Y 2017 Earnings Call

Company Participants

- Anne Richards, Chief Executive Officer of M&G Investments and Deputy Chief Executive, M&G Prudential
- Barry Stowe, Chairman and Chief Executive Officer, North American Business Unit
- Chad Myers, Executive Vice President and Chief Financial Officer, North American Business Unit
- John Foley, Chief Executive of M&G Prudential
- Mark FitzPatrick, Chief Financial Officer
- Mike Wells, Group Chief Executive
- Nic Nicandrou, Chief Executive of Prudential Corporation Asia
- Paul Chadwick Myers, Chief Financial Officer and Executive Vice President
- Paul Manduca, Chairman
- Unidentified Speaker

Other Participants

- Abid Hussain, Analyst
- Alan Devlin, Analyst
- Andy Hughes, Analyst
- Arjan Van Veen, Analyst
- Blair Stewart, Analyst
- Greg Mason, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst
- Ravi Tanna, Analyst
- Unidentified Participant

Presentation

Paul Manduca

Good morning, and thank you for joining us for this results briefing. As you all have seen, the Board's announced today, our intention to demerge M&G Prudential, our UK and European business from the Group. We've been clear for sometime about the importance of creating optionality within our corporate structure. After a rigorous review, we've now decided to exercise one of those options in the interest of both businesses and of all our stakeholders.

As a standalone business, M&G Prudential has strong capabilities in the growing savings and wealth management marketplace. It will be focused on outperforming its UK and European competitors and will no longer compete internally with our businesses in Asia and the US. Following the demerger, Prudential PLC will focus on the opportunities we have in the two largest insurance markets in the world meeting the needs of the fast-growing middle class Asian community and Americans approaching retirement. We're also enthusiastic about the progress we're making in Africa. The two independent groups will be headquartered in London, which we regard as the preeminent city from which to operate global financial service businesses. We would expect both to be members of the FTSE 100. The Board believes this demerger is in the best long-term interest of all our stakeholders. Customers will receive greater focus, employees will be more closely aligned with their businesses, and we are confident that this demerger will create market value. Today's strong full year results demonstrate the positive momentum across all our businesses.

With that, I'll hand over to Mike, who will talk you through our results and provide some insight into the proposed demerger. Thank you.

Mike Wells {BIO 4211236 <GO>}

Thank you, Chairman. Well, good morning everybody. You had a slightly quieter morning than I've had. It's been an interesting set of results to try and prepare a summary for you today. I think one of the comments that a number of you have said earlier is an awful lot in this pack. And there's a couple of takeaways. We are going to do our best to get through that as always we'll stay and answer any questions you have on a variety of topics and metrics and things are to report in this.

I want to start at the -- if I may at the top, if you look at the scale of what was done last year, so another incredibly strong record year of earnings. The combination of M&G improved successfully, some of the businesses we've increased stakes and decreased stakes in and all of the various dynamics. I said to a number of you when I first took this role that one of the things people underestimated about this Group is its bandwidth, its capability. And I hope one of the things you'll takeaway from the just sheer amount of materials it's in here and completed projects and work streams in here as the folks in this front couple of rows even back at third row is -- are capable of producing a tremendous amount for you as shareholders and I certainly owe them my thanks. So another strong set of broad good financials.

To start on, if we could -- actually I'll take this. All the key metrics, so new business profits, cash, embedded value, earnings, dividend, capital, all right. Embedded in that is the focus on quality of earnings, health and protection focus, Asia, you have IFRS up 15 in Asia, health and protection up 26, the US, the increase in the fee level, the UK record net flows into M&G at over 17 billion and with-profits fund as well as 9 IFRS earnings up 10 and the M&G Prudential dividend paid and again all of this while maintaining a very robust solvency level.

So very pleased with the strength and breadth of the financials and some of the optionality we'll talk about later today simply comes from the fact that we have the strength to do this from and that we're doing this from businesses that are all working well that we're not solving for anything as we get to some of the more strategic conversations today.

Not to be lost in our discussion, all of the 2017 objectives have been achieved. We go back to the -- I gave my 23 years, so we ran three sets of objectives over time to Asia primarily with some good metrics in them, but I think it was fair to say they were to demonstrate proof of concept. At various points, there was tremendous debate about the resilience and validity even of our Asian assumptions. I'll date myself with this number, but when I started in 1985, the IFRS earnings in Asia were 11 million.

