trebled again -- I'm speaking French now. Trebled, too, in the same period.

And free surplus generation, which is really the -- we always struggled on cash with what to go with. I went with free surplus generation, because for me when I look at the business and I want to assess the value created in the business, that's really what it is. After that, there's a question for remittance [ph] when it comes back on it. But as shareholder, that value is yours. It's created a single business and it's fair. So all that has allowed us to achieve our objectives.

Familiar with a chart on the left; we kept you half-year after half-year positive on this. And we announced earlier this year that we achieved those objectives. But the one thing you hear from us and you'll see from us always is that there is really no sense of complacency ever in this Company. All those who work day-to-day with me know that I'm never more stressed than when things seem to be going well; it drives me absolutely in a state of panic. So there's no sense of -- so I say just to make sure that everybody remains focused, we introduced new objectives even before we announced achieving the previous ones.

So there is no -- we don't miss a step there. And we have some tension towards those 2017 objectives which are important, consistent with the strategy that we track and that we work very hard to achieve. But I always count those in periods. We have 10 semesters to 2017 and we've done three. So we are still in the first half. Not even in the first half. But we are focused on delivering those objectives.

Now, let's move on to the macro environment. Big news flow. The most important thing, really, is what happening with long-term interest rates. And we are living a strange period where we all know there is a decoupling or potential decoupling between the US and the UK on the one hand, who are contemplating different ways of getting out of QE. And

Japan and Europe, who are about to engage -- who have engaged for Japan or are about to engage with the European Central Bank in massive QE.

And I happened to be at the European Central Bank last week, I was -- two weeks ago? Last week. I was asked to present, because Draghi brings together CEOs every three months on the global investment trends. And he shared with us that he's worried about deflation in Europe. And he thinks that today inflation expectations are still healthy but he's very worried that deflation expectations become embedded. Because when you get into a real terrible macroeconomic scenario of deflation, that we've seen play out in Japan.

So a lot of worry there. But fundamentally what we know is that it's lower for longer, to use the sentence, it's lower for longer. We have to accept that long-term interest rates, which are very important to us, are going to remain very low for probably longer than we all expected. And we didn't want to have too many slides. I think you look at the three-year forward rates, in tells you all the story. That really those expectations are now well embedded in markets and everybody expects that lower for longer.

So what is our response to that? Actually, it's not very far from what we've been doing. The first thing is focus on cash. Again, cash, cash, cash. In an environment like that, cash becomes even more important. Both cash consumption -- so, capital allocation and cash generation. Because where I showed several charts already about cash generation because it becomes really everything. And to allocate your capital efficiently, effectively, focused on capital efficient products. And you have to have a capital generative business model. Because in the end you can grow your way out of any market difficulty if your model generates enough capital period after period.

And finally, you have to take a prudent and conservative approach. We've always done that. Our appetite for interest rate guaranteed products has always been limited. When we write them, we write them in the with-profit fund [ph] so that our exposure there is limited. We've kept a strong balance sheet. We have done a lot of de-risking, sacrificing earnings to protect the balance sheet. So really we often say it's value over volume. I also say it's balance sheet before earnings. And you will see that in different places in our numbers and it's certainly something that Jackson [ph] does.

So if we run through quickly how we've done. Capital allocation; you will become very used to this chart. It shows through a flattish capital consumption we've been able to generate more profit. And opening with those jaws [ph] is part of how we create headroom for the group in terms of cash and capital. The second view of this and possibly our most important is the sources of earnings that you are used to: insurance margin, fee income, spread income.

The one I really wanted to underline is for 2006. In 2006, fee plus insurance was 24% of our earnings and spread was 37%. So when I was saying earlier, look, we were just like any other insurance company in terms of our earnings when I showed you that the V curve. Well it was true, okay? We were generating most of our earnings, like most European insurance companies, from interest rates and from spread. And that's been completely transformed. Completely transformed.

If you look at today, protection -- I mean insurance plus fee is 64% versus 24% in spread. so almost 2.5, almost 3 times in one period [ph]. That completely changes the way our earnings behave in a given economic environment. And that's not fully understood yet. But I think that's a lot of what drives that curve that you see going up in the 15-year chart from a certain moment. We absolutely did it at the right time. When interest rates collapsed it made us free. And finally, the focus, the discipline in capital allocation, capital consumption. And the focus on cash generation gave us a free surplus generation profile that is good and really even more pleasing that comes from every business unit.

Every recession is cash generative. And that's a good story and that's been our story. So really, a story of I think the right strategy, being in the right market, executing with discipline, being very aware of your external environment. And being able to deliver a good performance, thanks to our focus on execution over a long period.

So let's move to Asia now. We like Asia. We like Asia because we think it's a very attractive region. It's a very attractive region because the fundamentals are strong. I don't need to repeat them. But we believe the GDP growth is very strong. We have an outstanding team in the region that executes very well on everything we want to do. And that has allowed us to build best-in-class franchisees across the region and a strong track record of performance.

So let's start with the fundamentals and GDP. This is our sweet spot. So it's Hong Kong, plus Singapore, plus Indonesia, plus Malaysia, plus Vietnam, plus the Philippines, plus Thailand. So it's seven -- Asia, basically. Plus Hong Kong. So it's seven countries. And this is their expected economic growth. Frankly, it's going to oscillate between 4% and 6%. But it is very comfortable. And thanks to the power of compounding, anything that grows at 4% per annum is bound to become very big.

But it's important to remind ourselves just what are the drivers of that? It's a lot about productivity of factors. It's a lot about demography. Demography overall in the region remains very positive and very young. It's about productivity of labor. With education being brought to places where there was no education before, you get a labor force that is much more productive. And in simple terms for me, it's just the infusion of 21st century technology in places where there is a huge untapped potential for growth.

And if I make a digression here, maybe I'm often affected by my own personal experience in Africa and things like that. I have been to built roads. If you have not built a road, you don't understand economics. Because really when you say the government are going to put a road in this region in Africa; you go there, there is nothing. When I say nothing, Africa is empty. There is nothing. You just drive 400 kilometers; you don't meet anything or anybody. You put a road, you come back two years later, you see the villages, the crops. You see something where there was nothing before.

And often when we talk about GDP growth in emerging economies, that's all that's going on. And part of the reason why we are so confident is that we know that if you put power where there was nothing, the economic activity will appear. And that's how you realize those types of growth. The reason why all those countries haven't got infrastructure so much is because if you have the land, you have the space. And you have the sun, what's going to produce economic growth is infrastructure. You put roads, you put telecoms, you put water, you put energy, there's going to be something where there was nothing. An entire region is going to start producing whatever you want: palm oil, corn, wood.

And that's economic wealth. And really the potential there is infinite and all those countries have pockets of productivity of that nature that you can very easily tap in. Which then leads you to the next chart. What we've tried to do here is get into the stock and flow discussion. I think a number of companies have missed Asia because I think in terms of stock. In the past, when I decided to join Prudential, I met one of my peers who said -- within [ph] a very large European company, he told me, why on earth do you want to go work for a small British company? And I said, well, it may be a small British company but it has a leadership position in Asia. To which his response was, yes. But look at Asia: it's small. Look at the massive assets we have in Europe.

Absolutely true. But life is not about stocks. It's about flows. Stocks are the past, flows are the future. And the winners are the people that win in the future, not those who have one in the past. So what this chart does, it tells you that the $8 trillion is basically the increase in the stock of wealth in Asia. And the $16 trillion is the new wealth created. So if Asia is going to have add $24 trillion of GDP in the period, two-thirds of that increase are really new, new wealth, if you wish, flows.

And the people who miss that basically miss the boat in Asia. Because if you are not able to capture a significant part of those new flows, your rank can move down very, very quickly. And when you look at the full formation, whereas Asia is 24% of the stock, it's 56% of the flow from Asia. That's why it's important to be in Asia. Because if you are not in Asia, you are going to keep shrinking and becoming smaller and smaller on a relative basis. So that's for the big picture.

Now, Isabel, to the middle class laughter. The sweet spot middle class. Unavoidable but important. We think today it's about 290 million people, 291 million. And we have about 3% market share on that. Our estimate is that by 2020 there will be another 112 million. I'm never sure how we reach that precision. But anyway, 112 million exactly. Let's say more than 100 million new entrants in the middle class. That's, with respect, 1.5 times the total population of the UK. It's what we always say: this is a market where you get more and more potential customers every day as the economy grows, as the economy develops.

So we are going to have, just as new customers -- again, back to stock and flows -- more than 100 million individuals entering the Asian middle class in the sweet spot. So this is not China, not India, this is just sweet spot in the next -- in that decade, which creates a huge opportunity for us.

I'll go quickly on the next one. You've seen them many, many times. This one you are very used to. It's the protection gap. So those hundreds of millions of middle-class entrants are uninsured lastly -- largely uninsured, against the risk of death, the risk of illness. And we are an insurance company. So really it's a no-brainer. But if we design an affordable product, it will sell and that they will be very happy to buy it. The next one is about a point that Barry -- I don't know where Barry is -- has made many times. He always said, with respect, there is no such thing -- for all the Asians in the room, there's no such thing as a gene for saving. Asians save because they need to.

It's a precaution saving. They save because they don't have a safety net. So the other side of a coin. Either they buy insurance directly that protects them against the risk or they just build a nest -- an egg nest that protects them against accidents or something. And the savings rates are really very, very, very large. And we haven't seen a change there. In spite of increasing the level of wealth in the country, that behavior has remained. And that's a big opportunity for us, because we have a spring can capture all those flows, manage them. And give returns to those millions of Asian savers.

Now, on Asia, I want to finish on analysis that we have showed you before. What I've showed you before was GDP per capita. So we tried to get closer to our industry and I asked our team to do it with life premiums per capita. So this is the history of life premium per capita in real dollars, in constant dollars, in the USA, how this developed. And you can see actually a very interesting, flattish curve for a very long time, almost 150 years. Then there's an inflection and it takes off. And we've put Indonesia, Thailand. And Singapore on this chart just to compare.

So let's start with Indonesia. I have to do the multiplication every time. It's nine times. Okay. In 10 years, it trebled twice and so the life premium per capita in Indonesia are nine times higher in 2013 than in 2003. But they are still where the US was in 1950. And this is why we are so relaxed when you all say, well, is the Indonesian story over? We don't see why or how. We think that the upside is enormous. We'll talk again about it today. We are taking into Jakarta. You'll have a chance to see it firsthand. But if you look at this from a macro perspective, again it's a no-brainer that there is enormous headroom.

Let's take another country, Thailand. I was actually surprised by this one. It's even more. It's 40 times; 40 times over -- and that's not the total market. It's per capita. So the market has done because the population increases. So it's 40 times bigger in 27 years. That's still again in 1970, still again at the beginning. And we've taken a welfare nation, where we are here, Singapore. Singapore, it's 30 times. I haven't translated those in CAGRs. But any market that grows 9 times in 10 years, 40 times in 20 years, 30 times in 20 years, this is the type of scale we always tried to convey to you when you ask us about our ambition.

It's a bit difficult to say to an investor, well, we want to be 30 times bigger. People look at you with a bit of disbelief. But actually in Asia you can deliver that, country after country, time after time again. And we will never stop emphasizing that enough. Now, the other interesting thing for me. And this is what we're -- Singapore is now above the US. And that's something we also would like to debunk, the notion that in everything the West is the ceiling and people drive curve to wherever the West is. Well this is not the West. So don't think that our production is capped by whoever, the US or the UK, it's not.

These are economies where the savings rate is at, an equal level of GDP per capita, several multiples of what it is in the US. And I was so happy to see Singapore breaking through that ceiling. So don't always imagine the future on just a reproduction of what happened in the West, because it's not likely to be. So we are confident that it's going to continue growing. We're going to continue growing very fast. And ultimately it's probably going to overtake the West.

And on Hong Kong we have another chart actually proved it, because the Hong Kong bubble is here somewhere. And I thought you might disbelieve us. So we are checking the data. One, we think two countries have broken through the US level and maybe more will in the future. And that's very interesting to think that we are probably on uncapped upside there. Very positive.

So we put all of them on a page and you get that. Whichever way you look at that, it gives you the same type of message. We've done it for GDP. Here it's life premium. You can see that when I cover growth escalator. And the direction of travel is known. The speed of travel can vary. It will go fast one year and less fast another year. But the direction of travel is well-known. And I always insist that I don't expect to see any straight lines anywhere. These are emerging economies. By nature they are volatile. They will grow from one quarter to another quarter up or down. But really given, again, the potential for productivity gain in those economies we have no doubt that it's going to be good.

Now, it's not a surprise for anybody. Anybody can do the analysis. So I think it's a very well-known. So we always come back to, okay, it's great to have this great opportunity. And we are in the unique position to capture it. And for us that's a function of two things: distribution and innovation. If we take distribution, the number of agents in the sweet spot countries again, it's about 300,000 now, multiplied by 3 over six years. I cannot overstate the importance of this. I hope over the years we've convinced you that this is very much a supply gain. It's the ability to distribute your product that determines your growth. And building that capability is an enormous achievement by Barry and his team. And in Asia there is no shortcut to success. There is no shortcut to success.

The people who wake up now and say, okay, we want to be successful in Asia. Well they probably will be successful because there's a lot of room. But it's going to take a long time. You cannot improvise this. You cannot make it overnight. This was built over decades. The ability to select agents, to train them -- it's a science but it's also an art. And really, again, in Jakarta for those who go, you will really have the opportunity to see it. We'll take you to our training center. You'll see the rooms where they are trained. You'll see all the material. You'll see the challenge of training the trainers, who are very, very important. That's a whole army that you have in there. It's not the US Pentagon. But it is similar. And we claim that it is very difficult to replicate and it can only be built over time, slowly, painstakingly. And it's a huge competitive advantage. It is not replicable.

We've been doing the same thing in bancassurance. You see Standard Chartered that we renewed this year. You see UOB, we are also very excited about because it's four times bigger. And it was not -- and they had a life business before and they were not inactive. So we've enabled with an infusion of our know-how to multiply their sales of life by four. So great opportunity. Distribution; distribution power and the heart of this as our competitive advantage.

And the other thing that we probably don't talk enough about is innovation. Because to serve those customers, who are actually quite discerning. I always want to dispel the notion that this is an easy market. Those customers to whom we sell life insurance are also -- do also have they also have an iPhone 6, are very demanding customers, when it comes to electronics, very demanding customers when it comes to cars. So the notion that when it comes to financial services they are not, is not credible. The reality is that they are sophisticated. They are highly educated. They are very demanding.

And we need to continuously innovate -- and look at Bud Harris there and there's a lot of people in the PCA team who will talk to you about that later -- we need to continuously innovate to stay close to our customers and keep them happy. So health and protection is a well-known story. That was pure innovation. And actually PCA is so focused on this that we have an innovation index roughly, for AP and NBP, they tell us what percentage has been from products created in the last 24 months, more or less. And that's more than 25% for both AP and NBP. That gives you a sense of the scale of innovation that is taking place. And also its success.

If you bring all that together, you get really what we believe is a best-in-class franchise. With nine positions -- nine top three positions in 12 countries. And it's really the result of all those elements: the opportunity, the size of the opportunity, the growth. And the capabilities behind to grow and capture this opportunity. So the track record Barry and his team have is impeccable.

IFRS profit. You are familiar with this: six times; free surplus generation; very good also. And this is what the business has created. As I said, the value is created and is there. Out of that we have remitted I think GBP1.5 billion since 2006. And I know there's a lot of concern on FX, et cetera. But we keep saying luckily we run a model where we have a degree of flexibility on when we transfer that value from wherever it's created to a center. But you should find some comfort in the fact that actually that value is there. And for us, that's what matters. Then we can manage the repatriation of that to a center.

So if we close on Asia, robust fundamentals; disciplined execution, I've given a few examples; Best In Class franchise; strong track record; remain very positive on the attractiveness and the power of the region.

So let's move now to the US. You are familiar with this chart, too. I think in the US we can say we have the right strategy again. In gray you have a VA with living benefits. You've seen us ramp up very aggressively and opportunistically in 2008, 2009, 2010. And then stay within a range from 2010 to now. And with the red being Elite Access; innovating again, which allowed us to have a book. And you're used to this chart also on the right, which shows you that about 60% of the book was written below 1,400 of S&P. So it's a healthy book.

But here, again, I'd like to talk about distribution. And we don't do that enough. The reason why -- one of the key reasons why Jackson has been so good at executing, making product changes, continuing to sell, is really the quality of its management of its distribution. It's primarily an IBD, independent broker dealer shop. And we have the best wholesalers in the country. We keep saying that. Hopefully many of you have been to Jackson. But if we do another trip there we will again expose you to them. They are absolutely brilliant.

They also are the ones who made Elite Access successful, because a lot of people have come up with clones of Elite Access or imitations. They haven't had the same commercial success, because Jackson really has a unique ability to support the broker-dealers and give them the product they want. Because the thing with a broker-dealer is you have to give them good service. And I'm sure Mike can show you that. But the statistics of the quality of service to a broker-dealers are simply out of this world; it's 99.x%. So the relationship is very, very, very strong.

And the second thing is really the kind of customers they bring you. They work with exactly the clientele we like in the US. People who will put $100,000, solid Mid-America, 65-year-old who put $100,000 in the VA and who are not just exercising an option because it is in the money. There's a lot of discussion about policyholder behavior. A lot of that depends on which clientele segments you target. And this is really part of our strategic and our hedging strategy, is that we sell the product to people who have an actual need for the product. And that then drives a very different behavior from what the kind of scare scenarios assume a customer will do. And we have more and more evidence on that. I'm sure Mike and Michele will talk to you about it. Innovation; Elite Access is really another great example in the group. Really a great success. Six times from 2013 to 2014. I think the story there is well-known. I don't need to spend too much time on it.

Let's move on to the UK. Our fundamental view on the UK has not changed. We have always put up this chart that shows that the UK life sector is in negative net flows. We believe that continues to be the case. We believe that is structural. We believe that the winning segment in the UK is the asset management industry. We happen to have one of the best asset managers in the country, M&G. And fundamentally, if we move on to a new environment, what we believe at a high-level -- and Jackie will take you through that with more detail -- is that in the UK, the limitation between accumulation and decumulation is being blurred. That's really the central message. And it's consistent with the picture we showed you earlier.

Increasingly you are going to see people using their accumulation vehicle for decumulation for drawdown and for things like that. Now, luckily and back to innovation, we have PruFund, which is our with-profit fund, which has been an amazing success. Which from zero is now at GBP11 billion. Amazing inflows. It continues to be very strong. You've seen our shares of -- and sales of bonds going up 30%, 40% this year. A very popular product. We have life product, we have -- that we can then, in this new context, wrap into a ISA and have play its role in that new context and do very well. But fundamentally, it's a game of flexibility and it's a game of the markets unifying, in which we think we have a very strong position and we are confident that we will do well.

Finally, a word on M&G. The M&G story is also well-known. Often for an insurance company-owned asset manager, a good KPI is external funds. They've done very well, from 40% in no line. It's now 52% of the funds under management and it's basically doubled through a crisis on the back of good investment performance, good management with Michael and his team. So another good story for the group.

So to wrap up. And back to the agenda, this is what you are going to go through. You've had me already. So after me you will have Barry, who must be somewhere in the back there, who will take over and really launch the day on PCA, because it's a PCA day. Then you will have Tony and Lilian, who will give you a view on -- a kind of country by country view, because they have their finger on the pulse. They are in there all the time. And you can ask them all the questions you want. Then we have Eastspring with Guy and Michele. It's a real bright spot for us this year. We've seen the very strong flows that came in. Eastspring is doing extremely well. We're very pleased. It's a great element for the future of our strategy in the region.

Adrian, the CFO, will take you through the financials. Of what I've seen, it's one of the best presentations I've seen on EV and IFRS. So for those of you who have an interest in that question, you should stay focused. You won't be disappointed. It's really excellent. Then we will do our first Q&A before lunch. And you'll get the carousels after lunch, which we've organized by themes. You often ask us a lot of questions about our products: with power products, with unit-linked products. We'll show you what their profile is like, what they do for a customer, what they do for a shareholder. And that should be very interesting.

We'll talk to you about our customers, the segmentation, what kind of products they want and their evolution. What I call assuring quality growth. Traditionally it will be called compliance, risk and compliance. But I thought that really this is really how we think about it. Compliance -- we only want quality growth, i.e. we only want compliant growth. So Steve Bickell and his team are in this company in Asia, the ones who ensure and make sure that we have quality growth. And Steve knows that he has a line into me. If he has any worry in any country about any campaign owner, he can call me immediately, because we only want quality growth. And he's fascinating; I think you'll find the presentation very, very interesting. We have a lot of focus on conduct risk.

I know that you have a lot of questions on regulatory risk. Part of the reason we are relaxed is Steve and his team. And it's something we haven't talked about enough in the past. But we have very strong capabilities in the field, to have another trail, to have sales compliance data, et cetera, et cetera. He'll show you all that.

Then day two we'll do Jackson and the UK. Then we'll wrap up in final Q&A, lunch. And then transfer to Jakarta for those who are going there or goodbye for those who can't. And in Jakarta we'll have a very complete visit. As I said earlier, we'll go to our training center, which is a huge operation. And you'll have an opportunity to touch first hand our operations in that country, which are in a way of a poster child of what we want to be in Asia.

So again, to wrap up, if I had to leave you with just one chart, I'll go back to this one. I think it tells a really interesting story of, now for a number of years, a very clear, unchanged strategy pursuing three long-term growth opportunities. And we like each of those three. We think they give us strength and diversification and good performance. But within that story, Asia is absolutely central. And it's only for disciplined execution that we have delivered this profitable growth. And we are very well-positioned for the future from this position.

So without further ado, I'm going to let now Barry take you through his presentation. Thank you.

Barry Stowe {BIO 15021253 <GO>}

Thank you. Good morning. Welcome to Singapore. Those of you that are jetlagged, I hope you got a little sleep last night. I actually flew in myself from the United States. I was in Nashville for the first time in 16 years for the Thanksgiving holiday. One of my GEC colleagues told me this morning that, as a result, my normally very subtle Southern accent is a little more pronounced. So I will try to eliminate syllables, which we normally don't do in the South, at every opportunity so we can speed up the presentation a little bit. But anyway, it's a pleasure to have y'all here this morning .

I want to start by talking just a little bit about the environment in Asia. As Tidjane said in detail and very articulately, though, the fundamentals in this part of the world are very strong. And while no one expects the Asian economies to develop in a straight line trajectory, there is certainly something of historic proportion going on in this region. And organizations like ours that have built the infrastructure to capture the opportunity are doing well and will continue doing well.

However, as I said, it's not a straight line and what we've seen this year, particularly in Indonesia, with all sorts of different issues around the climate, the weather that disrupted us in the First Quarter, the political uncertainty that disrupted us through the second and Third Quarter, the macroeconomic concerns, the macroeconomic concerns around China. And what China's growth rate will be. And what impact that will have on the adjacent economies here in Asia. All these things are factors and what you've seen as a result is an industry whose growth rate has slowed a little bit this year. Still good numbers. Very good numbers, I would contend. But it has slowed. So you should always expect this turbulence to have impacts in the short term.

But as Tidjane said and as I would reiterate, we keep our eye on the future and on the long-term potential of the business that we are building. And the potential for that business has never been brighter than it is today. We will talk about regulations later in the day. Steve Bickell, as Tidjane indicated, will give you -- will host a carousel session talking about the regulatory evolution here. Again, there are examples in Asia where we get frustrated with things that regulators do or don't do in their efforts to build the industry. But there is fundamentally some very good news around regulation.

First and foremost, regulators in Asia wear two hats. They have a dual responsibility delegated to them by their respective governments. The first is prudential, with a small p, oversight. They supervise us. They ensure that our businesses are customer-centric. They ensure we are doing a good job. They ensure that we are stable, that we can keep the promises that we make to Asian consumers. All the things that you would expect them to do. What Asian regulators are also responsible for. And this is not the case with regulators in some other parts of the world, is they are responsible for growing the industry.

When the industry goes backwards, the government's view is that the regulator has failed because there is a savings gap and there is a protection gap in every market where we do business. The scale Tidjane showed you. The scale varies from market to market. But the gap exists everywhere. And throughout the region, the attitude of governments is that we do not seek to build government-funded, government-run social safety nets. We seek to partner with private industry to create the social safety net for our citizens. So regulators who are focused not just on ensuring that the industry is run properly and well. But that it grows -- that has unique impact on our ability to partner, genuinely partner, with regulators across the region.

Generally speaking, what you see happening -- and again, Steve will go into more detail -- in terms of regulatory evolution are regulators becoming better at what they do, higher quality outcomes from a regulatory perspective. But doing so in a way that is good for consumers and good for shareholders. Most of what happens out here is a very sensible. And for an organization like ours that operates already to a very high standard -- when it comes to being financially stable, when it comes to doing a good job for our customers -- we view regulatory change as a positive, as a competitive advantage. Because not every organization that we compete with across the region operates to the standard that we do.

And that brings us to the competitive environment, which is healthy. We compete across the region with a variety of different companies, big and small, local and multinational. You move from market to market -- Tony and Lilian will touch on this -- you move from market to market and you will find that it is a different set of competitors in every place. The idea that we compete with only one or two companies everywhere actually isn't accurate. We've shown you this before and we'll highlight it again today. So that allows -- that means there's lots of options in the market for product. And that means that consumers can make educated choices. Rates of financial literacy are going up and up and up. So consumers can make better choices.

How you interact with customers, how you innovate around customer interaction is extremely important. And the carousel on customers that Anthony Shaw will lead today -- Anthony is the CMO of our Hong Kong business; they are very good at this. We've highlighted in the past for some of you the innovation that takes place around customers in our Singapore business. But today we are going to highlight Hong Kong. And I think you'll see some extraordinary work being done to ensure that we are listening to consumers and responding to their needs.

Also on the theme of competition, when we look at the organizations with whom we compete, sometimes their definition of success is different than ours. And as we say all the time, how you define success is critical to what your outcome is going to be ultimately for shareholders. When you look at products that get sold, you occasionally see competitors who clearly have a different economic view of their business than we do. There are markets where we will periodically, in some markets frequently, see products being sold that we just simply wouldn't manufacture because the margins are either low or in some instances negative.

So you have organizations who believe market share is a strategic objective. We believe market share is the outcome of a well-run business with a sound long-term strategy for shareholders. Different points of view. But it doesn't slow us down. You also seat deal economics. You don't see many true M&A deals where organizations consolidate, because most people are not seeking to sell businesses in Asia. They are seeking to buy businesses in Asia. But you do see, with some frequency, bancassurance deals or other distribution oriented deals.

And there's one that everybody is talking about right now. And you will see us -- whether it's that deal or any other deal that we look at in the region -- you will see us approach those deals with enormous credibility, with a terrific story to tell about how we can leverage those deals on behalf of distribution partners. And with absolute discipline. We will not pay too much. We don't -- our view of these deals is we want them. We can do a better job than anyone else with these deals. We don't need them, because we are also very good at building our own distribution. And that ties in with this final point as well about strategic imperatives. You see these deals that come to market and often our competitors will go for them because it's existential for them. They have to have the deal to survive. We just don't.

So looking at PCA today -- and the intent of the sessions that will follow, starting with Tony and Lilian and throughout the rest of the day -- is to give you a detailed look at our businesses. What you will see, I hope, is sustained market outperformance everywhere that we choose to play, both -- whether -- our chosen sectors could be geographic, could be product-oriented, distribution-oriented. But everywhere we play we are doing well. Outperformance, we've always said is our objective. We can't dictate the macro environment. We can't say that Indonesian GDP growth is going to go from 5% to 7% or 8%, driving more industry growth. We can't determine what's going to happen in China or here or anywhere else.

What we can do is demonstrate that we are doing a better job of what we do and maintaining discipline than anyone else. And so even in situations again like Indonesia this year, where with effectively fight results for the full year in terms of sales, we've gained more market share than in any nine-month period in the history of our Company in Indonesia, because everyone else is going backward. It's not nearly as much fun as standing up here and saying we grew 20% or 15% or whatever. But it is outperformance, nonetheless.

We are well respected by governments and regulators and peers. I referred earlier to our ability to partner with regulators. I know some of you have called on MAS here, OCI in

Hong Kong or others around the region. And hopefully they are telling you what they tell us, which is that they consider us best in class. They think we do an excellent job. They think -- in some markets, regulators tell us that they appreciate not only the role we play for consumers but the leadership that we provide in the industry, demonstrating discipline, how to run businesses for the long-term, not for the short term. That's a very positive thing. First of all, we are proud of the relationship we have and it allows us to grow our business in a higher-quality way.

We have some specific skills in the organization. And you'll see those on display during the presentations today. I don't think that anyone in the region is better than we are. And I think we are probably better than most in terms of building high-quality, highly professional, highly productive agency distribution. Tony and Lilian will take you through their presentation today focused on themes. And they will use specific examples from specific markets. One of the things they will talk about is agency distribution. And you'll find that not only does it continue to get bigger -- and it is big. And anyone who has been to one of our agency functions knows how big and how enthusiastic it is -- but it's not just getting bigger, it's getting better. All the time. And you'll see statistics that will bear that out today.

Likewise, our bancassurance capability. There's no one in the region that has the breadth and depth of both domestic banking and regional banking relationships that we do. We have a presence in almost 16,000 branches across the region. We have a track record of very fast activation on new deals and sustained performance on long-term, existing deals. You'll see some details about that today. It is a core strength of our organization. Genuine focus on consumer needs as we manufacture products. We are -- the history, if you go back two or three decades, the history of our industry in Asia was all about product pushing; manufacture a product, push it, push it, push it.

Today ours is a consultative model that's built around understanding what customer needs and having a broad portfolio of products to meet those needs. So today, Tom Urbanec, who runs our business here in Singapore along with Brad Harris, will do the carousel on products. You will see our -- from a consumer's perspective, the performance of a protection product here in Singapore as well as savings products in Hong Kong and in Indonesia. So you can understand from a consumer perspective how these products perform. And they perform very well. They are not just good for shareholders. They are good for customers, as we've said many times over the years.

Tidjane alluded to Eastspring. Solid investment performance, rapidly improving distribution capabilities. Number one retail asset manager in the region, ex-Japan. A very strong team. Record inflows this year. It's a terrific story. So I'm really pleased that we have Guy and Michele here today to tell you the story. It's a very solid story and it's strategically important because there will be a point, at some distant point in the future, a generation from now, when retail mutual funds, which currently -- if you look at how Asians hold assets, the retail mutual funds space compared to the west is still very small.

We are number one. But we are number one in a relatively small industry compared to the West. But consumer sentiment will change. We have no doubt about that. The industry will grow. These products will become more and more compelling to more and more Asian middle-class consumers. And the fact that we have already the market-leading retail brand in asset management associated with a market-leading insurance brand I think puts us in very good stead, strategically, for the future.

The real reason I think to be here today is to see the team. Tidjane alluded to this as well. One of the reasons that we've always been quite happy to allow you not just to come visit for days like this but to come with reverse roadshow groups and visit our businesses here or Malaysia or Indonesia or Hong Kong or Vietnam, Thailand -- all the different places that various different groups have visited-- the reason we are happy to host you on those trips and to have you meet our team is because we're very proud. Insurance companies have two raw materials, as Tony Wilkey likes to say: capital and people. Everybody's capital is the same. Some have more, some have less. It's just capital.

It's what you do with it. And that's up to people. And what you'll see again here today on display as you've seen the past is the most extraordinary team of insurance and asset management professionals in this region. They are committed. They are focused. They are driven on all the right metrics. And we have -- our ability to continue to attract and to retain -- our turnover in Asia is one-half the rate of that of the industry. And we are very proud of that statistic because people want to come here as an employer of choice and they want to stay.

I also wanted to weave in something here today that is important to our business and that you maybe don't normally hear about as much at an investor conference. And that's some of our corporate social responsibility initiatives, which are driving an unprecedented level of community engagement. We do some very interesting things. We've shown you our cartoons in the past. last year I was able, based upon Nielsen ratings, to proudly proclaim that in Asia we are not just one of the largest life insurance companies but that we are more popular than SpongeBob SquarePants. Because we have this cartoon that runs on Cartoon Network.

We continue to expand that program. We've added a program with the renowned boxer. Those of you who are boxing fans will know about Manny Pacquiao; just want a fight in Macau a few weeks ago. He is now the spokesman for our SAFE STEPS program on National Geographic Channel. So he's become a regional spokesman for disaster preparedness and recovery. There's an enormous amount of work here that involves both the treasure of the organization. But also the time of its people. And that's extremely important work that gets done. And it says something about the organization that we invest in the communities in the way we do.

And that really brings us to our culture, because the willingness of the organization to engage communities in the way it does says something about who we are. And that has an important commercial impact that is very real. Difficult to quantify. But real, nonetheless. So our view of culture is that winning is not enough. Everybody wants to be on a winning team. But winning is not enough. That does not make a culture. What makes an organization work, what makes an organization outperform is unity, is essentially having everyone focused not just on a strategy and the tactics that support it. And not just on a mission. But on a purpose.

We very much view our organization as one that is doing well by doing good. That starts with our commercial activities. The products that we sell solve problems. We sell them in a very professional manner so consumers know what they are getting. And that drives -- and you all understand the virtuous circle of life insurance, the social utility of what we sell. The idea of going into a developing market and gathering savings and turning it into investment in the community which helps the economy grow faster, creates an even faster rising middle class. It's a virtuous circle.

So we are in an industry that cannot just say we are benefiting from the rise of an Asian middle class. And that's normally how we characterize it, as an opportunity. The reality is we are in an industry that drives the rise of the Asian middle class. And that's an important distinction and we talk about that a lot. That makes a big difference. A purpose-driven organization will outperform, as long as we execute relentlessly. And we do that too. Tidjane talked about the discipline with which we execute and we are relentless and I think you will see that, the commitment and the determination to do what we say we are going to do in the presentations today.

Tidjane touched on innovation. Tony and Lilian and Guy and Michele and everyone who speaks today will touch on innovation. That's a real driver of our success and an enormous part of our culture. Living our brand values. We talk about always listening, always understanding. We've been talking about that for years. In every interaction with every consumer -- be it advertising, be it through an agent, be it through a bank distribution partner, be it through a customer service contact -- we are always listening, understanding the problem, trying to solve it. Everything we do. We don't talk about being big and strong, because our brand is such that people know we are big and they know we are strong. We talk about listening and understanding. And that's a much more compelling message when you are trying to create a social safety net that benefits middle class families.

Serving our communities. Again this has to do with the CSR work we do. And you see some of the examples there. It has to do with just the very nature of our products. But the idea that our products and our people and the mission of our organization is all about making communities a better place to live is an important part of our culture and there is the doing well by doing good. All of this stuff wrapped up is the secret sauce. It's the ingredient that drives us. It's why, when everyone else is down 5% we are up 5%. It's why people stay. It's why people want to come.

So what's our focus in the midterm? As Tidjane said I think at the full year results, we are going to run the business. It's more of the same, just better. Our strategy is unchanged. We've been doing the same thing now for several years. We'll continue to do it better. We'll continue to do it bigger. We will not allow ourselves to become distracted from the needs of middle-class consumers in Asia. That's what we do. We have some objectives that we announced last year. Tidjane showed you the update there; we are on that.

We are looking at some new markets. It's important not to become complacent either on the businesses that you have or the businesses that you might have in the region. So we are looking at Laos, where we have a rep office; Myanmar, where we have a rep office; Bangladesh, where we've had some initial visits to the market. Haven't come to conclusions on any of these. These are long-term project. But it's important to build for the future and look at other opportunities to apply the core skills that the organization has.

Preparation for new bancassurance opportunities. I'm sure there'll probably be some discussion about that today. We are the most credible bancassurance partner in the region. We do this bigger and better than anyone else. We are well-positioned for any bank partner. And we look at all these deals. We are not going to spend any time today on brand and marketing as a distinct discussion. But you will see snippets of this throughout the presentations. The incredible work that we do around building our brand. The innovative marketing that is focused not just on our core customers, which tend to be in their late 20s and into their 30s. But on the next generation, Facebook and Twitter generation. And some of the stuff that our teams come up with is absolutely dazzling, honestly. And it's having a real impact on the business.

Then most important, sustain the culture. What we have is an extraordinary organization that outperforms. It's based on capability and culture and we will take great care that we build both and nurture both and just don't mess it up, because our view is that this organization, as well as it's done in the last seven or eight years, as Tidjane demonstrated, the future is equally bright if not brighter. And we are very excited about the opportunities ahead. And so with that, what I'd like to do is get the ball rolling with the specific presentations. We'll start with insurance and, then a break. And then we'll go to the asset management business. And we have a set change that I think has to take place.

So we'll do that and then Tony and Lilian, come on up.

Tony Wilkey {BIO 19184129 <GO>}

Good morning. Tony Wilkey, Ms. Lilian. For those of you who don't know us, we are responsible for managing the insurance businesses across 12 countries. We've been doing this for the last five or six years. Okay.

Since we last saw you in London I think 12 months ago, an awful lot has happened. So let me just outline what you can expect from us today. Last year we took you through the businesses, country by country. This year we are going to approach it more thematically around our core competencies of distribution, training and development, product, customer engagement. And as Barry mentioned, what we consider our most valuable asset of all: people. As we go through this, we will drop down into a couple of countries to give you some specific examples from what's happening in emerging markets up through the advanced markets.

So let me recap by taking you back to last year. This is what we referred to as PCA's CV. What we -- we'd love to be able to say that our performance is not in any way correlated to external factors. But frankly, we can't look you in the eye and say that because there is a lot going on. But what we are able to say is that we have consistently, resiliently been able to outperform the markets year in and year out with profitable growth. But as I mentioned at the beginning, a lot has happened in the last 12 months. But nothing has changed in terms of our focus, our commitment to deliver. The team in front of you today is the team that was in front of you a year ago.

However, in the external environment, an awful lot has happened. You guys know this much better than we do. And while there's a lot going on in the world, there's been a lot happening in Asia. China's official PMI slid to 50. GDP growth is being called for 7.4%, 7.3% for the year, which while strong, will still be the lowest in a couple of decades. Natural disasters. Typhoon Yolanda, which hit the Philippines, caused an estimated damage $7.8 billion, wiping out nearly 3% of the GDP of the Philippines. The flooding that Barry mentioned in Indonesia -- you'll see this if you're going on Jakarta -- the infrastructure clearly needs work. But the flooding this year has been amongst the worst. So much so that the government declared a state of emergency for 30 days in quarter one, where the floodwaters rose to close to 1.2 meters in various parts of the country.

