S2 2013 Earnings Call

Company Participants

- Barry Stowe, Executive Director Asia
- Chad Myers, Jackson National Life Insurance Co, EVP & CFO
- Michael McLintock, Executive Director M&G
- Mike Wells, Executive Director, Jackson National Life Insurance
- Nic Nicandrou, CFO
- Rob Devey, Executive Director UK & Europe
- Tidjane Thiam, Group Chief Executive

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Chris Esson, Analyst
- Fahad Changazi, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst

Presentation

Tidjane Thiam {BIO 7518525 <GO>}

Good morning, everybody. Welcome to our 2013 half-year results presentation. Prudential has produced a strong performance across all of our key metrics. And our strategy has been now the same for a few years. It is quite simple; we are focused on capturing three main opportunities.

The first one is the emerging Asian middle class; the second one is the 77 million or so of baby boomers transitioning into retirement; and the third one is really the UK where we have the second largest asset management market in the world with all the wealth accumulated.

And given our progress during the last four or five years, I think the question, what next for Prudential, is very often asked. We believe that the three areas we're focusing on are the right ones. And our answer is that we will continue to execute that strategy with discipline, creating significant value in the process. So in a nutshell, as I said in March, more of the same.

So this morning, we will follow the usual format with two presenters, Nic and myself. I will start with a few performance highlights for the first half of 2013. I will then provide a strategic update by region with Asia, then the UK, then the US. Nic will take you, with his usual precision, through our financial results. And I will come back at the end to provide my outlook for the remainder of the year.

We will finish, as usual, with a Q&A session. And we have our leadership team here from all our businesses to answer your questions, as usual again.

So let's start. We have achieved a strong performance in 2013, delivering double-digit growth across all of our key Group metrics. Picking out a few of the highlights; new business profits, our preferred metric for growth, remained strong with Asia up 20% in the first half. I am pleased with the continued progress we are making on IFRS operating profit since our decision a few years ago to prioritize this metric.

IFRS operating profit for the Group is up 22% to GBP1.4 billion. In the first half, we have delivered almost as much IFRS profit as in the full year 2009, that's not so long ago, despite significant macroeconomic challenges in the period from '09 to '13.

Finally, after new business profit and [ph] IFRS cash, cash generation increased by 12% during the period to GBP1.2 billion. And net remittances increased even faster, by 16%, to GBP844 million. Again, these remittances in the first half are greater than what was delivered for the whole year 2009, four years ago. And within that, Asia delivered 51% growth year on year in remittances. And we look forward, Barry, to another strong contribution from them in the second half of the year.

Finally, we have declared an interim dividend of 9.73p per share, up 15.8%. We consider these results good evidence that Prudential is delivering a distinctive and attractive combination of growth and cash for its shareholders.

So let us now put this performance into perspective by looking at the longer term track record of the Group. And you can see here our performance going back to 2008. Over this six year period, we have emphasized the importance of delivering both growing and resilient results across our three key metrics of new business profit, IFRS operating profit. And cash.

The quality of our businesses and the quality of execution of the strategy have enabled us to more than double on each of these three metrics at Group level in five years, in spite of significant macroeconomic headwinds, I repeat. Of course, within that, the metric we've paid closest attention to is IFRS operating profit. And I'd like to say a few words on that.

In '09 when our current strategy was designed, I committed to growing what I consider our two preferred sources of earning; insurance income because it is relatively uncorrelated to the equity and interest rate cycle. And fee income because it is capital efficient and cash rich, two things very desirable in insurance.

And one of the most pleasing aspects of our performance and our plans is that we have delivered on that promise. The quality of our IFRS profits has been significantly improved over the last four years, with more than 62% now of income being contributed by insurance income and fee income from 38%, as you can see here, off a much lower total in '09.

So this simply equates to trebling, in four years, the fee income from GBP203 million to GBP667 million. And trebling the insurance income from GBP217 million to GBP613 million. This has led to significant improvements in both our capital efficiency and earnings resilience, exactly at a time when interest rates were dropping to historic lows. And this is central to our story. We remain well positioned, we believe, to benefit as these trends reverse and interest rates increase.

So now let's take a look at the 2013 objectives. We are entering the final six months stretch towards the 2013 horizon. And I'm pleased to report that we remain on track to achieve all six of these objectives which are, going through them; doubling 2009 Asia IFRS profit to GBP930 million; doubling 2009 Asia new business profit to over GBP1.4 billion; delivering cash remittances of GBP300 million for Asia, GBP260 million for Jackson, GBP350 million for the UK. And lastly, delivering net cumulative Group remittances which [ph] we thought was a relevant number of GBP3.8 billion over 2010 to 2013. So over four years.

In 2012, as you know, we have achieved two of these objectives early by delivering GBP988 million of Asia IFRS operating profit versus a target of GBP930 million. And by remitting GBP341 million from Asia versus an objective of GBP300 million.

During the first half of 2013, we are pleased that we have achieved two more of these objectives by remitting GBP294 million of cash from Jackson. And achieving over GBP4 billion of cumulative Group cash remittances versus an objective of GBP3.8 billion by the end of 2013.

And I want here to highlight particularly the Jackson cash remittance that, for me, it proves that our strategy in the US is working and is delivering tangible cash returns for shareholders.

Finally, regarding the last two, we are making progress; doubling Asia NBP 2009 by 2013. And a UK remittance of GBP350 million in the first half of 2013. As I said earlier, our Asia new business profits increased by 20% to GBP659 million. And the UK remitted GBP226 million in cash towards our GBP350 million target.

Importantly, this performance has also translated into a return for shareholders. To be meaningful, an analysis of shareholder returns need to be performed looking at a few years. And this is what this slide does, looking at returns over a four year period.

Our share price has increased by 158% since January '09, outperforming the European Insurance and FTSE 100 indices by more than 3 times. And the market capitalization of

Prudential has increased by over GBP17 billion over this period. And we believe there is still plenty of potential here.

In addition to this share price appreciation, GBP2.6 billion of dividend payments have been paid out to our shareholders over the period, including of the two dividend remittances [ph] made in 2010 and 2012.

So our strategy is designed to generate value for our shareholders and we are pleased that this has been happening.

I'd like to pause just for a few minutes on maybe a longer term picture of what we've done and some of the challenges we've had to face.

As I said earlier, all that value has been created in the face of significant economic and financial challenges; we have highlighted some of those on this slide.

You will all recall that, during the depths of the financial crisis, questions were being raised daily around our industry's ability to weather the storm at home [ph].

One thing we passionately believe is that our Company has a lot of levers we can pull at various points in time to respond to a external challenges. We illustrated this in '08, '09 for those of you who were here, with the sale of our bad book in Taiwan, or the shift [ph] transaction to improve our IGD.

Our strategic and financial positioning gives us the flexibility and optionality to adapt to a rapidly changing environment. And this is possibly a good place to mention that as you know Financial Stability Board has designated us an eight of the global insurers, as global systemically important insurers in July, a few weeks ago.

At this stage, frankly the specific implications of this are not yet clear. We are in discussions with our regulator, early discussions to understand the consequences of this designation. And as with Solvency II, we will maintain an open conversation with you as it becomes clearer.

In relation to Solvency II, I think that we are all up to speed on the latest developments. We've made some progress. But there remain issues. But we have no additional update for you at this time.

Coming back to the present, the main concern clearly seems to be this point regarding our Company of a potential slowdown in emerging markets. Looking back to a ton of issues we faced listed on this page three or four years ago, I would say this is a relatively nice front [ph] to have. And I think we actually can give you some comfort in that regard.

On the ground, in our businesses, we have not seen signs of a slowdown. And our franchises remain healthy and strong.

This is confirmed by our Asian performance in the first half which you see here; our track record of growth across NBP, IFRS and cash has continued unabated. We can achieve such a performance over such a period of time because, fundamentally, the drivers of our long-term success in Asia are intact. And I'll take a few minutes to talk about these.

What are those drivers? Well, it is our exposure to countries and markets that are experiencing strong GDP growth.

Second is the increasing demand for savings and protection products from a rapidly growing Asian middle class, keeping in mind that demand for financial services. And particularly life insurance, grows faster than GDP.

Third, having focused on the right markets, or the sweet spot within the region.

Then fourth, our track record of execution and delivery. We have both the platform and the people to capture the immense opportunities available in the region.

We all know that GDP growth matters in our industry. But I am sometimes surprised that so much of the analogies for the long term focuses on the rate of GDP growth, rather than the absolute amounts of GDP growth available.

And I believe by looking at growth rates only sometimes can lead one to underestimate the scale of rebalancing in the world economy that is underway.

What I've tried to do on this chart is to show you that Asia is expected to create $21 trillion of GDP over the next two decades, a long period of time, out of a total world GDP increase of $47 trillion.

You can also see from the chart the increasing materiality of Asia's contribution to global growth, from 10% of world growth in the 70s. So people with 70s frame of mind put Asia on a sideshow, to almost half in the next 20 years.

That is the fundamental transformation of the world economy. And I think it illustrates powerfully the point of the difference between stocks and flow. I think, thinking in terms of stock in this world is very dangerous. To put this growth rate in context, this is the equivalent of creating Germany six times over during the period.

In terms of the [ph] power of compounding over the long term, then in spite of the intensity of debate on GDP growth rates, which frankly we're not very good at predicting, plus or minus 1percentage point of growth in China will not fundamentally change the central message of what is underway.