Okay. So yes, I've been here that long and they have done that good at job both reasonable takeaways from that, but it is incredible, the job these -- the teams have done and the resilience and the percentage of that earnings now that's recurring regular premium, health and protection focus lately, but that recurring earnings stream over less dependence on new sales, more dependence on us doing the right thing to the existing clients, giving us cohort after cohort our profitability for our shareholders.

While Asia was growing, while they're meeting those objectives, you also saw material changes active management of the portfolio. So that's everything from the businesses we chose to exit, business markets and products we chose to exit, to businesses we entered, new marketplaces. In this period of time, you have, you have Laos, you have Cambodia, you have our African expansion, you have product expansion, new distribution relationships, all taking place. So this wasn't just to chase a handful of public metrics sort of exercise. The overall quality and capability of the businesses improved throughout this period of time and again put us in a position capability-wise, not just financially, that we can do things that we couldn't do in 2012.

And as I travel a region, it is very clear, some of the capabilities that the Group has that are new, some of the stuff that's emerging in the sense that it is more forward looking, it's yet to hit scale and some of the things that are actually benefits of scale, all coming through. So tremendous financial metrics, but also I appreciate if you looked at some of the other attributes that are included in the automation there at the top, 90% of the applications now are auto process, 50% under auto written,we've entire markets now or the entire China as Nick highlighted in November where almost the entire process is digital. We are getting better and better and better what we do each year.

Structurally, if we go back a decade, the Group mix and its scale has evolved. So if you go back to 2017, embedded value of the Group was about 15 billion and half of that was the UK. You bring that forward to this year, the embedded value is 45 billion and 72% of that is international. So, the nature, currency, kind of earnings, what those earnings react to and all of that has changed. So, we're looking at some of the strategic decisions. This is one of the lenses. It's not just the absolute scale that these businesses -- the interdependence financially has reduced, but it's the -- what attributes do they share, what capabilities they have has changed and from a market point of view how we look at the Group is nothing more than a reflection of what the Group has actually become and then a view of what we think the next 10 years out looks like.

So if you all have your own various views of that, but if you take this out another decade, the international component if left alone would be even larger, right, and we'd be having a very different conversation about structure. So we've been very active managers through this period of time of the portfolio. Again, we've entered next of markets, entered next of products, distribution channels, sold non-core businesses, okay, de-emphasized businesses. So this has not been a run it for top-line decade, this has been improve the quality of earnings, improve the resilience, improve the recurring earnings, and I think that comes across in our performance.

But now we're in a situation where both the UK and the international business have scale, I think, by any attributes, which brings us to the announcement of the demerger. So what are we trying to achieve? One, better alignment. If you think at the time, you'll see the capital reallocation -- you see capital allocation and alignment, you see resource allocation that we want the people's focus, the government's focus on the markets that are closer to the consumers and where they are, okay.

The amount of time that John and Anne spent on the PLC Board, okay, would be spent 100% on a UK European spent -- focus Board, all right, just a simple example. The choice is on how we allocate capital, right now, the UK competes internally, as it should, okay, for opportunities we have around the globe, okay, those may or may not be higher rates of return than we get in the UK and those again -- returns may have different characteristics and how they react to the pound or news here or news in emerging markets or news in the US or political news, anywhere now, it seems to be endless.

Those factors all are changing. So what we know is PRU -- M&G Prudential is large enough to compete domestically with any firm in its space, it has the breadth of product, capability, management team, technology, it's got everything it needs to succeed domestically. The value of being part of the Group that the Group brings to it is diminishing. So we look at the strategy, you look out and say, are we the logical owner? The conclusion of the Board is maybe now but certainly not over the next decade, okay, so this is the right time for us to do this, right decision, right timing, and we think it'll unlock benefit for all of our stakeholders.

What you will have? A shareholder today will have the same economic interest if they do nothing and just hold the two shares when the demerger takes place, you'll have one as the Chairman said FTSE listed, Prudential PLC, which will focus on United States, Asia and Africa. And you'll have one share of M&G Prudential which will be a national champion on the savings and retirement space, investments space here in the UK and Europe, okay.

So no -- if an investor said, I want to keep what I have, you can. The choice goes back to the owners of the company and how they want to allocate their capital between the two businesses, and what they think is the right mix or if they want to do absolutely nothing, okay. It's -- the ability it is the dividend policy in the interim remains unchanged and we cannot comment on the dividend policy of a future entity that doesn't have its Board in place, let's be very clear, that's not our gift, but the divestiture itself doesn't affect the dividend capability of the firm in either structure.