The political landscape has been quite choppy as well. In India and Indonesia, hundreds of millions of people went to the polls to vote. This voting period took 150 days and spanned seven months. So clearly there were a few distractions in the streets. Thailand; Thailand had another coup, the 12th coup since 1932. That's almost 1 coup every seven years. And this year to date, this had an impact on -- one of the biggest components of the economy there is tourism. And tourism fell by about 19% year-to-date. So that had an impact. Hong Kong, our home -- you may have seen some of the headlines happening right now. There's civil disturbances, students protesting. Limited areas of Hong Kong. But there is some disturbance, the likes of which we haven't seen since -- I haven't seen since I was a kid in Hong Kong in the 1960s.

And so, while all this has been going on, I think Barry mentioned this as well, the regulators in Asia have been quite busy. Steve will going into this in detail in his carousel. But just in the past year we've seen, on average, 47 new regulations every quarter. That's almost 4 new regulations per week that we have to adapt the businesses to, just in Asia. Overlay that with some of the global regulations coming in as well, like FATCA. And we've been extremely busy on that front. The good news is -- the good news is -- and there are many themes. But the main themes focus around customer protection and anti-money laundering.

And we have a head start in this area, because being a UK European-based insurer, we've been working on many of these standards for many years. So we are able to hit the ground running. And we fully expect that this translates into a competitive advantage. Regardless, today one has to adopt a mindset of real-time regulatory change. You have to have the process, you have to have the people, you have to have the systems in place to be able to respond quickly to the law of the land, which is nonnegotiable, while also maintaining positive strong momentum growth in the businesses.

So there's a lot been going on on many fronts. Let me pull this all together as to how we've done. So again, look at this in the backdrop of political upheaval in one country at any given point in time, natural disasters at least once a quarter. And jolts of economic volatility across the region. We have still delivered. No other company can demonstrate this long-term and sustained outperformance. We've continued to outperform the market now with 20 consecutive quarters of growth. That's five years. 20 consecutive quarters of growth, averaging 16%. On a year-to-date basis through Q3, we grew at double the rate of the market.

So how do we do it? This is one of my favorite slides. Nobody else can paint this picture in Asia on this scale. This is the beauty of our platform. This is the diversification of country, of distribution, of product. I just mentioned about geographies. There is always something going on environmentally, economically, politically. Diversification of distribution is really important because different countries are at different stages of evolution, where customers have different preferences for accessing our products and services. Products, again, because different countries are at different stages of evolution and customer needs are slightly different.

What's changed over the last five years? We've continued to grow agency at a double-digit rate. But we've grown bancassurance faster, because of our proven capabilities and the opportunities presented. And because Tidjane told us to step change banca. We normally do what he tells us to. You'll see the product mix flexes over time. This is due to changes in economic conditions and changes in customer preferences. And for us changes in country mixes. Nothing's surprising there. Never has this diversification been more valuable than this last year.

So our growth story continues. And this has become a very big place. Today we have 20 million customers -- 20 million policies, I'm sorry -- owned by 13 million customers in 13 businesses in 12 countries. I say 13 businesses in 12 countries because in Malaysia we have two businesses, conventional insurance and sharia, what we call Takaful. These customers and policies are serviced by over 500,000 of the very best agents in the business, 1,100 active bank branches. And all supported by 15,000 of the best staff in the industry.

If you look on the right, you'll get some sense of the velocity or throughput in the businesses. It's a big machine and every cog has to function at full speed on a day-to-day basis. In just the few minutes we've been up here, if it's 20 minutes, 120 policies have been issued, 80 new customers have been acquired. And over GBP800,000 of APE issued; every 20 minutes. That's assuming that we work on a 24/7 basis, which is pretty close to what we do.

Let me take you through a snapshot of country by country here. And again, I think it's really important to emphasize again what Barry said. Market share and market rank is not our objective. It's an outcome. Our objective is to build high-quality, long-term, highly disciplined businesses. This picture hasn't changed fundamentally since you last saw it. We continue to be big in Southeast Asia, in Singapore, Indonesia, Malaysia. We tend to -- even though it's not in Southeast Asia, we put Hong Kong in that grouping, too, because in these four countries we are big in the country and we are big within Prudential.

In markets like the Philippines and Vietnam, we have leading market positions. We built a really good foundation in these countries with fast-growing economies. Look at it a different way. The combined population of Vietnam and the Philippines is over 200 million people. That's like another Indonesia. Thailand, with the acquisition of Thanachart Life and entering into the long-term strategic bancassurance relationship with Thanachart Bank, we've been able to double our market share in Thailand.

Cambodia is really -- demonstrates our greenfield capability. And as you can see, we are off to a fairly good start on the market share. China and India we operate on a joint venture basis, which is the law. In India, our partner is ICICI. And in China our partner is CITIC Group. In both India and China, we lead the foreign JV markets. The North Asian markets -- and you can see from the map that South Korea seems to have separated itself from the mainland. Taiwan and South Korea are dominated by local players. These are highly competitive, highly penetrated. And highly regulated environments. We don't have huge growth ambition in these marketplaces. Rather, we operate on a niche strategy, making sure that we maximize the profit opportunity. You will never see us having significant market share in Taiwan or Korea.

Barry talked a bit about brand. And while the brand is clearly morphing based on different medium and different consumer segments in the region, we will never forget who we are and where we come from. In many of the countries where we operate, English is not the first language. So brands don't necessarily translate well. But logos do. And the iconic brand of Prudence has given us tremendous competitive advantage in Asia. Some of our competitors are finding it hard, it's almost like a barrier to entry not having established brands in the region. We have been building the Prudential brand in Asia now for close to 100 years, which is close to unparalleled.

What does this mean? This means today that if you look at brand recall, either aided or unaided, we are in the top decile in the markets where we need to be. But the brand isn't just about TVC. It's not just about billboards. The brand is also built by daily interactions with your customers through your brand ambassadors. For us, the brand ambassadors are the 500,000 agents we have that we add to every month with another 20,000. Not exactly something that is easy to replicate.

Okay, what can you expect from us? The shorter answer is more of the same. Fundamentally, our battle plan has not changed. We continue to innovate, reposition. And improve our product offerings. We will continue to build big and powerful agency distributions. You'll see this in Indonesia. We'll optimize value from our existing bank partners and grow with new bank partners where it makes sense. And we'll continue to explore new market opportunities where our value proposition and value structure fits. As we do this, we will continue to intensely focus on what you've heard us refer to over the years as PEC -- persistency, expenses. And claims -- to make sure that the prophets flow through.

But there's more we can do. These are our enablers that Lilian is going to go into in more detail. It's more -- doing more of the same. But we need to do it better, we need to be smarter. And we need to definitely be better than the competition. We're using more and more data analytics. And this is real, this is not -- this is not buzzword bingo. This is not Analytics 3.0, big data. This is real stuff that translates into revenue and profit. And Anthony Shaw, as Barry mentioned, will take you through that in the carousel.

We'll leverage technology more and more, not only on the front-end with point-of-sale and customer applications but on the back-end to make sure that our data is secure. We'll continue to differentiate the value proposition around products and services. This compliance -- compliance is a part of our culture and is nonnegotiable. So we will continue to operate everywhere in a compliant manner. And we'll do all this through the absolute best-in-class people. We'll continue to deliver intensely focused on executional excellence and with our usual humility.

As you know, agency is a core competency for us. This is a small gathering I think in Indonesia that Lilian is going to take you through.

Lilian Ng {BIO 4943480 <GO>}

Okay. Now, I think we've demonstrated a proven track record in agency is the consequence of our execution-oriented mindset. And I think the result speaks for themselves. So for markets we operated in, growth in agency was 10% per annum over the last three years. Growth for PRU agency outperformed the market nearly 4 times at 36%. So how do we do this? Now, we do this through expanding distribution reach in the fast-growing markets, such as Indonesia and Vietnam. And through productivity gains in the established markets of Hong Kong and Singapore. In the growing markets, we have successfully recruit more than the industry. From only 20% of agency manpower three years ago, we now have 36%. And in the established markets, PRU agency APE grew 6 times faster than the industry through superior productivity gains.

As an outcome, PRU agency is number one in seven markets. And I think you've heard this before, this positioning is an outcome, not an objective. Our objective is to build high-quality, high-disciplined agency force, focusing on MAPA -- manpower, activity, productivity and average case size. Now, how we manage these drivers do differ country by country. So to optimize performance we differentiate our agency model by country depending on opportunities, the customer preference, regulatory environment. And our own strategic intent in that market.

Now, in the growing markets, as mentioned by Tidjane, we have low penetration rate. So there are opportunities using manpower for expansion. To grow scale, we use a mass recruitment model and the key is activation of rookies, the new agents. We have a robust franchise with the general agency platform to enable a fast expansion but at variable cost. So what's been the impact? In Indonesia, we own two-thirds of the 300,000 agents in country. And in Vietnam, our 50,000 strong agency represents a third of the market.

Now, both of these agencies are recruiting around 10,000 agents a month. But this is not about just taking in bodies. The delivery or the effectiveness of the delivery is on the on-boarding and activations of rookies. And we will talk more on this in a later slide. Now, as markets evolve, we adopt a segmented approach with targeted recruitment. Now, in Malaysia, we focus on Gen Y, as it has this young population. So we adopted a slightly different approach to engage this segment. We have a Facebook page called R U Ready. We hold recruitment seminars in Hard Rock Cafes. And we use lifestyle talks instead of testimonials.

In India, we have a big agency of over 110,000 agents. And we have divided the agency into three big agencies, driven by productivity, activity. And also the case size. So the first group is what we call Win [ph]. And these are the professional advisors serving the affluent segment. The second group we call Grow. These are full-time advisers with high activity. And the last group is called Lead. And this is our part-time agency. So each separate agency has their own performance management, training. And compensation and recognition program. Again, what's been the impact? In Malaysia, our record recruitment has driven the agency to now 15,000, the second largest agency force in the country but the most productive, having 1.9 times the market's productivity. In India, with the segmented model, we are the only agency growing in the past two quarters.

Now, moving on to the established market where we have full-time financial advisors, we use profiling to identify suitable candidates as career agents. We give them rigorous training and development to ensure they are equipped for structured financial planning and advisory. Quality metrics such as persistency, claims, product mix are embedded in the contract maintenance, as well as the compensation. So these are actually in line with the regulatory framework under FAIR in Singapore. And I think in the e-list [ph] guidelines that just recently published in Hong Kong. Again, the impact in Hong Kong, we are the number one agency and the most productive, even though we only have the second-largest agency of 7,000 agents. Now, despite all these various agency models, our agency management value proposition is the same: training and development: performance management, tracking and monitoring and sales and services.

Now, face-to-face advisor servicing is still preferred by customers in Asia. And this agency platform has allowed us to penetrate the markets broader and deeper with feet on the street. Now, over the past five years, we have issued -- this is only for agency -- we have issued 2 million new cases a year. That's 5,500 a day. We have recruited 215,000 agents a year. That's 590 agents a day. And increased productivity by 11% per annum. So that's nearly 1% per month. And this is assuming, as Tony said, we work 365 days a year. And for those of us who know us, that's probably what we do.

So this performance is made possible because of our competencies in agency management and also our delivery through a disciplined manner. And enabled by two key aspects. Firstly, the use of data analytics to have a better understanding of the behavior of our sales force for performance management. And secondly, embracing technology to evolve our distribution, to remain relevant. So in the following slide I'll showcase this aspect using case studies from two countries. First one from Vietnam.

Now, just some background on Vietnam. We have been in Vietnam since 1999, now 15 years old, market leader since 2007, 25% market share with the largest agency force. We are one of the only two insurers in country with a network nationwide across 63 provinces. Now, we've been able to sustain our leadership in agency through what we call a grow, build. And nurture process. First, we grow scale. And how do we do this? We do this through recruitment. And recruitment starts with what we call business opportunity presentation, BOP. These are recruitment seminars where leaders invite prospects to attend with a view to become a Prudential agent. Now, once recruited. these rookies go through on-boarding training, OB, for licensing and activation.

We digest around 10,000 recruits a month. So tracking and monitoring is essential. Now, the effectiveness of BOP to OB process is track and monitor through what we call the rookies metrics. 1/30 means selling one policy every first 30 days. And 3/60, three cases in the first 60 days. Now, based on experience, we establish an efficient frontier for these metrics. Now, any negative movement away from this efficient frontier will ring an alarm bell and the team will review, re-ramp or refresh the BOP or the OB training. As a result, we've strengthened our OB training over the year and devised specialized thematic BOP and micro-BOP.

Once we get the people in we build out the agency force. And this is done through what we call the 590 Club. Now, 590 is the milestone for achieving five cases in the first 90 days. Also, experience has shown 70% of our 590 Club members survive to either become -- to be promoted to be a unit manager or become a core agent. It's like a full-time agent. Now, commercially a 590 is tracked and monitored and we continue to improve our post-OB training to ensure we have a sustainable pipeline to the core agents and leaders.

Now once we got out the agency force, we nurture it. We nurture our core and top-tier segments. We've tailored compensation, training, campaigns, recognition and special brands such as Pru Elite for our producers. Pru Elite is 7% of our agents in terms of number. But contributing to 45% of our APE, with activity rate four times higher than the rookies.

Moving to our next case study right here in Singapore. I think Tidjane mentioned we have been in Singapore since 1931. It's now an octogenarian. We have been a market leader for the last five years with a multi-distribution platform. Now, the Singapore insurance market is probably the most regulated in the region, especially with the introduction of FAIR next year. There is also a rigorous licensing exam called M9A. And one has to score at least 70% to pass. So this is even more challenging than the actuarial exams.

So how do we sustain leadership for a very productive agency force in a very regulated market? The answer, I think we've said that before, innovation. Innovation in agency engagement to create agility. And we have a holistic digital platform for our agency to drive outperformance. So for recruitment, we have an interactive career website for candidates and we deploy both traditional and social media advertising to drive awareness. What has been the impact? PRU agency outgrew market four times in terms of manpower growth since 2012, with the highest net manpower increase.

Now, for training and development, we have a structured training and development roadmap for financial consultants and for our leaders that is flexible and scalable delivery, including classroom and e-learnings. We have a PRU coach which is a well -- rep-based, comprehensive coaching platform for agency leaders for one-on-one coaching sessions. Again, what has been the impact? PRU agency productivity is actually 1.4 times more than the market. We are a leader in the regular premium space, ILP space, health. And the high net worth segment space.

For sales advisory, we have what we call Pru One. This is an end-to-end financial planning and point-of-sales tool from financial needs analysis to e-applications, e-submission. And e-issuance, untouched by human hands. And is fully connected with all our back-end systems. The impact has been we have 100% utilization rates, faster turnaround time for customer, productivity improvement for agency, expense efficiency in the back office. And managing regulatory requirements on the balance scorecard from FAIR. It's also recognized as one of the best planning and point-of-sales tools in town. And we have agents from competitors asking to join us because of Pru One.

For performance management we have Pru Rewards, a digital, real-time platform to track compensation and benefits for goal-setting and performance management. And for communication we have Pru Message. This is a mobile engagement app with PRU's messaging for real-time communication. Now, as you can see, the fundamental of agency management has not changed. What's different is the digital delivery model, creating greater capacity for our agents.

Okay, from agents let's move onto another of our key distribution platforms, bancassurance. Okay, bancassurance is now in our DNA. And we upscaled it, as Tony said. And absolutely core to our business. Now, we have a proven track record in driving value to both single market bank partners and also multinational bank partners. The delivery of this long-term value to both PRU and the bank is predicated on our win-win formula. And the most and important is actually the strong collaboration and the alignment in value across the two organizations. Now, our platform has enabled us to outperform the market. So in the past three years, Pru Banca APE grew 22% per annum and the market, 12%.

Now in the next couple of slides, I will showcase to you our competency with our strategic partners, starting with Thanachart Bank. Now, Thanachart Bank is the fifth-largest bank in Thailand and has over 3.9 million active customers. It has a wide geographic footprint, with over half of the bank branches outside of Bangkok. And the loan portfolio consists largely of high purchase and housing loan. And they are the largest high purchase loan provider in Thailand. Now, before our strategic partnership with Thanachart Bank, bancassurance was supported by Thanachart Life and dominated by very short pay savings products and credit protections.

On the day of the partnership effective in May 2013, 4,000 bank staff were already trained and 15 products ready for launch. We have now rebranded Smile Car and Smile Home and improved penetration rate for these into 70%. We have transformed the branch sales to longer-term savings, with more protection and introduced medical endowment. The result -- it's a win-win deliverable. For PRU, our margin improved by 28 points. For T Bank, their fee income margin improved by 30 points. Now, the fee income from insurance for T Bank increased from 11% of total income for them before the partnership to now 40% after the partnership. And from PRU perspective. And we mentioned this earlier, this has propelled our status in the market. We have doubled our market share, increased our ranking. And a stronger brand recognition.

Now, from a local bank partner let's move to a regional bank partner, UOB. In 2010, we acquired UOB Life and entered long-term strategic partnerships in free market Singapore, Thailand and Indonesia. Now, over the past three years, we have accelerated distributions; we have now access to 63 branches and 1 million customers in Singapore and 146 branches nationwide in Thailand. We've progressively introduced products of higher value for both stakeholders and expanded the partnership in Malaysia and China in 2011. And both have seen substantial growth.

Now, the way we created value is done in accordance to the bank segments. So we launched the wealth banking with insurance embedded in the client proposition right from the start. We have created in-house insurance specialists for the account banking and privileged banking. We are now ramping into business banking and commercial banking with the relevant product solutions. Now, each time we have deployed insurance propensity models by segments using data analytics to drive value. And we continue to deepen our customer penetration. We are now just at over 5%.

What has been the impact? We've been able to double the longer pay products in Singapore from 11% to 22%. Now, regular premium products constitute about 87% of UOB's sales compared to 76% in the Banca market. UOB Thailand was the first to launch a single premium ILP. And we are now moving towards a regular premium ILP, subject to regulatory approval. Now, the overall outcome for this partnership has been outstanding and I think Tidjane mentioned earlier APE volume being four times more since the partnership. And this is driven by all-around performance, from productivity gain, about 1.5 times. And activity gain contributing the balance, 2.4 times.

Now, we cannot talk about bancassurance partnership without touching on Standard Chartered Bank. We have been a partner with Standard Chartered Bank now 16 years. And the partnership was renewed on July 1, 2014. Now, even before the renewal date of July 1, we started to see record performance in June. And again in consecutive months with record, even in traditional markets of the Taiwan, the Singapore. And Hong Kong. Business plan and detailed action by country was developed jointly before the effective date. And all 11 markets were operational on July 1. There were two new countries added to this partnership. And both have been successfully implemented. India, where we have wrote [ph] our online end-to-end application platform, there was 100% utilization rate by the bank. And within one month, we are already at the run rate -- at the maximum run rate with the bank's previous bank partner which they have been for the last 15 years. And Indonesia, insurance specialist channel was fully established with a headcount of 36. And we're looking to explore new markets such as Bangladesh.

Now, as strategic partners, we continue to integrate and entangle to enhance our customer experience with the bank. The bank has actually launched integrated insurance proposition across all markets to raise insurance awareness. We have deployed customer analytic programs to generate more effective renewals. And we have seen an uplift of 15% on conversion. We have deployed technology-based tools and sales process and in Singapore, when we deploy Pru One, Pru One as mentioned, it was the envy of the other salespeople within the bank. We deploy online platform to engage and communicate with customer. And we also create dedicated access points for SAP customers on servicings and claims. And we continue to build out our e-learning and e-training platform.

Now, this strategic partnership has delivered 45% per annum growth since inception. And with the commitment and value alignment from growth organization, we believe this will continue to grow from strength to strength. Now, I mentioned earlier that we have a win-

win partnership formula. And one of the factor is actually innovative and comprehensive product solutions. So what does it really mean? Tony said earlier, one of key strengths is our comprehensive product solutions for all seasons. And with the diversity of our country, we have seen shifts within the product portfolio over the year.

Now, the general observations are the health and protection portfolio remains fairly stable. And this is the core offering to our customers. Investment has declined. And this is actually mainly impacted by regulatory change in India. We're seeing an increase in the savings portion, as power [ph] products is being used by portfolio diversification in Hong Kong and in Singapore, given its unique proposition, especially for the high net worth segment.

Now. when we refer to product solution, this is more than just the technical products. Product solutions will increase sales support activities, packaging, communications, after-sales care and care and management, as well as delivering value to both customer and shareholders. Now, product mix at the country level do vary due to customer needs, regulatory requirements, market sentiment, shareholder risk. For example, where we have opted not to participate in the intra-census [ph] products in near [ph] Korea and Taiwan. And also market-specific.

Now, despite of all these nuances by country, the fundamental is to provide a comprehensive product solution to cater for customer needs as their life stages evolve. Now, typically life stages for insurance needs will start from young single and the journey completes for retirees. We then map out the insurance needs for each of the life stages. If I just take one example, married with young children, typically this will involve health insurance, mortgage insurance, education savings. And starting to look at retirement accumulations. Products are then developed and refreshed to serve the various life stages. And actually a technical product could overlap across the various life stages.

Now, innovating product solution is critical to remain resilient in such a dynamic and volatile market. And this is an integral part of our business. And our track record speaks for itself. We are the pioneer of protection link in Asia. We're are the first to launch PRUmy child, with coverage starting inside the womb. So this is definitely a full life stage coverage from womb to tomb. We are the first to advance critical coverage from single pay to multiple pay to early stage. And we are first to launch a PruBSN Ummah, a savings protection and spiritual fulfillment, all in one solution, to support the spiritual needs for Hajj.

We also offered innovative, value-added services to our health benefits. We have PRUhospital, PRUfriends in Indonesia, which I hope you will hear more about in the next couple of days. We have PRUhealth assist in Singapore, which I will talk more later on. And I think Tom will talk through as well. And we have PRUmyhealth Zone in Hong Kong, which is an online health assessment test and coaching platform.

Now, I think Tidjane already put it in his slide. We actually measure the effectiveness of our innovation using the innovation index. And as you can see, we have been managing this as in excess of 25% for both APE and NBP. But more and more, innovation is now critical to remain resilient and is also more and more driven by regulatory changes with the emphasis of customer protection. Now, products have evolved over the last decade. As we mentioned, customer preference, economic cycle. And regulatory changes. Now, before year 2000, there is a preference of spread products across Asia. Low level of protection, less regulatory constraint.

During that time, investment linked products were introduced as a flexible alternative to traditional product. Now, in some markets, they focus on investment linked. In other markets, it's evolved to protection linked by packaging with health and protection benefits. Post-financial crisis, we have seen more regulatory focus on customer protection, the introduction of risk-based capital framework. Interest rates continue to be low and market volatilities is now the norm. Now, with all these factors at play, products are now more transparent and comparable. Insurers are shifting focus towards protection and there is a greater visibility on investment return.

In the future, actually starting now, success in product delivery is actually driven by understanding customer needs and designing benefits and value-added service to meet those needs, supported by brand value and investment performance. So actually this is the exact core strength and value proposition of PCA insurance and the key to our consistent and resilient delivery.

Now, the better we understand our customer, the better job we do in providing with appropriate products and services. We have 13 million customers, 2 million new customers a year, servicing 20 million policies. So that's actually big data and we collect big data in an innovative way and invest it in capabilities. We then convert this data to a deep understanding of customer end markets to guide the development of our customer and marketing strategy. Listening; this is carried out during the customer journey from acquisition to engagement to retention through the various touch points. We then dissect the customer base across the multi-pool dimension to enable we develop tailored propositions for our prime segments and also for our emerging segments.

Now, we segment across dimensions such as life stage, environment, attitude. And affluence. And then identify segment-specific insurance needs so we can prioritize the initiatives by their potential, with the outcome being understanding. Development of tailored needs-driven customer proposition. So our credo of always listening, always understanding, is the foundation of our customer strategy.

Now, how do we collect information and insight from our customer? An integral part of our strategy is to measure customer satisfaction and then supported by regular follow-up and-follow through for improvement on operation process. We actually started this journey way back in 1994 and this journey is still ongoing. In 2001, we developed a regional process for segmentation research and we've conducted more than 400 projects and spoken to over 100,000 customers. Some of you might have heard what's your number campaign? The platform was developed for retirement accumulation and is still in use today.

In 2008, we conducted a regional study using Net Promoter Index across 11 markets. And since then this has been driven largely locally. Now, last year we established a region-wide customer satisfaction program called CSAT. This program established an organizational discipline to discover drivers of customer satisfaction and loyalty. And which leads to value for our business. Now, the key components are very simple, the 3Ms: measure, manage. And monitor. Now, this program is implemented region-wide but adaptable by each of the markets to reflect local flavors by preference, distribution. And most importantly, with competitors' benchmarking.

Now, next I'd like to introduce you to PRU For You. This is a proprietary, interactive, multimedia platform that enables our customer to provide direct feedback into our initiatives. It was launched in February 2014 and it was -- we are the first insurance company in Asia to develop a customer community contributing towards our growing distributer preference by engaging customers using a new channel.

Now, at any point in time, 5,000 customers can participate and the community includes customers from different demographic backgrounds, channels and product experience to obtain feedback from a broad mix. Now, all the data from PRU For You can be integrated to our existing database so we can carve-out individual and tailor-made proposition by segment. Anthony tomorrow -- sorry, later this afternoon, will go through in more details for you.

Now that we've collected data and we've listened to our customer, how do we turn this into understanding to drive incremental business value? Tony mentioned earlier just a real specific examples. We have developed a Smart Leads platform that takes the best information available so that we can use it to predict customer propensity to buy, to stay. And to leave. Very simple. The platform consists of three stage: leads generation, leads execution, filtering. And refining. Now, this end-to-end mechanism actually encourages more sales from orphans [ph], maturity recapture, servicing and claims. And new product launch. We have deployed this Smart Leads in key markets and have seen about a 20% uplift in conversion. Now, other than sales opportunities, Smart Leads can also be used for claims fraud detection, where claims are being grouped by relevant cluster and dissected by different permutation and combinations to look at trends.

Now, other than leads, let me talk through with you another example we see in Singapore about how we listen to customers and develop a value-added service. In Singapore, medical inflation rate has been very high, driven by rising costs in private hospital bill that has grown 41% in the last three years. Public hospital bills have grown at 20%. Now, 70% of the PRUshield customers we have currently utilize government restructured hospital. Now, what we typically get is customers are calling our customer care hotline to inquire about hospital bills and asking for help of medical specialists, which obviously is a customer care hotline we cannot provide.

So turning all this data into understanding, we launched PRUhealthcare assist, which is first in the market, manned by medical doctors and exclusive to PRUshield customers only. The objective for this hotline is to provide assistance to customers in managing their rising healthcare costs, give them referrals to appropriate healthcare service provider, explain eligibility to claim, provide preferred rates for hospital charges. And give access to specialists across the government and also private practitioners. Now, this is not just an additional added benefit to our customer. It's also a claims management tool for us.

As we always say, what gets measured gets delivered. The effectiveness and outcome of our customer strategy is tracked through our customer KPI. And we monitor region-wide customer retention, repeat sales. And net new customer growth. Now, the customer retention metric is the most important measure of our ability to maintain an ongoing relationship with our customer. Now, although different by market, we are able to achieve a retention rate of about 90% over the years. Customer repeat sales KPI measures our ability to strengthen and deepen customer relationships via existing customer.

Now, at the country level, the repeat sales vary depending on the overall level of insurance penetration and the stage of development of our operation. Similarly, net new customer growth KPI monitors the acquisition of our new customers and also differs by market. Now, our customer centricity, built on always listening, always understanding, is a distinct and strong competitive advantage for us. And this has led to us have being always delivering with an immense growth trajectory, as Tony mentioned, 16% per annum growth over the last 20 quarters. Now, this delivery would not be possible without our critical enablers.

And now I'll pass back to Tony to talk about our most critical ones.

Tony Wilkey {BIO 19184129 <GO>}

Thanks, Lilian. The robust technology platform. Probably not what you'd expect to hear about at an investors' day. But a robust and resilient technology platform is mission-critical today. And we've been working on our back-end now for over 10 years, to standardize, to build scalability and build security. It's not just enough to have efficient back-end processing units; you have to have a cultural mindset of cyber resilience. And we've invested a lot of time, money. And resources in developing this. And we are not comfortable.

Never were the words of Andy Grove from Intel more appropriate: only the paranoid survive. And that's not only our mindset in business but it's definitely our mindset in protecting our data, one of our most valuable assets. Key to this is, we have two world-class back-end data centers, one right here in Singapore and one in Hong Kong, that are connected by secure, resilient networks across the region. So this is very important. Continue to stay focused on this and nonnegotiable for any kind of data leaks.

I think this is perhaps the slide or the part of the business that we are most proud of. I mean we are incredibly proud of the 15,000 passionate staff that we have around the region from 40 different nationalities, all aligned with making Prudential the very best in Asia. In my mind, our employer proposition is second to none. And that is evidenced by the fact that in all our businesses, there is a line at the door with people wanting to join this organization. Talent will always be in great demand. So succession planning is very important.

Lilian and I go quarter by quarter into every single business and spend hours going through what are the succession plans? Who are the people? What are the gaps? What are you doing to fill them? Further, succession is a bonusable KPI for the businesses and the leadership teams. And we've done quite well. With retention across the -- you can see from the pie charts, over 90% retention for our SMT -- that's senior management teams, talent pools and high performers. 100% of our life CEOs have been groomed from within over the last five years.

90% of our top talents are on SMT and CEO succession lists and 80% of our senior management team are sourced from the talent pools. You'll appreciate this one. 48% of our talent pool are women. This compares to global standards where typically senior executives, females, comprise 25%. 48% of our talent pool are women. We didn't get here by accident. This takes a lot of work. This takes a lot of passion and focus and we're making good progress.

Let me wrap it up, because I can see we've run over with time. Hopefully we've demonstrated our strategy remains the same. We are absolutely committed to continuing to execute with the highest level of discipline, moving faster, doing things better. And what you can expect from us going forward is, as we say at Prudential, always listening, always understanding. But most importantly, always delivering. Thank you.

Guy Strapp {BIO 15272859 <GO>}

Okay. Good morning. We'll make a start. Thanks for a timely resumption from coffee. We're going to change gears slightly and talk about asset management and focus on Eastspring. And Michele and I will, in the next 25 minutes or so, take you through the financial results of our business. I'll talk a little bit about investment performance. We'll talk about the strategic imperatives, the drivers of our success. And in particular within that, Michele we'll talk about our distribution capabilities.

So cutting firstly to a quick introduction for those that don't know Eastspring, we rebranded the business about 2 1/2 years ago to give ourselves some distinct branding in Asia. As we were focusing more on intermediary distribution, it became obvious that using a Prudential brand caused confusion and indeed channel conflict. Because some of the key distributor partners of ours also run insurance businesses and weren't necessarily taken by the fact that we were trying to sell Prudential-branded mutual funds. Coupled with that we didn't have the Prudential branding rights right throughout Asia and we ran about six or seven different brands. We now run one unified brand throughout Asia, which is very convenient.

We've been a standalone asset management business for about 20 years, although we have a pedigree that goes back in association with the life businesses prior to 1994. We operate in 10 countries; not exactly the same footprint as the life company. And we'll talk a little bit about that. And we employ about 2,000 people. Probably you would count that as about 800 in true professional capabilities. But we do some direct sales in some of our markets' direct distribution, which accounts for the additional headcount.

So looking at the financial results. And firstly on client net flow for the nine months to September, these were the numbers that were released fairly recently. Third-party on the left-hand side, total flow on the right-hand chart. Third-party for the first nine months at

GBP3.7 billion. That was a record for Eastspring, surpassing what was previously our strongest first nine months of the year, which was last year. So we stood at the conference last year in London and said that GBP2 billion was a record. We've well and truly eclipsed that by 82% with GBP3.7 billion in the nine months to September.

You will note there a shift in investor preference more so away from bonds into equities. Within that, though, if you decompose it, the appetite for Asian investors when they are thinking about equities is more dividend or income or yield-oriented. So it's not there a sign, I don't believe yet, that investors are truly embracing equities as a riskier asset class. They are taking a little bit more risk by switching from bonds to equities. But they are doing so by looking for income. And so we often have success with products that have high frequency distributions, even monthly. So that's been some of the rotation there in the third-party space.

We've also had success with institutional wins over this year, particularly with central banks in Southeast Asia and some key sovereign funds in both Japanese and Malaysian equity. On the right-hand side, GBP7.9 billion to the nine months to September is also a record. So the red on the right-hand side picks up the third-party flow. We have strong flow from Asia. Before there is a question, why is the blue segment smaller, there was a regulatory shift in Korea this year which limited in-house management of life insurance assets to a cap at 50%. We had previously been in the 90% vicinity. So that took GBP1 billion out of that blue chunk on that right-hand slide. So if you added that back in, life looks but he similar to the last couple of years in terms of being a strong source of funds for us.

Then of course significant inflows in a rebalancing from UK life into developing Asian equity markets, as well as Japan equity. So all in all, very pleasing first nine months for flow. That translates into funds under management, which are also at a record level at the end of September at GBP73 billion. We closed the year at GBP60 billion at the end of 2013. And so there's been a 22% pick up. About two-thirds of that is attributable to the flow I just showed and about one-third to market. So markets have been a little kinder in Asia, although it's been patchy. So equity markets that have performed strongly are like the Philippines, Indonesia, India obviously.

But other markets have been more restrained. So Japan in fact is down this year. China, disappointing. The Australian market is, I think to the end of November, down very slightly on a US dollar weighted basis. So we haven't had a true free rise with the tide coming in, in terms of equity markets. But they have been a little more supportive than last year when in the second half of the year in particular some of the Asian markets were very nervous about the prospects of tapering, after Bernanke announced that in the middle of last year.

All of the flow and the FUM. And obviously the higher FUM on average that we've had throughout the year has helped drive profit outcome. So in the first half of the year we generated GBP42 million of profit, which is a strong result, up 24%. That's on a constant exchange rate basis over 2013 same corresponding period. Apart from the FUM, I think we've had a very sensible approach to managing costs. But this is not a cost constrained story. This is a growth story. So I just look for prudent and appropriate management of cost, not driving bottom-line results by reining in costs which might allow us to continue to grow and expand in this market.

We live and die by investment performance. It's our ticket to the game. It gets us in for a seat. But then we have to do all the hard yards with our clients, whether it be institutional clients through asset consultants, or the increasingly sophisticated distribution clients such as the private banks, consumer banks. And the like. That's when Michele and her team do a lot of the heavy lifting. But from an investment point of view, we just have to have good numbers.

This is a chart I've used previously that just shows, in a lumpy fashion, an overall scorecard for how our investment performance looks. And what it's saying is, as of now, 66% represents the aggregate score of the number of funds we have under management and the asset weighted volume of funds measured against if they are benchmarked -- against an appropriate benchmark, which would tend to be more the institutional mandates -- or against peer group if they are retail. And so, something that's outperforming the benchmark or is above median gets a tick. And similarly, if it's below benchmark or below median, it's a cross.

So it simply means that 66% of our investment capabilities, our investment products, are on sale. We are either bidding the benchmarks or we are bidding the competition. That's what the graph on the left-hand side shows. It also shows that we finished last year at around 55%. 2013 -- in fact, the second half of 2012 and into 2013 was difficult for us. We are a value manager and there was some rather peculiar behavior in the Asian markets. There was a flight to certainty, toward expensive utilities with dividend certainty. I think a lot of that happened particularly around the time of Bernanke suggesting QE. So irrational behavior supporting what we thought were very expensive stocks, or some of the cyclical stocks that we found to be cheap remained very cheap. Those stocks have bounced back into 2014.

And you can see that when you look in the right-hand table. If you see the one year number in the middle for equities measured on the same scoring system is at 74%. And that's picking up off the three-year result, which was down at 57%. So we've had much better success with our equity numbers. Fixed income on the top line remains a core strength. We are the market leader in fixed income, both in terms of capabilities, funds under management. And the performance numbers speak for themselves. Probably underscores why we have picked up four sovereign wealth funds in Southeast Asia in fixed income mandates these past 12 months.

Turning back to what our business structure, our model, looks like. And probably a bit more by way of introduction as well. On a left-hand side is the client mix. And we have a very well diversified mix of clients. So the life business accounts for about 62% of the assets that we manage. A less percentage of our revenue because of the fee rates, of course, that we charge for some of the more captive nature of some of those assets. Although there is a large chunk of assets there that are subject to open architecture. So if you like, you could take the external clients at 38% and lump into that the 15% in Asia ILP to get a real sense of the fact that our business is about 50-50 between traditional insurance assets and what is really third-party book of business, either third-party through distributors or third-party through ILP, through the insurance company's distribution.

The asset mix I mentioned before, with a preference to investors moving slightly away from bonds to equities. Not a big deal for us. We've been pretty much the last four or five years a 50-50 house. 50% equity, 50% debt. There was a time, if we go back to about 2006, that we were probably more weighted 60% equities, 40% bonds. But there's been an investor preference rotation away from equities, probably because of the financial crisis in 2008, coupled with the downturn we had in Asian markets in 2011 when Europe was having problems. So a rotation into fixed income. And there's also evaluation affect. Equity markets here just haven't performed very strongly.

On the right, another benefit of our franchise that makes us rather unique is the spread of geography. Now, unlike the life business, when Tony and Lilian were presenting and emphasizing Southeast Asia, the reverse is true for Eastspring. So only 15% of our third-party money comes from Southeast Asia. The rest comes from North Asia and India. So where the mutual fund sales are happening today and tomorrow is in markets like Korea and Japan and Taiwan. Now, ultimately and eventually -- I think Barry made reference, probably the next generation -- but markets where the life company has a foothold and is growing strongly today -- like the Philippines and Thailand and Indonesia and Vietnam, the ASEAN countries -- they will become bread and butter for Eastspring. But that might be 10 years. It might be 20 years. And we'll cover briefly how we complement that. So our mutual fund growth strategy is North Asia and our partnership with life, which we'll talk about in a moment, is very much honed on Southeast Asia.

So we take the competitive performance. We put that up against a distribution franchise footprint that is fairly unique in Asia. And we come up with a survey that shows for the third year in a row, Eastspring has come out as the number one retail manager in Asia, ex-Japan. This is a survey put together by Asia Asset Management. They are a magazine group here in Asia. Again, we are not striving to be number one for the sake of being number one. This is an outcome of the way in which we run our business and focus on executing around great performance and tapping the distribution channels that we can.