Even if we were to lower the forecast growth rate for the whole of Asia by 1percentage point over 20 years, which is huge, Asia instead of creating six Germany's would create five. So that's what I say; the message will not change. We're going to debate at infinity by how much share is going to grow. This is underway; it's going to happen.

And the new Chinese leadership is determined to reduce some of the imbalances of the Chinese economy to reach a more sustainable growth path, driven more by domestic consumption and less by investment and exports. We believe that is the right strategy. And that the new Government can pull enough levers to implement it successfully.

So the story of Asia's economy growth is largely a story of increasing productivity of factors, particularly labor. The demographic trends that I mentioned earlier, coupled with a compounding (technical difficulty) will remain particularly attractive.

I've mentioned demography several times already this morning. This is because demographics are a fundamental driver of our business and of our industry. Almost 90% of the world's growth in the middle class population, over this period, will come from Asia. 90% of the world's growth in the middle class population, over this period, will come from Asia. This rapidly growing middle class will drive high demand for savings and protection products. Our product propositions in our key Asian markets are aligned serving these needs profitability.

Now the fact that this Asian opportunity is highly attractive is not exactly a secret any more. And many companies are working to build a position in Asia. We accept that. So emerging markets can be attractive. But what I think discerning investors increasingly see, as more and more companies are adopting emerging markets focused strategies, is that, within emerging markets, it is important to choose, very carefully, where you compete. It is important to be in the right markets.

To go back to a well-known analogy, the USA and Argentina had the same GDP in 1905, everybody knows that. So it's important to pick the right markets. The detailed analytic work that we performed in '08/'09, of global profit pools of insurance in the next 10 to 20 years, showed clearly that there was a sweet spot in Asia, of Indonesia, Hong Kong, Singapore, Malaysia, Vietnam, Thailand and the Philippines. That's, today, GBP2.5 trillion of GDP. So it's another Germany. And it's 520 million people.

We deliberately focused our effort and investment on that subset of countries. And said so at the time. The selection of UOB in January 2010 as a partner, which is active in Singapore, Malaysia, Indonesia and Thailand, was not by chance; and the recent deal with Thanachart, they were all inspired by this same strategic insight.

We were early in spotting this opportunity so that we are now the largest player in that region, as measured by new business profit, while also holding top three positions in five out of seven of our sweet spot markets, which, I remind you, is of the size of Germany. And growing at 6% or 7% per annum in GDP.

Our performance in the first half of 2013 in a number of these markets has been particularly strong. To mention a few; we have grown ourselves by 38% in the Philippines, 32% in Thailand, 21% in both Singapore and Hong Kong. And 17% in Indonesia. We're also taking action in that context to further streamline our Asian businesses.

I am pleased to report that the long-running project to domesticate our Hong Kong With-Profits business is approaching the closing stages. This will better align the legal entity structure with our management structure. And we continue to work very closely with our regulators in both the UK and Hong Kong. And with all of the relevant stakeholders, in order to achieve a satisfactory conclusion for all of affected stakeholders.

As a consequence of this, we are also reorganizing our Asian businesses under one legal entity, which I will chair. This will lead to a simpler and more effective corporate structure, bringing all of our Asian geographies under a single umbrella company.

On the following slide, we have summarized the performance we have achieved in our sweet spots. And we believe these numbers speak for themselves; 27% CAGR over four years in NBP; 25% in IFRS; 32% in cash.

So it is important to be in the right markets. But it is also important to address the right needs with the right products. In our sector, the greatest opportunity in Asia lies in the growing protection needs of the emerging Asian middle class.

The chart on this slide shows how medical expenses are funded in various countries. For those who were in the '08 Asia trip [ph] we referred to this in 2008. On the left, in the developed western markets, with extensive insurance coverage, like the UK or the US, out-of-pocket health expenditures are minimal. And this shows you the value of insurance and the benefits of insurance; 9% in the UK out of pocket.

There is a stark contrast between that situation and the situation in our Southeast Asian markets, where a significant proportion of these expenses are borne out of pocket directly by the consumer. You can summarize our whole Asian strategy in this slide.

This protection gap is a textbook example for the development of an insurance market. We can go into such a situation, offer products that will generate huge benefits for all stakeholders, customers, society, government. And shareholders.

As the Asian population gets larger and wealthier, demand for quality healthcare is likely to grow exponentially. And given finite and legitimately so, government appetites to fund it, this demand will have to be met by private insurers. We have the expertise and the product suite to respond to this demand. So let me now illustrate, if I may, with a concrete example what we mean.

We're often asked, how can we sustain the high returns that we generate for our shareholders in Asia? The format works [ph] by creating a lot of value for our customers. The need for insurance in emerging markets is so high that this creates a virtual circle of genuine value creation opportunity for all stakeholders, for customers and shareholders.

The basic function of insurance, I repeat, is to create a consumer benefit, a consumer surplus, from mutualization of risk that the consumer would find more costly to bear on their own.

So on the left-hand side of this chart, we contrast the out-of-pocket spend for heart treatment in one of our leading markets in Asia. When the individual is covered by a basic government health insurance, he or she saves 19% of the total treatment cost, or pays for 81% out of pocket. These savings increase to 73% of the total cost for a Prudential policyholder.

This is very significant, because we're talking in this case of the GBP9,000 procedure. So a different cost [ph] between a person to the left or to the right is very significant. There is a huge customer benefit. And that's where we make our margin.

We provide this cover at a reasonable cost. And I really wanted to show you the chart on the right, too, it's not that we overcharge people. These are very, very reputable international companies. And we price 20% to 30% below them, for a 50 year old. So we're not achieving these returns by overcharging.

Prudential compares favorably with competitors on price. And this reflects the advantages of scale, of efficiency. And underwriting expertise.

Ultimately, our protection products can generate high IRRs, with short pay-back periods again, because we create genuine value for our customers. Our focus on protection products has changed the economics of our Asian business, which is now increasingly cash-generative on the back of this.

So having the right products is important but, of course, distribution is always a crucial and very necessary condition to success in Asia and elsewhere. We have two major routes to market, Agency and Bancassurance, each with growing scales and productivity, which only contributes to improving our economics.

We have over 280,000 agents in our sweet spot markets. And we access more than 15,000 bank branches, enabling us to reach customers across the spectrum of wealth and insurance needs.

In a nutshell, we are in the right markets, with the right products and the right distribution.

The last think I'd like to do on Asia is to move to a few country updates. And I'd like to spend some time talking to you about Indonesia, which our largest market; the Philippines, where we are seeing, in a very short period of time, a change in absolute scale of what was before a non-material business for the Group; and Thailand, where we are technically really a startup operation in a market that is already well developed. And with high long-term potential.

So let's start with Indonesia. We are the clear market leader in Indonesia with 2 million customers -- think it's between 1.9 million and 2 million -- and a wide geographic reach spanning 137 cities. Almost half of our APE now comes from outside Jakarta. And that's an achievement we're very proud of, because we believe in the power of a first-mover advantage, not just by country. But within a country by region. And within a region by city. So what we're building outside of Jakarta will generate value for a long time to come.

And in places like Cambodia, we are doing the same thing today; moving in early. And planting the seeds of our long-term success. Here too, of course, distribution is the name of the game. And we have an excellent distribution footprint. I visited that business with Barry in June as usual. And I was very impressed by what I saw. Our agent recruitment, on-boarding and training programs are one of our key competitive advantages in the country.

Our agent-get-agent referral program has been successful in driving 27% growth in Asian recruitment in the first half of 2013. It's a simple idea, just asking agents to recommend agents. And it works very well and we've found it's a very good source of recruitment.

Our agent training program such as Fast Start induction. And continuous professional development, have resulted in a 26% increase in active agents in the first half of 2013. And the benefits of that will, of course, materialize over time, not immediately.

In addition to growing scale, we are also focused on improving agent productivity for our registered financial planner training initiative.

In addition to Agency, our Bancassurance platform has seen good momentum as we have grown our reach to 900 active branches across our six partners in the country.

And we continue to launch new riders, bringing more benefits to our customers. And more tailored to their needs in this under-protected market. And also enhancing, in the process, our profitability, illustrating again the virtual circle I mentioned earlier.

So over the last four years, new business profits from Indonesia have increased by 4.5 times. And we remain confident of our ongoing success in this large and rapidly-growing market.

Let's move, now to the Philippines. It's an interesting country, because the macro environment in the Philippines is supportive, with the country have better and better macro policies. And reporting 7.8% GDP growth in the First Quarter. It is one of a few countries on the planet right now that saw its sovereign debt rating upgraded this year.

Our focus on the Philippines is to increase the scale of our Agency business. We have what we call the Club 30 [ph] campaign for Agency leaders. And it's driving strong growth in recruitment, with 48% growth in agents in the first half. Our Agency force in the Philippines is now three times larger than in '09, contributing 65% of our first half APE.

We are also gaining good traction in Bancassurance, with APE quadrupling since 2010. And adding a new leg to the business; another illustration of our ability to innovate. We just signed a new partner, China Bank, in 2013, further expanding our Bancassurance reach.

And that's good progress. And we often get asked as to why it is that we talk so much about so-called immature or exotic markets. Are we running out of growth? [ph]. The reason we do so is because of the exceptional and exponential growth that these markets are capable of delivering.

The Philippines, for example, you see the numbers here, is currently delivering as much APE every two months as it used to deliver four years ago. Went from GBP5 million to GBP29 million. And in a country with 99 million people, we have a grand total of 100,000 customers after all this progress, which shows that we have not even scratched the surface in terms of capturing the growth potential in this market.