So it's not an economic decision, I got asked earlier a couple of times today, what's the dividend policy going forward? We're only responsible for dividend policy of the entities we govern. So until that's done, obviously there is -- that's up to the new Board. But both entities should be competitive in their marketplaces on all financial metrics.

What stays the same? Same risk, same governance, both based here, both headquartered here, again listed here, primary listings, we believe in the metrics that FTSE 100 included. So from an index point of view, they'd still be in the FTSE 100, from a execution point of view, from a tools point of view, it's the same people, okay, it's the same culture, it's the same execution that you're seeing today, this is -- they've just split into two teams.

So all of those things that produce the results, that got these businesses here remain intact. And that includes a risk management governance, all of the elements that control the quality of those earnings, quality of those sales. So we think it's a great combination of changing the piece. It gives greatest optionality and greatest benefit to our stakeholders and keeping in place the piece that produces the most consistent results and most consistent outcomes again for the same stakeholders.

So what is M&G Prudential space? Where is it going to go? Well, we envision as a market-leading savings and investment business and again delivering very attractive returns on equity, its ambitions are clearly to take some of the things that are working well in M&G, in Asia some of the things that are working well, with the UK life side with M&G already there's already work streams in place to share distribution. There is work streams in place to share the digital platforms. We've taken the investment that shareholders made last year and I'll give you some update on this in a second, but the progress made is towards a single model not two as we committed to you, all right, so there are synergies coming out of that, and the marketplace, from a consumer and institutional point of view, has not only accepted the logic of the business model, but it's embraced it. You see that on the strong financial performance, you see that on the net flows and you see that on the operating income.

We did not lose clients because we merged the entities, we did not lose mandates, okay, the both sides of the house had record flows and as a percentage of flows in the market, tremendous market share. So we think this is working and we think it's a unique set of portfolio skills, a unique set of balance sheet products and unique set of with-profits products that the business brings to bear.

And again benchmarks nicely against competitors. Those flows in particular, you see on the M&G side, on the left here, 17 billion in net flows and on the PRU Fund a record 9 billion of net flows combining with the expense management and all of the upgrades in technology and operational models are doing net at a 10% increase in operating profit for the year. So headline numbers are great, performance for the consumers, institutional and retail have been excellent, 90% of the institutional products that M&G has now, their three-year return is over the median with their sectors. These businesses are performing well, they are not distracted, okay, it's business as usual while they're getting integrated and while they're finding synergies as we committed to they would and the outcomes are measurable.

So a quick update on the merger and transformation progress. So we committed to 145 million of shareholder cost reductions at the end of the program, that is on track. You've seen the combination of shared services, we've announced the TCS project where they've replaced Capita and we're working on that transition, this is technology that is available now up and running, agile, the kinds of tools that we want in the business immediately, it's also consumer facing service capability that we want to upgrade and can very, very quickly with their capabilities.

M&G is ready for Brexit regardless of the shape, the SICAV platforms we did up in Luxembourg were -- almost everything we need done there is complete, there is one minor project left, I don't want to put too much pressure on the team there, it'd done by later today, but it's coming soon. But we are in a position for anything the political environment can throw at us within reason on that front.

As we said before, the Group's not particularly sensitive to Brexit, but we were sensitive to M&G's relationship with European clients and distributors and so we have addressed that with fund structures. And then, now we're seeing the teams work together on what more can we do what more -- what are the synergies and distribution and relationships, what do your clients think of the products that are held more broadly by what was the other side of the house before, I mean, some very good progress there and that's just going live now.

And then finally as a very early this morning, the $12 billion annuity transfer to Rothesay. It's part of a larger capital management transition, if you will, we committed to you to get to met the actively manage the capital on the balance sheet, particularly in PRU UK. So you have the -- we're announcing today the 12 billion transfer the part of the back book to Rothesay. So that's a reduction in credit risk immediately. We also are moving Hong Kong, which was originally discussed with you as a -- it will be earned out, we're pulling that project forward instead of an earnout, we'll transfer it, we think through the middle of next year is the current time-frame.

And then the last piece on the Rothesay transaction will be the Part VII, the full transfer, and that is subject to court approval. So we anticipate from the current information we have and again this is outside of our gift that, that will occur sometime late 2019. So when you're looking at milestones and what do we need to do, to be ready for demerger, it is not a set date on the calendar, it's complete the work here that produces independent balance sheets, strong balance sheets, well capitalized firms, and then we'll go off, rather the half-year or full year results that follow that, so we don't incur additional shareholder expense for the demerger.