Importantly, not only from two years ago were we are coming off the number one position. But over those two years we've grown our retail funds under management by 25% while the competition there -- Franklin Templeton, Allianz, Schroder's, etc., etc., have grown by about 9%. So we continue to grow at a faster clip than our key competitors while retaining. And in fact increasing, our lead in the number one spot.

I want to talk a little bit about our strategic priorities. Because I think that the emphasis around those, the focus that we have on those, is helping us lead in the industry. And so we put in place when I became Chief Executive a little over a year ago a set of priorities around which we could operate as a franchise, focusing obviously on investment performance. I said that's not negotiable. I've talked about investment performance. But within that bucket, deepening our investment capabilities where it makes sense.

We also have identified that our partnerships with life is critical. And Michele we'll talk about that in a moment. As well as expanding distribution and in particular focusing on North Asian opportunities. But other new distribution channels where we can find them. So just talking a little out product investment capabilities, if you like, or diversification. Some of the things that we've done over the course of the last 12 months -- and this is why I say it's a growth story and we're not here to try and cut costs and manage expenses down, because we are investing for the future.

So four years ago we put together a global emerging market equity team. It seemed like a very sensible thing to do. Asia represents more than 60% of the MSCI Index. And our figuring out was, well, if we've got that part of the emerging index in our backyard, we should be able to leverage the other firms on the East Coast and in Scotland can run global emerging market mandates. So we successfully added to that team. We've built a very impressive three-year track record. In fact, I think it's a four-year track record as of the end of this month. And they are just starting to take that capability out on the road. Emerging markets perhaps in equity space is not the flavor of the month. But I think we are nicely primed to have a high quality product, ready for when investor appetite returns to emerging markets.

We are also -- and this is important where we stand with our life relationships -- building out negotiated credit capability. So the life companies in Asia are often operating in constrained capital markets. So in markets like Vietnam, where we own very large chunks of the government bond index, we are almost a captive price taker. We go to the Ministry of Finance. We ask for private placements; the MoF tend not to do beyond 10 years in Vietnam. That gives us a duration mismatch. But by going into negotiated credit opportunities we, A, get enhanced liquidity in many respects in some of these really constrained markets. We certainly get transparency into the underlying securities if the other options are investing in corporate credits and the like. And we're not paying the privilege of daily liquidity.

So when we are dealing in secondary markets in Asia. And the secondary markets in debt space have grown in depth over the past 3 to five years, both sovereign and in particular corporate. But the privilege of investing in secondary market securities is paying for the liquidity. The life company doesn't need that sort of liquidity, certainly not on 100% of its debt book. And so, exploring opportunities in mezzanine debt, Asian loans and infrastructure with a debt emphasis within infrastructure is a sensible thing for us to do today for the life companies, for those reasons I've described. But if we do it well, then in three years or five years we'll take some of these capabilities to the secondary market ourselves. And we'll look either for co-invest opportunities or we'll just look to launch funds and raise third-party money.

So it makes perfect sense for us in terms of partnering with life, helping them with their investment problem. And also giving us commercial opportunities that might be more realized again in three or five years. These are investment spends for the future. We just did our first mezzanine debt deal in a Sumatran oil company about two months ago. We did take a hedge on the oil price, in case I got that question. We're very close to closing on our second deal in the mezz space. In Asian loans we've resourced and recruited both credit analysts and experienced loan people. And in infrastructure we've hired two people, one to lead the team with a view that we'll start looking at deals into 2015 in particular.

Added to that the importance of China. And we've recruited mainland credit skills. So the dollar market in China has been important to us over the years. We've now added renminbi capability around that. Again, in part response to a life demand for clients who are looking for renminbi-denominated product. But in any event, that segment of the market is going to become increasingly important for us. So again, an investment spend in the future.

Then, finally, we are looking at multi-asset capabilities. Our new balanced funds were popular when I started in the markets in the 1980s in Australia. And they are reemerging. And probably, in a way, it's the way in which investors are thinking about segueing out of debt, which may have run its course if we see higher -- if we see higher interest rates -- but to pick up some equity exposure in portfolios in 60/40 mixes or the like. But to take on more diverse exposures. And so we are having a close look at that in terms of adding to the bench strength of the product.

This is all and around what we already do successfully in terms of debt and bond in Asia -- debt and equity in Asia. But it just underpins what we are trying to achieve in terms of the vision for the future and investing for the future of both life company but for Eastspring and for our third-party clients. I'm going to pass to Michele now. So Michele looks after product, distribution. And marketing and across all of our channel segments. So primarily of course life, institutional. And retail. And she's going to take us through partnering with life and expanding distribution. So Michele?

Michele Bang {BIO 16457509 <GO>}

You left me with five minutes so I'm going to have to zip through this. I'm going to review two strategic priorities for Eastspring. One is Partner with Life; second is building third-party distribution. Life business, you will find out at the end of the presentation, is a strategic core backbone to who Eastspring is and why Eastspring -- who is Eastspring. So 62% of our funds under management comes from our Life channel; split between institutional general account money. And the retail money, which is defined as insurance linked products.

Year-over-year, this client base gave us increase of 20% of our funds under management. Three things key our meeting this client demand: performance, product. And client service. Performance, Guy touched on just now. Product innovation is key when clients in Indonesia want Indonesian equities; when Chinese clients want Chinese-denominated, renminbi-denominated fixed income, it is critical that we provide those products for our Life clients.

Client service. You heard Indonesia alone, 300,000 agents across 150 cities in Indonesia alone. To provide service to our Life clients, Eastspring has to have the local footprint and the training capability and the agency, tailored seminars and events, for us to be supportive to Life client.

Third-party distribution. This is where, in the end, you will find why we are very complementary to Prudential Asia's footprint. As you heard, Life clients business is dominant in Southeast Asia. Economic growth cycles, et cetera -- you know these figures better than I do. In North Asia where the retirement savings -- our pool of assets are based, we saw this coming through this year where 71% of the net new flows came from Japan, Korea. And Taiwan. The flows are mixed between the sovereign wealth, institution, insurance company. And retail.

You cannot be more diverse in client base than what we saw today. Institutional in Japan, GPIF, the trophy client, globally largest pension fund, awarded us with the mandate in Japanese equity. A European institutional client gave us mandate in Malaysian small-cap. Fixed income -- various central banks in Asia have given us awards in Asia fixed income. Those asset classes are growing; market is coming back to Asia.

Taiwan, you heard, is the most competitive offshore and onshore market. We remain very well positioned in Taiwan as one of the largest retail managers.

Now I would like to make sure that you walk away today understanding this footprint of what does this mean for Eastspring. I've colored the markets in terms of size -- in red and grey. And in size. So the gray bubbles -- Japan, Korea, Taiwan, Hong Kong, Singapore -- are the largest pool of money. However, the characteristics of these markets is that over half of the funds invested from clients in those markets are in overseas asset class. So European equities, fixed income, et cetera, these are where most of our competition play in, because that's what they manage somewhere else in the world.

The red markets, look at the size of the bubbles: China, India, Thailand, Malaysia, Indonesia, Korea sometimes flips back and forth. They invest over 90% of their money into domestic asset class. So when you are talking about dollar appreciating, depreciating, QE2, et cetera, what do you think happens to those investors in those red countries? It's not that they don't want to invest abroad. Some of these countries, the government doesn't allow currency to convert. So they live 90% of the time in their own markets.

So when you look at our competition, you'll find it very strange that not many can have the franchise we do in the red markets. Because in order to manage domestic asset class, you must be able to compete with your local giants, with large distribution.

Eastspring is well positioned in the large retirement savings pools of money in North Asia. Eastspring is very well positioned in the red markets, where currency controls will over time evolve, mainly because of our Life partner. So this puts us in a very unique, unparalleled position vis-a-vis our competition when you have regulatory changes, governments who want to do passporting, that is great for us. Great for others.

If they don't, that doesn't matter to us. We are literally the Asian passport because we have manufacturing, product, marketing, the entire franchise in each local market. So I end just on time to leave you with a view of who is Eastspring. We remain focused on delivery. We work 24/7. And we do not sleep at night. Thank you very much.

Adrian O'Connor

Good morning, or just about. And Brad Harris, who many of you know will be presenting with me today -- and on Pete Lloyd's retirement last year, Brad has since become our Chief Actuary, a vital role in PCA.

What are we going to talk about today? Not surprisingly, given that we've got 2017 objectives, it's going to revolve around free surplus generation and IFRS.

Three years ago at this event, I showed you the relationship between free surplus generation and IFRS. I'm going to close that circle today by showing you the relationship, the connection, or the link between embedded value and free surplus. That's the first part of the presentation.

Then Brad will come in. And then -- and in our reporting accounts every single year, we show you year-by-year expected monetization. But how have we been doing against that monetization? Brad is going to compare actual delivery against expectations. And to give you some color, he's going to show you that at a broad product level to give you some detail. And finally it will come back to me to bring all of that together. And see where that leaves us on the roadmap to our 2017 objectives.

Believe it, or believe not, I have been in the insurance industry since before the term embedded value was invented. So I've been working with embedded values. And all of its iterations, for quite a number of years. For a period I spent with American companies and as you all -- or a lot of you know, for financial reporting, American companies are almost totally focused on US GAAP.

And in preparing for this presentation, I was surprised at how much I had forgotten about embedded values; how much new I had to learn. And also I was reminded of the elements of EV methodology, which drive me nuts, to be quite honest. Now peppered in all that preparation were some fantastic aha moments. And -- which made the whole exercise worthwhile.

Tidjane has put me under a bit of pressure today already. But I do promise each and every one of you that from what follows, you will get some new insights, even for those of you who have excruciating knowledge of the detail of embedded value. So with that, let's get started.

With the traditional definition of embedded value, it is equal to net worth or equity -- difference between assets and liabilities, plus the value of the in-force, the value of future profits. What you don't see there is any mention of free surplus, free surplus generation. So we're going to change that.

Okay. Net worth is made up of what we call target capital, the capital that we want to hold in each local business. And typically that is 150% to 250% of the local requirement. What's left is excess. And what we term excess is actually free surplus stock.

We're going to do one more thing. We're going to add that target capital. And we're going to add it to VIF, value of the in-force. And what you get is the value of future monetization. What that means, present value of future free surplus generation. So in fact, embedded value is all about free surplus stock and free surplus generation, completely linked.

Let's put some numbers around that from the end of 2012. Embedded value, GBP9.462 billion, split up between GBP8.488 billion of VIF -- value of future monetization, apologies -- and free surplus stock of GBP974 million.

Just one last thing, before we leave the definition. I was privileged to work with a gentleman in New York who I have called Steve Steineck [ph] who was a Chief Actuary there for many years. And for the brief period I was with him at New York Life, he was a great mentor. And I had this in my -- literally to this day. And it's quite a number of years ago -- I have it in my mind's eye the day when I was talking to him. And he turns to me. And he says -- it's towards the end of his career -- he said, I don't like embedded value. In order to understand the profile of the in-force business, what I want to know is what is the year-by-year expected cash flows. That has meaning for me, not the value. Now every single year, as I said before, in our reporting accounts, we show those numbers undiscounted, year-by-year expected future cash flow.

What drives the change of the growth in embedded value? And that's what we're going to turn to next, by looking at 2013. Embedded value grew from GBP9.5 billion to just over GBP10.3 billion. Now it's going to be easier to show how this works by looking at the growth in the two components. The growth of the value of future monetization from GBP8.488 billion to GBP9.120 billion; and then later, to show you the growth of free surplus stock between GBP974 million and GBP1.185 billion.

So let's start with the change in the value of future monetization. So this, you've seen before: the GBP8.488 billion at the end of 2012, represented by those future cash flows. Five things are going to happen, five drivers. So let's go.

The GBP719 million disappears because it monetizes. It has actually moved into free surplus. We expected it to monetize. It's monetized. And the second thing that happens is all those cash flows move one year forward. So we discount them for one year less. And that terrible word called unwind, that's what unwind is. So in our case, it's set average discount rates just over 7%. And that adds GBP594 million.

Things don't turn out as expected. And without operating movement, which is basically, as Lilian describes, PEC, persistency [ph] expenses and claims, plus target capital movements of a very small number: GBP58 million. So at 7% [ph] of the initial value of just over a GBP8.5 billion, or just under GBP8.5 billion.

Now, the biggie: all of the work Tony, Lillian. And each of the CEOs and all of their teams add GBP1.449 billion last year. The most important, new business quantity and quality -- critical -- making up 17% of the initial value of future monetization. And of course that comes with an investment of GBP310 million, which you will see later.

And finally, we have what we call non-operating. These are mainly the economic movements. Negative GBP750 million, not surprising given the FX. And that is all FX. So they are five components that get us to GBP9.12 billion. Each of the elements again -- and as you can see, the biggie is new business.

Okay, that was one part. Now we're going to look at the change in free surplus stock from GBP974 million to GBP1.185 billion. This will be quicker. There is a slide we saw before, plus we've got one other -- one slide.

We've got the expected transfer, what you saw before. It was in value of future monetization. It's now monetized GBP719 million. Return on the assets backing net worth of GBP74 million; operating movements, GBP26 million. That investment in new business, which we talked about, is an investment from free surplus stock of GBP310 million. And then non-operating movements of positive GBP95 million.

At the last one, which is different from before, is dividend payments back to group, GBP393 million, which brings it up to the total of GBP1.185 billion.

Okay, in summary, because there's a whole pile of reconciliation people in the room; so here's a reconciliation of it all. Three columns: value of future monetization, which you have seen before; free surplus, which you have seen before; and we just added them up to show you each of the components of embedded value.

Now hidden in all these numbers are two more things: the components of our two KPIs, the first one of which is free surplus generation of GBP509 million, made up of transfer to free surplus, expected return on existing assets, those operating movements. And that investment in a new business.

Second KPI that is there -- that is hidden there is operating -- EEV profits of GBP189.1 million. So that's a quick run through of the relationship between free surplus generation and embedded value. And how it all hangs together.

With that, we're now going to change up. Brad is going to bring us through delivery against expectation of monetization.

Brad Harris {BIO 20251342 <GO>}

Thanks, Adrian. Good morning. I want to start out by going backwards to a slide that Adrian just showed you. So again, this is year-end 2012. And this is our expected free surplus generation in the bottom right-hand corner. And that's where I'm going to focus for the next few minutes. And I am going to be walking you through the 2013 results. But in a slightly different way than Adrian.

And I'm going to be answering three questions for you today. The first is what product lines are driving our free surplus generation? The second, did we meet our operating free surplus generation expectations in 2013? And the third, given what happened in 2013, what has changed of our expectation of free surplus generation in 2014 and beyond?

So where we would like to start is focusing on the cash flows again, the free surplus generation in the future and where are we getting it. Now I'm going to divided into three product lines. We have linked and protection riders; we have participating business. And non-participating business. Now the definition of these are slightly different than some of the numbers we are presenting. In other words, a lot of times we will pull out all of our health and protection and show you what that sales is on its own. Because that way it highlights our focus on rider attachment ratio and such.

What I'm doing here is the linked and protection, on the bottom in the blue, is purely the linked-based policies and all of the riders associated with those. Because from a financial movements perspective, you can't separate the two because it is the linked fund that is paying for the underlying COIs and premiums on those riders.

The participating business at the top is what it says. This is our participating business. In all of our big business units, it looks something similar to what you're used to seeing in the UK, with ring fence par funds and such. And in the middle in the green, this is our non-par. So the nonparticipating, it's two main groups of product lines. The first are -- is all of our stand-alone health and protection: term life, medical business, critical illness, hospital cash, that type of thing. And it's also any type of savings product in which the Company itself is providing the underlying guarantees. It could be a savings endowment product, for example. So that's the definitions of the three different product categories that we're going to talk through today.

The first one that I would like to highlight on is the linked and protection. So this represents 60% of our expected free surplus generation across Prudential PCA. And where I want to spend my time is on the GBP421 million. So at the end of 2012, we said -- and what we put in our external numbers if you add up the three different product lines -- is we said that we will make GBP421 million of free surplus generation in 2013. So the question is, did we deliver that?

First we looked at operating side. And we have two positive results. First is we had a positive return on the free surplus. So we have return on the free surplus that we already had from allocated (inaudible) product line. And the second is we look any operating assumption changes in variances.

So here again, we have a positive in 2013 compared to our expectations when we closed out 2012. Now if you think of free surplus, it is really, in a very simplistic form -- it's a local P&L. It is statutory-based, plus any movement in capital local [ph], our target capital. So that is really a very simplistic way to think about it. And so the only two things that are going to change in the variance within that particular year is if I am changing my required capital within that, or if I have a variance that is driving cash flows. I pay more or less claims than I thought; I paid more or less expenses than I thought.

In the linked business in 2013, this was primarily driven from capital changes. So we had some regulatory changes around the region, one of them specifically in Indonesia. They changed the requirements of how the target capital -- how our capital was calculated. And because of the types of business that we write, we released capital because of the new regulations. So that is the positive that we have in 2013.

Once we had generated the operating free surplus, we are investing, as Adrian said, in new business. Now again, the unit linked with protection riders is very capital -- it's not intensive at all. It's very capital efficient. And because of that, we invested GBP146 million in new business.

Now on the non-operating side -- so when we look at what's happened in the assumption changes on your financials. And also what has happened on the variances. And we also look at FX. If everyone remembers back in 2013, interest rates rose in every single one of our markets outside the Philippines and Vietnam. In some, it was dramatic. The 10-year government in Hong Kong was 60 BPs at year-end 2012. There's 231 BPs at year-end 2013. So we had a lot of movement that year. And everything is mark-to-market here.

And so what you are seeing is again, there's two different items that are going to affect the economic assumption changes and operating variances. And that's the mark-to-market side. But it's also any changes in capital requirements due to maybe local statutory valuation interest rates, for example.

Because this is a unit-linked policy, we are immunized from a lot of that. There's not a lot of capital that we holding and -- because of the types of product it is. And at the same time, the assets are separate accounts and so we don't get hit directly 1 to 1. So where you are seeing driving the GBP19 million here is the fact that interest rates went up, bond values went down. And our asset management fees went down. They were below our expectations in 2013. If I look at FX, that is purely driven by Indonesia.

So all in all, we delivered our operating free surplus on the unit linked and protection riders. We invested in new business. Then we had the market movements and FX at the end. So then the question is these three areas, from an operating new business and on the non-operating, how does that affect where we think we will be going in the future?

So the operating items come through as a slight negative in the future. And the reason is you're holding less capital; you've released it in 2013, which means over time, you are releasing less capital.

So they offset each other. If you look at embedded value holistically, they balance out. You'll get a slight negative due to discounting. But here, you see the upfront changing capital. And you see the difference in the releasing capital every year. So again, cash flows are much better way to look at it. It gives you a lot more insight.

The second piece is new business. This is the value that we are expecting to gain from the new business that was generating -- in the investment that we made in new business in 2013. It's a very substantial for the ILP products. Then the last piece, economic -- and this is all FX-driven.

So in summary, this is where we started the year. That was the changes of all three combined. And at the end of 2013, this is our new expectations.

Now I'm going to move on to the next product line, which is going to be the non-par. Focusing again on what we said at year-end 2012, what we expected to make in free surplus generation in 2013: GBP200 million. From our operating perspective, again, we met those expectations. We had a positive return on free surplus. And we had a GBP32 million positive assumption changes in variances.

And this one is about half and half. About half of this is due to positive variances, mainly driven from positive claims; and half of it is due to capital movement. So we had some changes from the regulatory side. Singapore, for example, had a new MAS 319 coming out. That changed the capital requirements. We had new reinsurance deals being renewed and such. So there was movements on the capital side, representing about half of this. But all in all, net our operating free surplus targets.

Investment in new business. This is an area that -- this shows a big difference between the ILP products and non-par. So the ILP, we sell roughly just a little more than twice as far as the non-par, using the definition that we have here today. But you'll notice that the new business strain, the investment in new business, is almost the same between the two. And that's because roughly the new business strain is almost twice on the non-par. And that's because we're the ones making all the underlying guarantees. So we are providing all the insurance benefits; all the investment guarantees and such are being held by the Company. And because of that, there's more-capital intensive when you sell those products upfront.

That also flows through the economic movement. So here, the mark-to-market, we take 100% of it. At the same time, you get an offset; because as interest rates go up, your valuation interest rate goes up. And that helps on your liability side. However, again, this is local statutory-driven. And they're not always in sync, 1 to 1. And so there's a lot of smoothings and different rules in every single business unit, in which you will get some disconnection between the market value of your assets and your liabilities.

And so what you are seeing here is the bond value -- because that's what we have supporting these products -- went down as interest rates went up. And that was partially offset by a reduction in the liabilities. And the FX impact is really nonexistent; and again, that's mainly because Indonesia is where we had the FX changes in 2013. And this isn't a key product line for them.

So now focusing on what happens in the future, given what we saw in 2013, again, the positives that were released on the capital side in 2013 are now coming through as slight negatives in the future. Some of the lumpiness is purely just caused by local regulations on capital. New business on us [ph] is very strong. So we invest more on our non-par upfront. But we are rewarded from that because we are the ones taking the risk. And that's where you see a lot of positives coming through on the new business side in the future.

Then the last piece, non-operating. And this is due to the fact that we took the one-time market hit in 2013. But it means our expected gains in the future are higher. We have higher fund earning rates. So that comes through on these products.

So in summary, we started the year. That's the changes of all three of them combined. And that's where we finished the year on expectations for 2014 and beyond. And the last one that I want to walk you through is par.

At year-end 2012, we expected to make GBP97 million in 2013 free surplus generation in par. From an operating perspective, we are in line. This is probably the first time -- one of the only times you're going to hear me say that negative is positive. So again, taking you back to par -- so what you are seeing here on the par product is we make money. The Company makes money when we distribute benefits to our customers. And one of the key items. And where we distribute a lot of benefits to customers, is when they terminate their policy. So when they terminate their policy, we will give them their benefits to that point in time. So lapses actually drive value for us because if we have high lapses, then we pay more benefits out. We get our share of those benefits when we pay it.

What we saw in 2013 was we had lower lapses than expected. So again, this negative in 2013 is because we did not get our share of what we were paying out as terminal bonuses. And such. But it makes more profit over the lifetime of the policy for us. So this is a positive for us, even though it's a negative in 2013.

The investment in new business -- and this is where I'm sure a lot of you are scratching your head, thinking it's par product; we shouldn't have any investment in new business; the par fund absorbs all of that. That is true, if we look at the core markets like Singapore, Hong Kong, of where it's more of a traditional UK style par product. But around the region, all of our par policies are held accountable to local requirements -- local regulations. And in some of those markets, it's different.

So for example, this is mainly driven by Vietnam. Vietnam is a fiscal year par, which means every year they calculate profitability of that par. At the end of every year, you distribute the profits between the policyholders in the par fund and the Company. So every year, when you have new business going into a par fund, that holds down the surplus that year. So what ends up happening as we as a Company are participating in the upfront new business strain. So that's why we have the new business strain coming through here. It's just a nuance of the different par funds that we have around the region, given local regulations.

And again, because they are sitting within a par fund, you are not going to see any movement due to economic assumption changes. And there's no real FX movement. So as expected.

Moving forward, this is the positive from the positive persistency. So it's much larger than the negative that you saw in 2013's numbers. So again, it's a positive.

From the new business, there's the value of new business. Now, one thing that I want to point out is that you'll notice that all of the other product lines, the new business started out and it grew. And then it slowly shrunk down over the projection period. This one is growing over the projection period. Again, it's because we make our money when we pay the benefits to consumers. And a lot of those benefits are later on in the policy as it is accumulating. So it's a slightly different profile than you are seeing on the other two product lines that we have.

Then the last slide on this one, non-operating items. There is a one-year lag in par. So what happened in 2013, as far as interest rates going up, the value of the bonds and the par fund going down, doesn't affect 2013's distributed amounts to the policyholders. That decision is made at the end -- at the beginning of 2014. And then we declare bonuses around April 2014. So there is a one-year lag. And that's when you are seeing the negatives. So the bonds went down in value. We will declare slightly lower bonuses for the next couple of years as we actively declare those. But over time, with a higher fund earning rate, that's where we get the positives. So that's the movement that you're seeing here.

So again, in summary, that is the combined impact of all three of them on the par business, walking from year-end 2012 to year-end 2013.

So going back to the slide that I started with, this was our expectation of 2013 and beyond, at the end of 2012. After 2013 has transpired, we have the changes in operating, new business. And we have the non-operating side. I want to layer what we have just calculated for each of the three product lines. And so we have an increase. We started at GBP8.4 billion. Now, our total value of future monetization is GBP9.1 billion.

So all in all, what you are seeing is we delivered the operating free surplus in 2013 that we said that we were going to deliver. And you also noticed that as Adrian said, the key driver to future free surplus generation is new business. It's the profitable new business that we are putting on the books. Then at the same time, you noticed the three core product lines react and behave very, very differently to economic environment. And from a capital perspective. And the diversification that we have across Prudential is a huge asset that we have.

Thank you. Now I'm going to hand back over to Adrian.

Adrian O'Connor

Thanks, Brad. So now on to the last part of this section, the roadmap to 2017. And I'm going to do it separately, with free surplus generation and then with IFRS.

Well as usual, a few definitions. While I talked to you before -- which I forgot to mention was that we were talking about life insurance -- so the GBP509 million of free surplus generation that I mentioned before was for the life insurance. Our definition of free surplus generation in terms of our target includes the profits after-tax from Eastspring, which in 2013 was GBP64 million. So in 2013 in total, the free surplus generation was GBP573 million.

Here is the roadmap. So the legend on the right gives all of the items. But they are the same coloring as before, except for one item that you saw up here, right at the very end, which is the gray bit. And that is the contribution from new business written 2014 to 2016. Important to note, even though we don't know where all that is going to go, it is critically important in terms of achieving our 2017 objective. And that number obviously requires investment in new business, which is below the line. The orange below the line is significantly investment. But not alone is it achieving the -- that investment achieves the target or the objective in 2017; it grows the business on -- way beyond that.

Before we leave free surplus generation, just want to pause and talk further about the importance of recent new business has -- the recent vintages of new business have -- on this year's free surplus generation. The way I'm going to do that is by looking backwards.

So from the previous slide, we've seen the blue lines are the expected monetization at the end of 2011, with GBP674 million in 2012. At the end of 2012, we expected GBP719 million. At the end of 2013, we expected GBP801 million in 2014. It's just come up there, go back to 2011; we wrote new business. That cost us GBP297 million. At the end of 2011, we expected that investment in new business to generate GBP104 million in 2012, GBP123 million in 2013. And GBP120 million in 2014.

Roll the clock forward a year: 2012, business written in 2012, we invested GBP292 million. We expect at the end of 2012 that that would generate, in 2013, GBP105 million; and in 2014, GBP129 million. And finally, last year, as we mentioned before, we invested in writing that new business, GBP310 million; and expect this year, GBP116 million to be generated.

So if we add all those original expectations up, from the business written in the three years from 2011 to 2013, GBP365 million is expected to be generated this year of the current expectation of GBP801 million -- 46%. So recent vintages are critically important in free surplus generation.

Now let's turn to IFRS operating profit. What I'm going to do is recap, because I no doubt everyone has forgotten what I said three years ago. So I'm going to recap how we actually -- the relationship with the bridge between free service generation and IFRS. And as I did three years ago, we actually split up into two components: the new business part and the in-force part, because it's easier to understand. So I want to just show you the starting points as we -- GBP310 million and in new business investment. And GBP883 million generated from the in-force last year on a free surplus basis.

There are four elements to this: tax for both [ph] tax; change in required capital; something to do with the deferred acquisition costs; and then changes, differences in each asset and liability valuations between embedded value and IFRS.

So let's just quickly go through the new business. Tax gross-up, GBP42 million. It requires capital to set up the business, GBP107 million. Deferred acquisition costs -- we pay money to get to the business. A lot of it is commission. When you set up a deferred acquisition asset for that, GBP142 million. And finally there is a difference, even at the beginning, between assets and liabilities of GBP88 million. And mainly that's on the reserving side. Leading you to IFRS new business strain of GBP15 million.

So let's look at the in-force. Similar contributors. But in different sizes. Tax gross-up, positive GBP217 million. Change in required capital knockback, big GBP18 million. Now we're amortizing those acquisition costs, negative GBP104 million. And finally differences between assets and liabilities, between the two bases, of GBP76 million; leading to operating profit of GBP1,090 million. Add all that together. You go from post-tax operating free surplus of GBP573 million to pre-tax IFRS of GBP1,075 million. And my simple way, as I say, there is a -- profits -- IFRS profits, even taking into consideration tax is -- comes quicker than free surplus generation. The main reason, new business strength.

Let's look at the roadmap. Again, the legend on the right shows you -- is again the difference between free surplus generation and IFRS profits, the same elements. But the most important point -- you can see straightaway, the key element is free surplus generation to IFRS. The key element is free surplus generation. And as we have said on numerous occasions during this presentation, the key to free surplus generation is new business.

To wrap up, three simple messages: firstly, embedded value is all about free surplus stock and free surplus generation. Secondly, we have delivered against free surplus generation expectations. And some. And finally, the quantity and the quality of our new business is key, key to driving the delivery of our 2017 objectives. Thank you.

Tidjane Thiam {BIO 7518525 <GO>}

Okay, let's get started now. No more slides. So thanks for sitting through the whole morning. We have to Q&A sessions. We will have one now. And we'll have another one at the end of the day. So I will --

Unidentified Speaker

Also within the carousel sessions.

Tidjane Thiam {BIO 7518525 <GO>}

Yes, of course the carousel. I'm saying the formal Q&A session (technical difficulty). So we aim to stop it 1. So we're only going to take a series of questions now. And knowing that this is not your only chance, we can come back in more or less the same configuration later.

So as usual, Robert [ph], you're going to distribute the questions.

Unidentified Speaker

Two ways to ask questions: raise your hand and then state your name, firm's name. And then wait for the microphone; or you can even ask us on the app. So I'll wait for a show of hands.

James Garner {BIO 4126548 <GO>}

Hi. Good morning. James Garner from HSBC. I've got four questions; firstly want to talk about India. Quite frankly, is there any hope for the Indian Life market which has some of the lowest margins in Asia, thanks to regulatory overkill? And also the market is dominated by LIC, which has several structured advantages. Do you think there's any scope in the next three years of a regulatory loosening which could help your business?

And secondly related to India, can you give an update on whether the bank is forced to become brokers instead of risk. And whether your insurance business could be subject to premium limits?

The second area of questions is on the Malaysian business. Can you give an update on the likelihood and the impact if Bank Negara follows through with its threat to cut the proportion of first-year investment link premium allocated to shareholders from 50% to 20%? It looks a strange initiative, given the regulator's ambition to actually increase insurance coverage in Malaysia.

And just finally on Thailand, two questions here. First, is there any hope for the unit link market there? It seems to be a structural preference for guaranteed savings products. Secondly on Thailand, can you comment on the regulatory pressure which is now coming on high-margin credit light products, which have very high margins; and just wondered whether this would impact your business in any way.

Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you. Thanks, as well, when you said four questions, thanks for making the brief. So well done

Seriously.

We don't disagree with a word you said about India and LIC. Yes. The market is dominated by LIC. It's not attractive from a profitability perspective. We have always looked at it as a long-term call option in the hope that at some point, the regulation would improve and allow us to make a decent return. I wouldn't want to put a term on it. So you said three years. I would not want to commit to a time frame by which that would happen.

But Barry and Tony go to India regularly and run the business. Do you have a view on that? Your prospects for positive regulatory change in India?

Barry Stowe {BIO 15021253 <GO>}

I wouldn't be hugely optimistic in the midterm. There's nothing happening to suggest that the regulator will take a fundamentally different view. What they ought to be -- what we'd love to see them thinking about is ways to put tax leverage around appropriate consumer behavior to end this cycle that they seem to be in, where anybody with a net worth of a few thousand dollars wants to put it all on a mutual fund, as opposed to practicing sensible financial planning.

There is not enough control of distributors. Accounts get churned. So distributors do well; consumers don't. They ought to be looking at ways to drive people to buy protection. And they're not focused on that.

You contrast that -- everybody always compares India and China. You contrast it with China, where the regulator steps in and does very smart things like shut down the white-hot deposit stripping in the bank channel. You basically shut it down cold. And then come back a couple years later with a rule saying, you can actually now put insurance reps in the bank branches and sell, as long as 20% of what they sell is protection, which is exactly the sort of thing you would like to see regulators doing.

I don't know, Tony, do you want to --

Tony Wilkey {BIO 19184129 <GO>}

Yes. We just got back from India. I think we were there last week. And while the regulatory landscape with IrDA is always complicated dynamic; you never know what's coming next. Given -- we are where we are. But when you spend time with our business there, ICICI Pru, everybody you talk to will say the same word: protection. That is the theme running through the business. And we're going to do the best we can to build the protection segment. It will be probably more around critical illness. But we're going to -- it's a very different business than it was five years ago. It's much more efficient. The expense ratio is better, the agency is much more productive. And so we will train them to sell as much protection as we can today.

Barry Stowe {BIO 15021253 <GO>}

And terrific leadership; Sandeep Bakhshi is the CEO. So he's just a terrific executive.

Tidjane Thiam {BIO 7518525 <GO>}

The business is excellent. The team is excellent. The problem is, we're very (multiple speakers). So it's one of our lowest margin markets in the world. It's much lower, on a nominal basis, than in the UK. So on a risk-adjusted basis, it's not good. The only reason to stay is the hope of an improvement and who can [ph] develop a protection business. But we think it's working. Because if you develop it, it will be big.

Okay, brokers and banks in India? Any --?

Tony Wilkey {BIO 19184129 <GO>}

We're not seeing a lot of activity. If you look across the competitive landscape, many of the -- exclude LIC for second; so look at the private sector. Many of the JVs are actually tie-ups between insurance companies and banks. So they are very reluctant to obviously open up what it is they have to offer, where banks are unassociated with a life company -- as was the case with Standard Chartered Bank -- we were able to come in, set up a broker. And quickly get the flows going.

Tidjane Thiam {BIO 7518525 <GO>}

Regulatory reform in Malaysia was the next one, the Bank Negara initiative. There's been more meetings since then.

Do you want to give an update?

Barry Stowe {BIO 15021253 <GO>}

Yes the -- we're not crazy about some of the things they're talking about. It's very pro-distributor. If you look at this whole -- and Steve is going to spend some time in the carousel. And you'll get some detailed information on that. But it is very distributor-centric regulation, which is not what we like to see. I'm not sure -- there's a lot more (multiple speakers) to add to that.

Tidjane Thiam {BIO 7518525 <GO>}

Maybe I can add to that that we still think -- but outcome is quite unlikely for the reason you gave. And it's in contradiction with the objective they are following. So certainly we've made representations today. And made that point in the industry as a whole as well.

Barry Stowe {BIO 15021253 <GO>}

The good news about the process that regulators in Asia go through, when they are thinking about these changes, is there is close and real consultation. You're not presented with things as a fait accompli. You saw that here in Singapore.

One of the best examples with the distribution review they did here, the fair review, which started in a place that we would not have been happy with; ended in a place that we were quite comfortable with. So we've gone through that process in Malaysia. There's still a lot of work to do, to land this regulation -- regulatory change where you'd want it to. And again, Steve will cover some of the specific details and feedback that we've given to the regulator. And how they have responded to that, in the carousel session; but more work. It needs to land in a better place than it is now.

Tidjane Thiam {BIO 7518525 <GO>}

We cannot overemphasize much. You said that in your remarks, Barry, that the regulator considers that ensuring the competitiveness and the success of the industry is part of his responsibilities. It's something we lobbied for very strongly in the UK. We managed to get a sentencing below in the end. But clearly the behavior of a regulator in Asia -- there was a trade-off made explicitly between customer protection and competitiveness of industry. And that discussion always takes place explicitly every single time we take Singapore under a fair review. But also on Blue Shield. We discuss absolutely everything.

So when something is going to be implemented, we will be in agreement. It's nothing imposed on us between the industry and the government. And they are very transparent about what we're trying to achieve, which I think is the right way to regulate. They call us and say, this is the outcome we would like to have from a customer perspective. Can the industry deliver that? Under what conditions; would do we need to do? What -- et cetera, et cetera. So it's very -- that's part of why we're so relaxed about the famous regulatory risks, or the way they approach it.

I think the next one was unit linked in Thailand, prospects for unit linked in Thailand. You want -- yes, Lilian?

Lilian Ng {BIO 4943480 <GO>}

In Thailand, the reason why unit linked is not as popular is actually the tax benefit, whereas if you actually buy a traditional product, you can match some tax exemption. And also if you look at the Thailand landscape, it is actually now dominated by the big, local insurers with the bank. And so what they normally sell are typically your saving, deposit, replacement type products in the bank. And so there is no desire for them to actually go and do investment in product. But that doesn't mean that's the case for us.

As I said earlier, we -- there's only three companies licensed to sell unit linked in Thailand. And we are one of them. So we started with single premium ILP. And now we've got a regular premium ILP with the regulator right now. So it's something that we need to continue all be the regulated [ph].

Tidjane Thiam {BIO 7518525 <GO>}

Okay. I will give you -- we will come back to you, if you don't mind, James. And where do we go next?

Jon Hocking {BIO 2163183 <GO>}

Thank you. Sir Jon Hocking from Morgan Stanley. I've got three questions please. A couple on the par business, then another one on the agency numbers you gave. So firstly on par, what if you give us a little bit of a flavor of the par business by country? What sort of guarantees are on new business, back book. And what the capital strength in the different funds looks like in the different countries. That's the first question.

Second question, the product mix -- although I can see the profit mix is very strongly towards the health protection, you've seen the par mix share go up, given low interest rates. Just wondered when you expected that to start swinging back. The asset management guys were talking about (multiple speakers)

Tidjane Thiam {BIO 7518525 <GO>}

So let me understand [ph]. you said the par went up and --?

Jon Hocking {BIO 2163183 <GO>}

So the par mix has gone up during the crisis. I wonder when you think that's going to swing back down to the normal mix, where you see more unit linked.

Then just finally on the agency productivity numbers, in Vietnam, the comment was made that you've got 7% of agents producing 45% of the business. I wonder if you could give us a flavor on whether that's typical, or is that something you see in the less-developed countries?