Finally, let's move to Thailand. As you know, we completed the acquisition of Thanachart Life. And launched a 15-year exclusive Bancassurance partnership with Thanachart Bank on May 3. We sold our first policy on May 4. The addition of this partnership gives us access to the fifth largest bank network in Thailand with over 800 branches in the country.

I must say, the quality of our preparation in the run-up between November and May, to the approval, has meant that the integration has proceeded very smoothly, with our insurance specialists selling in the branches from the first day after closing the transaction. And I spent a week in July in Thailand with Barry. And there, too, I was very impressed. I must confess, I actually engaged in a bit of mystery shopping in the Thanachart branches. But I was spotted very quickly so I had to retreat.

We have launched a full product suite. There are pictures, for those who want to see them, particularly accelerating the preexisting focus of the Thanachart Life sales force on protection products.

Results to date have been very encouraging. And have been tracking significantly ahead of our agreed business plan. The latest monthly sales data that we have for July, which I wish we could share with you, shows Thailand accelerating in absolute terms, ahead of some of our other Asian markets in absolute terms. So it's exciting.

As we grow our scale in Thailand, the increasing visibility of our brand will also benefit our Agency sales force. Ultimately, we aim to build a strong multichannel platform in what is the third largest life insurance market in Southeast Asia.

So after our Life business in Asia, let's move now to take a closer look at our Asset Management business, Eastspring.

Eastspring is the leading onshore retail asset manager in Asia, with GBP62 billion of assets under management; and it varies with the pound, dollar. But it was briefly over $100 billion, which was a historic goal for us. We've talked about it internally for many years. It was above $100 billion in assets for a few days. And it will go back up.

It is well positioned to capture the opportunities emerging from the rapidly growing Asian middle class. And the significant long-term demand from global investors looking to access Asian growth.

Eastspring had a record first half, with net inflows of GBP2 billion. This is its highest level of half-yearly net inflows since 2000. So that includes the bull markets of '06 and '07. These strong flows were particularly evident in Hong Kong, Singapore and Taiwan, where have seen strong flows, mostly into retail bank funds [ph].

So to summarize on Asia, we are confident in the medium to long-term growth potential of the region. Demand for our services will grow faster than GDP for a long time, with a focus on savings and protection products. And we have the distribution, the products and the skills to capture a disproportionate share of that opportunity. And the best is yet to come.

So after Asia, let's move to the UK, where I will start with M&G, leading asset manager in the second largest asset management market in the world; an enviable position.

In the first half of 2013, M&G generated GBP3.8 billion of net inflows, with a particularly strong performance coming from its expansion into continental Europe. M&G's external funds under management grew by 25%, with these funds now representing 50% of the total, up from 31% in '07.

Retail funds under management from continental Europe have grown by almost six times since 2007, from GBP3.8 billion to over GBP21 billion. So that they now represent 33% of our total retail funds under management.

This asset growth has led M&G to deliver a record half-year performance, with IFRS profits up 17% at GBP204 million. So above the GBP200 million mark for half year for the first time.

Looking now at our second business in UK, our Life Company. The UK has maintained its focus on disciplined capital usage, concentrating on the lines of business that can generate good returns.

In the first half of 2013, we saw 34% growth in sales of a popular income choice With Profits Annuity; our With Profits Annuity is attractive in this environment. But, as expected, volumes in our Savings business continued to be impacted negatively by RDR as distributors, of course, addressed the new environment.

IFRS operating profits for the Retail business were flat, on an underlying basis, showing resilient delivery in spite of decreasing volumes on the metric that we primarily focus on across businesses.

And, as you know, we did not complete any bulk annuity transactions in the first half of the year, contrary to last year, since the returns available did not compare favorably to those available to us in other parts of the world.

Overall, the UK has delivered a solid performance in a challenging context. I would like to thank Rob Devey for his many contributions over the last four years and wish him well. And, as you know, his successor is Jackie Hunt and we look forward to working with her.

Moving, finally, to Jackson. In the US we continue to calibrate our approach to the VA market to match our Group risk appetite at this point in the cycle. We have been increasing the proportion of sales of VAs without living benefits. The undeniable success of Elite Access, which you can see here, which has generated $3.3 billion [ph] of net flows since its launch last year, is at the heart of the strategy.

Elite Access now ranks number 10 in the league table of the best-selling VA products in the US.

(inaudible) its success [ph], VA sales fell by 10% year over year, in line with our expectations. And VAs without living benefits now represent 29% of total VA sales.

So let us now take a look at something that I find really interesting, which is the position of our in In-force book.

We showed you this chart, those of you who were in November in New York. And you'll remember that at the end of the year 10% of the book was In the Money. Only 2% of the book was In the Money at S&P levels at the end of June 2013.

This is an improvement and reflects the benefits of rising equity markets, which are substantial. The economic benefit of rising market is not immediately reflected by our accounting; it's due to valuation and timing differences, as you can see from the IFRS below the line result that we reported this morning.

Jackson's success over this crisis period has been due to our focus on hedging the financial economics, rather than managing accounting volatility, which we are happy to live with.

Nic will take you through this in more detail in his presentation. However, the ultimate proof of Jackson's performance should be cash generation. In the first half, Jackson remitted GBP294 million to the Group, equivalent to a growth of 19% on the prior year.

Please note, I don't want to give Mike a heart attack. But this represents Jackson's full-year contribution for 2013. Please note also that with this, as I've mentioned before, Jackson has exceeded its 2013 objective of remitting GBP260 million of cash. Well done, Mike.

Over the last three years, Jackson has remitted close to $1.5 billion in cash to the Group, validating the discipline and profitable execution of our US strategy.

So let me now wrap up this first section of my presentation. We have made a strong start to 2013 with double-digit growth across our three key metrics of NBP, IFRS and cash.

This strong operating performance is a result of our disciplined execution which allows us to capitalize on the long-term secular trends available in our markets. And having achieved four out of our six 2013 growth and cash objectives, we remain focused on delivering the remaining two in the second half of the year.

And with this, I will hand over to Nic.

Nic Nicandrou {BIO 15589153 <GO>}

Thank you, Tidjane. Good afternoon, everyone. My presentation follows a familiar theme of growth and cash, with a detailed look at the drivers of overall performance in the first half of 2013. And an update on the capital position and balance sheet.

Starting with the financial headlines, which are summarized on the slide, we have delivered a strong performance in the first half, continuing the positive momentum of 2012. A disciplined execution and prudent management of balance sheet risks have enabled us to improve all of the key financial metrics shown on this slide.

As a result, new business profit rose by 11%, IFRS operating profit increased by 22%, shareholders' funds on an EEV basis were up by 19%, free surplus generation was also higher 12%. And this has led to a 16% increase in remittances to Group.

Our overall performance so far this year demonstrates the quality of our new business franchise, the resilience of our In-force book of business. And our ability to continue to deliver growth in both earnings and cash.

We proved our flexibility when interest rates fell by taking decisive pricing and product actions throughout the Group in 2011 and 2012. Our performance in the first half of this year has benefited from the recent rise in yields. And I will highlight the areas where this is evident as I step through the results.

Turning to new business profit, this metric grew by 11% to GBP1,268 million, led by Asia. All three regions continue to write new business at internal rates of return of more than 20%, with short payback periods.

These attractive new business economics are underpinned by our strategy of prioritizing value over volume. And by our approach to directing our investment to those products and geographies with the highest return and shortest payback characteristics.

In Asia, NBP was up 20% at GBP659 million, outpacing the growth in APE with both Agency and Bank channels increasing NBP at similar rates.

The improved profitability in the region reflects our ability to capture profitable growth in the markets that we refer to as our Southeast Asia sweet spot, six of which achieved record Second Quarter sales.

It also reflects our discipline of taking product action, where necessary, such as in Taiwan where we refuse to offer certain guarantee products. And in Malaysia where we have refocused the business on health and protection.

Finally, the recent rise in yields has also contributed positively to the region's NBP, most notably in Hong Kong.

In the US, NBP increased by 8% to GBP479 million. Within this number, the new business profit from variable annuities increased from GBP402 million to GBP454 million, representing a new half-year high.

This is despite the 10% reduction in sales of VAs with guarantees, the negative volume impact of which was countered by the positive effect of product and pricing actions taken over the last 12 months, the contribution from Elite Access. And the beneficial impact of the 86 basis points rise in 10-year Treasury yields.

We're pleased to see the NBP of the US business move forward positively, at a time when we are changing the shape of our US sales.

Turning to the UK, in contrast to 2012 no bulks were written in the first half of the year for the reasons that Tidjane has already outlined.

At the Retail level, although sales declined by 8%, we maintained our new business profit of GBP130 million, reflecting improved business mix and the benefit of repricing actions.

Overall returns in our UK business remain attractive and are, in my view, market-leading.

I have summarized, on this slide, the key drivers of the movement in NBP between the two periods. As you can see, higher sales volume in Asia, together with the strong growth of Elite Access, have more than compensated for declines elsewhere to deliver a net GBP43 million positive volume impact.

Pricing actions and changes to business mix continue to contribute positively. And the uptick in US and Asia long-term yields have driven an additional GBP54 million of new business profit.

Not shown on this slide is the contribution to NBP from risk products such as health and protection which, in the first half of 2013, was GBP440 million, equivalent to 35% of the total, up from 31% this time last year.