So -- and the backbook transaction with Rothesay released a little over a billion in capital and that's going to be retained in the Group to maintain the structural and strategic flexibility we're talking about here today. So the international business, so we're well positioned, we think to lead in the markets that, that entities will compete in. Most interesting stat came out of the work going into this was Asia now has a million people a month entering the working population, okay. So we've looked at the demographics in Asia multiple ways, but we as successful as the team is there, we've shown you this last year as successful as our market positions are, as well received the products are, the demand, the structural elements are still growing as fast as we can produce solutions and distribution to address them. So, we think the structural demands in Asia remain unique, there is a variety of different ways to measure it, but we think it still has tremendous upside and obviously we want to capture that, and we think the new structure better aligns us for that, focus its execution and should create value for everyone.

The US as well, you've more clarity now on DOL, you have more clarity on the shape of the marketplace and who distributors want as partners, to access capabilities are up in that space, they've already launched fee-based product, they've got over 100 firms, we'll come back to that in a second, but they're learning how to be effective wholesalers of a different product, a different structure in a different space. So, they're very well positioned to compete and I'll come back to some of the dynamics on them in a second.

I want to give you a slightly different look at the success in Asia. So we've talked about number of countries where we're top three, nine -- eight countries with double-digit growth. You've seen that before. But here is the different cut on the actual size, the absolute size of the businesses we have in Asia now. And this goes back to scale and this goes back to -- we do compete with new competitors, their ambitions in Asia are X amount of countries versus necessarily profit per country and things and that can be challenging and it's one of the many things the local teams have dealt with for, as long as I've been here.

But I thought this was a really good cut at what you own in Asia. So there are -- the sheer size of these businesses now, as individual entities, continues to grow, continues to grow profitably, the focus on the team is on profit, it is not on top-line, they are limited in some of the products that they -- we won't let them compete with, and it can vary by market based on the irrational behavior of competitors or the credit risk we perceive there or the capital intensity or all of the above.

But we think the quality of the earnings we have in these businesses continues to improve as do other key metrics around it, but the absolute scale of them, I think, is something the team there needs to be very proud of and then of course as you would expect new business profits of 2.4 billion, the IFRS operating profits up 15, the free surplus generation we just keep adding profitable cohort after cohort after cohort to this business. And that's the right way for us to build it.

You see the new business profit number, health and protection up 26%, it was great metric for the team and then again the margins continue to stay healthy, but there is a quite effective utilization of the brand, there's a much more learning cross-border as these business gets bigger there. If you almost went down the size of these businesses, the issues that the CEOs and their teams deal with get more similar. And so the relationships and the sharing gets more enthusiastic and Nick and the team have done a very good job now in each successive management teams bringing a slightly different style to it and getting in to more closer and closer together and share more and more as these businesses get more mature.

One more Asia demographic slide. Just another -- just why health and protection? Upper right hand corner, there is no material change in the amount of money that Asian consumers are spending out of pocket if anything, it's up. In my travels there, it is generally one of people's very -- it's one of the earliest conversations they bring up on personal concerns and education tends to be the second for family members and so the changing demographics in the markets we're in is driving a lot of that, if you're in Mainland China, the one-by-product -- the one child policy is a young couple is concerned about helping fund retirement for four adults and that's true in multiple other markets where historically that family was the retirement plan.

So there is quite a focus by the parents and the working children on the liability of that model and how you fund that, we get, it's -- we're in front of social need consumer demand and aligned with political and regulatory models with the products and services we're bringing in, you see that in a variety of markets.

On the working age piece, we just talked about the number of people entering the market. Penetration stays low. On the upper end of the market, you are seeing a very, very fast growth in -- and you hear this from competitors that own advice platforms there in wealth management, in wealth solutions, as the consumers there get more sophisticated as in every market. They're looking for ways to diversify, participate in markets globally and we have East Spring well positioned to capture that, but it is -- the pace of that market and the resources being thrown at it by banks and advisory firms is dramatic and we intend to play a material role in that than we have to-date.