Tidjane Thiam {BIO 7518525 <GO>}

Okay, very good. So you'll get a product workflow today, where we are going to talk about par in more detail; but Barry, maybe Adrian, can give a high-level flavor of bread [ph] with two type of par (multiple speakers) high-level?

Brad Harris {BIO 20251342 <GO>}

Our par products -- and again as Tidjane said, I will take you in more detail into Hong Kong. It is very similar the way that we manage par across Asia. And that is we keep our guaranteed cash values low. So that we can have an opportunity to invest a little bit more in equities to be able to provide a better overall long-term return for the customers. So you are not going to see a lot of differences around it, other than what specific regulatory differences in countries. But generally, that's the philosophy that we take across all of Asia.

Barry Stowe {BIO 15021253 <GO>}

In the presentation that they are going to do this afternoon, the carousel, you'll see -- they will show examples of what was illustrated at point-of-sale, what was guaranteed, what was illustrated. And what the performance has been. And what you generalists performance outstripping even the illustration.

Tidjane Thiam {BIO 7518525 <GO>}

Real-life example. Actual products (multiple speakers) we use. It will be quite detailed.

Anybody wants to have a go at reported mix, going forward, predicting it?

Adrian O'Connor

We'll there's just one point. There has been a move to bancassurance. And bancassurance, by itself, actually there would be more par there. So there is a permanent piece there that will be par. They think there is a question mark as regards to agency, where agency has moved a little bit more to par. And whether that comes back or not is -- it remains to be seen.

Barry Stowe {BIO 15021253 <GO>}

So the shift to bank. And the growth of bank is a major contributing factor. The view of regulators -- and you have seen this with regulatory changes that have come about in the past several years, they still look back at the crisis. And the think a lot of the misbehavior was around products that they associate with the unit linked chassis. We never had any issues because we were selling a very straightforward recurring premium unit link.

But some of the banks did get into trouble with other insurance companies. And so there is -- you see new regulation come in. And in an environment where particularly the multinational banks seem to keep stepping on landmines and so forth, their reaction is if they see -- if they sense anything in the regulator's demeanor that suggests the regulator is looking very, very closely at unit linked, sometimes the reaction of the bank is just to step back and say, we can sell par.

Tidjane Thiam {BIO 7518525 <GO>}

And don't forget about what happened in Hong Kong with unit linked. It's just an example. I know it makes your life more difficult as you are trying to forecast our numbers. But honestly, very hard to predict product mix going forward. It's close to impossible. It depends on too many things that are completely outside our control: the macroeconomic environment, the appetite for unit linked versus par. Interest rate objectives and policies by country vary; what's going to happen to a dollar? It is very hard.

What we have is a broad product range. We are very confident about what type of product is strong, at a given point in time, we have. So we will translate that into earnings somehow. But to tell you ahead of time that the mix is going to go this or that way is very --.

Barry Stowe {BIO 15021253 <GO>}

When we started the protection strategy in December 2006, I got a lot of questions about how much should protection be. It was single digits when we started. I said, boy, if we could get it to 20, that would be the optimal space. We are at 30. (multiple speakers)

Tidjane Thiam {BIO 7518525 <GO>}

It is what we control; what we don't control. That's one we don't really control.

Agency productivity, is Vietnam typical of the other countries?

Tony Wilkey {BIO 19184129 <GO>}

How many hours do you have? I think what we tried to explain earlier was the reality is, different markets are at different stages. So if you go to look at agency in a country like Singapore or Hong Kong, by its very nature, where there are a limited number of new agents that you can bring into the business, you must drive very high productivity. So you will see activity rates -- activity is defined as selling at least one policy per month. In those type of markets, you'll see activity rates in the 60% to 70% range. These are full-time agents. They are educated. They've got MBAs; some of them are CFAs. This is all they do.

You go at the other end of the spectrum, like Vietnam and emerging markets, these start off as part-time agency forces, where that related activity rate would be more in the mid; to high teens. So it's a very different dynamic, dependent upon where the evolution of the market is.

Unidentified Speaker

I was going to the app. But I see Greg is the inaugural user of the app. But he's got his hand up as well. So why don't you, Greg, go in your own voice.

Tidjane Thiam {BIO 7518525 <GO>}

Just be safe. Okay, we will go to Greg, then. Three questions.

Unidentified Participant

I like the humor. Yes, I will do two. But --

Tidjane Thiam {BIO 7518525 <GO>}

No.

Unidentified Participant

Just trust me, a bit nervous. Just one is -- bancassurance has been a strong driver. And I was -- and you might not have an answer. But I was just thinking if you could update us on Europe. You -- I think you were four years into the deal. How much do you view has been created. And how much of the original intangibles have been amortized as points? Just so we can keep track of profitability here.

And in that light, I think you've just -- you lost three bancassurance deals and your comments, Barry, implied that you would be better under DBS [ph]. I was wondering if you want to talk about the economics on the front end of bancassurance deals, how they are going, who is bidding. And what sort of work is going on there.

Tidjane Thiam {BIO 7518525 <GO>}

What is your question, exactly? Sorry.

Unidentified Participant

So I'm just trying to understand the competitive environment for bidding for bancassurance deals, because you've just lost three. Obviously someone bid very aggressively. I was just trying to understand where the pricing is going.

Barry Stowe {BIO 15021253 <GO>}

What you're saying is we didn't win (multiple speakers).

Tidjane Thiam {BIO 7518525 <GO>}

We were not the winning bidder in three situations. Is that what you're saying?

Unidentified Participant

It's just the bancassurance of where we are today and what the pricing is. Then just in terms of product, is it fair to say that you've done well, implying that you've got big inherited estates that allow you a competitive advantage? Which is good going forward; I was just wondering if there's any regulatory threat there, or anything versus the US players you are running out of a general account.

Then in terms of AIA and discovery -- the JV there (multiple speakers)

Tidjane Thiam {BIO 7518525 <GO>}

Is that a fourth question?

Jon Hocking {BIO 2163183 <GO>}

Yes. It's just a follow-up to A and B. So B, on the product; AIA and discovery, rolling out JVs throughout Asia, ex-China. That product differs from your hospital care, your critical illness. And your major medical. I was wondering if you see that as a threat. Or you are going to try and mimic that product? Do you just want to talk about that?

Tidjane Thiam {BIO 7518525 <GO>}

Okay, let's try. UOB -- you want some exact numbers on UOB? As you know, we do not disclose those types of numbers by transaction. And if I can just maybe step back from addressable numbers. And we're going to think about the way the group is run is we write business above the cost of capital. That's what we do.

Now we sell through -- mostly one channel is face-to-face. There's a point where our obsession with separating bancassurance and rates is a bit artificial. Because they put a Prudential person in front of a customer. And that person sells. And sells a product that has been designed and priced by Prudential; and if it generates value or not. And you can see that in the total numbers. But we're not going to start disaggregating by (inaudible) by UOB, by SCB. And give you a review on that, deal by deal. I think that's just not -- we're not going to do that.

But we can give you -- we give you as much as we can in terms of AP, et cetera, et cetera. After that, you get all the statistics by country, which has embedded in there what we have done with the banks, et cetera. But there's a level of disclosure where commentary just becomes, we believe, irrelevant to try to track quarter-by-quarter. When you are down to the level of country channel product, what you are saying becomes really irrelevant when we try to manage the business at the Asia level, taking into account all those components.

But we are confident, let's say, that it was a very good transaction. I can tell you in the price we paid, it was not assumed that the sales would be 4 times by 2014 -- 4 times what they were in 2010. The CAGR and the price we paid was much lower than that. So you can assume it is very profitable. It is what we always tell you. I know it's a topic you like, trying to assess where profitability of the book in all those deals [ph].

I can tell you with confidence, in every single deal, we've delivered much more than what we had in the price we paid. That's why we're so comfortable that it was profitable. It was a bit -- a lot of transparency in the pricing mechanism. We agree a business plan with a partner. And that's the base on which we pay the upfront price. And in every single case, we are way ahead of those business plans. So anything we do ahead of that is value for you.

Sorry. Oh, you talked about where is repricing going. That's a complex question. Again, it's very hard to make forecasts. Clearly, in spite of the skepticism of -- some people must think it's an attractive thing, because there is more and more interest in those deals. And more and more competition. Really not such a bad business to get. And competition should drive prices up, probably not down. But then it depends if you are conditioned with short-term or the medium-term.

I think there is a lot of froth right now, which is probably why you said we lost some situations. I wouldn't describe them as losing. I think we bid the price we think those things are worth on a risk-adjusted basis. And we were not the highest bidder. That's what we can observe.

I think people will learn. I think that we've seen a lot of situations come back to market. We have sometimes got later situations that we have lost in the bidding competition, because it's not just about signing a check at the bidding; it's about delivering. We always say the value of bancassurance for the bank is in the stream of commissions they earn as you sell more and more policies. Sign a big check. And when you don't have the people in the branches to sell the policies, or the people you have in branches are not very good at selling policies, it's not a great deal for the bank.

And if you could sell a Charter -- we are very pleased that the -- in their Q3, they actually talked about us for the first time. We are very material in their earnings. And our earnings are high quality because they're commission based. Banks are desperate for non-interest-based income. It's commission basis cash. And it's very material them. I think we made the right decision going reverse -- renewing reverse. Because we have a probability to sell, sell, sell; and pay them commissions every time we sell.

So I think some of the bidders will learn that over time, as they pay. And then are not able to deliver. In terms of the banks, we also learn over time that we probably should not have accepted necessarily the highest check. Because to get a check and then not build the business in five, seven years later, when the markets have moved away from you, you have to start again from scratch.

It's not an ideal position. And note that in a lot of situations, we have. There was a life business; we said we built the (inaudible) life business. There was a life business in there. But it was not very well performing. But we took over and improved. UOB also had its own life business. So we are used to taking over situations where there is an underperforming life business inside of the bank. And then taking it to a different level.

Then the inherited estate, I'm not sure I understood the question. It was -- what was your concern on NV rate?

Jon Hocking {BIO 2163183 <GO>}

So I remember two years ago I was speaking to a CFO -- one of your competitors in Hong Kong. And he was complaining about it proves offering very high guarantees. And he doesn't know how they are making any money. And I explained to him that the inherited estate was actually financing and commission. Because all -- a lot of your competitors write general account business; and hence, the commission. So that's in a competitive advantage. Maybe -- I don't know if the regulator might step in and say, wait a second, you can't do that. I don't know.

Tidjane Thiam {BIO 7518525 <GO>}

Okay. Adrian, do you want to comment on inherited estate, how we use it? The price?

Adrian O'Connor

Well the reality is, first of all, the guarantees are -- as Brad said earlier -- are actually quite low. And we are actually into long-term investment. And it's a very high equity balance ratio there. Yes there is a diff [ph] and most of the other companies could have a general account. But we have just domesticated the business. And the authorities in Hong Kong are quite happy with the way it's been segregated and set up.

So I think this is going to be a long-term thing. I don't think there's going to be an issue with regards to the regulators doing anything about it. Very happy with it.

Barry Stowe {BIO 15021253 <GO>}

Quite comfortable with it. I mean, if you are saying that the fact that the policyholder fund bears the expenses for commission to distributors, that's appropriate, because the policyholders own the fund. I don't imagine a scenario where a regulator would step in and suggest that shareholders should pay commissions on business they do not own.

Tidjane Thiam {BIO 7518525 <GO>}

And the question on AIA and discovery barrier, I don't know if you could --?

Barry Stowe {BIO 15021253 <GO>}

Yes. We think -- and I think we've demonstrated the health product is a core competency. We like to keep for us and for you all the results of that health business. We don't see that any JV -- potential JV partner brings us skills that we don't have. We think we know the region, the health landscape and the region, as well or better than anyone else. Again, I think our performance demonstrates that. So the economics of bringing in a JV partner would not make any sense to us.

Tidjane Thiam {BIO 7518525 <GO>}

We're going to do follow-ups later, just to be fair. I didn't allow James a follow-up. So we will come back to you later, Greg. Maybe a final question before breaking for lunch? (multiple speakers)

Abid Hussain {BIO 17127644 <GO>}

Hi. Abid Hussain from Soc Gen. Just one quick question. Can you talk about the introduction of a minimum state welfare provision across Indonesia? How that affects your business. And are there any other governments thinking along the same lines?

Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Abid. Barry?

Barry Stowe {BIO 15021253 <GO>}

Most governments are thinking in terms of something. It's actually useful. So again, you'll see the shield product in -- here in Singapore during the product session. Okay, we'll talk about how the dynamic works. That's a product that is designed to supplement a low level of state provision. That is effectively what would happen in Indonesia; be a very basic level of cover.

From -- in terms of driving the protection business forward, it's actually really useful, because what you have is the government broadcasting to the population as a whole, this is important. It's important enough that the government is going to step in and create a low level of provision. But it is never enough. And so it will highlight for the typical rising middle-class consumer to do something to supplement the very basic government provision. So we like it.

Tidjane Thiam {BIO 7518525 <GO>}

It's really a very important point. The more there is provision of healthcare and supply of healthcare in a country, the better we do. So what it does actually -- it increases the market. There will be more hospitals; there will be more investment hospitals. And therefore, there is more infrastructure to look after our customers.

And the other contribution we make -- Barry was talking about why we like the business so much. And its purpose. Frankly, it's paying back to the Indonesians. Remember, there is 2.3 million Indonesians insured by Prudential will actually lead to more investment in hospitals and MRIs and machines that will then benefit the whole of Indonesia.

When you talk to the hospital builders, people who want to develop hospital trends [ph], one of the things that they look at is there a demand in this country that can pay for our services. So it actually -- always going on some -- very focused on developing their infrastructure, hospitals. It's just really vital. And actually what we're doing accelerates that. And one of those hospitals are in there and look after a middle-class. They also look after a broader population in general.

It's actually a virtuous circle. There is no tension there, between the public and the private sector. It's not a threat. It's something we welcome absolutely everywhere.

Very good. Well thank you for your patience. We are after 1. So if you agree, we will stop this session, continue the conversation this afternoon. And then come back at the end.

Questions And Answers

A - Unidentified Speaker

Welcome back. So we are ready for the round of Q&A. And we will take Q&A's both ways, the old-fashioned way. And on the app. So fire away, guys.

Q - Will Elderkin {BIO 3349136 <GO>}

Thanks, it's Will Elderkin from Goldman Sachs. You've talked a lot about the enormous growth opportunities the group has here. Can you talk about margin resilience over a similar time frame? You report IRRs of north of 20% in this region. I think you also referred to aiming to write new business above your cost of capital. There's quite a big difference there. And could you just talk about threats that we should maybe thinking about?

A - Tidjane Thiam {BIO 7518525 <GO>}

No. It's a very important point. I think several comments; the first one I will make is that we don't make abnormal returns by any classical economic definition of abnormal returns. The regulators have full transparency on the kind of returns we make.

I think on the risk-adjusted basis, given the volatility of this market the sale of [ph] returns are comfortable. But they are not outrageous. And I think they are sustainable. Because maybe we didn't say it explicitly. But all the things we talk about for us are sustainable competitive advantages, as we used to say a long time ago. But with distribution, definitely.

I should start with demand. I think on the scale of a firm -- an individual firm, demand can be considered as infinite for any practical purposes. So that's a comfortable position. When you get barriers to entry, because it is fine to be a big international company -- I said when I showed the chart on distribution, the move to 300,000 -- 318,000 on the sweet spot, I said there is no shortcut to success. But that's really how I would summarize my defense of the margin. There is no shortcut to success. Building the distribution of priorities [ph] takes forever.

We are in valid position and -- maybe I shouldn't say this -- but actually the distance between us and the others increases because there are many advantages to being so big. Frankly you -- it is cheaper for you to hire. And you hire better people. So you win twice. It is very easy for us to attract people. And frankly the aggressive, hungry people, dynamic people wants to work for the leader. And you know in those markets, we are the biggest regulators.

The distribution is momentous. It has been a real advantage in when you get referred [ph]. But if you have no new entrants, you have no price war. And if you have no -- there's no price elasticity. If you divided your price by 2, if you don't have a demand -- a distribution, you can't sell, anyway. So there's no incentive for other companies to come and undercut us. And hoping to sell more. It's just not going to happen. Your ability to sell is a function of your installed distribution.

So to summarize, I think the product brings value to the customer. All the examples we showed you on shield, the benefit to the customer are really important. The reason why the product is valuable is that to get insurance for somebody who is uninsured in itself creates a lot of value for the person who takes the insurance.

And it's really -- I love it, because it is really what I think -- what our purpose is, to quote Barry. Insurance was created because there is an economic benefit. If you pool a large number of small risks together, you get prices at a level where every individual consumer has a surplus. And the shareholder can also make a return.

So it is really the kind of textbook case of the industry. In a virgin territory or even our uninsured, you go in by mutualizing those risks; you create value. We can price it at a level where returns for you are very good. And a lot of value is left on the table for our customer. So that works. And then it's defensible.

So I don't see that, as long as the penetrations, as they are -- the margins will be sustainable. Then there are other things which I always talk about that drives the margins up. It's really the operational leverage. Okay. All other things being equal, you're putting more and more volume from the same platform. The platforms are scalable, relatively low-cost. But drives our margins up every year.

Then there is the wealth effect. As I said, the same conversation in Vietnam gives you $100 with respect to Vietnam. And in Singapore, $100,000 for the same input. So as countries get richer from the same unit of effort, you get more and more money. And you make more and more profit. So I think I'll stop here. But there are many reasons to be optimistic about the margins.

I don't know if you want to add anything.

A - Barry Stowe {BIO 15021253 <GO>}

No. I think you covered it well. I think the --

A - Tidjane Thiam {BIO 7518525 <GO>}

That's not what he tells me when we do a budget.

A - Barry Stowe {BIO 15021253 <GO>}

Yes, no. The only other point to make, which I made in one of the -- in response to a question in one of the -- in the product session is because our business is so heavily focused on protection, look at a variety of metrics. Margin is only one of them. Our margin -- people say, your margin is so much higher than everyone else's. Is that sustainable? What does that mean? Are consumers getting a good deal? And it's because we write so much more protection than anyone else. And protection, really in a lot of respects, a lot of these products work more like general insurance than life insurance. So embedded value is not really the right way to look at them.

We used the example of somebody paying us $100 a year for 20 years. If you look at that product as general insurance product, assume for a moment there that it operates at a 90% combined. Then that $100 year over 20 years, that pays $2000; we pay out $1800, get $200 of profit over 20 years. That's a 200% margin product. And people say -- their heads explode. And say, how could there be a 200% margin product?

It's a 90% combined. It's a fair deal for the shareholder. It's a fair deal for the consumer. It serves a valuable purpose. So margin is an interesting metric. But it's just one. Look at others as well.

A - Tidjane Thiam {BIO 7518525 <GO>}

We've actually stopped mentioning the margins in all our communication because of just inappropriate return on capital is much more.

A - Unidentified Speaker

I'm just going to take a question that was left over from the app on the morning session. This is from Jonathan Sheehan at Toscafund. It's on Eastspring. So it says, Eastspring shows 10% CAGR on funds, flat margin. And 4% profit growth. So this implies minus-6% revenue margin per annum, on FUM. Why is fee revenue under such negative pressure?

A - Tidjane Thiam {BIO 7518525 <GO>}

On Eastspring?

A - Unidentified Speaker

On Eastspring. So that's for Guy.

A - Guy Strapp {BIO 15272859 <GO>}

Yes. Well in general as a statement, we don't see a lot of the compression. I suppose the only market where we do see pockets of fee compression is Korea. But whether be institutional or retail, the stability of fees is pretty solid. In looking at that chart, you would have to actually put it up -- it is -- there are some apples and oranges in here. Because we're looking at the FUM on an AER basis which is the way we always report FUM and flow. But the PBT is reported on a CER basis so there's a currency adjustment.

But probably the biggest factor in here is of course the financial crisis gave a low starting point for FUM in a relative sense. But the impact on profit didn't come through until 2009. So we had deteriorating markets in 2008. We start 2009 with a low level of FUM. And where that through most of 2009. Markets rallied then towards the middle and latter part of 2009, here in Asia. But the damage was already done. So some of it is -- it's really just the statistics and the apples-and-oranges comparison. But no; fee -- surprisingly, because fees are quite high in Asia, it's not a topic that is frequently on the agenda.

A - Unidentified Speaker

Yes?

Q - Bruno Paulson {BIO 5278310 <GO>}

Bruno Paulson from Morgan Stanley Investment Management. We all had fascinating sessions on products. We talked about par; we talked about ILP; we talked about protection. What it didn't cover was actually the fastest growing bit of your product mix, which is the non-par, non-protection. I see that was 4% back in 2009. It is now 8%. It's not massive. But it is growing pretty fast.

So to be Greg-like and put the question in four parts: is it right to assume this business method is less profitable? Where are you selling it? Why are you selling it? And is it likely to continue to grow as a part of the mix?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Barry or Tony or Adrian? Non-par, non-protection.

A - Lilian Ng {BIO 4943480 <GO>}

A majority of that is actually combination of two. One is because of Thanachart Bank par initiatives in Thailand, where a lot of savings products are what we call non-par. So this is prescribed you. So we make sure we have assets to match it. And then we wrap products around it. So that's part of it.

The second part of this is what we see as the universal life products where we actually sell it through actually -- with supporting the bank partners at the very high net worth. So it is -- and because this is the nature of the products -- so we classify as non-par again. So we make sure there is underlying assets to match those products.

A - Barry Stowe {BIO 15021253 <GO>}

Yes. The Thanachart business is good business. The universal life is -- it's not unprofitable -- the economics of it are not really the issue. The issue is, as Lillian said, it is almost exclusively a single-premium, high net worth product. And almost always premium finance. So it's really just an interest rate arbitrage. We think it's a distraction for distribution. It is not in our core activities. And it's really a phenomenon that is occurring only in Singapore. And we very, very tightly control the amount of that that gets sold. We have competitors who are very focused on this. It is 40%-plus of their sales for us. We cap it at 5%.

A - Tidjane Thiam {BIO 7518525 <GO>}

Exactly. We cap it explicitly just (multiple speakers) a lot internally.

A - Barry Stowe {BIO 15021253 <GO>}

And Tom is nodding and smiling back there, because we have been torturing him as recently as this week, to shut it down.

A - Tidjane Thiam {BIO 7518525 <GO>}

He get messages regularly from everywhere. From London -- where is the CRO? From the CRO (multiple speakers).

A - Barry Stowe {BIO 15021253 <GO>}

We just don't like it. It's very tactical in nature. And we like products that make more sense.

A - Tidjane Thiam {BIO 7518525 <GO>}

Any product were you have to lend people the [ph] money to buy it is a bit funny. That's what premium finance is, in this is kind of -- sorry. Yes. Sorry, Tom.

Q - Art Invenvi

Thanks. Art Invenvi, Credit Suisse. Your last quarter numbers, the North Asian countries in particular had a strong pickup: China, Taiwan, Korea. I suspect some of them are specific like Taiwan's load base, Korea's object [ph] marketing ban lifted. China has generally been strong. So just curious as to can we -- are you a bit more constructive on those companies in terms of outlook? And is there any margin change at all in those countries?

A - Tidjane Thiam {BIO 7518525 <GO>}

That's a fair question.

A - Barry Stowe {BIO 15021253 <GO>}

Yes, some of that is SCB, is the SCB effect, recharging the relationship in places like Taiwan; even in Korea where there's a lot of restrictions around bancassurance. The SCB has picked up.

Do you want to talk about China in particular, which is actually really good story?

A - Tony Wilkey {BIO 19184129 <GO>}

China is actually -- the growth is coming from multiple distribution. It's been fairly well-balanced between agency banker. And the product mix is fairly well-balanced. We -- as you may know, we changed the management team in China about two years ago. CITIC gave us its best and brightest. And we've been able to galvanize the organization, move forward with momentum like we have never seen before. With that, part and parcel, is very important is because the relationship is so good with Citigroup, they are opening up avenues for us -- opportunities for business with other state-owned enterprises. And I think we feel very good about the momentum in China.

A - Barry Stowe {BIO 15021253 <GO>}

Yes. It's just better leadership.

A - Tidjane Thiam {BIO 7518525 <GO>}

Anyway, we always prefer to underpromise and overdeliver. So we haven't been talking a lot about China. But it's moving up. If you look at the last two, three years. And you can relete [ph] table, the top four China has been moving up regularly. And it's a bit masked by the fact that we only own 50% of it. If you doubled over China numbers, you would see that it's becoming a material business in Prudential.

I think Taiwan is also a market where we're not necessarily negative. You know we had to sell the agency. But we have always been looking for ways to maybe do some protection there. So we think the potential is there. It's an attractive market in protection.

The one that we will never talk up is Korea.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. Gordon Aitken from RBC. Firstly, I want to talk about competition in the savings markets, which still account for more than 50% of your sales. And just what are the potential do you think for these markets to go open architecture as the markets mature? And longer-term, do you see a threat from the large global asset managers?

And secondly, on D2C, this is obviously a very immature market in Asia. And how do you see it progressing. And what are you doing to prepare?

A - Barry Stowe {BIO 15021253 <GO>}

Okay. When you say open architecture, you mean agents becoming brokers? Or are you talking about banks?

Q - Gordon Aitken {BIO 3846728 <GO>}

I'm talking about investment options.

A - Barry Stowe {BIO 15021253 <GO>}

Investment. So in terms of consumers wanting more third-party funds or something like that?

Q - Gordon Aitken {BIO 3846728 <GO>}

Yes, they are using [ph] the administration. But there's a multiple aspect.

A - Barry Stowe {BIO 15021253 <GO>}

I just (multiple speakers) don't see any pressure on that. I don't -- if you look at our unit link, we -- overwhelmingly, we are selling product that are underpinned by Eastspring-managed funds. But there are third-party funds in the portfolio. Agents want to be able to show objectivity and show some other funds. The banks do, as well. So there are instances where we are passing through money to other mutual fund providers. But it is incredibly limited. And that is because the Eastspring funds are performing really well. We've got a broad range of funds that suit the needs of consumers. And again, we have just not felt an enormous amount of pressure there. So I'm not too worried about that.

The other question was --?

A - Tidjane Thiam {BIO 7518525 <GO>}

Could you remind us, Gordon, what was your second question? Sorry.

Q - Gordon Aitken {BIO 3846728 <GO>}

It was direct to consumer.

A - Tidjane Thiam {BIO 7518525 <GO>}

D2C, yes.

A - Barry Stowe {BIO 15021253 <GO>}

So we were -- there were a group of us talking about this over lunch. And here in Singapore, there is this aggregator website that the MAS has put out there that -- products that allow customers to go on there and look at pricing. I think it's -- that ends up being kind of a useful tool for people to compare pricing of insurance companies. And that is -- we're quite happy to have our prices examined compared to the AIAs and Great Easterns. And Axis [ph] and so forth of the world.

What is the last time anybody in the room went online to buy critical illness insurance or a long-term savings product? Fundamentally, these products are -- they are not bought; they are sold. And people need advice. So our experience has been that when you create mechanisms for people to buy direct, they just don't get utilized.

People end up reverting to an agent. Even if they look at the aggregator site and say, well, I can see this product versus that product, versus another product -- what they end up doing is calling their agents and saying hey, I've now got this data, what do I do with it? What do you think? Because you can create tools where people can sort of do a financial plan and so forth. But people still really need advice. And that is really even in the most sophisticated markets.

Now start talking about a Vietnam or and Indonesia, where financial literacy rates are low; people really just don't even know where to start.

A - Tidjane Thiam {BIO 7518525 <GO>}

But really I think we are protected by the nature of the product and of the need. And we have a lot of research that shows that at that point of sale, some people are probably risk-averse really when they are buying critical illness or something like that. And we see it on VAs in a different context in the US. If you think about your income when you are 90. And you are a rational person, you're going to be quite careful. People want the advice, they want the input. And frankly those who don't, you probably don't want as customers. Because I think -- we're going to bet on their life expectancy.

A - Barry Stowe {BIO 15021253 <GO>}

Yes, even in the United States, the kind of products we sell, people go online and buy terms like buying auto insurances. It's kind of straightforward if you know exactly what you want. But when you -- what has happened in the US for the sorts of customers -- the equivalent sorts of customers that we serve here -- you look at their counterparts in the United States, they are going direct. They're not buying through agents to the extent they were anymore, because agency distribution is dramatically shrinking -- or buying at the workplace. We're still getting advice from an AFLAC agent or something like that. They are buying at the worksite.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, we -- the lady there.

Q - Mann Sisa

Hi, it's Mann Sisa [ph] from Goldman Sachs. I cover the Asian insurance from Hong Kong. I have a couple questions. One is that you said that you're disciplined about the M&A opportunities. So how do you define disciplined? Do you have an IRR target, or do you have some sort of internal target that -- what is the cutoff line that we are not going to proceed with this sort of an opportunity?

And the second question I have is what is the repricing mechanism of some of the protections products you have in the region. Especially probably in the critical units category --

A - Tidjane Thiam {BIO 7518525 <GO>}

Sorry? In which category?

Q - Mann Sisa

In the critical units category, or hospital reimbursement. Because I don't know what is the data -- how much data you have had accumulated in the past, given the changing demographic in the future. So what is your thoughts there and what is the risk management measures?

And the third question I guess is that I find a free surplus teaching very useful. And you talked a lot about how that is generated. But what do you see as the biggest variance in the future that is going to create discrepancies from what you expected in the next 3 to five years? Thanks.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, no thank you. On M&A indiscipline, I think you are right; we do have internal targets. But I am sorry, I am generally for transparency. But that is one we will not share with you, because it would simply cripple us in M&A situations. So we're not about to share that. But it is a reasonable hurdle. And I think it ensures that when we do M&A, it creates value. And we think our track record variance [ph] is good, in terms of the deals we've done and how we have made them profitable for the shareholder. Repricing -- we've had examples in Malaysia.

And (inaudible), do you want to talk about it?

A - Barry Stowe {BIO 15021253 <GO>}

Sure. So generally where you find -- first of all, we manufacture all of these products with the ability to reprice. And we have done it -- I wouldn't say we do it frequently because we -- I think we managed the products well enough on the back end. We price them well on the front end. We've got good, credible data virtually everywhere. If we don't have good data, we won't offer a product.

And -- but there have been instances where we priced (inaudible) we are just kind of completing a 12-month process of increasing rates on a particular medical product in Malaysia with how many --? Was it a couple hundred thousand policies? Rate increase on about 200,000 customers; we got literally maybe 50 complaints, something like that. So it is not a surprise to customers. They know it can happen. And we communicate very well. So the mechanism is in place.

Regulators know how this works. They approve the rate increases. So it's not a lot of drama. It's genuinely on reimbursement products where you find that because there you -- maybe you have gotten your projections on medical inflation a little bit off, or something like that. You didn't trend the rates for new customers effectively enough.

Usually the critical illness stuff, that is really just incident-based. It's a stated benefit. And incident rates are -- that data is pretty easy to come by. So you usually don't get critical illness wrong. It is usually a reimbursement problem.

A - Tidjane Thiam {BIO 7518525 <GO>}

Just on that, I was almost pleased that we had an opportunity to do that. Because repricing -- it's always in the contract. But there is a big difference between having it in your contract and actually executing on it. Because I can tell you, salesforces generally don't like it. So it takes a bit of nerve from the Company to actually implement it. And I think PCA and the team did a great job in Malaysia. (multiple speakers)

A - Barry Stowe {BIO 15021253 <GO>}

No. It's the distributors go crazy when you tell them you are going to do it. We have had this before, where they will -- you will have 500 of them show up at the office. And they sign petitions. And saying we're going to lose all our customers and it's --

A - Tidjane Thiam {BIO 7518525 <GO>}

It went all the way back to me. They look to me in London.

A - Barry Stowe {BIO 15021253 <GO>}

Yes. And you get -- you literally get 20 phone calls out of 200,000 people or something.

A - Tidjane Thiam {BIO 7518525 <GO>}

But it proves that we have the determination to protect shareholder value when we need to. And we can actually execute it. Because otherwise it's (inaudible).

Free surplus, anybody? Adrian, the risks -- what is it vulnerable to?

A - Adrian O'Connor

Well in the end of the day, it's the growth rate in new business. That will dominate the PEC, simple as that. It will dominate it. It could grow higher or lower, that's where it is going to . (multiple speakers)

A - Tidjane Thiam {BIO 7518525 <GO>}

In a growing business like Asia, it's true. In a more mature business, they will be much more sensitive to what happens in the in-force. But in growing business, yes. So it will continue growing.

Q - Rob Plant {BIO 18317967 <GO>}

Rob Plant from JPMorgan. Have you made a calculation of how much cheaper the product on the direct platform in Singapore will be in terms of -- on the direct basis, a term of the whole life versus what you are going to be doing on your tight [ph] agents basis. So in terms of differential of pricing.

A - Unidentified Speaker

There wouldn't be a price differential, would there Tom? How much is it. 5%? (multiple speakers)

Still not finalized. MAS [ph] has provided us some guidelines. And we are working with them. But I think somewhere in the 5% or so range.

Q - Rob Plant {BIO 18317967 <GO>}

That's hardly worth the -- that is not going to make anyone -- why would anyone be for a 5% discount? If we are at that sort of level, I don't think that's going to be an issue.

A - Unidentified Speaker

I don't think it will.

Q - Rob Plant {BIO 18317967 <GO>}

Okay. So that would be --

A - Unidentified Speaker

And again -- and people want advice. They want to deal with an agent generally more with -- either with their bank or with an agent.

Q - Rob Plant {BIO 18317967 <GO>}

And just -- we've had the Standard Chartered numbers up to the Q3. Has there been any hiccups or anything from the recent types of problems -- those kinds of charts as in Carter [ph] in their own problems in the Q4?

A - Barry Stowe {BIO 15021253 <GO>}

No, quite the opposite. The volumes continue to be very strong.

A - Tidjane Thiam {BIO 7518525 <GO>}

We can't give you Q4 numbers.

A - Barry Stowe {BIO 15021253 <GO>}

No, no, no, no. I'm talking about since --.

FINAL

Bloomberg Transcript

A - Tidjane Thiam {BIO 7518525 <GO>}

He said Q4.

A - Barry Stowe {BIO 15021253 <GO>}

Oh, not Q4. No. I'm just saying the volumes -- well, we got this question at half-year. Volumes have continued very strong since the renewal. We have talked about India, how well that has gone. The issues that you're having at SCV, at a very senior level, I think are just invisible to a retail banking customer in Asia.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes. It's really corporate bank. And I think the retail bank is intact really. So the people we're dealing with --

A - Barry Stowe {BIO 15021253 <GO>}

But you know, foot falling [ph] branches is all fine. There's been no impact.

A - Tidjane Thiam {BIO 7518525 <GO>}

You want to go Blair -- I promised to come back to James and Greg too, this morning. So let's do Blair. And then we will go back.

Q - Blair Stewart {BIO 4191309 <GO>}

Think you very much. It is Blair Stewart from BofA Merrill. Three questions if possible.

In 2013, the slides that were up earlier showed that you had free surplus generation in the Life business of about $500 million. And you remitted about $400 million back to group as an intergroup dividend. Your target is to double that $500 million, more or less. How should we think about the relationship between free surplus and the amount remitted back to group? Will it stay the same or will it change?

Secondly, will the development of risk-based capital regimes across Asia -- what will that do to the amount of capital held locally, do you think? Is it going to be better or worse? And on Standard Chartered, we have seen a bump up in volumes, post-renew. Was there any change in the terms of working between the two parties, in terms of higher commission rates that might have affected that? Or are you just so happy to get it renewed that it's not really selling a lot more business?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, three important points, as ever. Look on remittances, I know sometimes we frustrate you. But we have never published (inaudible) we never published remittance ratios. And really it is deliberate because we want to keep some flexibility there. You said this year, with FX moving all over the place, if we want to protect value for the shareholder, we need to keep the control of when we remit. And how much we remit. And I think that will, in the end, protect value for the shareholders.

As I said, the value creation is in the generation of a free surplus in each of the markets. After that, the question of whether we remit or not, sorry, that value is there. It was a question of fungibility. But we want to be able to have some flexibility on that. Because, frankly, some of it will be just value destructive. If the currency collapses 23%, you wait. There is no need -- there's enough cash in the center; we have reasonable yield. We can pay the dividend, it's not an issue. We store the value. And we will move it when necessary.

So we don't want -- you will notice a subtle shift in all my slides of replaced remittances by free surplus generation. It is not completely by accident, because I think the two are different and we need to be explicit about the fact that the two are different. These are volatile markets. We have always said this. These are emerging markets. So there is a rationale for being a bit cautious there.

But before people get too worried, I really think that the dividend is completely safe, not at risk at all. This is just our internal flow of cash. It's not such a big deal.

RBC, is it going to increase local capital levels or not?

Adrian, you want --?

A - Adrian O'Connor

Will first of all, Solvency I actually is -- in a lot of our markets is weaker than local RBCs and solvency calculations as it stands in the majority of them. And in terms of where that is going, it has already been very varied. So it's very difficult to know where that is going to in up. But take Solvency I being the standard. It already is very strong.

We set our required capital -- which is over and above what the local requirement is -- based on stress tests. We actually don't think about what -- we want to have capital in each of our jurisdictions at levels that we want to keep it at, based on stress tests. So in the end of the day, it will be a combination of where -- even if the local requirements go up, that doesn't necessarily mean we will set our requirements higher again. So I think it will be broadly -- if you ask me, broadly neutral. I don't see, in the short-term, much happening.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, I think our next question was what happened at SCB and why were sales so strong?

A - Barry Stowe {BIO 15021253 <GO>}

Unit economics. The day-to-day commission that they get paid for sale didn't change. It's the same

A - Tidjane Thiam {BIO 7518525 <GO>}

And the terms are little different in terms of the new agreement.

A - Barry Stowe {BIO 15021253 <GO>}

Yes. So it sounds -- maybe it doesn't make sense. But I think there was an element of certainty, once the deal was redone for another 15 years. It feels like forever.

A - Tidjane Thiam {BIO 7518525 <GO>}

Nobody had any appetites to reopen the negotiation. Really it was so simple to say look, let's stay in the same terms, please.

A - Barry Stowe {BIO 15021253 <GO>}

So it really is just sort of renewed enthusiasm and focus.

A - Tidjane Thiam {BIO 7518525 <GO>}

It made life simpler for the Company. I'm going to come to each of you --to James before. And Greg. And then move it to you.