So the key takeaways on NBP are; one, that the higher health and protection content, combined with the lower volumes of VAs with guarantees, means that the new business written this year is higher quality and lower risk; and, two, that the benefit from the recent rise in yields demonstrates the potential upside to our NBP as rates recover from the current low levels.

Turning now to IFRS, operating profit at the Group level increased by 22% to GBP1,415 million. This improvement is driven by an 18% increase in both our Life and our Asset Management operations.

Starting with our Life businesses, as you can see in the breakout box, we have achieved operating profit growth in all three businesses, highlighting the quality of these insurance operations.

In the next few slides, I will set out the reasons for these increases, which in overview reflect the growth in our overall book of business, the improvements in the quality and balance of our Life income. And further economies of scale.

One of the factors that underlines our IFRS earnings' momentum is the sheer scale of our Life business inflows. Over the last three years, our Life operations have attracted total net inflows of over GBP30 billion. In the first half of 2013, net inflows were 13% higher at GBP5,871 million, continuing the growth trend that we have seen over the three-year period covered on this slide, which clearly demonstrates our impressive organic growth.

When these net inflows are combined with the effect of positive investment market movements. And the impact of acquisitions such as REALIC and Thanachart Life, total policyholder liabilities for shareholder-backed business have increased by GBP68 billion over this period to GBP179.2 billion. It is this increase that has driven forward both our Life income and our IFRS operating profit in recent years, with this momentum continuing in the first half of 2013.

Looking at our life IFRS profitability by region, Asia has reported growth of 18%, to GBP474 million, with roughly two-thirds of the increase coming from our four largest businesses in Indonesia, Hong Kong, Singapore. And Malaysia. We have also seen a strong step up in contributions from Thailand and the Philippines, two of our smaller businesses, where we're making rapid progress.

Compared to the same period last year, the combined operating profit from these two businesses increased five-fold to GBP20 million. I am pleased to report that our acquisition of Thanachart Life in Thailand, which completed in May, is already making a positive contribution to the results.

In the US, we have reported a strong increase in operating profit to GBP582 million, reflecting business growth and the additional earnings from the acquisition of REALIC. As you can see in the breakout box, REALIC contributed GBP56 million to our US result. And is on track to deliver the GBP115 million pre-tax profits in the first year of ownership.

The individual components related to DAC and new business strain are more straightforward this time round, in that they have moved in line with the scale of the business. This means that Jackson's underlying profits, shown in the dark blue bars on the right, have increased by 16%, primarily reflecting higher fee income.

In the UK, IFRS profit was slightly higher at GBP341 million. As I said at the 2012 prelims, the strict capital criteria that we apply across all of our businesses limit the level of investment opportunities in our UK Life operations. And this will continue to place downward pressure on the earnings growth prospects of this business. We're entirely comfortable with this, as it does not detract from the important role that the UK plays in our Group.

Turning to the sources of earnings, both insurance margin and fee income are, for the first time, individually larger than spread income, highlighting the transformation that we have made in the overall shape of our earnings. Our bias in favor of risk products such as health and protection in Asia, along with a contribution from REALIC's seasoned book of term business, has driven a 46% increase in insurance margin, shown in red.

Fee income in dark blue is also growing fast, at 31%. In contrast, spread income has increased by a more modest 1%, reflecting our lower appetite for spread products at this point in the cycle. So what you can see is a very healthy evolution in both the quality and the balance of our Life earnings. And one that enhances the resilience as we move forward.

Taking a more detailed look at sources of earnings for each business and starting with Asia, total life income, shown in the top left, is up 22% at GBP1,267 million, driven by a double-digit increase in all of the sources of income.

As you can see below, towards the right of the slide, technical and other margin remains both a fast growing and a dominant feature of Asia's Life income, up 22% in the first half. Within this category, insurance margin grew by 18%, to GBP303 million, reflecting strong growth in health and protection business and a continuation of positive claims' experience. This category also includes the deductions that we make from premiums to cover our costs, which are higher at GBP778 million, consistent with the growth in Asia's premium income.

In the US, Jackson's total income, shown in the top left, is up 27% at GBP1,197 million, outpacing the 9% increase in expenses, highlighting once again the influence of operational leverage in these results. Fee income, in the middle of this slide, is now the largest source of earnings in the US and is also the fastest growing, up 36% to GBP554 million. The uplift reflects the 37% increase in average separate account balances, which benefited both from the $7 billion of net inflows in VAs and the strong equity market performance.

Our average fees are broadly similar to last year, at 196 basis points, as Jackson continues to take product and pricing actions. Technical and other margin, shown in the adjacent box, was boosted by REALIC's Life Insurance income, contributing GBP83 million to this line in the first half of 2013.

Finally, on the left of this slide, we have seen an increase in spread income to GBP377 million, principally reflecting the higher level of general account assets. We have held our margin, due to the continuation of the fixed account allocation from new VA business, which attracts a low crediting rate of 1%. This is a temporary effect. And we still anticipate that this margin will continue to trend towards the 200 basis point level over the next three years.

In the UK, total income was broadly unchanged, while total expenses was somewhat lower than last year, in part reflecting lower commission costs as a result of RDR. Spread income, on the left, was lower at GBP102 million, due to the reduction in conventional annuity sales and no new bulks in the first half of this year. I would like remind you that bulks contributed GBP18 million to the 2012 IFRS result.

Insurance margin is higher, as it includes a GBP27 million benefit from a longevity swap executed earlier in the year for risk management purposes. Income from With-Profits, shown in the bottom right, declined in line with the reductions in policyholder bonuses.

Moving to Asset Management. And other non-Life businesses, IFRS profit was 18% higher, at GBP312 million. As you can see in the breakout box to the right, the improvement in performance is driven by M&G and Eastspring. But also from US Asset Management where operations such as Curian, which were previously subscale, are now beginning to make more material contributions.

Looking at M&G in more detail on the left, operating profit was 17% higher at GBP204 million. Stripping out performance-related fees and earnings from associates, underlying income increased by a healthy 19% to GBP421 million. The increase tracks the 17% growth in average funds under management, which as Tidjane has already covered, reflects M&G success in attracting significant new business inflows and at [ph] higher market levels.

I indicated at the prelims in March that we would be making additional investments in scaling up the infrastructure of M&G in 2013 and 2014. Reflecting this, expenses have increased by 22%. And as a consequence, the cost-income ratio has ticked up 1percentage point to 54%.

I would remind you that, as in previous years, M&G's cost base has a second-half bias. So pleased allow for these in your forecasts. In 2012, for example, the full-year cost ratio was 6 points higher than in the first half.

Eastspring Investments reported a 19% increase in profits to GBP38 million, with total fee income growing at a faster rate than expenses. A continuation of the consumer-led preference for bonds over equity saw average fee levels reduced by 1 point. Fund growth mitigated this effect, driving income and earnings higher at the half-year stage.

Turning to our results on an embedded value basis, you can see from the chart on the left that total Life profit was 15% higher at GBP2,497 million, equivalent to an annualized return on opening embedded value of 16%.

Our Life businesses in Asia and the US have reported strong increases in operating profit of 24% and 26% respectively and are both above the GBP1 billion mark for the first time. This performance reflects both business growth and the positive effect of the recent rebound in long-term yields.

The UK reported an 18% decline in EEV profits, as 2012 included items that have not recurred, such as the positive effect of reductions in UK tax rates. In line with our established reporting practice, the benefits from the further reductions in UK tax rates enacted in July, which amount to GBP115 million, will be recognized in the second half of the year.

Across the Group, our overall In-force profits increased by 20% to GBP1,229 million. This reflects our relentless focus on managing the existing business for value.

It also illustrates the positive gearing to higher interest rates, which is evident in the component labeled unwind. This has increased from GBP761 million to GBP954 million. And we estimate that GBP75 million of this step up comes from the rebound in long-term rates.

Despite the ongoing the global macro headwinds, our focus on delivering the right outcomes for our customers. And on managing our affairs efficiently, saw all three businesses sustain positive contributions from operating experience and assumption changes. Overall profits were slightly higher at GBP277 million, demonstrating both the quality and the resilience of our franchise.

On this next slide, I will briefly run through the rest of our profit and loss account for both IFRS and EEV.

As I have shown you in my presentation so far, rising equity markets and higher long-term yields are beneficial to our overall operating performance. The other positive impact of such market movements is that the guarantees provided to policyholders by certain parts of our Groups, such as Jackson, become less onerous, as Tidjane has already demonstrated.

But as you know, under IFRS, the accounting does not fully reflect these effects, which has resulted in negative investment variances in the first half. As we have previously flagged, this is driven by the accounting mismatch from hedges that are fully mark-to-market and liabilities that are marked mostly to cost.

While our total IFRS profits are susceptible to this type of accounting noise, we remain steadfast in our approach to hedging on an economic basis. And we accept the accounting volatilities that ensue.

The rise in interest rates has also generated negative value movements on our holdings of fixed income securities, which, under IFRS, come through the investment variance and the unrealized losses on AFS securities line. Again, these negatives are not economic, as we will typically hold these instruments to maturity.

These factors, combined with the payment of the 2012 final dividend, have driven our IFRS shareholders' equity lower at GBP9.6 billion.

On an EEV basis, we can fully recognize the economic benefit of the higher market levels and, as you can see on the slide, the overall investment variance is a net positive. As a result, post-tax profit for the period on this basis was 41% higher at GBP1.9 billion. And after allowing for foreign exchange movements and dividends, retained earnings boosted our shareholders' funds by 80p to 958p per share.