Shifting to the US for a second. So, the US success can be summed up, so the 2017 was again another great year for the US business. It was a great year if you are consumer and you own the product, again you own the top performing product in the industry, okay, the volatility and everything that went on in the market in the early year, your short-term wall and all that dramatic stuff as in the headlines, there was a few political headlines in the US last year. These consumers know that when they got to retire, they have X amount of income coming. And it is no different than with-profits client in the UK, looking to smooth the edges on the market. Now that said, the amount of exposure, the amount of -- the value of the guarantee, if you will, to our consumers from their market positions, the value of their accounts has never been lower, because their accounts have done very, very well. They have participated in the market.

Remember, these weren't forced allocation models, these were not well controlled models, okay. These consumers got to own the underlying funds of some of the top asset managers in the United States, they participated about 70-30 in equities, disproportionally value funds, with very good fund managers, again actively selected, actively added and deleted based on performance, okay. And the balance of it is in bonds and guaranteed funds, and they've got a very good return relative to market and they own the product for accumulation until it's time to retire exactly as it was designed to perform. Okay.

So with that, with a quality of product, you get some very good outcomes. You got a profitable business that generates a lot of cash. I know there's been a lot of discussion about competing models in the US and for those of you that haven't been sitting here a long time, we never believed in the GMIB product, we never believed in some of the distribution models competitors took, we took a lot of heat from that for a number of years, because we wouldn't do it, okay, and the difference is, you own a company that's produced 4.4 billion in cash to the center which by any public metric I can get is more than all of our competitors combined. Okay.

So it is a very differentiated company than some of the other firms that it competes with. It isn't there aren't good competitors in the space, but this is the best competitor in the space. Okay. So what is that position -- how does that position it for what's coming? Well, if you're consumer, you have the best return, if you're an adviser, it also is rated highest in service including the mutual fund companies in the United States, so your reputation for service, the time you spend, interacting with your clients, because there Jackson is appropriate, okay, that matters to advisers, they hate service issues and companies, it's performed as they suggested it would, so we have trust with advisers, it also has the top-rated wholesaling teams, the support for the advisers in the United States, okay.

Well that's good and that's retroactive and it's measurement, quite matters is as the landscape is changing and the emergence of the fee-based products and emergence of a post DOL platforms where a brokerage firm has to decide who are they going to invest millions with, the link-up technology wise with the company, one, they've got to believe, the fund firms committed, they've got to believe they have the technology in the other side, and they got to believe they can actually add enough value to warranty investment and manage the risk in a way that won't damage the reputation of the firm.

Okay, the product approvals now and some of these firms go all way out to the general counsel's office, it's no longer a head of insurance or a head of asset management that makes the call. So Jackson's reputation, historic success, client orientation, wholesaling capability, technology, suddenly put it at the front of the pack, if you're running a brokerage firm and saying whom I going to put on my new post DOL platform, okay.

Now, we will manage capacity on that as we have managed risk exposure on that as we have and everything else in Jackson, so we can't be everybody's product, it's a little different structure that way. But that's a capability the firm has as well. So Jackson is incredibly well positioned to deliver on where the US business is going, has a very profitable existing backbook and again very happy clients, they're staying longer than we thought, depending on the accounting metric that's good or bad, on an economic basis, it's only good, these are very profitable relationships for them and for us.

All right. I'll mark it up here in just a second. So I've argued, what I think since I took this role and some of you before that, I think this is the fairest cut to look at us, at any point in time and ensure just because of the nature of our business and some of the accounting can move one of these needles for a period of time if they choose to, pretty hard to move all of them consistently, and again, I think this is the best report card on the Group. I think it shows the growth is not only in earnings but it's future earnings, it's also in cash, and that should translate too and it has a consistent growing dividend. So again, today we announced an 8% increase in our dividend, it's well supported and we think from again, if you own the shares well, if you go back to 2006, it's 8 billion now in distributed dividends, it's a high-quality dividend, it's a highly predictable dividend. And I think that's -- it should rate as a -- at the upper end of its peers. There is a lot to go through today.

And I think with your indulgence, I will hand it over to Mark and then I'll come back afterwards for Q&A. And again, we will bring the whole team up here and go through any part of those materials you want at the end of Mark's presentation. Mark?

Mark FitzPatrick {BIO 20178326 <GO>}

Thank you, Mike, and good afternoon to you all. It is understandable, of course, that our strategic announcement today has drawn most of the interest, but hopefully not to the complete exclusion of our financial performance in 2017. This set of results adds another period in a long established trend of growth in scale and in quality. This really underlines that we begin the M&G Prudential demerger process from a position of strength right across all our businesses.