Q - James Garner {BIO 4126548 <GO>}

Two questions on your China business. Firstly, following on from Manti's [ph] question, can you provide some real color on how easy it is to accurately price and control the risks of the very-high margin critical illness product teams held in China versus Indonesia? And also the Chinese regulator has actually just removed I think the repricing clause which was to get out for the long-term were some expected morbidity trends.

The second question, I would like some insights into what opportunities you think can arise from the state councils (inaudible) document. It was released in August. Particularly as a foreign JV, whether this will eventually translate into an increase in terms of ownership, geographical and product line expansion. I guess you are in a great position over some of the life insurance SOEs there, where you can actually cherry-pick business opportunities.

A - Tidjane Thiam {BIO 7518525 <GO>}

Very good. Who wants to take --?

A - Barry Stowe {BIO 15021253 <GO>}

Well I will say little something about morbidity in China and then turn it over to Tony and Lily and others. Personally, I have learned a lot about morbidity in China, not just with Prudential but in my previous life, by -- you do learn that markets have idiosyncrasies. And you usually learn those lessons the hard way. Like for instance, you figure out that writing juvenile coverage is usually not a good idea. Because national ID cards aren't issued to children until they are six years old and -- so you don't have a photo ID. So you literally have apartment blocks that go out and buy one policy. And every kid takes it to the doctor. And you end up with loss ratios of 4000% to 5000%. So we learned that one the hard way. So no juvenile.

And you learn about how the two structure benefits. You look at the environment, the climate issues they have there. And the fact that -- you've got in the more industrialized provinces, you have 70%, 80% of the kids under five years old with respiratory issues. So that -- there's something to learn there.

Critical illness is usually not hard. Critical illness -- again, it's a stated benefit for an incidence rate. And so as long as you've got reasonable data in the market on what the incidence rates are for a heart attack or stroke or Dengue fever or whatever it is, that is usually not hard to get right. So you worry about cancer insurance, specifically. Broader critical illness is easier.

Cancer insurance, you've got an issue with improving diagnostic technology that people didn't price into products 10 years ago, 20 years ago. So people that have huge books of single illness products have -- they will feel some heartache as time goes by.

But I don't know if you want to talk specifically about our products in China.

A - Tony Wilkey {BIO 19184129 <GO>}

Right. I think on the State Council thing, what we're reading is that the State Council is saying, this is going to be the decade of insurance in China, which we view very positively. And our partner, especially CITIC, is very excited about this. I think what they are also saying subtly is maybe bancassurance has got a little bit ahead of itself. And they would like to see increased development in agency. And through agency, they would like to see the sale of insurance or protection, which Barry referenced earlier, in some of the bank models with minimum requirements. So we embrace that.

Related to that, we've taken our China team to Indonesia to show them the GA model -- general agency model, which some of you may know, that allows very rapid low-cost expansion. And we're looking to expand on that basis in China, which we are very positive about.

I think in terms of branch openings and geographic footprint, right now, for the most part, we are everywhere we need to be. There are no major holes in provinces in Tier 1 cities. Maybe a couple of Tier 2 cities. But we are struggling to consume what is in front of us at this stage based on the footprints.

A - Tidjane Thiam {BIO 7518525 <GO>}

We have done the calculation. We have access to about RMB650 million, RMB700 million. So he said two or three years ago, that will be enough. We kind of stopped the geographic expansion and try to go deeper now.

But really back to your point -- the opportunity is obvious. They want to push consumption. As Barry and the team have explained many times, people say because they have no protection. So the obvious answer is to give him access to protections that are based around consuming.

So in terms of the strategic -- economic strategy of the country is very clear. And there's a huge opportunity for insurance companies. It's a question of when, to what degree. And (inaudible) I said that's the reason for being in China. Those facts are inexorable. Accepting views [ph] when people have problems like that, the deal with them. So I think China is getting with its issues.

Greg. He's going to think I'd pick on him, otherwise. Then Murray, too.

Q - Unidentified Participant

I'm also a fan of the free surplus generation. But there's two elements of leakage going on. There's contingent loans going back and forth below the line that don't come into free surplus. And when you acquire bancassurance deals, you book the costs at the head office center and in the (inaudible) the new business mix put in and generates free surplus.

I was wondering -- and I suppose it could jeopardize managements' -- in other words, there's an incentive to actually go for bancassurance, et cetera, because you can actually get the target part getting into new deals. So was wondering whether you -- what you think about. Are the controls in place there? Do you need to change your free surplus targets to adjust for the new bancassurance deals, et cetera? That's the one thought that I was having. I just wanted to hear your thinking on that.

The second one is on Singapore, immigration is a potential constraint. I think we're going into an election or something. And the government wants to restrict the amount of people coming in. I was wondering how immigration -- what your view on that is. And whether the theme on immigration affects any of the other regions, potentially Hong Kong from China, etc.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, okay. I'm trying to resist the temptation. But I'm not going to resist, Greg, to tease you on that. I am still looking for an angle that you cannot turn into a bancassurance question. laughing [ph]

I see Nick over there. Can we give the microphone to Nick please?

A - Unidentified Speaker

So on contingent loans, we don't do that, as a matter of course. This was something that was done through 2008, 2009 on an exceptional basis. Because it's not an underlying, if you like, organic generation, we didn't want it to claim credit for those when we took them on. So that's why we reported the benefit below the line. If we included it in the underlying operation of delivery would have been, candidly, cheating. As we repaid them, we then mirrored the treatment below the line as well. And now we have repaid them.

There is nothing -- pretty much nothing left on the balance sheet of that nature. Now in relation to free surplus, actually that -- every unit of sale that is in the upfront fees that we pay on banks, every unit of sale that is sold through a bancassurance -- one of the bancassurance distribution is charged for that upfront fee. So the new business frame that you saw in all the slides that either Adrian and Brad put up have their share of that upfront fee. So that weighs against the target. And that's absolutely the right thing to do.

It is treated like a kind of commission, if you like. So it's working against the currents [ph].

A - Tidjane Thiam {BIO 7518525 <GO>}

I really hope we can kill this issue. We've had this discussion 15 times. Where do you hide your customer [ph] bancassurance deals? Where is it? Are you overstating your margins? Are you -- no. We -- no

We, as we just said, we charge -- whenever you need soul [ph] the price of the deal -- we say that really in the most emphatic manner. Hope we can -- sorry? I can't hear. Can you --?

Q - Unidentified Participant

Isn't it true to say that the amortization is not uniform. And it's done on an exponential scale which you don't know what -- you don't amortize it uniformly over the life of the product, do you?

A - Tidjane Thiam {BIO 7518525 <GO>}

Nick is already standing. So go ahead.

A - Unidentified Speaker

It is indeed uniformly. It is per unit of sale. Now in a 10-year deal, you will sell more than 10 than you will in year one. If that is what you mean by exponential --

A - Tidjane Thiam {BIO 7518525 <GO>}

And it's a nice problem to have. We hope the sales will grow exponentially. So the challenges will grow with the sales exponentially. It is really -- there is no magic there.

A - Barry Stowe {BIO 15021253 <GO>}

It's the accurate way to do it.

A - Tidjane Thiam {BIO 7518525 <GO>}

I don't know how somebody hides hundreds of millions of dollars in accounts. We were not hiding the customer deals. We have announced them every time. We can't hide that much money. It just doesn't happen. I hope we have dealt with that.

Immigration in Singapore.

A - Unidentified Speaker

I don't think it's a problem. I don't think it's a problem .

A - Tidjane Thiam {BIO 7518525 <GO>}

It clearly -- no. But it's not going to affect our business, if that's the question. At the levels where we operate, those types of immigrants are part of the business -- of a model, the operating model of Singapore. It wants to be a platform for high net worth in the region. The percentage of high net worth in our customer -- in our sales has gone from 9% to 11% to 13%. And it's around 15% now. So it is increasing something like 20% per annum. And that's the strategy of Singapore: to be a hub in financial services. And that goes together with being relatively open to people who have money to invest. So I don't -- it's not a particular concern for us. I think the populations that are concerned by those types of measures tend not to be in our target clientele.

Mauricio, please. Sorry. You have been very patient.

Q - Unidentified Participant

I have five questions about bancassurance.

The first question is for you, Tidjane. Every time we come to the region. And we heard again this morning -- what we're hearing is about the good sense that lockout regulators have here; the balance between should all the stakeholders that are involved in insurance business.

I don't know if you can comment on this, how the intensity of the regulator in the UK has changed recently? And I think that it's a bit off the table. But you mentioned a couple of years ago or three years ago, in terms of potentially relocating the business. But I wonder the way things are going in Europe and particularly the UK. And how things are going here, whether -- what you think about adoption. So that will be one.

And the second one is relating to the successful operating model that you have in Indonesia, that now you have exported in the Philippines I think is starting and is gaining traction there. Where else do you plan to export that model? So what are the countries that are compatible with that kind of solution?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you very much. I think you would have done better sticking to bancassurance, given the question you're asking. That would be easier to handle.

Look, you said it in your question. The regulation -- we like rationality. We think the regulators in Asia are very rational. And really trade-off, if you wish, consumer protection with Prudential regulation and the competitiveness of the economy in general and the insurance sector, which is vital to the economy. I probably wouldn't say the same thing about the UK.

Relocation -- I think for the time being, as we've always said (inaudible) for the time being, London is a good location for the group. We are driven by shareholder value. And you can certainly count on us for it; but if that were not to be true, have contingency plans and act differently. We're not emotional about it. We will do whatever makes sense for shareholder value. That's the best I can say at this point.

Indonesia -- that work will be transferred in addition to the Philippines.

A - Guy Strapp {BIO 15272859 <GO>}

Sure. We like the general agency models for reasons you understand and would deploy it where we are allowed to by the regulator. We have general agency model already in Vietnam. We have in Thailand. Obviously have in Indonesia. I just mentioned that we're looking at it in China. We will have to spend time with CIRC educating them. And if IrDA in India ever gets there, I think it's something that would fit very well in that market. It's the franchising of the business -- the local ownership. It's a win-win across the board.

Q - Scott Russell {BIO 15107992 <GO>}

It's Scott Russell from Macquarie Securities. Good afternoon. Just one question that I think Barry was alluding to an earlier about open architecture. But this is more about insurance. And agents becoming brokers. The channel mix slide showed that brokers really don't have much of a slice at all of the sales. But I'm kind of interested in to what extent you see that as a threat in the medium-term.

If we look to mature markets, IFAs, brokers have a big chunk of the insurance distribution. And if you think about it from their perspective, they're going to be able to provide more professional, independent, impartial advice from the customer's perspective. And IFA can provide a complete overview of the market across all companies. So it seems to me that at some point, it does get some traction.

But it probably needs the companies to get on board and support the brokers. And that might be the answer to the question that you never would support independent distributors -- independent brokers. So I guess if you could just elaborate on some of those points -- to what extent the broker channel gets traction in Asia. And indeed might be a threat one day.

A - Tidjane Thiam {BIO 7518525 <GO>}

No. It's a question we discuss a lot internally. So anybody --

A - Barry Stowe {BIO 15021253 <GO>}

Well first of all, I would argue with you over the idea that IFAs by their nature are more professional, because I think our agents provide absolute world-class advice. So I understand the point you are getting at. Doesn't it make sense to look at a variety of different products?

What you actually find when you get inside the head of an IFA is that probably 85%, 90% of what he's selling is a single company. And it's the company that provides him the best support. And so forth. You won't be surprised to learn that they -- if they have got a bonus arrangement, or they get --

A - Tidjane Thiam {BIO 7518525 <GO>}

Or it has commissions.

A - Barry Stowe {BIO 15021253 <GO>}

That's right. So I would argue that actually the sort of discipline and structure that comes from a tight agent model also has consumer benefit. Interestingly, here in Singapore, they just completed the fair review which was a distribution review. And of all the different things -- all the different dimensions of that that will ultimately be implemented, the one that was actually most interesting, in some respects, is the fact that they did -- they are taking action that makes it very difficult for independent distribution to grow. Because what they are -- what Fair says -- what the MAS has said is any organization that is out providing advice and product needs to -- we want it to be a serious, well-governed organization.

So what that means is if you create an IFA firm, a brokerage firm, we want a CEO who is qualified, a CFO is qualified; and by the way, the CFO can't be the CEO, too. We need a Chief Risk Officer, Compliance Officer. They are saying, we want real infrastructure and that brokerage firm. And the economics don't work for the brokers to create that infrastructure.

So what happens then is the people who had launched off and were trying to create brokerage firms come back to their mother ship, if you will. So -- when you look at some other parts of our world out here, we talked frequently about the fraud issue that we have in Korea. The dynamic -- it is enabled by advanced commissions that is -- invariably, that happens in independent distribution, not tight agents. So I think we have a long discussion about whether IFAs actually are good for consumers are not.

If you want to --

A - Guy Strapp {BIO 15272859 <GO>}

We haven't buried our head in the sand in regard to this is a potential emerging risk in the future. But as Barry said, the regulators don't seem to be putting in laws or regulations that support the further growth of IFA. We do some business with brokers in India. And -- but only put in products on their shelf that we want to sell. Not the full array. But it is very limited.

A - Tidjane Thiam {BIO 7518525 <GO>}

It's a very important question for the industry.

Lillian, you want to say a word, or no?

A - Lilian Ng {BIO 4943480 <GO>}

Actually, what we're seeing -- what the regulators are looking for is not [ph] customer choice. They actually looking for custom protections. And what they do is actually they want an insurance company to protect the customers. So as Barry said, they want a risk framework; they will compliance offices. So instead of dealing with the book of firms, they want to deal with the insurance company. And that's what we're seeing -- what the regulators are actually encouraging.

A - Tidjane Thiam {BIO 7518525 <GO>}

And I really think the general agency model is a big part of the answer to that. So I think you are right. In a lot of markets, the industry is called a non-go, because you provide relatively poor value product. It's very opaque. There is a space for a broker to come and genuinely says that is creating value.

What you want ultimately is to align the interests of the customers, of the internal majority. And of a company. And I really believe that the general agent model actually does that. Because these people -- are you going to Indonesia? Okay. If we take you to some of our general agents, these are family businesses.

I'm a great believer in family businesses. They have a sister or brother-in-law or son. It's like comparing it to McDonald's. If you are in the community and you are making McDonald's, you're going to make sure that people don't get sick when they eat your Big Macs. Because they live around the corner, they will be back, they talk to all of their friends. You are part of the community. You want your McDonald's restaurant to be successful in the long term. You're more incentivized to look at the quality so you don't make people sick. But McDonald's itself.

And the GA is exactly like that. It is in the community. He is going to make all his money from that community. He has a natural incentive not to miss sell, not to do things that are going to destroy his franchise. He is not mercenary -- a transactional person who is just going to do a deal, take the commission. And run away. He's going to be there when the product delivers continues 10 years down the road, 15 years down the road.

And I love that model because it is really like an entrepreneur who is trying to maximize the value of his business. And what he needs to do to do that is exactly what you want him to do. So a lot of the disciplines and controls that you have to put in place in a traditional adversarial distributor manufacturer relationship is not the. These guys, they are Prudential through and through. They are exclusive to us. They will give us ideas, they will make suggestions, they are incentivized to behave very well.

It's a great model. That's why Mauricio's question was great. We would love to have that everywhere, because what it does is it works very well. Part of why Indonesia so good is that really we are perfectly aligned. We've been able to scale up that model there. And these people -- a McDonald's franchise is never going to work against McDonald's. It just doesn't make sense. It's one and the same thing.

So I think it's a good answer to an age-old problem that the industry has had. And it has been intermediated in many places, as a result of not managing that well. It's a very powerful model.

Q - Rob Plant {BIO 18317967 <GO>}

Rob Plant from JPMorgan. I think I asked this question in one of the product meetings but I don't think I heard the answer. I don't think I'm going deaf. But on the meta [ph] shield, there's only five license is currently in Singapore. Why is so few -- is that hard to get? Are there restrictions because it's a new product?

A - Barry Stowe {BIO 15021253 <GO>}

Tom, do you want to take that?

A - Unidentified Speaker

There is no restriction, as long as you make the necessary application to the Ministry of Health. I think the issue comes down to economics because it is a relatively low ticket size. You need to have a lot of scale to make it work. You saw in the slides the level of service you need to provide. Remember, we are selling is an industry, probably 30,000 to 40,000 policies a month. You need to be able to manage that and manage the claims. And so I think the Ministry of Health also has a fairly high bar in terms of what they expect a new entrant to be able to provide, either a new business processing for in claims servicing.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay and Oliver, maybe you have a microphone? The gentleman in the middle, could you give him a microphone please? Thank you.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. What proportion of different countries in Asia government debt do you hold? I was just wondering what you been able to do to derisk your position there?

A - Tidjane Thiam {BIO 7518525 <GO>}

Adrian, do you want to take that?

A - Adrian O'Connor

I would not --

A - Tidjane Thiam {BIO 7518525 <GO>}

I have a vague in my head but --.

A - Adrian O'Connor

I wouldn't have all the detail off the top of my head. Vietnam, obviously --

A - Tidjane Thiam {BIO 7518525 <GO>}

Vietnam --

A - Adrian O'Connor

Vietnam was the obvious one; we had long-term debt. We hold a significant proportion of (multiple speakers) the longer-dated debt.

A - Tidjane Thiam {BIO 7518525 <GO>}

But really, defaults on domestic currency debts our rare in economic history. At worst, you run and inflation risk. But as long as you can print, these are not hard currency loans. They are Vietnamese dong. So the default risk is extremely low.

And the other point is it is a misleading metric, because well-managed countries have a loan debt to GDP ratio. I know one place in the world where if you want to have a lot of headroom to write and to buy government debt, you can go to eurozone, well above 100% debt to GDP. So we have to be careful. Debt numbers are 42% debt to GDP. That's very good.

So yes, we end up being a lot of a low number. And you're going to find that in a lot of countries with low indebtedness. When we become a big business, we end up holding -- but in a way, it's good. We like those countries because we like countries with well-managed fiscal balances, where our deficit is not ballooning and the debt is not growing too much. That's a caveat.

So we have bumped against that in a number of countries because they are well-managed. And we prefer that they don't have a lot of debt.

A - Adrian O'Connor

I would just add that if you look at page one on our -- tax was -- yes, it's GDP8.6 billion. Shareholders, because there's a bit of shareholder, there's a bit of policyholders. So -- but we give that disclosure of actual shareholder disclosure. (multiple speakers)

A - Tidjane Thiam {BIO 7518525 <GO>}

You know Adrian will give a lot of detail on that.

A - Adrian O'Connor

But it is still there.

A - Tidjane Thiam {BIO 7518525 <GO>}

It's still there. We never take any disclosure that's from there somewhere.

Q - Unidentified Participant

Thank you. Just one follow-up. The amount of mainland business in Hong Kong is quite significant for you. And I can understand why the Hong Kong authorities are very happy for that to continue, subject to the rules of conduct that we talked about in the past.

What I'm less clear about is what the Chinese view of that is. And from your discussions with the Chinese regulator and authorities, how do they feel about the amount of business coming out of China into Hong Kong. Are they concerned about it? Do the disruptions and protests in Hong Kong affect their attitude to that? So any color you can give on what possible risks there might be from the Chinese side, rather than the Hong Kong side.

A - Unidentified Speaker

Sure. The OCI -- the regulator in Hong Kong. And CIRC in China, talk all the time. And they know exactly what the numbers are and have raised no concerns. I think the way to look at the amount of business that has been written in Hong Kong or mainland Chinese. And compare that to the amount of premium that has been written in China in the total market. And it's such a de minimis amount. Nobody is really -- it's nothing.

A - Tidjane Thiam {BIO 7518525 <GO>}

And I think that is the answer we have. It's small change. It's a big deal for us. But China of this world -- it's not much.

A - Unidentified Speaker

Anymore? It's 5:20 so --

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. So we have achieved our objective. No more questions for today. Thank you very much. And we will see you a little later for dinner. Thank you.

+++presentation

A - Mike Wells {BIO 4211236 <GO>}

Well. Good morning. And thank you for giving up and making it this morning to the first session. I appreciate that both personally and professionally.

One of the nice things about going this session is -- had a couple of days to talk to you individually. And about what your interests are. And what we should or shouldn't talk about in the session. So I'm going to focus most of my presentation on a couple of the slides. And this is more reactive to some of the dialogues we had.

For some of you that asked these questions, you are going to hear some of the answers twice. But I think for some of your colleagues, it was -- I would like to get this as narrowly focused on the topics you are interested in versus the ones I'd like to talk about as I can.

There's a number of you that don't know who Jackson is. Jackson has a variety of business units now in the US. And I would say this is sort of the report card of what we have built or what you own going into this point in the market. The life company itself is a little bit over $200 billion -- about $207 billion now in assets. We're the number-one provider of annuities in the United States.

You know, something Tidjane said and Barry said, we've never had a market -- I've been here 19 years; we've never had a market share goal in that entire time. It's a byproduct of the business plan. And I think that's a -- arguably, some of the biggest mistakes made in the US market were people who pursued market share as a key attribute. So we've stayed away from that. That said, I think we have a lot of the characteristics of a firm that should be a market leader. And I'll come back to that a little bit through the presentation.

Curian is our separately managed account platform. Think of this as a VA-like product without the tax-deferred wrapper. This is highly customizable mutual funds. You can do the same sort of exclusions and fund management selections you would on a very large institutional account. You can say, I don't want to own insurance stocks in my portfolio, because my paycheck is tied to them, or I have a large position.

You can say, I don't want guns; I don't want tobacco; I don't want whatever. And the Curian technology can allocate that. When the advisors make fund selections, they can allocate those -- your preferences, including tax preferences, through the fund manager selections to a net portfolio for the consumer. They can tax harvest it -- very clever.

And the NPH is our retail broker/dealer network. It's a series of four independent broker-dealers in the US retail space. These are the people that are -- think of them as closer to the franchisee model you would see in Asia. They are -- at the other end of the extreme, the wirehouses we do business with, the Merrills, the UBSs, those are full-time employees. If they generate $1 of commission, all of their bills are paid for them; their administrative assistant's paid; their Wall Street Journal subscription; the office rent. And they net between -- their growth gross compensation is based between 20% and about 30% of the commission they generate.

In the independent broker-dealer space, they pay all of their on the expenses. They pay their own rent, their own the admin -- for that Wall Street Journal, etc.. And they generate -- their compensation is somewhere between in the 80%s to 90%-plus % of the commission generated. So very different model, very different culture. That's the space we own broker-dealers in; it's also one of the spaces we've been very successful with our product wholesaling.

But we own four of those firms. They are very profitable, very effective. Ton of M&A in this space right now. A lot of private equity money, a lot of people that perceive product -- theme consolidation -- we've seen this historically before. But we are not -- we are looking at acquiring reps one at a time, not acquiring broker-dealers in this space at sort of -- on this price point in the cycle.

PPMA is our institutional asset management team. It's run by Leandra Knes and her team. This is who runs the general accounts for Jackson. They actually run some money for Pru UK, Pru Asia. And very capable team out of Chicago. We also now have consolidated under Leandra what we now call JAG, Jackson Advisory Group: Curian; Jackson National Asset Management, which is the team that looks at the subaccounts inside the VA; and PPMA -- so all three of those legally in the US are registered investment advisors. So we have aligned all of those under our asset team in Chicago. And it's something that, candidly, I wish I had done three or five years ago. It's really -- we are seeing a lot of potential out of that.

The results -- I think from the conversation the last couple of days, you guys seem pretty up to speed on the numbers. So I'm not going to spend a lot of time here. But it's been, I think, directionally and alignment-wise a very consistent performance for our shareholders. I think we've said before in these meetings, you want to see some directional shape to these three graphs: the level of assets in the Firm, the level of sales or premium you are getting. And then obviously the growth in capital and distributions you are making. A misalignment in them would suggest mispricing, a weakness in your model, etc. So we are pretty pleased with the shape of these graphs and how they are growing.

We're obviously managing the premium level on perspective, too, pretty tightly the last three years. But generally these are producing materially above-industry sorts of numbers. And I'm obviously very proud of that. And again, I'm not going to spend a ton of time there. This is the one that probably got the most questions the last couple of nights. So I'll spend the most amount of time here on the last one.

Not the economic outlook -- you know, short version of that, we are geared -- we hedge rates both ways; we hedge equities. But our bias and asset of assumption, if you asked us, is US rates rise at some point here. And probably quickly. So what you see tactically from that is we are up in credit, down in duration on our general account. That's not news; it's the same thing we said last year and the year before. But it is our view. And it's where you see sort of our tactical bet in the portfolio.

We're staying there. We made a decision of a number of years back when Clark Manning was here that we are not trying to get the team in Chicago to produce unique earnings for you, okay? We actually made a conscious decision. We have an overused expression that for us, the industry average is regression to the mean. We don't want to be average on very many things in our business plan. It's not an industry that you look at and say, gee, you really want to be like everybody else domestically in the States. Okay?

But on the portfolio risk, we made a decision that we would move it to an industry average level. And PPMA is measured and managed to keeping very close to a very tight risk model. And that puts pressure on the rest of the model to produce earnings elsewhere. But you are not seeing outsized bets; you are not seeing particular unique credit risk; you're not seeing them create new securities; you're not seeing them come up with double secret investments that no one has ever done before. That's not their mandate.

But that does put pressure on the balance of the model to compensate for that, because we have competitors that take more risk in the portfolio than we do. We just don't think corporately that aligns with our role in the Group and our mandates. And we are continuing that.

Competitive activity -- so, quickly, things change. Checking last night, 14 of our 15 largest variable annuity competitors have said in the last 12 months they would like to do more variable annuities. Some of you that attended these meetings for a number of years, that number varies year to year.

I'm not sure what to read into that; we are not using them as a barometer of when we do business or don't. But just to give you an idea, it's getting a little more competitive. You are seeing some increases in pricing. You are seeing some new features and new structures come to market. I think the best thing you're seeing of the market is a continuation on expanding the level of risk a client can get offset.

That's a very good thing. So you can -- you know, the sales of the traditional with living benefit products are actually declining. But you are seeing a lot of different structures appear. That's good. They are very sophisticated tools, used correctly. And that's a good thing.

I think the general negative trend is the pricing on the products favors you as investors more than it favors consumers. You are getting too high of fees generally in the industry, too low of value. And directionally, that's probably the thing I'm most disappointed or most concerned about with the US market right now. We cannot -- the value proposition in some of the products we compete with just isn't there.

If you saw the SEC's last comment from four weeks ago, they're looking at the exact same thing. They're saying, if you're charging these fees, what are you doing for the consumer? Which is -- you know, they're a proper consumer advocate as a regulator. And we welcome that workstream.

We think these products have a very good role in a consumer's portfolio. But they should add value. So we're seeing a lot there.

Everyone -- there's a dozen Elite Access clones. I think, as of yesterday, 13 -- 12, 13. So we're seeing everyone have one they are calling an IOVA. I'll give you some more details on those in just a second. IOVA is a term an industry consultant coined. I think they got $50,000 for that or something. We didn't give them any money. But they looked at Elite Access and said, here is an investment-only variable annuity; everyone should have one. So our competitors are all filing them. There's a dozen out; I'll show you the competitive landscape on those in just a second.

The regulatory landscape -- a couple issues here. The global issues we discussed, I think, pretty thoroughly at the event. The G-SIFI status, the structure, the European accounting, the pressure in the US to be more open to some of those trends. There's still doesn't sent seem to be a whole lot of openness to that. The 50-state model versus a federal model -- there's tension -- you know, the Office of Insurance Information has gotten involved in the -- the Department of Treasury has gotten involved in the G-SIFI discussions. So they are now a player. The Department of Labor is still looking at the role of commission products in general in qualified plans. That's -- the announcement on that has been delayed seven times, again, to January.

And these are all just things that we deal with. We've gone through contingencies for each. So there's none of them on the horizon we are particularly concerned about.

I would say the political landscape issue that gives us the most -- that comes up the most now when I talk to advisors and consumers is everyone assumes taxes in the US are going up. And everyone has seen taxes in the US go up materially. The parts of the US tax that used to cap out at a certain dollar amount now are open-ended. So when you look at tax rates in the States from abroad, you may say, well, the absolute marginal rate on taxes hasn't changed that much. All of the other taxes the consumer pays on their payroll have. The state taxes have; sales taxes have. some are starting to look like VAT taxes in their structures.

So particularly if you are in California, New York, Illinois, very unlikely a consumer making $200,000 a year is keeping half their money. So the tax deferral discussion is very much at the forefront of the discussion on why variable annuities are popular again. And tax control and allocation strategies for municipal bonds and all sorts of other investments are very much a part of what reps are talking about to clients. So I think that's a tailwind for us.

It came up earlier, cyber security -- so Jackson has a pretty sophisticated technology. I think we have, by a couple of independent measurements, the best in the industry. It's certainly how we maintain our cost advantage and one of the key elements to it.

But everyone, including us, is concerned about breaches and hacks and things. You know, without standing up here and defining for an online hacker who would be watching this what we are doing -- I don't think that's a great idea -- directionally, you are seeing two things. We have a pretty sophisticated barrier model, which is the rings they have to get through to get to data. Then directionally where we're going is much more encryption, on the assumption that at some point someone can get through any number of rings, to oversimplify the strategy here and not get into specifics.

But we have every tool available from public sources. We think -- we have ex-criminals who are consultants; we have ex-federal employees who are consultants. Some of those people now think we are criminal in our behavior. There's a lot of intellectual firepower you can buy in that space right now or lease. And we take that very seriously. I'm joking about it. But we look at it very carefully. All of these insurers now domestically -- all of our connectivity with consumers and the broker-dealers and things are based on that model. So a lot of time and resources here. And I think our model rivals any of the best out there. But there is -- the Group is very focused. And we are very focused on managing that risk.

M&A: the market is getting more and more interesting right now. There's more players. You have the Japanese through Protective Life now. You have Ottawa Teachers' Pension sic; Ontario Teachers' Pension [ph], the Canadians looking to do bolt-ons. You have active private equity firms. And I would say -- I was just talking to some folks this morning about this -- that that's the folks who actually are trying to buy and establish a franchise that we would see as a competitor or a peer.

Then you have the passive. And that's the private equity firms that are coming in and saying, we are going to buy a block of life cash flows. And we're to have a third party administer/manage it. This stuff looks pretty easy.

And we are far less concerned about those players. I actually think long-term they're an opportunity for Jackson to buy those blocks back, because there's a little bit of work to administrating this stuff correctly. And I think they will figure that out along the way.

But there are some good new players in the space. And there are all sorts of rumors on what the return hurdles are, usually generated by investment bankers. I'm sure some of it is true; all of it would pressure our pricing disciplines down if we listened to it all. We obviously take it with a grain of salt.

But that is -- the market is more competitive for M&A. We continue, as Tidjane has told you in these meetings, we continue to look at targets in the US. And we have had opportunities. But we're looking for a certain quality level. We have reallocated. And we're back out there. But we're doing it cautiously and correctly. We want to make sure we do the right transactions.

And it's one of the advantages of being part of the Group. We have the diversification of the Group that takes away that time pressure to have to do something now or do something you might not have wanted to do that you think was perfect. So we're looking at a lot of different things. And that continues. But that space is changing.

You know, the private equity firms, I think, are the most interesting new entrants. The conversations with them are fascinating. Some of them just see it as a levered play on bonds. Some of them see it as an offset to a liability they have elsewhere. It's much more of a financial engineering play than it is, this is a business that they want to own and operate. So we'll see what they do to that space. But that's out there.

This probably got the most questions: the Elite Access space. So the consultant who named the product is wrong. So they called it an investment-only, IOVA, space. I think we are now the only Company that has an investment-only offering. All the rest have now added guarantees, higher commissions, higher fees. I think we talked about this last year. This is not a unique direction of travel for US life companies. The belief is if you raise the commission, raise the guarantee levels, you can sell more.

This is not where I was hoping this space would go. But it's there. It's not affecting us. I'll show you the results in just a second. But it is -- our argument back on why you don't want the competitive structures you are seeing would be: we're seeing about a third of the funds roughly go in the alts, balance going to traditional portfolios inside Elite Access. That's a great allocation.

They are typically using our managed models, where they are not trying to learn every subaccount. But they are using an overlay that has a risk tolerance that's consistent with what the consumer wants. So again, great use of the product.

But if you think about the nature of these products, the alternative asset piece -- they are going to perform if they are well managed in a narrow range, okay? These are counter-correlated returns to the core portfolio. They are not intended to produce a 22% return if the S&P is up 22%. They are intended to be sort of good single-digit returns that are more consistent. So the fee load really matters. The fee load really matters. The structure of this product -- I think fees matter more than just about anything we've ever done.

So I think the direction of travel, where if you are going to offer guarantees -- and I don't think there's anything particularly wrong with the return of principal; we got asked this question last night a couple of times. The first guarantee we're seeing is return of principal if you die. That's not a huge risk behaviorally. Most people won't die to get back their investment. So there's a natural hedge in their own behavior. That's not one that you are overly worried about.

But you can't necessarily hedge the underlying alt funds, depending on what they are. Most of them are unhedgeable. So you wouldn't -- not all of them. But most of them you wouldn't want to do that. And you certainly wouldn't price for it. So there's a little bit just there of a bet. So you need to charge extra for that, the firms that are doing it. And they are.

You're seeing withdrawal structures. Most of the withdrawal structures we seen so far are renamed annuitizations. All VA contracts, all annuity contracts have an annuitization clause. That's a regulatory issue. You can call it something else. But it's an annuitization clause.

And historically the United States variable annuity investors have annuitized about 1% of the time. So would a slightly different version of annuitization change that rate? Possibly. We haven't seen it yet. We don't think it's a particularly unique capability. We certainly can do it. We'll watch this space. If somebody starts -- you know, if their product starts getting higher utilization, we can certainly compete in that space. But we don't think that's why they're buying the product. So we'll see.

But the product is doing well. The last ICI data has us, Fidelity. And Blackrock as the three front-of-mind or top alt managers in the US when it comes to funds. Not tax-deferred. But just period. So I think our wholesalers have done a phenomenal job of positioning the investment proposition of this, training the advisors. And associating our name with the diversification play -- which is, I think, a really good extension of our reputation.

It's a very hard product to wholesale. The advisors typically haven't sold very much of it. So you are not going into a top advisor's office and say, instead of doing business with XYZ mutual fund and their growth fund, let's try this alt. They need to understand why it works. They need to make sure that when they represent it to their client, they know the funds, they know the correct application.

So we've spent a fortune, time and energy wise, on training and development. That is the core to our wholesaling model is improving the advisor's business. We got way out in front of this a year before we launched with training our own internal people. So they were fund specialists. And they were credible. And it's an investment wholesaling proposition, okay?

So why does that matter? All right. Here's us. And I got challenged, I would say, politely, last year on: wasn't I worried about a particular firm and their comments about how they were going to take us out immediately? There you go.

There's Pru; there's Lincoln; there's Jefferson National, which came up on one of the previous pieces of research on us. We are feeling pretty good about our market position, not saying that someone is not going to increase those sales.

The other that I would suggest to you is the percentage of sales these folks are getting from their proprietary distribution outlets is very, very high. It's not a bad thing. But that's where the majority of the sales today are coming from. Again, this is a very investment-centric wholesaling proposition. And my argument to a number of you a year or two ago was: this is one of the ways I can prove to you how good our distribution people are. This is a hard product to wholesale. And it's a very good product. So I'm extremely pleased with the job our folks have done.

Now, lots going on in the space. Broker-dealers are trying to figure out their correct place for these, qualified/nonqualified, how many they want on the platform, is there limits on the alts they will allow on a client at a given net worth level? And we are active in most of those dialogues with those firms, because we're seen as a credible source. We are training their reps.

I probably talk to 150 to 200 reps a month that are at training meetings we are doing, teaching them about the correct use of these products. And we talk about our entire product suite there. But they are mostly focused on Elite Access. And it's becoming a tool for very top, very high producing reps. We're getting a lot of money that isn't coming from variable annuities. We are getting a lot of advisors that didn't produce variable annuities with their broker-dealers before selling the product or having done business with Jackson before.

So the results from it are good for our broker-dealer partners. They're good for the advisors. The products perform for consumers. And it's certainly good for us diversification wise. But it's a lot of work. And I think it's a measurement of your distribution capability with something you haven't done before. So that would be my -- you know, are we worried about a dozen new competitors? No. Do I wish they would go more investment-focused, less benefit; or commission-focused? Yes.

But we can deal with that. We'll deal with the competition. It certainly is competition. There's some credible firms in that list. But we are okay with it. I'm sorry -- I forgot Met and AIG. And there's a new one that's launching this week, rumored to have its first living benefit, by the way, on an alt-based product. I think one of you owes me five bucks from that, by the way, from two years ago.

You do not want to put a living benefit, for the record, on a product you can't hedge. I cannot believe that isn't somewhere out there in the general knowledge of the US industry. But rumor has it there's one that's just coming out. I was hoping it was out while we're here. It's not quite done.

Okay. So what do you own? All that's going on in the market -- is it a good market? Yes. Tidjane hit the fundamental reason that you want us in the Group, which is: the Baby Boomers need savings alternatives that -- you know, 10 to 20 years out. The demographics are the ultimate tailwind we have. The lack of return for guarantee or low-risk products, the implied risk now on a total return bond fund with a 200 basis point move in rates -- all these things are making the choices in what people do with their retirement rollover very, very difficult.

So advice has never been more important. That is our space. If you talk to the advisors, it may take us four or five meetings to get a client to do their first Elite Access ticket; it's taking them four to six meetings with the consumer on a retirement presentation now. It's up materially, because there's so much more going on. And none of the decisions are obvious. Okay? They are not getting a client coming in and saying, what I really want to own is a mutual fund that's S&P-centric at this point in the market. None of it appears easy to the consumers.

So the advisors are earning their keep. That's a great climate for us. That is our space. You know, as one of the earlier slides -- we have, by any external metric, the top wholesalers in the industry. And that's rated by the advisors. There's syndicated research that shows that. There's a little bit of public research that shows that. It's been true for more than a decade. But it's absolutely true now.

One of the measurements -- someone asked me last night, everybody says that -- how can I measure if a wholesaling team is any good? It's a great question. One simple one -- and you know, acquisition costs are hard, because people put different things in acquisition costs. So if you asked all of our competitors their acquisition rates, they are somewhat comparable. But it's a little bit more challenging. If they have the top wholesalers, they should be the most productive. If the product looks reasonable to you.