Turning to the balance sheet, the overall picture is unchanged. We remain well capitalized and defensively positioned. The Group's IGD surplus at the end of June, after paying the 2012 final dividend and acquiring Thanachart Life, was GBP3.9 billion, equivalent to a cover of 2.3 times. I would remind you that the IGD surplus now includes Jackson's capital in excess of the 250% RBC level, in line with the change we adopted earlier in the year.

The Group's liquidity remains sound. The $700 million perpetual Tier 1 notes raised in January 2013 further supports the financial flexibility of the Group, while taking advantage of low interest rates.

Higher remittances from businesses have increased central cash resources to GBP1.5 billion. We continue to experience no defaults and minimal impairments. We have, nevertheless, maintained the level of default provisions in the UK. And generally retained a conservative approach to credit.

Finally, our stance on hedging the US variable annuity exposures is unchanged. We hedge on an economic basis, utilizing the full 120 basis points of fees charged for providing the guarantees, which equates to a GBP1 billion hedging budget.

We have seen no significant shift in customer behavior. And our pricing and reserving assumptions remain conservative when compared to our actual experience. The GBP294 million remittance from Jackson in the first half of the year confirms the soundness of its overall capital position.

Moving now to free surplus and cash generation. Free surplus stock has increased from GBP3.7 billion at the start of the year, shown on the left, to GBP4.1 billion at the end of June, shown on the right.

As you move from left to right on the slide, you can see the GBP1,548 million of free surplus generated by our In-force book, which is 11% higher than last year, with strong and growing contributions from all of our businesses.

We continue to take actions to optimize capital consumption and have used GBP396 million to write new business, equivalent to a reinvestment rate of 26%, in line with last year.

After taking into account market movements and the impact of corporate activity, our free surplus stock rose to GBP5 billion, allowing us to remit GBP844 million to the center.

Staying with this theme for a moment, I want to highlight the scale of free surplus that our business has generated and how this has been deployed since January 1, 2010, the start of the period covered by our cumulative free surplus objective.

The left-hand column shows that we started 2010 with a free surplus stock of GBP2.5 billion, on top of which in the blue bars, our growing Life and Asset Management businesses have generated a combined GBP9.2 billion of free surplus over the 3.5 year period.

Moving one column to the left, you can see that from this total, GBP2.2 billion was reinvested in writing new business; GBP1.2 billion absorbed market effects and foreign exchange and other items; GBP4.1 billion was remitted to Group, leaving a free surplus stock of GBP4.1 billion at June 30, shown in the gray bar, to support the increased scale of our local businesses.

The GBP4.1 billion of cash remitted to the center has enhanced the Group's central resources, as illustrated in the chart on the right. This chart shows that all four businesses have made material remittances over the last 3.5 years, ranging from GBP0.9 billion to GBP1.3 billion.

Together, these remittances have financed interest central costs and other corporate activities and provided the cash to pay GBP2.3 billion of dividends to shareholders, including the additional outlay from the two upward dividend re-bases during this period.

So how does this compare to the objectives that we set ourselves in December 2010? We expected to generate cumulative free surplus of GBP6.5 billion after financing new business over the four-year period to 2013. 3.5 years in, we have already exceeded this objective, having generated GBP6.9 billion.

We also expected that the cumulative free surplus would enable remittances totaling GBP3.8 billion to the center over this four-year period. We have already exceeded this objective, having remitted GB4.1 billion, which as you can see, represents a remittance ratio of just under 60%.

So what this demonstrates is the consistency and pace with which our business has been able to generate free surplus after financing new business. It also illustrates how quickly this free surplus generation has translated into cash to the center. And how these remittances have enabled to grow our dividends to shareholders.

Our discipline of managing the In-force book for value. And our focus on writing high return, fast payback new business, make us confident that this positive dynamic will continue, going forward.

So to conclude, Prudential has delivered a strong start to 2013. Our performance in this period is broad based, with our key financial metrics of NBP, IFRS operating profit and cash achieving strong double-digit growth. At the same time, we have improved the quality, consistency and balance of our earnings and have accelerated the generation of free surplus and cash to Group, all of which underpins our confidence in the future prospects of our business.

Thank you. I will now hand you back to Tidjane.

Tidjane Thiam {BIO 7518525 <GO>}

Okay, thanks a lot, Nic. As you have seen, we have had a good first half of the year. So let's now turn to the outlook.

The significant long-term opportunity for sustainable and profitable growth for our Company in Asia is well captured by this slide illustrating three key and simple points.

The first one is that we have a great platform in Asia. We have the right products and right people.

The second is that we are well positioned in the right markets, our so-called sweet spot.

And third, that even with the scale we have already achieved, our customer numbers remain a small fraction of the opportunity available in these countries, with between 0.5% and 1% of the population in our customer base.

To put this in perspective, one only has to look at the UK, where our customer base of 7 million represents 11% of the total population. This, for me, confirms that we have not even scratched the surface in terms of capturing the potential in these markets.

This is why we are confident that this Company is well positioned to deliver profitable growth in Asia. And to generate significant additional shareholder value for years to come.

So to summarize, the Group has delivered a strong operating performance for the first half of 2013, with double-digit growth across its three key metrics of new business profit, IFRS operating profit. And cash.

Shareholders continue to see the benefit of its performance through both capital appreciation and a growing dividend. We continue to execute our growth and cash agenda by focusing on delivering profitable growth in Asia and cash generation from all businesses, as Nic just told you.

So more of the same will generate, over time, huge value for our shareholders. And there remains very significant untapped profitable growth potential for this Company.

With that, I'd like to thank you for your attention and we are happy to take your questions. If my colleagues will join us on the stage, we'll move to Q&A.

Questions And Answers

A - Tidjane Thiam {BIO 7518525 <GO>}

If you want to ask a question, the usual format, stick your hand up, state your name, firm's name and off you go.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken, RBC. A couple of questions. I'm interested in the six objectives you set, three of them are in Asia. I think, at the time, some of us doubted that you were going to achieve them; it looks like you're going to achieve them all. But, in Asia the remittance and operating profit targets, you're already well ahead. I'm just wondering, presumably when you set the targets you set them with a similar level of buffer and stretch built into them.

Why has it taken, the new business profit target, why has it taken longer to achieve that one? Was it a tougher target to start with or was there any other reason?

And the second question, the UK. You mentioned you were not liking conventional annuities quite so much. Why is that?

A - Tidjane Thiam {BIO 7518525 <GO>}

Sorry, the second question is --?

Q - Gordon Aitken {BIO 3846728 <GO>}

You're not liking conventional annuities quite as much.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, fine. Secondly [ph], I just said that the With-Profit annuities were popular in the current interest rate environment in the UK because they provide a better return, basically, than conventional annuities for customers. Personally, no I don't have a dislike of conventional annuities.

On the first one, it's a really important point. If you wish, when we were setting the targets, that was -- where is Barry -- the most heated discussion between Barry and me was about NBP, because what you don't want to do when you set a target. And also Adrian [ph] is nodding there, is to make yourself a hostage to fortune.

The simple truth is the one we control the least is NBP. You see it being moved by interest rates, up or down. You see it being moved by a lot of things we do not control. And it's the one we like the least. We're committed to it to give a sense of how confident we were. But it's one that is the most dependent on things outside our control. And we don't think it's particularly wise to make yourself a hostage to fortune.

We did that, really, as a sign of our confidence and I think it's going to happen; if you look at the targets you can do your own calculations. I think 8% in the second half takes you there.

A - Barry Stowe {BIO 15021253 <GO>}

6.7%.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, 6.7%. I was trying to be authoritative [ph].

A - Barry Stowe {BIO 15021253 <GO>}

7%.

A - Tidjane Thiam {BIO 7518525 <GO>}

7% in the second half will take him to his NBP target. So we would have had a lot of trouble doing the target in the first half. So it's the one we cannot deliver in the half year, the NBP.

A - Barry Stowe {BIO 15021253 <GO>}

Effectively, it's a sales target so unless we were able to write as much -- to do it six months earlier you'd have to write the full year's new business in the first six months of the year.

A - Tidjane Thiam {BIO 7518525 <GO>}

And you can do many things. But (multiple speakers)

A - Barry Stowe {BIO 15021253 <GO>}

We're good. But we're not quite that good yet.

A - Tidjane Thiam {BIO 7518525 <GO>}

Fair enough, it's the one we frankly we like the least. It has all the negative features of what people don't like about targets.

Q - Blair Stewart {BIO 4191309 <GO>}

Blair Stewart, BofA Merrill Lynch. I think I've got three questions. Firstly, the domestication of the Hong Kong with-profits fund and the legal entity structure in Asia. We can all have a guess what that might mean strategically. But what does it mean from a financial perspective, if anything, for the Company?

Secondly, given that cash levels are so strong, I think you've re-set the dividend twice in the last three years. Any comment on what your thinking is there?

And thirdly, in the UK, I think on individual annuities you've got a very passive strategy. What implications, if any, do you expect from the review of that market going on at the moment? Are you going to have to become more active. And does that mean lower margins ultimately? Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you. On the domestication maybe I'll let Nic take that one and I'll come back on the dividend and have Rob inform [ph] on the annuities.

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. So we're domesticating both With-Profit business and also Non-Profit business. The With-Profit business will be domesticated with its share of the estate and I will provide the appropriate working capital not only to write new business. But also to provide the ongoing protection to existing customers.

The Non-Profit business will also be domesticated; that will also go across with its own capital base. But in Hong Kong it will have to be managed to clear, if you like, a hurdle above the minimum. Therefore, there will be some marginal friction in terms of the capital that we need for the Non-Profit side. But you've seen the numbers that we've reported both in terms of free surplus and also in terms of the cash that we're generating. That impact is manageable.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, the cash and the dividend. You know our thinking there, Blair. We've kept the same dividend policy and the approach we've taken is rather than touch our dividend policy to re-base the dividend itself, every time we've created enough headroom. So the logic is simple.

We stress this, our cash flows on almost every metric and quite a few of them, although you can see it on account of [ph] rating agency capital, or IFRS, or EEV shareholder funds, etc., starting to reap capital. And we set the dividend growth at the level where it is safe to pay as much dividend as it is safe to pay.

We have no reluctance to do a step-up when actually that headroom appears, just that there have been a number of favorable factors and, as you can see in the targets, etc., we've made progress faster than we thought. Every time that's happened we've raised the dividend. And that's really all we have to say on that.

We are fortunate enough to have a lot of organic growth available. So we saturate our appetite for profitable organic growth. We continue to build the capital base, because one consequence of this growth agenda and growth in cash is that the room [ph] does get bigger. So we do have to retain some of those earnings not to weaken the capital position of the Group. And frankly, M&A, as you've seen, we're very opportunistic; we're very, very happy with the two transactions that we've done. REALIC was a fantastic transaction and the integration has been very good. The numbers are excellent. Thanachart is phenomenal. I told them, if it's proven I would come [ph] in July; this was a long-planned visit with Barry and we visited the branches, just a remarkable transaction in a great market.

It's anecdotal. But I had a meeting with the Deputy Prime Minister, who is very influential in Thailand, with Barry. And I told him what we say, usually in those cases, we invested $0.5 billion in your country, an expression of confidence; we like the economy, we like your country and he stopped me and said, I'm not interested. Tell me what we can do better; I want some detail. What were the things we could have improved? To hear that from the leadership of a country, as an investor, gives you great comfort.

So back to my central point, we have the luxury of not needing to do M&A. We have enough organic growth. So we can really be selective and only do it when it's very attractive. So you don't need to keep a big war chest prediction of M&A. We do relatively small transactions. So the rest is for the shareholders, really.

Review of annuities, Rob, are we being cautious?

A - Rob Devey {BIO 5103083 <GO>}

Happy to pick that up. We've been involved in the annuity review. And very comfortably supporting what's going on there. I think in terms of the implication for ourselves, we have to remind ourselves what our UK pensions' and annuities' portfolio looks like. It's a very large number of really rather small annuities. So the average ticket size is around about GBP20,000. Those are very satisfied and normal Prudential customers.

Our vestings customers get a benefit when they come to us, because we give them a better price, because we don't have the anti-selection risks that we get there. So we're very comfortable about our pricing in that market. And with the introduction of the Code of Conduct for Retirement Choices that came in, in March, we're also seeing very strong feedback from our customers around them being aware of the choices they already have available to them in terms of whether it's different types of annuity. And in terms of the ability to shop around in the market more generally.

So albeit there will be focus on this. And we're supporting the focus on that; we're very confident as we look forward in terms of that book. As you know, we do not play aggressively in the conventional open market, because we think the marginal pricing in that market is not attractive, relative to other opportunities we have as a Group.

Q - Greig Paterson

Greig Paterson, KBW. Three quick questions. One is, just in terms of the inherited estate discussions, Nic, do you still stand by the statement? I think I asked you before that when the Standard Chartered deal renews, you'll be able to finance those renewal costs via the inherited estate, as was done before last time.

Second question is Indonesia, to me that seems like the other area where there's potential new distribution deals. I was wondering, is there any regulatory restrictions on how many licenses or deals you can do?

And then as a final one, I was listening to your targets in terms of remittances and new business. And free surplus generation. I was just wondering in Asia out of the UOB [ph] and the free surplus generation, how much of that has been acquired through new distribution deals over the period 2010 to 2013?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, thank you. Nic, do you want to take the first one?

A - Nic Nicandrou {BIO 15589153 <GO>}

Look, I'm not going to speculate on what will happen towards the end of the decade when we come to that point. So I don't have anything to add to that.

A - Tidjane Thiam {BIO 7518525 <GO>}

Indonesia, how many licenses? What can I say. I don't really -- a bit like Nic, I don't want to comment on speculation in the media. What I can say is that we are very happy with our performance in Indonesia. I'm sure you've noticed some of it is optical, because in local currency it's much stronger than the 17% we announced. And NPBs of 27%. On a business of that scale we're very happy with our performance.

And we think we have enough growth available. Again, with 2 million customers in a 251 million people country, if we only do what we've done in the UK we would end up with 25 million customers in a reasonable time. So no, we're not really worried. I don't know, Barry, you want to say more about Indonesia?

A - Barry Stowe {BIO 15021253 <GO>}

There's no regulatory limit on number of bancassurance deals, or other sort of structures that we could use to drive distribution. And as we say with respect to Indonesia, with any other market we obviously see every distribution deal that's available in the marketplace. And a handful of those we really go after because we think they make a lot of sense. That's where UOB came from; that's where Thanachart came from.

Many, many, of these deals we look at and, for various different reasons, we think they don't make sense and we don't go for them. And we'll continue to use that system which we think, if you look at it over the last six years or seven years, it's paid very handsomely for shareholders.

A - Tidjane Thiam {BIO 7518525 <GO>}

So it's a bit of the answer for your third question. Because we really don't -- we never give you breakups in terms of new deals, because really we see sometimes when I want to surprise I say we only have one channel in Asia. And it's face-to-face sell; sometimes it takes place in the bank branch. But we've always seen banking distribution [ph] as part of our organic strategy, just adding more people frankly. It just happens to be in branches sometimes. But it's not a different strategy from our perspective.

And you know those deals, we really do post-acquisition reviews, etc., etc. From a (inaudible) you pay for a business plan; that's why we keep giving you this kind of wink and nod we are ahead of our plan, comfortably. That means we're gaining extra returns on the IRR we targeted, to be in plain language. And right now one of those deals -- UOB has doubled every year.

The price we pay that you see is a business plan we buy; we've outperformed that every time. But we won't say too much because there'll be future deals. And every time it becomes harder. Every time we pull that trick it becomes harder and next time to extract a good price. But we have no doubt in all the situations that we are really getting the returns we expected on the capital invested. And more.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Three questions; firstly, I think the first thing you did when you arrived, Tidjane, was look at the inherited estate in the UK. And decide not to go for it. Now that you are unbolting the Hong Kong business. And with the UK inherited estate more mature with less policyholders, could you give us an idea as to what the realistic value of it is. And what your plans are and timescale on that?

Secondly on M&G, could I get a sense as to what higher rates mean for your Retail business, the flows impact on the bond side? And also what your views are on clean-clean pricing. And how a fund manager views that?

And then thirdly, I think at the full year, you talked a bit about being prepared to give some of the economic capital data. I wonder how you're getting along with that. And what that's showing.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Andrew. Maybe, Nic, you can take the -- we'll go in reverse order, take the economic capital. Then over to Michael on the clean pricing. And higher rates, return flows. And I'll take the inherited estate.

A - Nic Nicandrou {BIO 15589153 <GO>}

Sure, now we continue to work on that, Andrew. And we'll bring that information to the market in the New Year.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, that was efficient

Michael.

A - Michael McLintock {BIO 1524907 <GO>}

Two parts to that question; clean-clean pricing, it's too early to say is the short answer, Andrew. It's not positive. But we're playing in an awful lot of different channels and an awful lot of different markets. As you've seen from the numbers, there's a lot of growth taking place in Europe. So there's a whole mix going on in the marketplace. And it really is too early to say how this whole thing's going to shake out.

On rates and flows into bond funds, we have been experiencing steady net outflows from our main corporate bond funds in the UK. There are two flagship corporate bond funds where we've been the leaders for actually, I can now say, many years. These two funds were getting very big last autumn and we decided to take action to choke off the flows. And ever since then, there's just been a steady movement of money out of those funds.

How quickly would rates back up, you can see multiple different scenarios. If you have rates going up very quickly with a sudden sharp shock, it could be over before you've even had a chance to analyze the consequences. And suddenly the flows are stable again. On the other hand, you could have a perception that, fundamentally, inflation is really coming back and rates are going to keep backing out for a long period of time, in which case, that would probably be much more negative.

Again, there's a whole range of scenarios and it depends where the money's going to, because what's coming out of bonds is going somewhere else. And we've got to capture our share.

A - Tidjane Thiam {BIO 7518525 <GO>}

And I think the other question was on the inherited estate; you and I discussed it a lot at the time. If you remember, the things we said when we make a decision, a key consideration was the growth prospects of a with-profits fund. And the fact that we were going to continue to write new business, in the with-profits fund. And we felt that the attribution was a transfer of value between the future policyholders and existing policyholders. So our view as a Company that future policyholders had actually rights [ph] to benefit from the products.

And also, last consideration, was there really a surplus to distribute or not. And that was depending on how you looked at markets, etc.. And I think, with hindsight, it was a good decision to have kept that inherited estate. I think -- is it GBP7.8 billion, or not? Yes, well that's valued GBP7.8 billion in total, at June 30.