So if you simply take their total sales and their number of wholesalers. And you say, what is their production per wholesaler? That will tell you the effectiveness of the wholesalers. Now, if the product is mispriced, that's -- you want that number low. But if you think the product is reasonable. And there's a lot of reasonable product out there, that's a very easy metric that, if you've never looked at a distribution network, you can measure.

Now, on a self-serving basis I bring that up, because we have the number-one level of productivity in the industry. And we have post-crisis. But it is a fair measurement of are they effective in branches. The other way is talking to distributors. And some of you have the opportunity to do that with some of your other travel.

Wholesaler turnover is another. But that's harder to get market data on. The ALM piece, the pricing, we continue to do everything we've talked to you about there. I'm going to leave most of that -- the financial part -- to Chad's presentation, since we've got them here with us.

But there's nothing changing there in our risk appetite. There's nothing changing there materially in the way we're doing things. There's a few additions of hybrids and things we haven't done in the past. But it's generally working as we have said. And generally the options to us are the same as they've been all along.

We continue to focus on being a low-cost player. But a high execution, high effective execution player. I always worry about the low-cost metrics we have that are public, because it would suggest we are doing things cheap; we're not. We have the best technology. SQM has us the top service provider 9 of the last 10 years. And we're in with the mutual funds. So that's not just the shallow end of the pool. That's with real -- a lot of very capable competitors we are having to compete with. And we have a very good service platform. You need very good technology to do that.

I'll give you an example why. A client calls from Wisconsin. They're a broker-dealer; they bought the contract 2008 -- say it's prospective, too. They bought it in a qualified plan, meaning a retirement account; and they bought it from, say, Wells Fargo.

There's the state variation, there's the vintage we allowed that year; there's the qualified plan rules for that broker-dealer. There may in fact be a third-party service entity that they've contracted in between that has systems or policy rules. And from that caller ID number coming in, we need to pop that up in front of our service person. So when they talk to the client they talk to them specifically about what their options are. And they have to be smart enough to know what they can or can't do.

So that's why the call-based route -- you know, the technology that routes calls to our more senior people on VA and things is critical -- but you have to get that information in front of them real-time. And given all the state variations we have. And the various years we made product changes, that's a fairly complicated data management task. And you also have to have really good service people.

It's amazing to watch them -- they are flipping through these screens, they all have at least two, while they are talking to the client. And they are generally a screen ahead of where the client is going to go. Okay?

Why does that matter? Because if you are the advisor, if we blow that service call, we damage your reputation. So it's absolutely critical. It's probably -- from a brand point of view, one of the most important things we do is maintain the service quality we have. That is what the advisors want from us. And they want to make sure that we protect their reputation, both in product quality and the way we deal with their client.

So we have a lot of money, a lot of design work, a lot of things go into that. And because it's so efficient, it gives us a very low-cost platform relative to our peers. Basic disciplines -- you integrate all the product platforms, you maintain the shortest number of systems you can. We have a lot of stuff built in-house.

But it's a very effective model. And measured, again, externally. And you can measure it by basis points to assets; you can measure by employees to assets. We still have about a quarter of the staff of our size of earnings or assets. But it's one of the keys -- the quality has to be embedded in that. You could do it cheap but not do it well. And that would be a different model.

Then the last one, reputationally: so we still don't invest in brand. I get asked, do we still do the zamboni at Michigan State? We do. We still have -- there is still Lugnuts Field if you want to come to -- Jackson Field. If you want to see a AA ball club in Lansing, be our guest. We have a box there that you will share with the local Little League teams and things that all of our -- any of our employees that coach we allow to use it. But those are community-based activities.

Those of you coming to Nashville, you will see there's a historic theater in Franklin, the town that our office is in, that most of the not-for-profits use for events. And it's got amazing acoustics; we are one of the sponsors of that.

We view that more as community service than we do advertising. We still aren't doing any advertising. I think that reflects in the dividend. I think that reflects in the earnings. Our competitors spent a lot of money in that line. And again, by any external metric, we are as trusted as likely to fulfill obligations. We have the financial strength brand attributes when they measure them with advisors and consumers we have of any firm in the industry.

Now, we don't have unassisted brand scores. So if you walked into LAX -- if you bounced through there on your way home and said, what you think of Jackson? They would have no idea who you are. But if they do business with us, our reputation holds with anyone's in the space.

Why is that valuable? Elite Access. We had the trust of the advisors; we had the trust of the broker-dealers to do something the industry hadn't done. And had we just done something wrong, had we just damaged their reputation with clients or advisors, we couldn't have come to them with a product like that, that they had never seen, that risked their reputation again.

So there's a currency there for us to guard. But it's an execution-based currency. Tidjane referenced that culturally -- that's who we are. It an execution-based currency, not a brand-based currency. We're not buying that with television spots or stadiums or whatever. But we are very aware of how fragile that is. And I think we are still doing things that -- we still think constantly about protecting that capability.

Those aligned capabilities are what you own. I don't see anything on the horizon that would suggest we can't deal with anything coming at us regulatory wise, competitor wise, or market wise, with what we have.

There will be changes. I thought Tony's comments about the region were fascinating. I've been over here three times this year. And the listing of all the things that have gone on here -- and then just the consistency of results from our agent team. The similarity there is we expect things to change. We expect to have to innovate. We expect to have to build new products. We expect to have to -- you know, the relationships will change, ownership of broker-dealers, new competitors -- that's fine. I think we have the attributes we want to deal with that right now. And we are pretty well positioned.

So I'm going to turn it over to Chad. And then we'll come back at the end for a couple comments and then Q&A. Chad?

A - Chad Myers {BIO 2234559 <GO>}

Good morning, everyone. So I'm going to take a few minutes here to go through a couple topics. One would be just a little bit of an update on the balance sheet's sales kind of aspects, since we're not in the earnings season yet; spend a little bit of time talking about interest rate risk, which has been a big topic as we've been through some of our peers' assumption reviews over the last couple of years -- what that looks like; and spend a little bit of time as well on just our assumption review that we went through. And just give you, again, a little color on that.

So just starting off with sales: year to date we are up about 10% overall, most of that coming from variable annuity sales. Elite Access, as Mike has mentioned, continues to do well. $3.8 billion, up from $3 billion the prior year. And the P2 core chassis, kind of the dark blue there, is running a little bit ahead of last year. As we've mentioned before, we have actually front-ended sales in that product this year. So we're actually kind of tapering down into year-end. So we would expect to see that percentage of sales kind of drift back towards the 2013 levels by the time the year is all said and done.

So focusing on the overall fee-based type deposits. So we continue to see, as we continue to move product away from the living benefit -- the core living benefit product, 39%, same year-over-year that we saw of our overall fee-based premiums and deposits were into products that did not have a living benefit associated with them.

Moving on the right-hand side of this to just VA sales only, it's a third, which again is pretty stable from last year. Most of that diversification coming out is -- again, the success we've had with Elite Access, which -- you know, the red bar, which wasn't really there before a couple of years back. And we continue to see a decent proportion of our sales going to VAs with no living benefits, where product structured customers can choose the intensity of benefits that they want. And we typically see somewhere in the 10% to 15% range elect no living benefit. So that's the blue bar up there.

And so then you have got the balance there in the gray, which is VA with living benefit. Now, this is getting to be a little bit more interesting a story than has been the last couple of years, because we've actually introduced -- we first did it in 2013, where we started this process. Then we've accelerated that this year. But we have launched some lower -- guaranteed lower-fee product into the market.

And if you look at what the prototypical guaranteed withdrawal living benefit is, at age 65 it would provide the customer with a 5% withdrawal rate. That's kind of more or less industry-standard. Back in 2013, we broke that apart. We actually made our core product the 4.75% withdrawal rate and had the option to buy up to 5%. And just this most recent period here, this last product cycle in September that we went through, we launched in a number of other what we call income streams with as low as a 4% withdrawal rate at a relatively low fee, going in quarter-point increments up to the 5%.

As it stands right now, back to the capacity control I was talking about, we don't actually offer this very day a 5% withdrawal rate. We will be reintroducing that in the new year. But what that means is this gray bar now is starting to look a little bit more nuanced than you would normally think of in terms of the risk associated with it. It's not all monolithic in terms of the withdrawal rate. There's lower intensity guarantees in there. And in fact, we are on track to have -- we'll probably get to the point where north of 50% this year, we'll have a withdrawal rate of less than 5% associated with it. So some positive developments even within the dreaded gray bar there.

Moving on to statutory reserves -- this is a slide we've shown before. Just a quick update on this. So we continue to see the separate account type of products, the VA type products gaining at the expense of general account as a percentage of the overall balance sheet. You can see 1% of that is the 18 to 19 without living benefits. That's effectively what's coming through on Elite Access. And then there's a 2% increase since last year-end coming through in the living benefit space.

And breaking down, as we've shown you before -- you know, the red bar is up there, the general account. Then you got the -- without living benefits, which is the 1% I just talked about. Then looking at that 2% that we have got on the prior page of variable annuities with living benefits, it's split evenly between two pieces. The 34% going to 35% is effectively net flows. Our number-one market position continues to drive good net flows into the product. So we've seen some increase in the percentage of the balance sheet going to that.

The 12% going to 13% is actually market-driven. So as we've talked about previously, we continue to see good market development. We actually offer a product that helps customers participate in the market. So as the markets go up, our balances increase. Those are very profitable contracts for us. Basically, that's just purely the market moving up. So it's increasing fees. And the overall living benefit structure is more favorable to us at that point. So that's a good development.

So moving into a little bit more of the interest rate debate here, this is a chart that should look at least partially familiar to those of you who have been to a couple of these. But for those of you that haven't, I'll just spend a minute. Upper left-hand corner: what this is is the GMWB cash flows unhedged for the in-force book as of 9/30. So what you see here is the base scenario that we lay out here is just a 5% gross return basis. This is, again, the same analysis we've shown over the years.

You will see the guarantee fees coming through. Again, not the M&E fees, not the core product -- just the guarantee fees associated with the product. You can see the gray bar is very substantial. Not a whole lot of benefits, which, as we've mentioned, we have the best positioned book in the industry. So it shouldn't be that great a surprise when the market is at all-time highs. And we're showing you a scenario with 5% gross returns that we're not going to have a whole lot of benefits. Most of the ones that are out there are more, say, longevity-based -- people who are living to 98 or whatever will outrun their income stream.

But -- so what you see here is a net of about $6.2 billion of guarantee fees in excess of benefits. So a very good position to be in. Not a whole lot different -- it's a little bit better than what we've shown you before. But not a whole lot different directionally.

Historically what we've shown here is 20% to 40% shock down, just to give you some color on that. But what I've done here instead is replaced the 20% shock down with a 100 basis point decrease in rates, just to kind of try to illustrate the point of where our book is positioned differently than some others.

So if you take rates down 100 basis points in this -- and remember, these are just projected cash flows; this isn't kind of a risk-neutral, market-consistent type of analysis. This is just a scenario. Take interest rates down 100 basis points. Basically what you are doing -- you will affect the bond funds that are in the separate account. But that's not a huge portion. That will generally be a slight positive to the account values today. And you will lose something down the road in terms of reinvestment. So it still nets to -- over a 20-year period, nets to nothing. And you are going to get a lower discount rate. So net-net, what you see out of that is benefits haven't really changed. But we're discounting the benefits and the future fees at a lower interest rate. And net-net it's a slight positive within that. Again, not surprising if you think through it.

Then on the bottom right, this is again the traditional scenario we've shown, which is down 40% instantaneous shock. Then we grow at 5% thereafter. Obviously, very significant benefits coming through there, again, on an unhedged basis. And -- but it's also interesting to see that even in that down 40 we are still at a slight net positive PV of fees over benefits.

So really what we're trying to highlight here is that interest rate risk in and of itself isn't really an issue for our book as it stands. It's really still going to be driven off the down equity scenarios. Now, within this the down equity scenarios can be exacerbated by lower rates. And so it's that kind of joint probability outcome that we do worry about -- down equities, down rates simultaneously. But rates in and of themselves are not really an issue for us. And our hedging actually reflects this.

So digging in a little bit more, this really gets to be a function of where you've struck your product structure. So if you think about it, in many of the competitor products these days -- that which is being issued right now, what we see is typically a vol-controlled or a heavy asset-allocated fund that won't exceed 50% equity, generally speaking. You will have a relatively high fee structure, somewhere in the 300 to 400 basis point range all-in, with a relatively aggressive rollup or guarantee type of structure.

So that's a relatively narrowly defined outcome product. You are not going to get a lot of equity upside, because there's not a whole lot of equity there. Most likely what the customer is going to get is the income stream looks a little bit more like a deferred annuity than it does a variable annuity. And within that you get something that looks like a relatively, again, narrow band -- something that looks a little like a fixed income product. So no big surprise, you ought to get a fair bit of interest rate risk in that under all scenarios.

The second one we look at, which is more where we are at -- because there's equity exposure out there, you have got various path events, as it happens. So if equities just keep running and running and running, we're never going to have any benefits to pay. And so interest rate risk really is not particularly relevant in that particular case. If you get a very bad down equity scenario, now all of a sudden you've got a lot of benefits that are 20 years out on the horizon. And the level of interest rates matters a lot.

So again, more of a conditional rate exposure there. And if you look across the competitive universe, very different hedging strategies come out of this. So if you are -- you know, there's one product out there that's gained a little bit of traction that's a bond-only variable annuity. So that's going to be -- there's no equity. So there's no delta to have to worry about, no vega to have to worry about. You just -- basically, it's a big interest rate play.

There's other competitors out there who actually have built the interest rate exposure or have basically ceded the interest rate exposure back to the customer, because the fees they pay or the benefits they get are dependent upon interest rates. So they don't really have any meaningful interest rates to have to hedge. Then you get into, again, a situation where we are, which is, again, relatively unique in the industry, where we have more of a conditional rate exposure because of the structure of the product. So that's more of the economics.

Then you get into some of the model assumptions. So the important one here is discount rate versus the drift rate. When I say drift rate, just to make sure we are on the same page, I'm just talking about the assumed forward path of equity returns. And with what I talked about on the prior page, that's really just a discount rate aspect of it. But if you're dealing with a risk-neutral, market-consistent -- choose your term -- model, then the drift rate is going to be typically the risk-free rate, or typically swaps. So you are looking at -- the forward swap rate is what you are assuming your central path is for equity returns.

And in a market-consistent world, you are going to assume if interest rates drop 100 basis points, then so does the central equity path -- effectively 100% correlation. So you're not just going to get the discount rate effect; you are also going to get -- you are shifting the entire distribution down. And you're going to get higher benefits that come off of it. So the choice of models that you are using is very significant in that, especially if you think about it in the current environment, where forward interest rates are roughly zero in the US. And certainly for -- you know, out several years and even longer than that out in euro land and in some of the Asian markets as well.

So you are effectively assuming zero market participation or market upside. You are going to have a 300 basis point, let's say, fee drag coming through there. So your central path is actually consistently in the hole a little bit more each year. So if you've got a more conservative assumption set like that. And you shock rates down, then you get a bigger impact. That's part of what we see coming through certain of the models, which I'll get into in a moment.

Then policyholder behavior can actually be a knock onto that. So if you have a fairly aggressive policyholder behavior function built under that, then that can exacerbate some of the interest rate impacts on the drift rate.

So that's a high-level model. If we get into the actual accounting outcomes, which are obviously based on models, what you see in terms of the financial impact of that is on IFRS the discount rate typically is going to be a negative, because again, you are dealing with this negative net drift rate concept, because it's a market-consistent type of world.

So starting with an assumed very low equity return. And then shocking off of that. So typically speaking, lower interest rates have a negative financial impact. You will see that come through below the line historically for us as rates have dropped. But also with IFRS, because it's the market-consistent world, lower rates mean lower equity returns as well. So there is a knock-on effect there that's actually even larger than the discount rate, typically.

Statutory has a different set of assumptions underlying it. So the discount rate could be positive, could be negative. Depends on how in the money the benefit structure is. Equity return is a nonevent, because it's based off of historical equity returns. There's no tie-in to interest rates.

Then you flip over to EEV. The net of that can go either way, because you've got offsetting impacts coming through. As the discount rate goes down, think about you have got this embedded value that's now being discounted at a lower rate, higher PV. But the equity return is also tied to interest rates, albeit with an equity risk premium. So it does have negative impact. But not nearly as much as IFRS, because you are starting at the much higher level of interest rates or assumed equity returns. Is that clear?

Now, when we think about the assumptions set under a market-consistent world or a risk-neutral world of these, it's effectively a 100% correlation of equities and rates. It's a no-arbitrage model. And I get why people look at that. But I think it's also important to keep the historical context in play.

So on the left-hand side of this graph, what you see is past 50-something years of equity returns and 10-year Treasury rates. And you can see there doesn't appear to be a particularly strong correlation between those two. And in fact, if you look at the data, on the right-hand side what I broke out here was if you look at daily returns for a consecutive 20-year period -- so basically all potential 20-year periods over the last 50-something years, you'll get an analyzed 20-year equity total return. And the 20 years I picked because that's about what our normal, average policy should be in place for living benefit type policies.

So what you see is on a mean basis, 11% type returns -- that's probably not a surprising number to anybody. But correlation with changes in the 10-year Treasury is basically zero. So we're certainly not seeing that.

So then you might say, okay, that's fine. But in the tails, clearly they have to be heavily correlated. And what you see here actually is max return and the min return -- both actually showed over that period of time negative correlation with interest rates. So again, I think it's interesting context to keep in play when you're looking at something, for instance, like an IFRS model that's more punitive on interest rates -- you just have to realize what you are buying into in terms of the set of assumptions.

Speaking of assumptions: so the assumptions-setting process -- I think we've talked a little bit about this in prior meetings. But basically what we do each year is we go through a very detailed experience analysis. We create this tome of information that looks at every assumption that we make on every product that we have.

That process typically winds through in Q2. We look at long-term trends as they develop. We compare those to our assumptions. We look at what we need to change. We make small changes every year to a wide variety of assumptions. Some are positive; some are negative. They all kind of net out to what they net out to. We have a working group that meets just below the most senior management level to look at recommendations and approve changes and such. And then that goes through our governance process, gets implemented in Q4. So you'll see those come through in the year-end numbers.

Then we have a bunch of ongoing experience monitoring that we do as well, including, on some of the more key assumptions, we do some ad hoc reporting and quarterly reviews on some of the emerging trends. Because as we've talked about before on the VA space, nobody really knows where all these assumptions are going to land. So on the things that are more sensitive in the pricing, we just keep a very close eye on from period to period.

So in terms of how things shook out for this review, or some of the highlights coming out of it -- as we've mentioned on the Q3 IMS, generally speaking the assumptions were in line with the experience that we've seen, with some slight adjustments here and there. Probably the most interesting one is lapse, because that's the one I think we've seen competitors talk about.

So what we have seen is lapse rates continue to trend downward somewhat -- the base lapses. So these are not -- because, remember, just to set the backdrop here, we don't have very many in-the-money policies. A number of our competitors have some deep in-the-money policies. So lapses matter a lot there.

So in the case where you have a healthy book, lower lapses tend to drive more fees, no real incremental benefit -- increase in benefits. So they are, generally speaking, positive in kind of the base-type scenarios. If you're already deep in the money, then that wouldn't be the case. And we've seen some of that.

But what we think we've seen in terms of our -- again, mostly at; or out-of-the-money book is a little bit lower lapse, base lapse rates coming through, in large part because the product that they currently have, which would have been a product sold anywhere from yesterday to -- or actually, I guess, a year ago yesterday -- going back 10 or 15 years -- there's nothing that you can buy like that in the market from any of our competitors. And we're not selling you -- we're not churning the business over so that you can get a new Jackson policy, which actually would be, again, as Mike mentioned, more highly priced today than it was three or four years ago.

So I think what we're seeing is not so much that the policies are in-the-money from a financial concept as much as there's just really not a whole lot of alternatives out there, if people wanted to move their books somewhere else. So we did lower lapse rates a little bit across some segments of some products. And generally speaking, what you'd see there is, again, economically that's a net positive for us, because the book is very healthy.

What you'll tend to see on the accounting will be mixed. So for instance, on IFRS, where -- and I'm trying to move through this a little bit and not belabor this. So if some of these comments I've made in prior presentations don't make sense, just catch me afterwards. But on the IFRS basis, we don't get to count all the fees in the reserve. You can't have a gain-on-sale concept in IFRS. So we only get to count about half the fees in the reserve.

Because of that, when you look at IFRS, what you'll see is lower lapses don't -- they take account of any additional benefits you have to pay. But they don't give you the benefit of all the fees that you would otherwise get. So they would tend to be modestly negative, just as a general concept. Whereas the flipside, EEV, for instance, lower lapses will tend -- because you are going to get to count all the fees. And you won't have as much in terms of benefits -- tends to be positive. So really depends on the accounting metric that you're looking at. But again, economically, which is where we like to focus, lower lapses at this point in the cycle are actually somewhat positive for us.

Utilization -- what we've seen here is a little bit more efficiency on the part of policyholders. As we have talked about before, we already assume a pretty conservative level of efficiency within the GMWB policyholder behavior. So what we've generally seen in the last year is people are actually holding off their first withdrawal for another year or two relative to our assumptions, which isn't really a problem. Again, back to the economics, we're collecting more fees were a little bit longer. But the policy is also structured such that we are really indifferent whether they wait a year and get a bonus or start taking withdrawals right now and don't get the bonus. So it's really an even trade-off from our perspective.

But again, the accounting noise can be -- you can get a bit of accounting noise off of that. Again, from IFRS you're not going to get to count all the fees that you'd get from those extra years, whereas you'd count the utilization. So a little bit of noise there.

Then, finally, mortality: for the most part mortality has been really kind of spot-on where we've set the assumptions. We haven't had some of the issues that we saw last year with some of our competitors in terms of their mortality books. The only real change we made this year was between GMWB types. There is the living benefits. And then there's the WBs that don't have the living benefits for a defined period of time. We saw some differing mortality trends between those two blocks. And so we just broke those out. So that's really the main background for the fee assumptions.

Generally we have a very healthy book, as we have talked about. Things continue to go well. We are adding more and more good vintages for us. We don't really have any bad vintages. But as we've continued to reprice the product to try to control capacity, we continue to get better shades of good in our vintages. And as we continue to add more of those on there, the market continues to do well, we see that come through the financial metrics.

And so one of our favorites is the operating ROE here. You can see through the first half we're in the high 20s on an unlevered basis, which is the red bar; a little bit north of 30% after-tax ROE -- operating ROE on an assumed AA leverage basis, which is -- even though our competitors are continuing to do a little bit better, we are still running about double to peer group there.

So very, very strong returns on the existing book, which has led to substantial cash remittances, which I know everybody in the room is a big fan of. Post-crisis we've remitted close to $2.5 billion in cash back to the center. So that's been, I think, very well received by everybody. And we actually hit a new landmark this year. The dividend that we have paid in 2014 actually exceeds the purchase price that Pru paid for Jackson initially. So we think that's a pretty good level of success.

So just wrapping up, again, strategic view of our product profile. We are looking to proactively continue to manage the balance sheet and the risk within the balance sheet, the quantum of risk within the living benefits. We have talked about we're in the market for M&A to try to keep the life cash flows balanced and all that. That will happen as it's available.

We continue to price conservatively; we have all along. We continue to be there now. As I mentioned, policyholder behavior is generally in line with assumptions, with some small tweaks that we do year-by-year. Very healthy in-force book; very effective hedging, which has been a hallmark of hours for quite a long time; and ultimately strong financial performance coming out of the back of all of that.

A - Mike Wells {BIO 4211236 <GO>}

So just a couple of final comments. One, I just double-checked -- we also did -- you'll see another $100 million in dividend that went through today. It's just the health of the business, healthy cash flow. I wanted to avoid the question from Blair. So I just thought I would go ahead get it out of the way now.

But I think there's a -- the other sort of final point I would leave you. And it's -- it was from one of the conversations the night before last. It was a great question. So are we a rational leader for the market? Is it a reasonable assumption that Jackson has the position it has now, given what it's done?

I think it's a really good, really challenging question. I would argue a couple of things: historically in the VA space. And in sometimes the annuity space, the market leaders in the US were leaders because they took more risk. That was the defining characteristic.

When we were number 14 going into crisis, we had lower expenses than any of the top 10 players. We had better distribution and better service. And we had better product. I don't think in any industry there can be a market leader without good product. I don't think you can be a market leader without good services. It doesn't have to be the best product. But there has to be value for the consumer. We absolutely have that. I think that's one of the biggest challenges we give competitors. And it's one of the reasons we have to manage our volumes the way we do. I hope you'll see more of that develop in the States.

But I am confident that what we've built have the characteristics for you that actually -- that we've earned that position. We're not doing it from a risk discussion point of view; we're doing it from a capabilities point of view. And I think it's a fair test of us or anybody else.

Then just the last comment I'd say -- this was my 19th year here. I'm not going anywhere, I don't think; you can ask Tidjane later. Depending on this presentation, this may be my last meeting. We'll see.

But in 19 years, I've never seen in a group the capabilities we have now. And I know a lot of you have known for a long time. But I think if you think about presentations you're seeing in Asia, what you are going to see from the UK, Michael has seen with M&G, I don't think what you see at Jackson is unique inside of our Group. So I think there's some -- you know, you're seeing -- the stuff that people try to measure in the culture of the Company is very visible across Pru.

And I think Jackson has got all of the DNA you see here. And we're obviously very proud of what our colleagues are doing here and in the UK as well. So we've got time for questions. But we are into your break a little bit.

A - Unidentified Speaker

Three or four questions now. And then --.

A - Mike Wells {BIO 4211236 <GO>}

Take three or four questions. And then we're obviously here for the duration to answer anything you want.

+++qanda

A - Unidentified Speaker

Yes. We can do it in the final wrap-up, where we've got an hour. So a few burning questions now. Why don't we start with Jon?

Q - Jon Hocking {BIO 2163183 <GO>}

It's Jon Hocking from Morgan Stanley. Just a very simple question -- what do you worry about? Because it seems to be going fantastically well. Where could it all go wrong?

A - Mike Wells {BIO 4211236 <GO>}

Well I think the things that -- you know, I put a couple of them up there. I think the short-term disruptions. I certainly worry about some of the technology issues. I think reputationally, we've got to -- you know, that would be a hit for us if we had a Target-like breach. And so that one bothers me.

I think the -- you know, we joke a lot and say it to new employees -- the scalability of the business is based on the level of buy-in we have and the level of ownership I think you see out of the associates. So our ability to continue to attract those sorts of people. And ingrain them in how we do business. And what we value and things, I think, is a huge challenge. I tell them that. I'm saying it, obviously, with cameras on.

I think if you joined us 18 1/2, 19 years ago, people thought you were crazy. And you had really thought through that decision to try and influence a company that was a small player. And you wanted to have impact. You join us now, we're a very capable, big, safe place. So that's one of my greater fears.

There's other -- but I'll tell you the other side of that. There was an email I got, as well: we have our 47th wholesaler today that gets what we call a red jacket. It means they are over $1 billion in assets raised with us. There's a lot of people in this organization that actually hold the culture in pretty high esteem. So it's not like you are going to hire 10 people. And they are going to hijack the model. But I do -- I worry about that one a lot.

A - Unidentified Speaker

Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions. The first is -- and we started on this discussion last night. But you've got a cap on the amount of guaranteed business that you sell. And you talked about sort of needing to make acquisitions in order to balance out the business, in order to grow that guaranteed element. But equally, you're saying that acquisitions are pretty tough, because you have got private equity (inaudible) with very low hurdle rates competing for that sort of business.

So what happens? Do you just sort of keep that cap in place for as long as that as that lasts, even if that's several years? Or is there anything else that might actually change your view of volumes?

Then the second question is: you talked about reducing the guarantees on the core VA product, as it were. How far can you push that? And what are you seeing in terms of competitor action on that?

A - Mike Wells {BIO 4211236 <GO>}

The second one first: we don't see anybody else creating it. If you think of our core product offering years ago, we had an unbundled product when that was a unique concept. So we see the offering multiple levels of guarantee as further unbundling. It derisks for us. But it also has the impact of an advisory structure within a more sophisticated solution for a client. So we see it as a tool.

It also gives us the ability to control sales without completely eliminating a product or a feature on our advisories and risking those relationships to a competitor. So there's multiple agendas it addresses there.

On the M&A, I think the other -- what I probably didn't get across well last night -- I think the other reason for M&A is you own in Jackson a life and an annuity platform that has capacity. It has integration capability, it has M&A capability. And it has material capacity.

We can knock, as you've seen in the trades we have done -- we can knock the majority of the expenses out of a target acquisition. So part of the reason to do that is to lever what you've already paid for, what you've already invested in for technology and plant and people. So we get more out of M&A than competitors; we know that. That's from expense efficiencies, that's from covariance benefits, that's from the capital synergies, etc.

But there is also -- you've already paid for the plant. So there's a -- part of the reason the Group likes us looking at it is that. The other is the risk, I think, the diversification of cash flows and the balance sheet.

Being part of the Group gives us much more latitude, as I mentioned earlier, on when we have to do something. We get compared domestically to Pru and Met all the time. And there's a compliment in that, given their size and ours. I still don't believe size ultimately is a key attribute to success in the US. But both those franchises are well diversified.

They only compare Jackson. And one of my arguments endlessly is we are Prudential, too. We can -- side by side we do very well as a group next to them. And even Jackson stand-alone can hold its own in most of those comparisons. But it is -- we are part of everything going on here. So there isn't that pressure for the next meeting to get something done. That's just not the nature of the mandate we have from Tidjane and the Board. It is very much on quality of transaction and perfect fit. And we had options even this year that we've passed on that somebody else will do. That there is no mandate to place X amount of dollars.

A - Chad Myers {BIO 2234559 <GO>}

So one additional thought on your second question, too, Oliver. If you think about it. So what we're down to with the product we just launched or the new features we just launched, our 4% withdrawal rate. That's the lowest one that we offer, again, pegged at 65.

What's interesting about that is since we are the only Company that offers the investment freedom type of aspect, where you can actually get equity participation on constrained equity participation -- you go back to a year like 2013, when the market went up 30%. And our average count was up in the low 20s% -- if you bought a 5% withdrawal rate from a customer -- or from one of our competitors and got no equity upside to speak of; if you bought a 4% guarantee from us, you are going to get enough of a step-up from the performance.

I mean, a 25% increase in the market, which we've seen over the last 18 months, has put you at the same place as you are with one of our competitors: 5% products at a higher price point. So it will be interesting to see how that plays out and how much lower we could go. It's really back to consumer demand. But we're seeing people take the 4%. Not the predominant amount. But we're seeing interest in it.

A - Unidentified Speaker

One more -- Blair?

A - Mike Wells {BIO 4211236 <GO>}

Don't ask for more dividend, seriously.

Q - Blair Stewart {BIO 4191309 <GO>}

I will keep it -- one for later, actually. 100 billion [ph] is not much.

Your ROE chart suggests that you are running an ROE around double the average for a very competitive industry. And it's a regulated industry. I think a lot of people who don't know the business just find that hard to believe.

Have you done work to try and explain the difference between yourselves and the peer group in terms of analyzing where you've got that ROE advantage? Is it the expense advantage? How much of that is expense advantage? How much of it is just charging a higher price for a premium product, etc. etc.? Have you got any color on that?

A - Chad Myers {BIO 2234559 <GO>}

Yes, I can give you some color. I don't have the exact numbers. But there's a couple of different things going on there. One is you look at our balance sheet; we're more heavily VA than anybody else out there. So if we had -- and as you know, we exited the life business -- the new-issue life business a couple years back, because we didn't see decent returns there.

So if you got 40% of your book sitting in your own originated life book that's at a high single-digit rate of return, that's a pretty big anchor relative to what we've got. If you think about the way we are approaching life, it's M&A. And the returns are much better than the high single digits.

We don't have a wounded back book on variable annuity. So everything we sold is profitable. There's some companies that are carrying some pretty ugly stuff along. Even though they've written off a lot of the E in that equation over time to help flatter that. And we continue to see -- again, because we've matched duration well, we continue to see good ROEs coming off the fixed annuity book as well.

So I think a lot of it is mix. Part of it just because we've done the business right. And if you think about, too, the quality of the book, while we -- not only do we not have a broken back book. But we've written more of the best priced product in vintages ever than anybody else has. So from a mix perspective you would expect us to look a lot better.

A - Mike Wells {BIO 4211236 <GO>}

And the expense side is pretty straightforward. You've seen their Lansing operation. And the headcount numbers and things. Those -- you know, we pay a fraction of the rent; we have a fraction of the staff. The discipline, the IT platform lowers your -- it's a big number. But it still lowers your IT costs relative to peers. And those all are key expenses for most people's models on an ongoing basis.

A - Unidentified Speaker

All right. So we break for coffee. If there are any further questions, catch them off-line or we will grab questions at the final wrap-up Q&A. Thanks.

+++presentation

A - Jackie Hunt {BIO 16204866 <GO>}

Thanks, Raghu. Good morning, everyone. What I thought I would do -- again, really, in response, I think, to some of the feedback we've had, both formally through some of the investor sort of consultation and then more informally in our interaction over the last few days, is maybe give you a bit more insight into the UK strategy. I think there's been a lot of questions around given the changing market, what is the strategy? What is the business? What's actually happening on it?

And talk a little bit about market developments -- this is obviously highly topical for all sorts of reasons. So we will share some initial observations with you on those elements. I'm then going to ask Aki Hussain, CFO, to talk a bit about financial performance, maybe give a bit more insight into what's actually happening on the ground in terms of the results. And finally John, Aki. And I will take your questions just more generally.

So in terms of the strategy, I think it's worth being absolutely clear -- and I said this a year ago in front of this audience, as well -- that actually the core strategy hasn't changed inasmuch as it will remain being focused on capital discipline, on cash generation. And on selective participation. I think these are really important principles for us as a business. I've been in the industry too long and have seen too many people try to be waterfront players and actually fail as a consequence.

And I think for us, it's very much about really focusing on what is it that we do well, Prudential UK? And how do we optimize that? How do we actually maximize the shareholder value as a consequence of those actions? So I would say, really, very similar basis; but in addition we are looking at some areas where we can grow based on those particular strengths. And at the half-year results we talked a bit about some of the free surplus generation that we are reinvesting into things like writing bulks in terms of new business strength. And some new product and distribution propositions, more generally -- but always with the mindset of actually knowing that ultimately this is about generating value, generating cash and capital more broadly.

So when I talk about playing to our strengths -- what is it I mean? Again, I've touched on this in the past. But I think it bears reflecting on, because it does give you an insight, I think, into direction of travel of the business.

First and foremost we have a fabulous retail brand in financial services. And it's easy to take it for granted. It's easy to stand here -- you heard PCA yesterday talking about the strength of the Prudential brand. It is a remarkably well known, well trusted commodity, both in the intermediary market and in the consumer market.

And although we in the UK have actually invested very little in that brand in the recent past -- you know, you compare it with many of our competitors, who maybe put GBP60 million or GBP70 million-odd in per annum; we're doing maybe single-digit millions at most in terms of brand investment. The level of trust and the level of recognition of what Prudential stands for remains very high.

That makes it actually -- if we've got good products, good propositions. And we meet our customers' outcomes. And their needs for a good return on the products they invest with us, good value for money, that actually it becomes an easy sell -- whether that's through sort of a direct consumer proposition, whether it's through vesting of our existing customers, or whether it's through an intermediated proposition.

So brand and really leveraging the strength of those existing customer relationships -- and we would have talked in the past about how much of our book comes from vesting customers -- I'll come back to that in a second; relying also on good customer propositions, which I think is something we do have to offer. And I'll talk a bit about PruFund in particular in that light. These are the things that I think will help us deal with an environment where there are both challenges and opportunities as a result of the amount of market disruption.

I also want to talk a little bit about investment management. I think we are one of the foremost multi-asset managers in the UK. We never really presented ourselves in that way. But actually if you look at PruFund, if you look at our with-profits proposition, how it's performed, it's really put together by taking PPMG, which is 35-odd professionals reporting in through John Foley at the moment; putting together those asset allocation capabilities in that part of the business alongside M&G, PPMA. And Eastspring capabilities in terms of managing funds. And that's getting the sorts of customer outcomes that allow us to actually build some of the growth that you've seen in the first nine months of this year.

So the market has changed immensely over the course of the last, probably, two or three years. And I think, as with all things, you can see that either is a challenge or an opportunity. I think it's always better to step into it and say. So what can we do against this ever-changing market? Why do I think there has been considerable change? And we can talk to a number of regulatory political drivers for that.

First of all, RDR obviously changed the distribution landscape very significantly. Secondly, we had the removal of compulsory annuitization. And I'll come back to what this has meant in terms of our numbers in a second. And finally, we've had the ongoing sort of drip feeding of views around pension freedoms and how the market should develop going forward.

We're actually seeing that in terms of what's happening on the ground. And I think this graph best illustrates it. So if you look at the left-hand side, our investments business, up about 38%. Some of this is absolutely as a result of what we're bringing to the table. It's largely off the back of, actually, our bond proposition, which is wrapped around PruFund.

And so very good customer outcomes, a real smooth return; the ability to use the strong financial balance sheet, actually, to underpin that smoothing on some of the guarantees has made that part of our business increasingly attractive. We're also seen other investment type products, if I might call them that, like income drawdown and like individual pensions growing in attractiveness over this particular period. It's up 38% over the nine months.

Offsetting that has been the impact of the removal of compulsory annuitization. And along with most in the market -- the market is down around the order of about 50% -- our retail annuity sales have fallen a similar sum. So about 47% down.

If you look at those two sort of retail propositions, the investments versus retail annuities, actually sort of nine months year on year, we're probably a little bit down on the previous period. So probably about 2%. In the Third Quarter, actually, we were starting to sell more. So we were about 5% up on the previous period.

So I think it would be fair to say that we've offset in terms of sales volumes, in terms of top-line growth, the impact of that very significant change around the retail annuity sort of compulsion through actually utilizing the strengths that we have, utilizing some of the distribution. And I'll come back to that in a second.

We've also, as I set out -- or we were intending to do in, what, November/December last year, focused on how we selectively participate in the bulk annuities market. And you can see bulks -- they are up significantly over the same period year on year. And I will come back to that in more detail.