Sorry? The inherited estate, it's our valuation at June --

A - Nic Nicandrou {BIO 15589153 <GO>}

Well, that's the face value on a realistic basis, which is Pillar 1, on a Pillar 1 realistic basis, GBP7.8 billion. In terms of how much of that is included in our embedded value, it's 1/10th. But given that we assume the embedded value of this stuff gets paid out by way of a terminal bonus, it gets discounted down to about 7% or 8% in its value.

A - Tidjane Thiam {BIO 7518525 <GO>}

So the short answer on that is we will look at that issue again, once the investigation has been completed. And work with the same parameters to make a decision.

Q - Chris Esson {BIO 6194371 <GO>}

Chris Esson, Credit Suisse. Just a quick question on the composition of Asian new business profits. On page 15 of the EEV disclosures, it suggested that Hong Kong saw something like 60% growth. And the other markets, which included fairly appealing markets like Singapore and Malaysia among others, saw flat year-on-year trends. Just wanted to get a sense of what's going on, country by country, on NBP.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes, we can give you some color on that. Between Barry and Nic, do you want to speak to it?

A - Barry Stowe {BIO 15021253 <GO>}

What happened in Hong Kong was really -- it's all economics. It's increases in interest rates that materially improved.

What you're seeing elsewhere in terms of new business profit movement generally is a continuing strength of health and protection products. And you're seeing a continuing strengthening of margin, a little bit, as a result of geographic mix. So that's why the margin is where it is.

In terms of new business profit progression in other markets, there's a little bit of a ding [ph] in Vietnam because there was a change in the regulations there on how we split bonuses between shareholder and policyholder. So that had a little bit of an impact in Vietnam, even though the business is growing very strongly there. We had a very good first half there.

Other places, basically the progression continues to be good. As I say, you saw in the overall regional results, 12% growth at the top line, 20% of the top line that we really focus on, which is NBP. And again, the factors I already mentioned drove that. But the exception really of those two instances, it's pretty good stuff. Nic, you want to --?

A - Nic Nicandrou {BIO 15589153 <GO>}

The only thing I would add is, in places such as Indonesia and Malaysia, where most of what we write, nearly up to two-thirds, is health and protection, rising interest means that are discounting those future profits at a higher rate and, therefore, their NBP is lower. So if you like, the headline year-on-year movement in those two countries is depressed by that effect.

Places like Hong Kong and Singapore, you see the opposite; the mix of business is such that rising interest rates gives a kicker to the NBP progression. So those are the effects that you're seeing come through. And the rest, as Barry said, is a function of products you sell with mix distribution channel and so on. And so forth.

A - Tidjane Thiam {BIO 7518525 <GO>}

It really goes back to the central point of diversification that it can be frustrating sometimes. But what we always take you back to is the total performance of our portfolio, because it's a strength of insurance companies. That's how it works.

When you discount the insurance income in Indonesia, yes, higher interest rates hurt us. But during the whole period where interest rates are going down, it protected us. And that's the way it is.

In Hong Kong, we suffered when interest rates were going down. And now we're gaining where interest rates are going up. And that's why you want a diversified platform. And that's actually what allows you to have all those nice progressions on the total Asia performance, every time, because it's well diversified.

So at every point in time, we'll come under pressure, in a given country; depending on how the macroeconomic environment is, there will be countries benefiting, countries suffering.

And then you get more country-specific factors, the elections in Malaysia, (inaudible). And the total Malaysian market, that's very busy from industry statistics struggles in the first half. And that comes through our numbers. We're not completely insulated from that.

A - Barry Stowe {BIO 15021253 <GO>}

Last year, the Second Quarter was in Malaysia. The market in the First Quarter was -- the growth rate was 0.2% for the market. So --

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi, JPMorgan. A couple of questions. First, on slide 81, you have given GBP100 million negative impact from economic hedging. That's 20% of your US earnings. So how should we think about that, given that it's on an economic basis? That's the first one.

Secondly, can you give us some color about your leverage, how rating agencies think about your leverage, given that the increase in leverage is supporting your IGD capital as well? And also, the NAV went down, mainly because of just mark-to-market, the bond portfolio.

And thirdly, can you just remind us, when does this bond take practice [ph] on interest rate swap ends [ph]; is it (inaudible) if I'm not wrong, something [ph]? Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, thank you Ashik. The hedging, slide 81, Nic, do you want to take that?

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes, what we've done on slide 81 is to convert if you like, the IFRS number, with all its shortcomings, into something that is more economic by adjusting those shortcomings in IFRS. So one of the things, even for those products that are accounted on a FAS 157 basis, you're only allowed to account in the way you think about those products, only a portion of the fees. So what the first adjustment we make, is to then give ourselves credit for the full portion of those fees.

Then you have a whole host of products that are accounted on an SOP3-1 basis where nothing is economic. So what we've done in relation to that is we've moved those passive assumptions to align with FAS 157. And that also mitigates the impact.

And then you have one or two other assets. We talk about having -- the way the book is structured, there are some internal hedges, or internal offsets, that inform our hedging philosophy. And you see the other two bars relate to that.

So if you like, this is an IFRS adjusted result. Now, the reason, although it's called hedge result, it's not fully economic, because one of the things we don't do in IFRS is to take into account the additional net present value of the M&E fees, which, as you see from our sources of earnings, are 200 basis points.

So if you like, yes, it's the hedge result on an economic basis. But of course the business, because the balance sheet is that much higher, we're able to earn GBP196 million [ph], which is what we earned at the half year, of M&E fees. And that's not NBP, in these numbers.

A - Tidjane Thiam {BIO 7518525 <GO>}

So all of the accounting endorse that [ph]; we of course, take that into account when we define our hedging strategy. We take that fully into account. We don't try to manage that negative GBP100 million. I don't know if Mike or Chad, you want to add anything?

A - Chad Myers {BIO 2234559 <GO>}

No, I think we flagged this in New York, that both IFRS and stat [ph] floor out at these levels. And so we knew there was going to be a material mismatch and the firms, historically in the US, that hedge to smooth accounting results did very poorly in real economic events. And we stick with a strategy of hedging the economics. I think it's the only way to do it.

A - Tidjane Thiam {BIO 7518525 <GO>}

Also, the metaphor we use is, if hold a bunch of umbrellas. And there is a drought, that says your umbrellas are worthless, that's no ground to get rid of your umbrellas

So we will hold onto our umbrellas, because when it rains they're going to sell for $20 apiece. That's the way it is.

So that's what our hedges are. Mark-to-market says okay, it's not been raining. So your umbrellas are worth nothing. I say, don't listen to mark-to-market; the simple way.

Leverage rating agencies, Nic, do you want to take that?

A - Nic Nicandrou {BIO 15589153 <GO>}

You've seen both S&P and Moody's have taken us through committee this year. That's part of the process of they look at a whole host of metrics, not only the financial ones. But also the non-financial ones.

Leverage is not an area that we're getting a lot of noise from the rating agencies. Of course, they also look at our ability to cover the interest. And that's been, with the increase in earnings, that's been going up strongly as well. So no issue, from my perspective, in terms of the leverage. And as I said, there's no heat from rating agencies, quite the opposite.

A - Tidjane Thiam {BIO 7518525 <GO>}

And a growing balance sheet creates debt capacity as we go. And that's something we've always, how can I say this, taken advantage of.

Permitted practices --?

A - Chad Myers {BIO 2234559 <GO>}

It's an annual renewal; it continues to understate the strength of our financial position. I think it's arguably quite conservative and we're going once a year to the Commissioner and go through it. They review the hedges much more frequently than that. But that policy is annual.

Q - Ashik Musaddi {BIO 15847584 <GO>}

(inaudible)

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes. From memory, it's October, it's every year and we're still doing it [ph].

Q - Fahad Changazi {BIO 15216120 <GO>}

Fahad Changazi, Nomura. Could I follow up on Blair's question, please, if I may? You're generating very strong free surplus emergence [ph] and there's always a line there that's about GBP200 million of changes in operating assumption variances and, again, it was quite strong again. Could you give us some guidance on that in H2 and going forward?

And, secondly, just on that basis again, could we have a guidance on investment in new business because it always seems to be H1/H2-weighted. You said the reinvestment rate was the same as last year; I presume that's going to be the case, going forward.

And, finally, the cash balance is significant, GBP1.5 billion. Could you tell us how you think about the cash balance and what you're targeting there?

And this final question on the US, if you don't mind. You did comment that there were increasing competitive pressures. Could you talk about the quantum and timeframe of these pressures and how you look at the tradeoff between rising yields, risk appetite and market share?

A - Tidjane Thiam {BIO 7518525 <GO>}

That's a lot of questions. But we will take them; hopefully, very quick. Nic, you can take the first three and then Mike the fourth one.

A - Nic Nicandrou {BIO 15589153 <GO>}

Look, when I think about capital generation, I don't factor into any of my forward thinking continuation of positive experience. I take that if it happens. But the way I think about it is assuming it won't happen but if it does, then that's upside.

The H1/H2, candidly, that in part reflects, more often than not, mix. The bias is not driven by anything smart. What we do with our capital in the second half, it often reflects the mix of business which, again, is done to a degree driven by customer preferences.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you. Mike on the US dynamics market?

A - Mike Wells {BIO 4211236 <GO>}

In 18 plus years I've never had a market share target. So we've never, as a Group, said we want X% of the market or X ranking in the market. I think with the success in Elite Access you're going to see us in the number one slot for a while. But you're comparing a variable annuity with no living benefit to sales of companies, products that are with other benefits.

So that ranking becomes a little less clean; it's sort of like the net ranking numbers. There you have players that actually would like their net assets to decline. So that's no longer as direct as it was. We absolutely look at rising interest rates' volatility.

We test the pace and the products real time. As you've seen, we can adjust them now 90 days, fairly major change, six months at a full rewrite. And then there's levers we can pull in shorter periods. So we're looking at that all the time.

And then there's other levers like where the distribution team focuses, those raise or lower your sales in a given product as well. So we're looking at all that real time. Does that answer your question?

Q - Fahad Changazi {BIO 15216120 <GO>}

I was more concerned with what you think the market was going to do, how it was going to develop in terms of the --

A - Mike Wells {BIO 4211236 <GO>}

Oh, okay. So what you're seeing -- the variable annuity market in general?

Q - Fahad Changazi {BIO 15216120 <GO>}

Yes.

A - Mike Wells {BIO 4211236 <GO>}

The variable annuity market. So it's very mixed signal now. So you have some players pulling back or stating targeted caps, if you will. You have a number of companies, maybe five, coming up with more consumer-friendly or more aggressively priced products, depending on if you're a buyer or seller of that. And it's actually doing very well. I think you're going to see a larger number of firms share the bulk of the market now.

AIG's done a very good job coming back. You have others trying, Allianz. You have some interesting new products coming out of competitors that have varying retirement solution, risk limitation strategies built in them.

I think the overall market for living benefits is clearly down. And I think the mistake to make when you look at US market trends now is the top line only definition.

So if you said how have variable annuities done year over year, they're down. It looks down a few %. If you said the products sold a year ago, it's actually down much more than that because the new products, including Elite Access, have filled in some of that gap. So it'll be a little more complicated from where you guys sit to compare it company by company, I think, going forward.

A - Tidjane Thiam {BIO 7518525 <GO>}

It's going to be fascinating to watch what happens from here because, as interest rates improve margin, does it create headroom for some to again change their pricing and move in the opposite direction of what we've seen the last four, five years? What impact is that going to have on the sales?

You've heard us give the same answer over and over and over again which is we don't know. Okay, a lot of what we do at the time will depend on how the competition behaves and, historically, that's been something that's been very hard to predict; that's why we're always reluctant to.

We're often surprised by what others do. So just a degree of caution there and we'll adjust to the involvement [ph] that we see. An optimist will tell you that some lessons have been learnt and will go towards a more healthy behavior in market, going forward. But that would be contrary to past experience. So we'll see how it goes.

A - Nic Nicandrou {BIO 15589153 <GO>}

Sorry, I haven't answered your question on cash. Yes, GBP1.5 billion, look, that is a little -- it's optically flattered by the fact that Jackson paid us all the dividend in the first half.

But to the substantive part of your question, yes, I'd like to keep cash above GBP1 billion at the center and we tend to be pessimists, I guess, that I want to have the cash if I need to hedge in the event of a market shock. We saw the value of that back in '08.

Last year, we also took some action in the lead up to the Greek election, believe it or not. It feels like an age away but, yes, we want to have the money to protect a downside if we need to. And, yes, there needs to be something there if there is a distribution opportunity, not to have to worry about where the money is going to come from.

A - Tidjane Thiam {BIO 7518525 <GO>}

It's always a minor philosophy [ph] point. When you see the GBP1.5 billion we should at the beginning of the period, in '10 that was absolutely built up on purpose because, throughout the crisis, we believed that optionality would come from having cash available. And if we can do UOB in January 2010, which I think personally we got at a fantastic price, we know others were surfing around the target. So we had the cash. The value of cash varies across the economic cycle. We know what it's like to have a lot of cash available.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. A couple of questions on, I guess, the US first and a couple on Asia, if I can? On the US very quickly, I'm not sure -- on G-SIFI I'm not sure really what the message is because my understanding is that variable annuities were going to be non-standard under G-SIFI. And I'm just wondering how we should view that in the context of the Group.

And the second thing on the US is, the lapse rates I saw from Met and some other peers in their presentations they've given out since your Investor Day have been a lot lower than yours. I'm just wondering if you can think of a reason why your lapse rates are substantially lower than the expectations of everybody else's.

And on Asia, a couple of high level questions, if I could? The first one is, coming back to your slide on you should buy Prudential because of the need to fund healthcare out of in-the-pocket expenses, I'm just wondering why you think that's a market for you and not a market for employers because, in most of the regions, it's the employer that provides the private medical insurance and, in which case, do you need an agency network and bancassurance to do that?

And the final bit on Asia is, how much of the protection sales are linked to the housing market? So if there was a housing market slowdown in Asia, what impact would that have? Because obviously, I can see bancassurance has been growing quite strongly over the past year.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, we can take -- G-SIFI, I'm not sure, you're asking how VAs are classified. The short answer on that is we don't know. We're waiting to hear from the regulator on the SII and in the US --

A - Nic Nicandrou {BIO 15589153 <GO>}

Clearly, yes, when you look at the criteria that they've used in designating variable annuities, sizes of the derivative program were factors. But so were the size of unit-linked funds and unitized with-profits because it was deemed that those, in an extreme scenario, if there is a mass lapse, it could create liquidity problems.

A - Tidjane Thiam {BIO 7518525 <GO>}

That's one of the debates we're having, that we are telling them that there's never been -- the attitude of a retail investor is not to sell at the trough. Okay?

So the exam [ph] question is what happens if you're running at GBP30 billion of unit-linked liabilities, what happens if people want to cash them in at the bottom of the market? Not just us. But that's how many other are saying, that it's never ever happened in history it's not what they do [ph]. Your lapse risk is actually when you come out of a crisis.

We have experienced that a million times. People invest GBP100 million [ph] and they come back to GBP95 million [ph] they think about selling. But when they're at GBP20 million [ph] they don't sell; that's economic history. But how do you prove that it will never -- so we're having those types of debates.

That's why we are saying there's still a lot of work to do; I know that. It's very early stages. We haven't even been told formally yet what is the logic behind these decisions. So that's why we're just cautious in many things. So we'll see.

We're engaged with them; we'll understand better. I've met some of my US peers, the CEOs, everybody's in the same position and we're ready to engage with them.

Lapse rates, I'll let you answer that.

A - Nic Nicandrou {BIO 15589153 <GO>}

I wonder if I understood your question. Are you saying that their lapse rates are lower than ours, or higher? Which way which side?

Q - Andy Hughes {BIO 15036395 <GO>}

They tend to be substantially lower than yours. I think Met was showing a 3% lapse rate at its Investor Day presentation.

A - Nic Nicandrou {BIO 15589153 <GO>}

That may have something to do with the on the moneyness of the book.

A - Tidjane Thiam {BIO 7518525 <GO>}

I think Mike was going to give you an answer, Mike?

A - Mike Wells {BIO 4211236 <GO>}

I like our book better than their book and it's on product design, on vintage [ph] -- thinking about New York, I'm talking about the various vintages, the years of the S&P point at which they were sold, they have a book that's got more exposure and more consumer benefit relative to what they were charging and relative to the payout.

Remember Mets is effectively a GMIB-based book. So it's an annuitization option. Pru's is more of a range product, a portfolio controlled product. So they're different products than ours, different timing of sales; they're getting different behavior than we are.

A - Tidjane Thiam {BIO 7518525 <GO>}

The other thing, in Asia it goes to the structure of the economies and sociological structures and culture. If you take Europe, you will see that the provision of health insurance varies a lot from market to market.

in the role of the employer, you'll see that a lot of the economies we're talking about have a lot of very small businesses that are not likely to provide insurance to their employees. And that the employees are very happy to take that on a private basis and prefer it on a private basis [ph].

A - Barry Stowe {BIO 15021253 <GO>}

Really, what you're describing is more of a western phenomenon, most notable in the United States where it seems to not be going as well as some people would like. It creates portability issues which, having individual cover mitigates. So there's lots of reasons why it has worked the way it's worked in Asia.

As Tidjane said, you've seen virtually no inclination on the part of employers in Asia, generally speaking, particularly in the sweet spot markets to do full-grown cover. And typically, where you do see group coverage written in our part of the world, it tends to be, if anything, life insurance only, term life, just basic amounts of group life. And historically, where medical benefits were provided, they were often provided only to expatriates who were coming from someplace where they did need an employer-based healthcare plan.

So that's what drives that. Your question about the real estate are you talking about mortgage-reducing term?

A - Tidjane Thiam {BIO 7518525 <GO>}

Do we sell credit -- if you wish put insurance on the credits of the loans? [ph]

A - Chad Myers {BIO 2234559 <GO>}

On housing, it's virtually nil. There's very little. There's a little bit of credit protection type products get sold on like, for instance, through Thanachart, because Thanachart's the number one financier of automobiles in the market. So there's a bit of that. But if you look at it in terms of overall protection business, then it's miniscule.

A - Tidjane Thiam {BIO 7518525 <GO>}

But the simple truth, to be transparent is, we've always told you that protection was an upside in the banking channel. We don't do a lot of protection in the banking channel at all. So we wanted to grow it. So it's not a problem we have today. We don't do that.

So thank you very much for your attention. Our message was just that the first half has been a good first half, that we're on track to achieve our target. And we'll update you soon. I think we have an Investor Day on December 3.

I heard an interesting comment this week which I'd never thought about, someone told me. But surely you're going to announce your targets. And I said, why? And someone said, because the time you announced your targets, it was in December usually and the other times it was in November. So I'd like you not to draw too many correlations there

The date is December 3. We're looking forward to seeing you and updating you on the whole Group then. And have a good holiday. Thank you. Have a good day.