The thing I want to highlight. And I think we've said this. But it bears repeating, is that bulks for us is not a replacement product for retail annuities. We had always set out our story; we said it was a more attractive line to go into, we'd always be selective. We will be disciplined about it. But fundamentally in and of itself, it was part of our plans prior to the change.

Now market developments -- this is a slide I think Tidjane mentioned yesterday in passing. If you look at what's happened to the market and why some will talk about it as being sort of a once-in-100-year change, the UK savings and retirement market used to have two very clear stages associated with it. You work for a period of time; you accumulated assets in various forms; you came to a point in your life where you actually retired -- it was a one-off transaction. And at that point in time, you moved into annuities or into a defined pension benefit that was paying out for you. So it was very much a tale of two halves. And if you look at how we participated, our activity was actually largely focused on the annuities end of that particular market. So the retirement point of activity.

What's now happening is because of pension freedoms, which directionally we're very supportive of -- we actually think it's a great way in which to encourage people to save more. And this is critically important in an environment where actually there's a huge savings gap -- again, Tidjane referred to that yesterday. So we think directionally it's the right sort of thing for government policy to be doing. But what we are seeing now is a blending of accumulation and decumulation.

And that means that it is unlikely as we look forward that people come to a point in their lives where they say, okay, that's it. I'm moving out of all of these accumulation products. And we can actually crystallize it and put it into insurance as opposed to a savings-type product at that point in time. So we're seeing increasing -- and some will position this as innovation; I'm not sure it's terribly innovative at the moment. I think it's a natural evolution.

But we are seeing this sort of scenario, this outlook, whereby people use accumulation and decumulation products -- very similar product sets, actually -- all the way through their life stage, with only really the blend of how much accumulation versus decumulation you have changing over that period of time.

Why is that important? It's important because it plays to our strengths on the savings and investment side, creates opportunities for us. And I'll come back to what we've done about leveraging those opportunities in a second and what we plan to do going forward.

It's also important because it creates opportunities around advice more generally. And I know many of you, when we talk about market dynamics -- you know, the need or a one-off point in advice has now, I think, receded; and actually what we are going to see is people engaging more frequently with their providers. And that creates opportunities for companies with good, strong brands who are actually delivering against their customer proposition as well.

So in terms of numbers, this is an interim picture. What I've tried to do here is to say. So we've had a bit of time now since the annuity changes were announced in March of this year. What are we actually seeing in terms of behaviors?

Five items, really, to pull out here. The gray bar at the top: we're seeing more people taking cash in terms of the triviality rules. We expected that in large part; that was actually what pension freedom was intended to accomplish, or the removal of the compulsory annuitization. These are people largely with very small pots of money who actually, in terms of what they could generate value-for-money wise, were probably not particularly well served by the industry.

We're seeing a very large percentage of people actually deferring their decisions. And these are active deferrals. So individuals who are saying, I know I'm coming to a point in my life I need to make some choices. But actually I'm going to wait and see. I'm going to wait and see what happens in April next year. I hear a lot about the guidance guarantee that the Chancellor is talking about. I hear a lot about innovation. So let me see what comes out.

Some of these people inevitably will leave at that point in time. They may take cash; they may choose to, for example, move into a buy-to-let mortgage -- a very topical issue always in the UK. But many of them, actually, we believe we can construct propositions that will be attractive to them to stay with Prudential, given the strong customer loyalty that we do have.

And it's that blue bar I think in particular, when I talk about this being an interim position, that no one in the industry could say with any confidence how they will react come April next year. So I think the outlook, certainly from my perspective going into next year, is somewhat uncertain around what will happen with those funds.

We've then seen an increase, 2% to 7%. So statistically significant, in terms of customers who are choosing to move into other Prudential products. And in large part this has been income drawdown. This is a product that has been advantaged by the rules. And again, I'll come back to that in a second. We've seen the very strong falloff in annuities -- retail annuities that I talked about, the 46 down to 25. Then also a reduction, interestingly, in the people actually choosing to leave us to go elsewhere. So you have seen that fall from 30% to 25%.

So the long and the short of it is that we are retaining more assets. But with fewer people seemingly making an explicit decision at this point in time. And I think the question going into 2015 is: will they make that decision? Will they effectively act to go elsewhere, to move into one of our products? What form might that be?

Or is this actually the new norm -- that without this kind of cliff edge, where people are forced to actually make a choice, they will simply accumulate for a longer period of time? In either event, I think this actually provides good opportunities, really, for us as a business: to retain those customers, to build on their loyalty. And to ensure that they are around for the longer term.

So what have we done around our response? I talked a little bit about income drawdown. If you look at the Q3 numbers, income drawdown up 128% period on period. That's really off a very small base. So I think very promising.

It's not a product, I would have to say, that we had very high on our development agenda. So a number of people will say to me, were you surprised by the budget? Does it change the strategy at all?

The simple reality is the underlying trends were foreseeable. So we knew that, effectively, annuities -- people were questioning value for money. They were doing that actually against a very low interest rate environment, significant amounts of quantitative easing actually depressing those rates. And so consumers, politicians, media were saying, is this actually the best way in which people should protect their futures?

We knew that savings and investments products were growing in popularity. I think when I first spoke to Tidjane and the Board about our strategy, our view as to what we would do with the business, we thought we probably had three to five years to adapt. Actually, all the budget has done is it's crystallized some of those risks in a much shorter time frame. So we've had to respond more quickly. And I would say income drawdown is probably the one area where actually we knew it would be part of the product set. We didn't expect it to be anything like as popular as it is rapidly becoming.

So that's what's happened to date. In terms of initiatives, we talked at the half-year around some of the investment into different propositions to set up what some of those are. We're launching later this month another vision of our flexible drawdown product for existing customers. We will be launching in 2015 the next iteration. And for a wider customer base, which will be a flexible drawdown product wrapped around PruFund with guarantees. And we have a very strong belief that actually the killer proposition, inasmuch as there is one, will be some sort of growth income basis with an underlying guarantee or smoothing associated with it.

We have also talked in the past about PruFund ISA; that's on track for launch in the First Quarter of 2015. A much more attractive wrapper, actually, for our products, given the increase in ISA limits. So these are tax allowances in the UK regime. They were moved up to GBP15,000 as part of the budget changes. We've been focusing a lot also on how we utilize more effectively Prudential Financial Planning. These are in-house financial advisors, relatively small team -- 200-odd partners which can actually provide full-blown regulated advice. And they've been moving much more into drawdown sales. We've been training a number of them over that period.

So that's what we are doing to date. I want to talk a bit about PruFund. And I'll come back to its components in a second, because I understand there are very different views and understandings as to what the product effectively is.

Why is it critical for us? Well if you look at the growth across our product lines, two observations I would make. The first is I'm actually delighted that we're not seeing very strong growth in any one particular product type. I actually think an environment where the market is changing very quickly, where there's a huge amount of political and potentially regulatory risk in the next 12 months, that actually being flexible and being diversified in terms of the products, the propositions. And the way in which we actually distribute those products and those options is actually critical.

So if you look at the bond market as a whole. So the first two blocks on that particular slide, that's actually reduced over time. But our proposition is working really well. It has a strong inheritance tax planning element associated with it. And given the performance of PruFund, we've seen our onshore bonds grow 29% and our offshore bonds grow by 56% over that period.

In addition we did make some changes to our individual pensions product to make it more relevant, to make it more compelling. And those have actually generated significant interest out of the market -- again, from a smallish base. But very promising in terms of the 31% growth.

And finally, our dynamic portfolios -- again, 21% growth, about GBP19 million of AUM at the end of that particular period. So we are seeing a strong series of wrappers around which we are actually placing some of that product type.

So this is really PruFund -- PruFund is a series of options, risk-weighted, for those of you who aren't aware of it. And if you look at the left-hand side of the graph, you can see why it is actually quite a salable proposition in terms of IFAs advising their customers.

If you look at it over the period of 10 years. And this is against one particular index, you can see how it's outperformed the 52% -- play is [ph] 90%. Actually on a number of metrics it's -- no matter how you look at the comparator, for a smooth product with some sort of underpin associated with it, it has actually performed incredibly well over an extended period of time for our customers.

Difficult to replicate this product. I think the question we will often get is: but can one of your competitors come in and do it quickly? In the first instance, obviously, track record -- the history is important in terms of being able to sell it. Then the second is the ability to actually offer that smoothing associated with it is as a result of the estate and the capital that sits therein.

So it's incredibly hard to get a proposition that would work from a shareholder perspective in terms of risk [ph] returns, putting shareholder capital behind it that would deliver in the same sort of way, whereas actually, because it sits within with-profits, we are making good use of that capital as well. And so what you're seeing -- the right-hand side of that graph is growing number of customers; the number of policies being the blue line; and then AUM increasing up to around GBP11 billion as we stand today.

Looking a little bit at the bulks opportunity, we've talked a lot about the opportunity. GBP1.8 trillion of assets sitting in defined benefit schemes as we stand at the moment. There has certainly been a significant increase in appetite, increase in the pipeline. We put that down to a number of factors. The first is that trustees, I think, are war willing and more interested, actually, in laying off some of this risk. They are more able, I think, to actually take large scheme liabilities, to cut it into tranches.

We're seeing a lot of tranching of scheme liabilities, whereas in the past I think they would've wanted to do all or nothing. So that's helping the market grow. Schemes are also increasingly funded, if you compare them with the recent past. I know that's not universally true. But certainly the schemes that we are dealing with are better funded today than they were several years ago.

And also there is always a view that as interest rates -- there's a perception they are going to start moving, this becomes a more attractive thing for people to do. So the pipeline is incredibly strong. We participate at the higher end of that market. So if you look at the over GBP500 million on the graph, even over GBP250 million -- you know, we'll talk about being above GBP100 million; actually, the majority of our trades, if you look at them, are sitting around the GBP300 million-odd mark.

It's a part of the market where there are some key competencies that we bring that others don't bring, necessarily. The first is strength in the brand and the financial strength of the organization. So if you are a trustee, you are putting all your faith in the counterparty you are dealing with, you want to know that they are going to be around. You want to know that they are well capitalized. And we undoubtedly tick those boxes in a way that some of our smaller competitors, some of our competitors particularly in monoline space, simply can't actually do.

We also have particular capabilities around managing individual annuities. So we've got over 2 million policies. And we leverage those. And that gives, again, trustees and pensioners confidence that actually we know what we're doing in this part of the market. Our administration works. We're geared up, actually, for the amount of administration required more generally.

Now, we are very disciplined. We've talked about in the past selective participation. And I think that's the critical element from our perspective. This is the area where we can flex our appetite, where the Group is able to flex its appetite to put more money behind it -- or not, as the case may be. And we do look at each deal off the back of four financial metrics. And we've set those up there.

Why that's important is because I think if you are too singular -- you know, if we went only, for example, for an IRR metric, the issue is you go up the risk curve. Your margins look fantastic; your IRRs look good. But actually the risk may be much greater. So we do look at these deals in a very balanced sort of way, to say: is it within our appetite, both in terms of the funding, in terms of what it does for our financial metrics. And in terms of economic hurdle rates that we require it to meet?

We have become much better and much more disciplined over the last few years. And I thought this was actually quite an interesting slide to compare what we're doing today versus what we would have done historically. So if you go back to 2008 -- an interesting basis of comparison. We wrote, interestingly, about GBP142 million of APE. So almost exactly the same amount of business we've written in the course of 2014 to the end of the Third Quarter. And what you can see is that that selective behavior, that financial discipline, has meant that we are making about 2.7 times the profit margin. And we're about 5 times more capital efficient.

So to my mind, this remains an attractive part of the market. Lots of you will say. So are you going to be in it more consistently? Provided we can operate as we choose to, which is selectively, with discipline, meeting all those risk and return requirements, I think it's attractive. The pipeline is incredibly large. So the opportunity is undoubtedly there.

Let's turn now to some of the other business lines.

Pointing out sort of corporate pensions, corporate pensions is not an area we have been particularly focused on growing aggressively. We do have a very attractive public AVC book, our strategy towards corporate pensions is about maintaining their position, maintaining our position in that market. Sales down a little bit, we did have one large scheme in 2010 which has distorted that to an extent. But equally there were some changes around the tax regime on the government side that degenerates some of that dynamic.

So this is an area which I would call care maintenance, we need to invest a bit in the proposition, keep it fit for purpose, make sure that we are actually delivering what we undertake to deliver to our partners in the space.

We did announce a few weeks ago that we were exiting our JV with discovery on the health and the protection side. Health business is not a core business to us, UK market, my view is you're competing against NHS, you're competing against other integrated providers, it's a difficult market in which to make attractive margins.

And we don't have any particular skills or competencies. So I was comfortable exiting on what were very attractive terms from our perspective. Protection, I think, is a little bit different. So protection is an attractive market us, it does play to our skills and our competencies. We've always written protection business onto Prudential's balance sheet. So we do have the financial vector and the management capabilities to reenter that part of the market, should we choose to do so. We've made no decisions but we are free. Discovery can no longer use our brand with effect from Q2 2015 and we will be free to compete, should we choose to do so.

And finally I would be remiss if I didn't mention Poland. From a small business started with just over a year and a bit ago, it's going well. It's ahead of our plans for OTC [ph], 111% growth. And for us I think an interesting environment in which to show that we can actually build new businesses and actually generate value in the European context.

Now I said I would talk a bit about distribution. The pie chart on the left, I think, shows you just how diversified that distribution is. And I think it's this diversification that has given us resilience through 2014. You can see the heavy, the red bar being the intermediary distribution, quite a strong element of our comeback to why intermediaries are important to us and why we continue to invest in that channel.

But you also see bulks increasing in size, largely relationships with EBCs and various trustees, you see PFP Direct-to-Consumer and advice model. And then obviously the internal listings, the sort of darker blue if you want to put it that way significantly done in what it would've been in the past given what's happened on retail annuities.

The intermediary markets, there's always lots of speculation about what has the impact of RDR been, are the numbers of IFAs down or are they up, I think overall. And John can shed more light into it; the number is definitely down.

What we have seen is a consolidation of the smaller IFAs. And actually those tended to be the more inefficient IFAs. And so what we are seeing is higher efficiency through this channel. And you can see at in terms of average policy size which is up 14%. So IFAs we are dealing with now, we've actually brought a lot of new IFAs to our products, back to that in a second. But they tend to be larger in size and to be sort of advising in terms of larger case sizes. That makes it an increasingly efficient channel for us.

And I think the fact that we supported IFAs through the process of RDR and the ongoing investment into our proposition, which I will come back to in a second, has really been beneficial in terms of that relationship. So I talked a bit about bringing new IFAs in. It's always hard to get new data. But I think the Third Quarter people were saying to me. So you know, how are you generating these additional sales on some of the savings and investment products? And undoubtedly an element of that is just new distributors coming to us.

So we've got on the order of I think excess of 400 new IFAs that are now selling our bond product versus a year ago. And over 300 more IFAs that are selling our pensions product. And we have been doing that really threw very basic operational processes of WebEx's educating, supporting people as they change their own business models as well. I think that's paying off.

Now I've set out here some of the recent awards we won. It's nice to win awards but actually in terms of this particular forum, why is it important? I think if you look at both the awards that we are winning, sort of the outstanding performer for five years, sort of excellence, these sorts of things are an indication of how IFAs are increasingly liking the prudent brand and how their loyalty to us is actually growing. These are all advisor awards more generally.

And why is that? It is because when we set our minds, I think we talked a lot yesterday about execution and delivery. We are a business that when we set out to actually deliver something, it does it with discipline and does it with focus.

And we've been very clear that this is a core part of distribution, it's a part we want to actually invest in. And as a consequence we are seeing the benefits of some of that investment.

Now the half-year, I talked a bit about our digital proposition. It was very pleasing to see that actually we won an outstanding achievement for online service awards recently, I think it have must been in November, October-November time. That's in the advisor space.

So we took the decision over the last 12 months or so to actually invest in our advisor proposition online. That's been recognized in the way in which advisors are actually experiencing our service awards, which is very promising.

We haven't done the same to date on customer. And so, when we talk about the online investment in digital, this is really about how our customers can interact with us. Much of the advanced vast majority of our interaction with customers is now telephony-based or face-to-face. That's the only way in which we can effectively deal with them.

So it is critical that we take some of the same skills and competencies, the focus around being easier to deal with, being easier to transact with. And move that into the customer space. And if you look at their investment and proposition roadway that we've put down on the right-hand side of the slide, it is really about that part of the business.

A few of you, I think, Greg, a number of others have said. But what are you delivering when in terms of product and propositions? 2014, we talked about the fact that so many more assets are moving onto platforms, this is an inexorable trend in the market. We have launched an onshore bond on two platforms, true potential and centric [ph]. And we are in very advanced discussions on another 10 platforms.

Like all things I don't think any of this is a silver bullet. I think this is making ourselves fit for purpose to actually compete in the way in which our customers and our advisors actually want to deal with us going forward.

So I think it's promising, the results have been great. It was actually interesting, I talked a bit about our strengths and the fact that we need to focus what we are good at.

When some of the media came out talking about investment into new products, propositions. And Prudential being back in the market, if you want to put it that way, I got a number of calls from people who obstensibly are competitors. A huge number of calls, a lot of emails. And really what they were saying is, you have a unique product in PruFund. And we would love to be able to distribute it. We don't see it as competing in the same place, where we can't actually compete because we don't have a big with-profits fund, we can't provide the smoothing, we don't have the history.

And so when we talk about broadening distribution, it's actually pushing on an open door. And often we've been pulled through it. It's more about being selective about how we brought in that distribution rather than actually having to sell our wares in the normal sort of way.

I mentioned in earlier comments that we are later this month delivering a new flexible drawdown product for our existing customers. And again that's -- we will be further enhancing those with guaranteed elements in the course of 2015. And we talked a bit about sort of PruFund (inaudible) and some of the other deliveries. So that's what you can expect 2015 to 2016.

We do obviously have other things that we are looking at, some of you have talked to me about variable annuities, you've talked to me about the need for longevity provision, which can be tacked on to other products. These are all areas that we are looking at as a business. But in terms of what we've actually committed to, that's the product and proposition runway as it stands to date.

So with that I thought I'd hand over to Aki to go through some of the financial performance.

A - Aki Hussain {BIO 19739719 <GO>}

Thank you, Jackie. Good morning.

So turning to the financial performance of the UK, let me set out the theme for our financial performance. It's one of robust new business, stronger and sustained profitability. And predictable free surplus and cash flow generation.

So with that in mind, I'll just take a few minutes and remind you of our performance over the last nine months. So we just heard Jackie talk to you about the strong performance for a range of our individual products.

Taking all of those together, you can see our APE grew by 20% in the first nine months of this year to GBP648 million. Within that, retail sales fell only 3%, despite the market disruption following the announcement of the pension's freedoms.

Indeed, the 47% decline retail annuities that we referenced earlier has almost already been mostly offset by growth in bonds and pensions. In fact if you look at the Third Quarter results discreet, as Jackie mentioned, retail sales have actually increased year-on-year by 5%, demonstrating the recovery in the retail topline.

In addition, both annuities are performing well and robust. They've contributed GBP141 million to the GBP648 million in the first nine months of this year.

The focus on and the clarity of financial metrics that Jackie spoke about earlier in the bulk space is certainly paying off in both topline and profitability.

As well as the growth in the top line, we've also expanded the new business margins to 32%. And combining the sales growth and new business margin, our new business profit is increased by 28% to GBP209 million. As well as the strong growth in new business, we continue to deliver significant and stable IFRS operating profits.

And what you can see in this chart here is that our in force business contributes between 80% and 90% of the IFRS operating profits in any given year. Providing a significant underpinning and resilience to our operating profits.

The trend for IFRS operating profits and EEV is sustained through maintaining our financial disciplines, effective risk management, managing persistency. And excellency and asset management, with a multi-asset capability provided by PMG combined with the fund management and stock selection of M&G, PPMA and Eastspring.

Turning to free surplus and cash. The story here is somewhat similar to IFRS. Our enforce [ph] book of business generate significant amounts of free surplus.

The sustainable free surplus generation allows us to deliver a steady flow of cash to group. And as you can see our payout ratio remains quite high. I think, over this period, cash remittances as a percentage of operating free surplus remains just -- averaging just under 70%.

And in fact by the end of this year, since the crisis, the UK business will have remitted in excess of GBP2.1 billion to group.

One of the key differentials in performance that you can see on these charts. And one that Tidjane has mentioned many times before, is the declining amounts of free surplus invested in new business. And you've seen the low point in 2013.

Of course, as Jackie mentioned, we are now allocating more investment in new business stream, primarily to export bulk annuities but only where they meet the financial criteria that we set.

So in summary, overall, we continue to deliver stable and resilient financial performance underpinned by significant earnings from our in force book of business. We are seeing a strong recovery in our retail topline, led by our with profits customer propositions which are essentially not replicable in the market. We've seen our bulk annuity business improve both profitability and capital efficiency. And as Jackie mentioned, we participate in the larger and more complex centers of the market, where competition is more limited.

And we also continue to maintain significant financial strength in both the shareholder and with profits balance sheet. And just as a reminder, at the half year our inherited state stood at GBP7.5 billion. That's after adjusting for the impact of domesticating the Hong Kong price business on 1 January of this year. And it's this balance sheet strength, combined with the results of our earnings, which provides us with the flexibility in how we respond to the market.

Now this was going to be a very quick canter through the financials. So with that I'll hand back to Jackie.

A - Jackie Hunt {BIO 16204866 <GO>}

Thanks, Aki. I thought what I'd do then is just -- somebody asked me what are the four things you would want people to take away.

I think the key things are retail sales, we've kind of dealt with the initial shock. In terms of the outlook for the market I think there will be further disruption, we have to expect political and regulatory sort of commentary in the lead up to an election, this is a highly topical issue for all political parties. So I think 2015 we are going to have to be agile, we are going to have to be nimble, we're going to have to respond quickly to it.

In terms of our core strengths, I think we do have a couple of things that I would highlight the brand, diversified distribution (technical difficulty) the strength of our -- with profits fund in particular and the consequential meeting for PruFund.

And in terms of the outlook, I think somebody made a lovely comment to me yesterday, which I'd like to repeat if he doesn't line, which is he said you've got all of the components there. And I would agree with that. I think in terms of what we have as a business, there's some things we need to invest in. But actually the componentry is good. The big question is how we actually use it to drive value over the coming months and years.

So that's all we were going to say. Then I think we've got plenty of time hopefully to take your questions.

+++qanda

A - Unidentified Speaker

Some Q&A specifically on the UK. So if you want ask question, raise your hand. Can I go to John, please?

Q - Unidentified Participant

Two questions, please. Firstly on the -- with profits fund, I wonder if you could give some color about how quickly the fund is running off now. And to what extent the cash base we are seeing now is terminal [ph] bonuses from endowment maturities etc. That's my first question. And second question on protection, I can see you've got optionality now post-discovery. The barriers to entry recent protection are quite high, given where unit costs are, etc. Are you going to be looking more at sort of group life or maybe niche areas of retail protection?

A - Jackie Hunt {BIO 16204866 <GO>}

So I think protection and I'll ask Aki maybe to pick up some of the cash flow questions. I think you're right, I think that parts of the protection market where the barriers to entry are high, I do think if you look forward, we expect some further shakeout of the market more generally, I think that might create opportunities over the coming two, three, four, five years. And I think we want to keep an eye on those opportunities.

We've made no decisions about either organic or inorganic and we won't do it. We look at it off the back end of the economic rationale at any particular point of time. So I wouldn't rule anything in or out.

I would say we've actually got a fair amount of experience in this market, I think -- and I say this as someone with very little skin in the game, the JV that was set up came from nowhere to being a substantial player. And I think it proves that you can actually with a good proposition, a good brand in particular, no question that the brand has been fundamentally according to the delivery that you can actually break into any market if the price is big enough. And that's the big question.

Aki, do you want to pick up the cash flow?

A - Aki Hussain {BIO 19739719 <GO>}

Sure. I guess I think about this in a pre-budget announcement phase and a post-budget announcement phase. In the pre-budget announcement phase if you just look at the standard sort of rate of maturities in the -- with profits fund, we would've expected a decline between now and 2017 before it would then plateau given the current rate of flows in and out of the with profits fund. But we are now seeing post-the budget is a much more uncertain world, where as you saw in the chart that Jackie presented, persistency levels are much better so funds are stating within the profits fund. My expectation, I need it still quite uncertain, I would expect perhaps the with profits fund, excluding investment returns to decline a little bit between now and 2017. But the uncertainty comes from the fact that flows into the with-profits fund are increasing, you have seen that with the with-profits funds and pensions. And that will go against that underlying trend.

And persistency levels are better. So the world is just a little bit more uncertain now. And of course, that will be correlated with the cash flows that we then receive from the fund as well.

Q - Unidentified Participant

(inaudible) just in terms of the PruFund bonus rates, just to what extent has the surge in sales been helped by the changes in the guaranteed rates. I wonder if you could give us the history of the last few years how the sort of pricing is changed.

A - Jackie Hunt {BIO 16204866 <GO>}

John, do you want to -- ?

A - John Foley {BIO 4239156 <GO>}

Yes, I'll pick that up. The proof on this is different traditional with profit. So we don't actually declare a bonus for PruFund. What we have is an expected growth rate. The unit price is grown on the daily basis in line with that expected growth rate. That has remained relatively stable actually over the period.

We've recently announced into the market that we've turned down that expected growth rate, that's as a result of our long-term view of the market outlook. But the actual rate at which we are growing is relatively stable over that period of time.

So it's not a traditional with profit. So there isn't an annual or revision bonus here. The unit price is grown on a daily basis in line with our expected growth rate which is our long-term view of returns to the fund.

A - Jackie Hunt {BIO 16204866 <GO>}

I think this is a critical point. For our -- to our mind and I think the way in which is looked at in an external market, PruFund is seen at a modern version of with profit. Because it's got smoother. But actually in advance we say this is the expected growth rate, given your particular risk waiting and that's quarter on quarter.

We do have the right to actually move away from that if market conditions are very different. And practice we've never exercised that based on my knowledge. So I think people are more certainty about what they're getting is much more transparent product. And then it's also giving good returns more generally.

Q - Unidentified Participant

(inaudible)

A - Jackie Hunt {BIO 16204866 <GO>}

It depends on your funds. So anywhere from 6.8 -- we can get you the most recent, it's all published.

A - John Foley {BIO 4239156 <GO>}

We actually have a range of PruFunds. So one of the developments we introduced two years ago was to move away from we originally have cautious in the growth fund, we now have a range of risk managed PruFunds that enables intermediaries attached [ph] so most intermediaries as you know use risk modeling tools.

What we did was to create a range of PruFunds. And (inaudible [ph] intermediaries to match their clients risk reward profile with a suitable PruFund read and the only thing that changes effectively is the exposure to equities of the different PruFund that's allowed. By definition, dependent on the amount of equity you got in PruFund, it will influence the long-term return.

So you do get this range of expected growth rates.

Q - Unidentified Participant

Thanks, (inaudible) Goldman. Just on the protection point, given the barriers to entry there, is it sensible to think of Pru having a certain natural market share potential given your brand strength and so on? And second, do you have any appetite to sort of enter or reenter UK distribution via bank channels? Because you don't seem to have a huge amount or limit [ph].

A - Jackie Hunt {BIO 16204866 <GO>}

So in terms of protection, I think, yes, we would have a natural amount of market share, comes back to the strength of the brand. We've only ever in the recent past, I think the JV was originally set up as a 50-50. We were then diluted with the standard life healthcare acquisition down to 25%. So it's very much a financial investment from our perspective in that sort of way.

The reality [ph] is customers thought it was Prudential they were dealing with for a large part. I would get the emails, there was no real, I think, understanding despite the communication that actually we were a minority investor. So I think we naturally play in that place, I think intermediaries as well would see us in that place as well.

That doesn't mean we think we have a right to anything, I think you earn your place on the back of your products or proposition, your service. Then I think the second question. So if you remind me what it was?

Q - Unidentified Participant

Banks.

A - Jackie Hunt {BIO 16204866 <GO>}

Oh, banks. I'll give some thoughts and maybe hand over to John. I think we are not precious about distribution in any way, shape, or form. I think one of the big questions has always been do we want to earn all our distribution? I wouldn't rule things out if products can work and can be properly sold and advised in any particular channel. John?

A - John Foley {BIO 4239156 <GO>}

I suppose in the banking sector, we obviously saw the change particularly coming up to the retail distribution review. So what you saw move out of the market from a bank point view is a lot of the branch base mass-market advisors and that was sort of circa 4,000 RIs that came out of the UK market pre-RDR. And the banks are still active in Financial Services is a bit of a miss, that disappeared from the marketplace. They are simply operating at a higher end of the market, higher end of the customer basis.

Typically through Wealth Management propositions. And through our intermediary divisions, we still have active relationships and active business flows that come from the banks. And it may be in the post-April 15 world that that creates a further opportunity for the banks. We've maintained their strong relationships with them throughout that period of time.

A - Jackie Hunt {BIO 16204866 <GO>}

And some are in the room actually.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken, RBC.

You said that the pension assets in the UK were GBP1.8 trillion. My understanding is that liabilities are GBP1.8 trillion on a full buyout basis. Just the asset supposed to decline in corporate bond deals we've seen this year, I would've thought would be closer to GBP1 trillion. So given the average funding ratio that that one over 1.8 trillion would be materially underwater now, just wondering what you expect the bulk market to do in 2015 versus what was being a record year in 2014. That's the first part.

And related to that, second part is just thoughts on the proportion of active and deferred pensioners, that would probably make about two thirds of that GBP1.8 trillion of liability who will take DB to DC transfers and post April next year. And how affects the bond market as well.

A - John Foley {BIO 4239156 <GO>}

I'll have a go. So if I try and sort of answer the second question first in terms of active versus deferred and people moving from DB to DC. So with our bulks proposition we only write contracts for pensions and payment. So that's the market that we target, we don't target deferred annuitants.

So that would be outside the scope of where we operate. It's not within our risk appetite.

In terms of the DB to DC transfers, yes. That would affect the bulks market. But again, it wouldn't affect the business that we target because these are pensions already taking receipt of their benefits. So that doesn't have a direct impact on us.

It may affect the market size in due course. And we would deal with that as we do with other parts of the business as well.

Regarding the funding levels. And how that might impact the market, I guess all I can say is for 2015 the pipeline remains strong. In terms of the EBCs that we are talking to and the deals that are potentially going to come to the market, they are as strong as it was in 2015 -- their 2014. I think this is really going to be down to whether these deals meet the four financial criteria that Jackie set out. If they meet those four financial criteria, they will move to due diligence and subject to that. And our risk appetite and group's risk appetite will do the deals.

But at the moment, I think 2015, again, strikes me as being a reasonably positive year when comes to bulk annuities.

A - Jackie Hunt {BIO 16204866 <GO>}

I think that's a key point. We are more likely to be very selective then that the pipelines going to run out, I think the pipeline is really strong. Given what we know is on the runway.

A - John Foley {BIO 4239156 <GO>}

I think it's fair to say in 2014 we turned away more deals then we actually wrote, we are already seeing that come through for the prospective pipeline in 2015.

Q - Unidentified Participant

(inaudible), Morgan Stanley, Investment Management. Looking at the pensions world, as you said you've gone from this world of a single decision point to a much more complex series of decisions.

So how are you planning to talk to customers in this new world? And what constraints do you think you'll face, firstly, from regulators and, secondly, in terms of the risk of being done from selling in 15 or 20 years' time when the rules change.

A - Jackie Hunt {BIO 16204866 <GO>}

I'll start and I'll ask John to pick up as well because he works with many of our peers on some of these questions. So in terms of how we're going to talk to customers, I think we will continue to talk to customers as we have historically. I don't think -- I don't foresee a world where providers are allowed to talk to their customers and to talk them through the options and possibilities.

The HMT is due to publish its guidance guarantee. You know they've been leading the charge in terms of what that guarantee looks like, what form it takes. And it will be delivered online form through them, telephone-based through TPAZ [ph] and face-to-face through Citizen's Advice.

I think in terms of how we will sign post that particular service, there is a working group through the ABI that I think John and his team are involved in we're looking at how that happens so that will be an agreed process. The FCA has recently published its guidance around some of these areas. So we are working through it.

I think it's a matter of getting greater clarity in some areas, the industry as a whole has been pushing to say there are some areas of detail that we do need to have guidance around. The FCA published something I think on last week sometime where they were saying they should -- they were going to review in the light of the new freedom, they are going to look -- review their handbook to say is it sufficient, is it adequate given the new arena?

So I think it's going to be a developing framework, a developing sort of outlook. But I think ultimately we will deal with our customers in the right way. We always do, we always have in the past, we will continue to do that.

John, if you want to give any color to that?

A - John Foley {BIO 4239156 <GO>}

There is -- so, as Jackie said, the FCA did publish their paper in terms of guidance, the signposts and the providers will have to do as I'm sure you are aware all providers will be required to sign post the guidance. So the intention is that will be a separate communication. So the treasury is very keen, should be a standalone communication as part of the vast [ph] communications overall. We will sign post customers into that, I'm sure as you are aware as well the guidance service will not be able to actually give an individual recommendation.

It will not be able to give a product-specific recommendation; it will not be able to sign post back to an individual advisor firm, or to an individual provider. So customers will be taken through that process.

Our general view is that actually it will be positive for the industry overall because what it will do will be to start to engage customers to actually think about this process. And what it will do is present to them actually this is quite a big decision, it's quite a complex decision and there's a lot of considerations. Therefore, we think customers are likely to want to support and advice off the back of the guidance service. So there's one of the advantages that Prudential have compared to a lot of providers as Jackie referenced in the presentation.

We have created. And it's been active for the past two years, our own regulator advice service through that Prudential financial planning. So in terms of your question about the selling, we are able to actually give personal recommendations through a regulated advice force.

And therefore we can securely deliver regulated advice to clients that require that. Over and above that, we will be providing information education which will support customers (inaudible) investment again sort of the Jackie alluded to in terms of our digital investment is to improve our online facilities to customers. So customers post-April will be able to come, ultimately will be able to actually ask you through Prudential.

So if off the back of the guidance service they arrived at a point where they are confident, comfortable about what they want to do. And they simply want an easy way to transact that activity, they would be able to do that online with Prudential and (inaudible) services that's available.

And again, on the capabilities we have, which is relatively unique in the market is, we have a reasonably large voice operation, telephony-based operation, which helps customers as well from an education information point of view, that should be able to support them through that online journey if they want to. So we feel that we've got the capabilities to cover the bases to help customers through that journey. And we actually think the guidance service overall will actually be positive in terms of engaging customers more actively in the decision-making process.

And we don't see it as a threat, we see it is something that will just bring more aware, more informed customers back into the market.

Q - Oliver Krisenblair

Oliver Krisenblair [ph], Deutsche Bank. It's sort of more of a generic question. But how do you expect margins on income drawdown (inaudible). I'm just sort of wondering whether a basic drawdown policy effectively just becomes a very, very low margin product and it then depends on what sort of guarantees extra products you can cross sell it.

A - Aki Hussain {BIO 19739719 <GO>}

I guess our current expectations of margins are probably in the high teens to the low 20s. I guess the important thing to remember is that these are with profits products. So there's no shareholder capital being put down on this. So this is using capital that we already have within the with profits fund and (inaudible) state. And this is an efficient use of that capital which will generate returns for the shareholder.

So I think a margin of the lower 20s or high teens are the current scale is within our appetite. I would expect the gross margin to rise as the scale of that business improves and we are spreading this fixed cost across a much larger base of product.

Q - Chris Esson {BIO 6194371 <GO>}

Chris Esson, Credit Suisse. Just with respect to pensions, just interested to understand if you have any views on the desirability of broadening or deepening position and corporate pension market. And also interested in your view on whether there could be a potential advantage to the stronger corporate pension players in terms of workplace marketing and an erosion [ph] protection and gathering assets, which effectively drive future growth and postretirement option.

A - Jackie Hunt {BIO 16204866 <GO>}

My view, I come, I guess, from a much more pensions-focused environment. I think corporate pensions is a scale game. I think it is operationally leverageable. I think very much if you see the comments that we've made earlier about margins, there is a relatively low -- you've got a good platform, you can have relatively low and fixed cost base and actually been every pound you're adding to the topline the vast majority of that comes through in profits.

I think the timing is critical. And I think if you look at where the big movements in corporate pensions have happened, it's really been around auto enrollment. So in large part, actually, the markets, a lot of the kind of large things that would attract you to the market in the first instance, I think, is paid out of the course of last year and this particular year.

I think it is a much lower margin business but higher returns. So if really you focused on return on capital you can make a good shareholder return because actually it requires almost nothing by way of capital itself.

So (inaudible) GAAP I think is an attractive part of the market. It's not a part of the market we have any particular strength or skills or capabilities that you would say would make us an obvious winner in the same way I would say, for example, PruFund would make us in savings investments. I would never rule it out if there was another disruption, another opportunity. Because I think it is -- directionally it's attractive, I agree worksite marketing gives you an opportunity to engage with customers in a way that other pensions' companies you don't often get the same sort of frequency. But I think it is about playing the cards you've got is my response.

Q - Unidentified Participant

Thanks very much. Just a couple more questions. Just trying to understand what happens on deferral, what happens to the customer's monies, do they just stay as they were invested or something else? And you seem to be implying that customers may stay with you for longer.

Just trying to get a feeling for how you're going to engage with them to try and get them to perhaps more attractive products for themselves and for the shareholder. Secondly, I wonder how you're going to use M&G more to try and leverage that asset that you've got in the New World.

And thirdly, maybe more comment than a question. But others in the market are buying distribution, they are buying asset allocators, they are beefing up the platforms, they really beefing up DTC and digital. I just wonder, you're doing some of that stuff at the margin but I just wonder if there's a risk you get trumped by some of the others in the market who are putting a bit more resource into the UK.

A - Jackie Hunt {BIO 16204866 <GO>}

I'll start maybe with your last question. Maybe I should bring a pen up here because I can't recall all of them. So this question about DTC and broader development.

I alluded in the earlier comments to the fact that actually we need to invest in our customer element of the digital proposition. We don't have a multichannel capability at the moment, it's a very simple front end that I think many would've invested in. So in actual fact moving towards more data C type interaction with our customers in the medium-term is attractive. Undoubtedly I think if you look at where the market is moving, you see considerably more people operating. And I know this is the Novartis, those who have been in the industry a long time, we've been talking about a move online and a move to individual execution.

It's actually happening now. We need to get the plumbing right before we are even in a position to actually contemplate a move towards DC. But it is in our plans for somewhat of a five-year timeframe. I think in terms of -- remind me again, the other --

Q - Unidentified Participant

It was engaging deferred customers.

A - John Foley {BIO 4239156 <GO>}

The engagement process we have at the moment. And we are looking to expand this. So clearly we've got a large existing customer base. We start communicating typically six months before the selected retirement date. This is one of the things to reflect upon when we talk about deferment, the sort of the definition of deferment we use, (inaudible) customer chooses to actually retire at their selected retirement date.

Now often when that contract was sold 20, 30 years ago, they chose a date in the future which was typically 60-65, which might not necessarily bear any relevance to when they plan to retire. So you have to be slightly cautious about the term deferment because it is defined around a nominal data that is chosen. So when you do start communicating six months before hand. And then communicated six weeks through our voice capability we have, we actually communicate, we do take both inbound calls off the back of those communications and we do outbound calling as well.

We do have referral processes from there through to our advisory business. And so we are engaging customers throughout our journey up to their selected retirement date.

I think the second element to the question that you asked is what happens to customers. They stay invested in those forms. So again, it's this concept of almost it's a nominal date from their perspective. So they are actively invested this chosen form that they announce, they choose not to go at the slight through time and day, they will stay actively invested in those funds and remain in those funds until such time as they do actually choose to invest or retire at some sort of point in time.

So those funds typically are just staying with us and are staying actively manage throughout that period of time.

I think you asked a question about M&G, I think you should know the vast majority of the funds that we have are actually managed by M&G. Within the intermediary market, which represents 50% of our sales. And intermediaries are aware that M&G effectively managed assets we have behind, the -- really the investment proposition we've taken to the intermediary market is around the multi-asset capability.

And actually, as part of that, the positioning is really around PPMG. So they are the team that we actually get out, we put in front of intermediaries, with roadshows with intermediaries. And we are demonstrating to intermediaries the asset allocation capability we have through PPMG. The intermediaries are fully aware of the capabilities and a track record of M&G as the asset managers who sit beneath -- .

So from our point of view actually we feel we get the best of both worlds. We can leverage the PruFund, we can leverage the unique capability that we believe that PPMG brings in the overlay, enter M&G's own activity in the market, intermediates are already fully aware of the capabilities that M&G have as a leading asset manager.

A - Jackie Hunt {BIO 16204866 <GO>}

If I can add one thing I guess to just generally the kind of the tone of the questions, I think there's a lot more we could do as a business. So actually if you look at opportunities, there are a large number of opportunities and driving better outcomes-based products really across the very strong capabilities we have in asset management and then some of our understanding of customer needs and how they are developing over time.

I think if you look at some of your ancillary questions about how we interact with customers, I think there is considerably more that we could do. We are cognizant of the need to first actually deliver a huge change agenda in a business that actually hasn't had a lot of change. And that's in part regulatorily imposed, in large part actually, through our own desires actually to improve the business the way it contributes to the group, the cash and the capital that it generates.

So I wouldn't say our plans. And I think you talked about at the edges, as being a lack of ambition. I think it's a recognition of where we are today, I need to actually focus on delivery. And to make sure that we actually do it in a measured and sensible way to actually meet some of the requirements of the group as well.

A - John Foley {BIO 4239156 <GO>}

I think you also asked a question about sort of investment in modelers and platforms and things of that nature. I think from our perspective. And Jackie alluded to this in her presentation, we really see platforms is another distribution mechanism. So as you will be aware, are sort of open-ended investment companies which is the dynamics portfolios that Jackie referred to sit on all the platforms that are used by intermediaries.

The developments that we've put in place and we started with the current launches to pull apart all the propositions onto those platforms. So rather than try and become a platform supplier, what we are looking to do is to actually use the existing platforms, that intermediaries use, as the way to distributing propositions to the market.

We started with onshore bond, as the tax wrapper that sits on the platform. And intermediaries can use. Obviously within that wrapper and as a full open architecture wrapper that we've put on there. But you got the Prudential funds and the subsequent development we were doing is looking to put PruFund on the platform.

A - Jackie Hunt {BIO 16204866 <GO>}

And I think we are out of time. I see Tidjane waiting there. So --

A - Tidjane Thiam {BIO 7518525 <GO>}

I'm sorry. I'm sorry. But I need to keep everybody on time. Thank you very much.

Jackie, you stay. Jackie, stay on stage. If I can have all the ED's onstage please. And I'm sorry I had to enter of John, because he did a phenomenal job as Jackie explained in enhancing our distribution. (inaudible) we don't have any seating plan. Enhancing our distribution of in the UK. There is no arrange -- there's no preassigned seating really. Feel free to organize yourselves. No chair for Michael?

We are not going to take another break. I know that it's a busy day ahead of us, thanks for sitting for so many slides, I have no idea how many we had. But it was a reasonable quantity. And we've already had a number of questions and answers. So this is just a final kind of wrap-up session, backstop to answer any additional or further questions or comments or observations you may have.

So the floor is yours. Anybody.

Q - Lance Burbidge {BIO 3978332 <GO>}

Lance Burbidge, Autonomous. A couple of group questions. First is on resurface generation which we've heard a lot about for Asia. Because of solvency too, how are you going to define that in 2016 onwards. And your 2017 targets, if you were to meet them, let's say that you will in Asia, with a bit of growth in Jackson and M&G, you'll be generating about GBP3.1 million of underlying free service in 2017. What are you going to do with all that money?

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Lance. I think you should take the targets expressed in the world of 2012 which is when we do find them. So we are not going to re-translate them. So it will be on the same basis as the base on which we're deferring them. And my general position on 2017 is really not to engage really. As I said yesterday, we've done three semesters out of 10, a semester is a long period. So I think we have quite a bit of time and work in delivery before we worry about what we're going to do with GBP3.1 million. I think the general (inaudible) the room gets bigger, we need to retain some of the earnings and the cash flow generated to maintain constant capital strength. We need to reward our very patient shareholders for the capital they give us and we want to deliver a growing dividend, we've been explicit about that. And we need (inaudible) we need some headroom of royalties volatile, all it takes is a few quarters of FX relativity in Asia for everybody to remember that, we've always said we need to buffer in there, to absorb the volatility. We are an emerging markets-focused company.

Someone told me around dinner yesterday that I sounded more cautious than in prior years. I don't think that's deliberate, maybe if I had more time to do it. I always said those markets are volatile in nature.

There's nothing new there for me. But we are in emerging markets focused company which means that there is a degree of volatility which we are very comfortable with. We (inaudible) but it means that we need to keep some headroom. So that I can say what I said yesterday which is all the dividend is safe.

We cannot run our model and grow without getting everybody nervous, because as I say our yield cannot be both low and volatile. We are relatively low yield stock. So your dividend has to be very safe and growing very, very nice. So that means we need to keep some headroom.

Q - Unidentified Participant

(inaudible) I got your message clearly last night about not focusing on 2017. I appreciate the point, I appreciate there's a lot of risk between their data between now and then.

And I was wondering if I accept the proposition in -- I should obviously pull my focus in short; term and I should be focusing on certain parameters. I was wondering what you think investors should be focusing on to judge your performance in the short term, should it be the Asian B&B, should be IFRS firms or what?

A - Tidjane Thiam {BIO 7518525 <GO>}

Really we haven't changed our view. It's really around NBP, IFRS and cash generation. As we have been saying for a number of years, if you look at the long period -- in an insurance company I've always said if you release any of us free you can hit any target.

If I don't grow, I can generate any amount of IFRS profit or cash. You saw that illustrated in Indonesia where, if I remember correctly, profit was up 32% in the first half. And the rest was flat.

So that dynamics is always at work. If you don't grow, you generate a lot of profit. This is why we adopted the now very popular growth and cash model, it's almost sometimes we feel like we didn't invent it. But anyway growth and cash. Because that's how you create value over the long term in that insurance company. Otherwise you're in a high flow area. It's very easy to generate growth and no cash, it's very easy to generate cash and no growth. I think anybody can do that. I don't need a team of this quality to deliver the type of performance.

What's difficult is to deliver both growth and cash. And that's why we put ourselves in a kind of straitjacket of saying where's NBP, where is IFRS, where is cash. And you track that over time and you will see that progression in the company. So we haven't changed on that.

Q - Will Elderkin {BIO 3349136 <GO>}

Will Elderkin for Goldman. Really a question for Mike. Is it fair to think of your business in terms of net flows to assets under management. And is it really still going to be a growth business, just given the math is catching up with you, particularly to find appetite for new guaranteed business with every vintage. Just interested in your thoughts on that.

A - Michael Wells {BIO 4211236 <GO>}

I do think the net flow number is a key metric. Over the years we've leaned on very heavily to try and describe the quality of our book. I think the challenge with it post-crisis is you actually have players that would want to be in net outflows, given the liabilities they wrote. And the same folks doing buybacks and things. So it kind of tarnished an otherwise pretty good metric on the business value. And goes back to Chad's comment on assumption changes. So we were having a dialogue one evening about -- basically every relationship we have with client is profitable.

So if they stay too long, that's actually a good thing for us and I had made the comment that we actually would like them to stay until they die. And Chad corrected me, we would actually like them to stay until the day before they die technically is the math on it.

But net flows are -- the behavior is better than we thought. I think that goes to product quality, I think that goes to the quality of the sub advisors we have on the platform and their performance clearly, that's where the performance comes from. The structure of the contract and as Chad alluded to, talking about competitors, the lack of alternatives that are better.

So one of the gains for us in net flows is we assumed a little more competitive market seven to 10 years ago than we are seeing area and so I think -- I don't see anything challenging our net flows; you do get natural withdrawals from a retiree, you do get mortality, you get deaths. But you don't -- at the age of our book, I don't see them as material to us being a growth play.

A - Tidjane Thiam {BIO 7518525 <GO>}

I would still not describe it as a growth business. We've been very specific where we see growth as an imperative. And that's Asia. We've been very explicit about the fact that we think all the fundamentals for sustained healthy long-term profitable growth in Asia are there and we spend the whole day talking about that. We want -- and as Mike said himself, we don't have a topline growth objective at Jackson.

Yes. We want to grow the asset base and that's net flows. But in a market that is so -- people have fond memories. That has had such issues in the past I don't think we will ever commit to a growth target.

When we can grow. And we can grow profitably, of course we will do it. But you know, at times we can slow down the growth, we can moderate it, we can play from one quarter to another, depending on market levels and volatility to interest rates, who knows what those things are going to do in the next 12 or 24 months.

So our appetite is variable, we've always said this. I think what we try to grow over time is the bottom line. And the way to get there varies, depending on the market conditions.

So I wouldn't say it's a growth business. We've never given you a growth target for Jackson. We only adopted those for Asia.

Q - Jon Hocking {BIO 2163183 <GO>}

Jon Hocking, Morgan Stanley. I've get to a questions, one for Michael, one for Mike. A year ago at M&G, I think Michael said it was difficult to see the firm repeating the number of blockbuster fund watch as we've seen. And you also struck a cautious tail on expenses. I wonder if you could give us an update on how you see the outlook where we are now.

And secondly, on Jackson, the M&A strategy, previously that's been historically speaking to diversify the balance sheet. Given how much bigger the balance sheet is now, does that mean this target acquisition size has gone up commensurately?

A - Michael McLintock {BIO 1524907 <GO>}

Sure. Blockbuster funds, they come along once quite rarely, We've got one blockbuster fund that is still blockbustering and we think that's still got potential to grow. It is true to say that our retail sales effort is more concentrated and that it has been for some while and I think that will still stay the same.

In terms of costs, the cost income ratio is -- last year I think it was 58%, we'd expect that to drop just a little. We are investing heavily in office space, new offices and people. So that cost income ratio would probably climb a little over the next few years as I'd expect.

A - Tidjane Thiam {BIO 7518525 <GO>}

The second question --

A - Michael McLintock {BIO 1524907 <GO>}

On M&A targets. I think our capability and our capital domestically are obviously larger. So there's sort of a natural growth there. Then we look at each one as a group, we have those discussions target by target.

So I don't want to tell my -- I wouldn't want to give the market what our exact dollar amount sort of targets are so I think that's probably goes to our competitiveness. But at our current scale, obviously, we can do things that are bigger.

A - Tidjane Thiam {BIO 7518525 <GO>}

I think that's right. And we have not real appetite as Mike explained, we have the capabilities, it's just a question of finding targets on the right terms. So we are disciplined but we are very keen.

Q - Jackie Cavanaugh

Jackie Cavanaugh, Putnam Investments. I actually have a question for Mike as well on the same topic. You mentioned earlier in your presentation the comparison to Pru and Met. Obviously in the US they're going through SIFI designation discussions now.

What if any impact do you think that has on Jackson in terms of the competitive landscape in this space? Do you think the industry rises to the new capital rules for AIG, Met and Pru? Or do you think it becomes a competitive advantage? And does it at all change your appetite for M&A as you are discussing a concern around getting incrementally larger and hitting that said hurdle or their target basically, putting a target on your back.

A - Michael McLintock {BIO 1524907 <GO>}

We are there. as part of the group we are a G SIFI. So there's no -- we all spend a lot of time talking about this. I think it is still very unclear where this goes.

The initial sort of capital metrics we see as they replied to the US have not been material but you will have a lot more information coming out in the next 24 months. So we'll just react to them as they go. The type of acquisitions we are looking at doing would actually help most of those ratios. So there's not -- there's nothing we are looking at on the M&A side for example that would change those much.

But if you just think about the solvency 2 experience, I think it's highly unlikely we would be sitting here year from now with a clear view of what G SIFI will look like just personally. And folks around here that spend a lot more time on it than I do, these things -- there's so many people that up to cooperate in this and the US is yet to have a defined opinion. And as you know one of those firms I mentioned is arguing they shouldn't be and -- there's quite a bit of noise around the process. So I think we have got a ways to go. We are fully engaged. Bob lives out with his team and Tidjane as well in an industry leadership role. So we do -- we are very focused on it.

Q - Unidentified Participant

I got two questions, one of them is for Michael McLintock. Irrespective of what the group is doing, I wonder what your thoughts are on the post-budget world with a lack of annuitization, how much of an opportunity is it for a good asset manager to come in and get some of those funds over management.

And the second question is on the US, you are running at a -- I think -- cash generation of about GBP800 [ph] million. You're remitting about GBP400 million, give or take. You talked about the extra GBP100 million today, just wondering what the thought process was in deciding on the GBP100 million, why was that not GBP300 million. I'll leave it at that.

A - John Foley {BIO 4239156 <GO>}

I think post-budget, what's happened is obviously in generality positive for the savings market, for the unwrapped savings market that the asset managers access. It's very difficult to boil it down to specific changes and prospects for a single firm such as M&G.

But the good old Income Fund, whether it's an equity income fund or in equity and bond fund, that delivers a steady income year in and year out. And enables the investor to keep their capital tracking inflation over the long term, looks to me to be a very sound product. And one which is going to continue to receive a lot of demand.

So equity income, it's absolutely going to ruin the staple of the savings market in the UK, I think.

Q - Unidentified Participant

(inaudible)

A - John Foley {BIO 4239156 <GO>}

We are not changing the strategy, no. We've got a range of equity income funds, both UK and global. We've got bond funds, we've got mixed funds. And we think that those funds, provided they deliver the right performance, will sell in considerable quantity.

If you take the Global Dividend Fund as an example, that's a GBP9 billion fund, one of the biggest funds in the UK market. That's delivered very steady dividend growth from a diversified basket of international equities. Prospect for funds like that look as good as ever today.

Q - Unidentified Participant

And Mike, where did you learn to pay your higher dividend?

A - Michael McLintock {BIO 1524907 <GO>}

I was actually pretty proud of it a minute ago. To maintain the normal ratios we look at the domestic operations we want the powder dry for M&A and we just felt we were at a point where it was prudent to go upstream a bit more. For those of you that are new to this, I think this is the ninth year we've had this discussion, 10th? (multiple speakers) I thought you'd be happy with us.

Q - Unidentified Participant

(inaudible)

A - Michael McLintock {BIO 1524907 <GO>}

I am retreating on this, our die?

A - Tidjane Thiam {BIO 7518525 <GO>}

It's a bit like the Bunker's Field [ph] discussion. We're caught between (inaudible) I explained many times free service in a way all the states of the actual cash generation in the US and a lot of the GAAP you see is just (inaudible), depends on where you put the bar or when you (inaudible). So it's not -- I think they're remitting the right bond. But at 680 we are pretty satisfied. It's good.

Q - Unidentified Participant

Haram Zeeley [ph]. One question, now all the units are very successful sub; funding businesses by their own. Maybe a little bit of what's the rationale of keeping the three main business together?

A - Tidjane Thiam {BIO 7518525 <GO>}

The answer is so trite, that I almost hesitate to give it. But it just works very well. We have grown earnings, if you take any period, six, seven, eight, five years, faster than any other insurance company. So the structure over much criticized has had excellent delivery.

But more and more seriously, they are cash generative, they are not self-sufficient is something we have explained many times, if you take Asia for example, the size of Asia, Asia would be a footsy [ph], very comfortable. Actually each of divisions now would be a footsy, very comfortably. Cash generative doesn't mean completely sufficient. If you take -- to one of Greg favorite topics, (inaudible) deals, we fund them from the (inaudible) for instance. To Asia is not yet able to do a deal like SCV [ph] on its own. And if you wish needs to build a capital base which would be stronger than what it has today.

So there are benefits to being in a group. And if you look at the balance sheet, if you look at the rule that we inherited the state plays in our rating creative rating, there are capital synergies across divisions which are significant.

So there are benefits to being together. And frankly I mean a pure-play theory, it's like we (inaudible) according to that theory we shouldn't be -- every company should just be a product line. In the real world it doesn't work like that. Diversification is extremely valuable in a world that is random.

I kind of smiled what I saw a note saying suddenly that oh, actually Prudential is $67 [ph] and guess what, after very difficult -- oh the dollars are going to come back, that's good for Prudential. So the reality is in the world that is very volatile quite random being diversified the way we are has many, many attractions. If I close my eyes and I said ,what do I want to be exposed to, do I want to be exposed to a US? Yes.

I think it's really from -- I don't want to say global but for a large international business, not to have exposure to $16 trillion economy, which is for me the best performing in the world and the best managed. It's just silly.

I think in the end you're going to sink into irrelevance. Why not have exposure to the US? We have a great business in the US, we have huge exposure to the US economy, that's welcome. Why not be exposed to Asia, there's absolutely no reason. And the UK is really historically-based, gives us a brand, gives us a lot of positives around the world.

So really -- and I could say if I wanted to be facetious why be exposed to a Eurozone. No reason. And we are not exposed to a Eurozone.

Then we are -- I could make so many jokes about that but I'm not going to start. But I meant (inaudible) major Eurozone nation recently, I'm just trying to -- I won't name the nation but it has a 57.5% of GDP as public expenditures. And I'm trying to tell him that he needs to cut his expenditures and he was telling me no, you don't understand, we cannot cut public spending because we need growth; when growth comes back then we will cut public spending.

So right now, it's too difficult. I'm trying to explain to him. But if he doesn't cut public spending he'll never get to any growth.

So we spent two hours together and got nowhere. Absolutely nowhere. So I'm glad that we are not exposed to that type of economies. And when I see what Drucovy [ph] did in Indonesia, I mentioned this Drucovy to everybody, it's an example of political courage. This man came in, he canceled the fuel subsidiary which has been a thorn in the side of the Indonesian economy since the 70s, -- that's leadership. So we love being exposed to the Indonesian economy.

That's our defense. We think we are exposed -- we are in the right places and we have very good business in the right places and it's a source of strength, not weakness. I don't see -- I don't want to sound bombastic but I don't see another insurance company with a better geographic portfolio. I can think in my head I don't see one in terms of the balance of different works. People are either not exposed enough to Asia or exposed to US or overexposed to Eurozone or uniquely Asian (inaudible) diversification benefits we have elsewhere. So I would say (inaudible) as we say in England but I think we have a very good portfolio. It's working.

Q - Barrie Cornes {BIO 2389115 <GO>}

Barrie Cornes. A couple of questions for me. First of all, you talked about the regulators in Asia being largely supportive. Can you envisage a situation where they are less so, perhaps some of the historic selling and selling practices not necessarily approved of perhaps across the industry. Of the second question, one for Nick. Given the way the share prices, any plans for a share split.

A - Tidjane Thiam {BIO 7518525 <GO>}

Barry, on regulation in Asia?

A - Barry Stowe {BIO 15021253 <GO>}

Sure. I guess theoretically you could say you will have a regulator here or there that's all of a sudden going to turn and focus on its role in a different way. But there's no evidence. Certainly in any of the markets where we are present and there's no evidence to suggest, there's no historical pattern of behavior that would lead you to believe they're going to do anything other than try to do a better job of what they do today, which I emphasized yesterday is really two roles. One is the small p prudential supervision, which they do a good job of. And the other is focus on growing the industry.

I just don't see -- there's nothing that suggests they will take a different approach. To the specific point on the selling, I think the customer centricity mindset of all of these regulators already captures that. They are very focused on ensuring that parts are not miss sold. You look at Singapore as an example.

For years and years, we have had a process in place where every agent or bank rep before a product is proposed, let alone sold, must complete and file with the underwriting insurance company with an application. A standard government-generated form that demonstrates the full lease analysis was done. In customer -- there's a lot of work that goes on about appropriateness, there were some issues around that during the financial crisis with the many bond products and so forth sold through the banks. And we've never had any issues like that. But there have been some issues and regulators have stepped up and insured that appropriateness receives more attention amongst life insurance companies.

So it would just -- I can't see a scenario where they would really just move in a different direction.

A - Tidjane Thiam {BIO 7518525 <GO>}

Are you going to Indonesia, Barry? You should. You'll see there all the work we do on -- (multiple speakers) that field is really very, very significant. It's big, it's something we're very focused on.

A - Barry Stowe {BIO 15021253 <GO>}

The whole process of preparing agents to do a professional job for consumers, you'll see the platform that delivers that outcome and it is thoroughly first world.

A - Tidjane Thiam {BIO 7518525 <GO>}

Suitability, etc., etc, etc. Anyway, yes. As I said, the only skill I've acquired as a CEO is the art of biting my tongue. So I'm going to bite my tongue firmly and move to the chairs between Nic.

A - Nic Nicandrou {BIO 15589153 <GO>}

There's no compound. But thank you for asking the questions. The first time I've been asked that.

A - Tidjane Thiam {BIO 7518525 <GO>}

(inaudible) regulators that I'm biting my tongue and two chairs. Next question.

Q - Unidentified Participant

A follow-up. I just thought it would be interesting, PruFund is obviously a core strength of yours and your chief competitor there isn't even I think to a less extinct, (inaudible) general. Given that its merger's friends and they are going to consolidate those funds, how do you see arguably there might be a strong position, how do you see the competitive landscape? Have they been really competitive in the past, what's happening there, what's your thoughts.

A - Tidjane Thiam {BIO 7518525 <GO>}

Jackie?

A - Jackie Hunt {BIO 16204866 <GO>}

In terms of the actual proposition itself, we don't see them as key competitors. They are actually quite different in the way they participated, they do have big with profits funds. But actually in terms of PruFund's performance they are not on the same game at all.

In terms of the outlook for the competitive environment, I don't actually see it as an issue at all. In fact I don't know if I should be biting my tongue (multiple speakers) marginally positive --

A - Tidjane Thiam {BIO 7518525 <GO>}

I can give you some technical advice on that.

A - Jackie Hunt {BIO 16204866 <GO>}

Distracted. So I don't think it will impact on our plans significantly.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi from JPMorgan. Any thoughts on solvency too, what are you hearing from regulators, other insurers, etc.. So any part of that. And secondly, do you see it to be a nonevent now at least for Prudential and not over the sector here? Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

We are well advanced in preparation, we have internal model approval of processes going on, it's going to unfold in Q1 or Q2. There are still technical issues and discussion, implementation of matching address but and things like that that require a lot of specific work and results. So the whole question of Asia.

I'm not going to bite my tongue on this one. I think -- anyway. Really, the whole thing is just a bad idea. The notion that European regulators are going to opine on the entire planet is mad. And we're going to have models. So anybody -- many of us I am sure have written models in our life. We know what models are worth.

And suddenly they wake up and they realize that actually suddenly they have to opine on the Philippines and Vietnam and Thailand. And of course, we are uncomfortable. But that I could've told them before they started. So there is really a lot of kind of design flows in this whole thing. And we are running into the issues that that creates.

So -- it is what it is. My own view is I think in the end there will be some kind of compromise. And that's just the way -- it's like you do a huge model and in the end you get the answer.

So that's where we're going to land. Because the Company is well-capitalized when we do a reverse stress test and we do them regularly, we can break it. We can break it. So it's well-capitalized, you can take any type of equity market decrease or spread exposure and interest rates are down, the Company is well-capitalized. About start asking me to return the capital. But it's well-capitalized. There's no excess capital but well-capitalized.

And -- I see you coming with (inaudible) hedging, it's well-capitalized. After that, you can run models in every direction, come up with any answer. That's an economic reality which is what we really care about. But as everybody knows, I am not a great fan of the whole field.

I think they should have gone for equivalence, I think that the people in the Philippines are perfectly able to opine on balance sheet in the Philippines and regulators should rely on each other instead of -- anyway. The pay to visit simply to a regulator in Asia he was telling you -- he was really giggly and he was saying -- I asked him why they were here? The UK regulator visiting some really far-flung Asian country of which we knew absolutely nothing.

And we spent three days there. And then on that basis we are trying to opine on that market. It's just not sensible.

(inaudible) Europe as its worst for me. It's just not sensible.

But anyway, it's only taken 14 years, we're almost there. Before starting ICS.

And I pointed out to one -- you have to go to all these meetings and I was telling him, you want long-term investment from us, we have long-term liabilities relatively liquid, very happy to invest long term. But what I ask for is a truce. I said, could you just like just try not changing anything for 10 years and see what happens. Just try to restrain yourself. Don't create a new VCR HLA ICS -- just give us -- say we're going to kind of the clues that you're not going to touch the solvency regime for 10 years, you'll see what will happen to investment and a lot of things.

You cannot want us to invest long-term and keep changing or moving the goalposts, changing the rules of the game, changing everything. It's just -- I think it's very bad. I really think it's bad for the European economy, I think it's bad for the EU, I think it's very poor leadership. And that I'm willing to go on the record, it's a fact. I can back it up with facts. It's just very poor behavior.

It's not great for the policyholders, because in the end all that uncertainty is paid for by the policyholders and the economies.

Sorry. I'm not sure if that's the answer that you want. But that's my firmly held view. .

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken, RBC. One of the UK government's sort of proposals is to find ambition or (inaudible) CDC the idea being billed at a buffer and take more equity risk and is going to be better volume for the customer.

It seems to me that is very similar to with profits. And I just wonder why anyone would sign up to the government scheme where the first generation has to build this buffer when you could buy what profits policy if you know you're already have the buffer and how you take advantage of this?

A - Jackie Hunt {BIO 16204866 <GO>}

I think if you look at it from a customer lens, whether it's CDC or with profits type product, these meet customer needs around pooling of risk, getting better outcomes as a consequence being able to take a stronger investment proposition. I think you see it in some of the forms I talked about. I see why it is attractive from a consumer perspective however it is defined.

I think actually if you then put that against the direction of travel, where actually all the focus around pension provision has been on charge capping, it's very difficult to see how one could get to a position where actually you would be comfortable as a provider with actually making available a product where actually all the regulatory sort of oversight seems to be going almost in the opposite direction.

I think you are right, I think that this question around first generation versus going into existing with profits schemes is absolutely the right sort of observation. But I think against the context, as I say, of the direction of travel, which is much more about commoditization, individualization of risk, which is really what pension freedom gives you, all of these sorts of elements, you would say actually defined ambition looks like an outlier. And unlikely thing to come to fruition would be my assessment.

A - Tidjane Thiam {BIO 7518525 <GO>}

Anybody else? I'll come back to you. But I think you've had your share.

Q - Bruno Paulson {BIO 5278310 <GO>}

The US (inaudible) annuity business --

A - Tidjane Thiam {BIO 7518525 <GO>}

I'm not picking on you, I have to have my fun. From time to time. Sorry, Bruno.

Q - Bruno Paulson {BIO 5278310 <GO>}

The US variable annuity business is very profitable (inaudible) the main problem is that the fees were too high, which is a high-quality problem, I suppose. But clearly you have constraints on the amount you can sell. It might be the rating agencies, it might be the US regulatory, it might be your European friends based in London, or is it the Board's appetite.

So what is the thing that's constraining the amount of stuff that guarantees yourself in the end? And can you see a scenario where you are forced to sell less even though it's remaining profitable?

A - Tidjane Thiam {BIO 7518525 <GO>}

I think part of the answer is in this room. We respect -- we've been working very hard on all of you to get you comfortable with our rating business. It's been really a coalition of the unwilling, if you wish, between investors who don't like the business, the regulators who --

there's a great proverb in France that says if the cat has been burned by water, he will shiver at the site of cold water, which has never burned anybody. The appearance of what hurt it -- hurt the animal -- is the same thing. Some people who think VAs [ph] blew up, therefore VAs are bad. Which is just very -- again, very poor thinking.

So it's been kind of the -- it's terrorists [ph] from people who blew up because they mispriced and misbehave and mismanage their risk. So the regulators are a bit burned by that. There's a kind of halo effect affecting the -- on the Board level etc. If you ask me personally, I have no problem. Because only (inaudible) difficult point writing any volume of the business. Because you can -- I have to convince myself that's too good product to write. Once you convince yourself that, normally our only concern should be the capital you have. That's it.

The concerns we have are for me external, it's from lack of understanding of what we are doing, the returns on capital are extremely attractive. Frankly we should be writing very large business of volume of business. But then you have rating agency.

So if the rating agencies are major -- a major block in this, because they consider it a relatively low-quality business, BBB business to simplify things. And they will only allow you to write so much of it whilst keeping your rating.

And I think -- these are the same rating agencies who felt that we were diluting our balance sheet and our rating because we rewrite business in Asia. And of course the Eurozone is so much more sensible as its own work to do business but every time the weight of Europe turnover goes down, we're producing lower quality earnings and we should be downgraded.

That's mad. Sorry. That's really mad.

We spend a lot of time explaining to them the quality of the business in Asia and they are now starting to sound more positive on that. We spent a lot of time -- Nick spends a lot of time with them on VAs trying to educate them, trying to get them to understand the product.

But I really think it's a lack of understanding of a product at the heart of all this. And we are pragmatic. So we have to -- there's also the notion at one point that it was out of control, we get to control it ourselves. But it is also very popular among investors etc., I have no authority over Mike and (inaudible) doing whatever he wanted.

A - Michael McLintock {BIO 1524907 <GO>}

Do you remember we had a competitor that said we wrote $18 billion more than we wanted to one year. There was more than a few of you that weren't comfortable with that statement. You can't turn this off. I think we've demonstrated for three years, we can hit the number.

A - Tidjane Thiam {BIO 7518525 <GO>}

We have to debunk that. And it's -- sorry?

Q - Unidentified Participant

(inaudible)

A - Tidjane Thiam {BIO 7518525 <GO>}

You are correct, it's (multiple speakers)

A - John Foley {BIO 4239156 <GO>}

(inaudible) I think the top of the chest. That's not the point. We are looking at different risk profiles here.

A - Michael McLintock {BIO 1524907 <GO>}

Absolutely not. I wouldn't disagree with that at all.

A - Tidjane Thiam {BIO 7518525 <GO>}

So we like the business. Frankly we -- no, the reason we are limiting volume is not that we don't like the business. If you don't like the business you shouldn't write it. There's no other way. We just wouldn't feel right.

You can say it's a bad product so we're only going to write quantity X of it. It just doesn't make sense. We think we are comfortable with the product, it's a good product, it is well-managed. But it's a long road. Everybody asked me remember New York in 2012, we've been on this journey of trying to explain, explain, explain, explain, give more and more transparency up to a point where hopefully someday everybody feels comfortable. So.

A - Michael McLintock {BIO 1524907 <GO>}

Greig, or anybody else?

Q - Greig Paterson

There's been a decent number of financial conglomerates that have expanded worldwide in different areas equally fast. And a good proportion have had regulatory and --

A - Tidjane Thiam {BIO 7518525 <GO>}

A good proportion I'm sorry?

Q - Greig Paterson

A good proportion have had regulatory and other issues in different geographies. At what point do you think Prudential as an organization will have those compliance and management issues?

A - Tidjane Thiam {BIO 7518525 <GO>}

That's a great one. Look, what we are trying to run is a simple model. I think complexity is not necessarily a function of scale. We have four relatively simple businesses. I think you're right. But (inaudible) people like HSBC are completely different level of complexity. 120 countries or 90 countries or 80 countries, we are not that. We are basically into two countries. The US and the UK. Then with Asia, which is its own little conglomerate, Barry's Empire. But even there it's 13 countries, 14 countries.

It's a reasonable level of complexity. (multiple speakers)

You need a bigger chair. He has a small group under him. We are very conscious of that, very conscious of that. Very conscious of limitation of the human brain and, really, we try to keep the company relatively simple. So although it gets bigger really it doesn't feel more complex to manage. We are not multiplying the product lines, we're not multiplying the geographies, we think about that very carefully. Something like Africa we are doing very, very cautiously, it's under Jackie, there's much there, we have two countries. And really we always have an eye to complexity.

We always try to avoid -- it's just nobody is smart enough to do certain things. And I think a lot of those organizations got in trouble because of hubris. It's just kind of size for the sake of size, flat planting, all these headlines we are in X countries, we are not motivated by that. We are not driven by -- what is it? We are not that narcissistic. (inaudible) run a clean business and a relatively simple one.

I think it is a concern. Certainly it's something we think about over time, managements stretch, etc., etc. We really run a simple model. I think it comes from the slides, when we talk about the business, what we do, it's relatively straightforward. We want to keep it that way. Frankly it's also more fun.

I think it's important we have a very flat structure, I think you can see the interactions between people, it's a relatively small team, it's very straightforward. And we like it that way, we don't want 10 hierarchical levels sub-zone directors and matrice organizations, etc. Who is in charge of what. And we've been to. We went to a pitch for a banking deal, I won't say where. But we were two. There like 24. It's a bank.

They give us so many business cards, head of retail, head of consumer retail, head of insurance, head of banking retail, head of consumer banking, head of -- head of the global world, retail, head of -- you don't even know who to talk to.

So that's bad. That's bad. And generally we go to meetings, there are two of us, when we have a party. And we like it that way. It's like a wall of business cards across the table. It just doesn't work. Greig?

Q - Unidentified Participant

It's actually (inaudible). I think you will enjoy the question. You spoke about the US and (inaudible) the rating agencies. If you read the rating agencies report they referred back to the group and then back to the re-attributed state of $7.5 billion. And there's always a threat that they could come along and done some changes.

What gives me comfort is the fact that you've just done an attribution in effect and you have to go through due diligence process and the government has to satisfy. Does that mean that 7.5 is now safe and not subject to any kind of political change of perception or stuff like that?

And a sub-question on that, it's just a clarification. Did Chad say they are about to launch a product that has a 4% (inaudible) so, i.e., you are now off to two after the April and September pricing changes which slowed sales, are you now accelerating (inaudible) US?

A - Tidjane Thiam {BIO 7518525 <GO>}

I'll take that one first. Chad, do you want to elaborate or (inaudible) (multiple speakers)?

A - Chad Myers {BIO 2234559 <GO>}

There's no -- we actually in September already put a product out that -- at 4. At 425, at 450 and 475. And we don't have the five currently available. Part of it is to allow advisors to do more sort of custom planning work and part of it is we can use it as a tool to control sales.

But as we discussed at the half year, we are currently at a point where we are slowing sales down in Jackson to make sure we hit our targets. And next year we are responsible for getting it back up.

Q - Unidentified Participant

Just to clarify the language, it's not a 4% guarantee product (multiple speakers) withdrawal rate. (multiple speakers) 4% guarantee would be that will sell it really well right about now.

A - Unidentified Speaker

I was about to say, you've got an app?

A - Tidjane Thiam {BIO 7518525 <GO>}

And my general answer to your first question is I don't think there's any place where one can be safe from politicians on this planet. I will never say that they cannot come up with whatever (inaudible). Seriously, I don't see any particular risk on that with profit front. But I cannot foresee that they have a lot of imagination. You have to be cautious. Anymore?

A - Unidentified Speaker

You did it. Looks like we're done.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you. I think we've reached the point where if there's no more questions, I just have to close this seminar and conference to say that I hope we've conveyed to you via the enthusiasm we have about the group, it's really we believe a great company. Certainly enjoyed very much running it. And I think the results have been good. And I think the prospects are good.

As I always say also we cannot defy gravity, the world is what it is. But I'm totally confident in our ability to manage through the various challenges that will come, no matter what we do, there will be challenges. But this is a great set of great portfolio, great company, very just doing very well. I want to thank Pip [ph] who really led the team and the rest of the team, she's back there, thank you, Pip, for the organization.

I have an apology -- personal apology to make. Actually really (inaudible) on the record I can say. My favorite place in Asia to be is Indonesia. So I was looking forward to going there with you. But I will not because I have to be in New York Saturday and there's no way I can do that and be in Jakarta with you. So it's my loss. But I'm sure you will enjoy -- the visit very much. And the reason I go to New York is not mysterious, it's just that I have to speak in front of (inaudible) people and my pitch will be why insurance and banks are different and why they really need out over (inaudible); we don't use leverage, we don't engage in maturity transformation, we don't have liquidity challenges, capital is the last part of calling insurance is to pay the last policyholders. And banks it's the first port of call in the problem (inaudible) first. So asking insurance companies to have more capital is not going to achieve anything because we have technical reserves, of try to give them a tutorial on why -- I'm not too optimistic but I have to do what I can. And I think it's worth the effort (inaudible) so I'll do that if you forgive me.

And my last thing is I promised Mauricio a surprise. Yesterday he was very worried. So it's a slide I think if it's ready, can I have a slide please? Now, this was a picture taken in the whole of the forces in hotel yesterday afternoon. A bit blurry because it was taken with -- certain methods. But we know who is there.

So we will see you around. We have (multiple speakers) and we know where you live. So thank you very much for your presence and see you next time. Thank you.