With this in mind, I will cover three main areas: First an overview of the key financial highlights; second, a more detailed look at each of our major metrics and the drivers of the performance in the year; and third, I will provide some financial commentary on our plans to demerge M&G Prudential.

So starting with the overview of the Group's financial performance for 2017. We have delivered good financial progress with increases across our main profit metrics alongside higher levels of cash remittances and 8% growth in the ordinary dividend. Our performance has been led by continued positive momentum in Asia, although all of our businesses have made healthy contributions with asset management in particular having a standout year.

Turning to our key operating metrics, IFRS operating profit increased by 6% to 4.699 billion, new business profit was 12% higher at 3.616 billion, and free surplus generation at 3.64 billion on a headline basis and was up by 9% on an underlying basis before variances. Throughout the year, we have continued to enhance the mix of our businesses by growing fastest in the products, geographies, and channels that offer attractive and sustainable returns through efficient allocation of capital. This continues an established progression that speaks to the absolute and the relative strength of our products and distribution platforms in our chosen market segments and the disciplined focus with which we execute our strategy.

Our fee-based businesses have also benefited from favorable investment market performance, delivering good outcomes for both our customers and our shareholders as I will reference in due course. Currency effects have added between 3 to 5 percentage points to reported growth rates in 2017 although with sterling strengthening over the year this is likely to reverse in 2018 based on current spot rates. As in previous years, we continue to reference constant currency movements as a better indication of the underlying financial progress of the Group. Our healthy balance sheet and Solvency II surplus remains key to our ability to successfully absorb movements in macroeconomic and other external factors.

Moving on to each of our key metrics in turn, starting with IFRS operating profit, up 6% to 4.699 billion. Now the trends here are consistent with those I flagged you at the half-year stage, in particular, those are that, one, Asia remains the fastest growing part of our business; two, that each of our businesses in Asia, US and UK and Europe have delivered growth in earnings across both life and asset management; and three, that consistent with our strategy, in the areas that we are looking to grow, we are growing. As you can see on the right hand side of the slide, the largest contributions to IFRS growth are coming from our Asia businesses followed by Jackson's US fee earnings on variable annuity business and a significant uplift in the underlying profit from M&G Prudential.

These operations underpin the Group results for 2017 and remain the focus of our growth ambitions and capital investment. We have also indicated in the past that there are some areas that we expect to contribute less in 2017. These include the spread-based earnings in the US, where reinvestment yields remain below the portfolio return.

Outside the business unit results, operating profits also include the investment we have made in systems to improve our capabilities across the Group. The costs related to M&G Prudential's merger and transformation we announced in August and higher interest costs from the debt issued in 2016. So overall, another good year of profitable growth, based on superior strategic positioning, disciplined execution and a very distinctive and attractive mix of earnings.

Turning now to the IFRS performance of each of our business units, starting with Asia. Both insurance and asset management have contributed to a strong result with growth of 15% and 18%, respectively, highlighting the positive momentum across our regional portfolio of 26 businesses. Fundamental to our progress across our life insurance platform is our continued focus on higher quality earnings. This is evident through the compounding benefits of the growing renewal premium base and a clear preference for insurance risk by writing health and protection business.

On both of these metrics, we have achieved growth of over 20% in 2017, which drives the overall result. It is by continuously improving our scale and enhancing our business mix that we are able to show such broad and repeated levels of growth replicated across country, channel and product. In asset management, East Spring has had another good year. The 18% earnings growth reflects a significantly higher asset base, which was up 20% on an average basis due to net inflows and positive markets. Although this was partially moderated by slightly less favorable mix of client AUM, as you can see in the slight reduction in revenue margin, the overall result benefited from a stable cost-to-income ratio, and a healthy contribution of GBP17 million from performance fees. With combined IFRS profit of 1.975 billion in 2017, our Asia businesses have exceeded their 2017 objectives and continue to generate high levels of growth with increasing quality and breadth.

In the US, the accumulation of variable annuity assets continues to drive Jackson's earnings. Average separate account assets increased by 17% to GBP125 billion, primarily due to strong investment performance consistent with the rise of the US and international equity markets in 2017 and another year of positive net flows. The remuneration choices of our commission based distribution partners continue to move away from upfront structures towards trail. As a result, the level of separate account assets under management is expected to have an increasingly direct relationship with trail commission costs. Currently, roughly 40% of our commission base VA is on trail basis. However, excluding these commissions, Jackson continues to lead the industry on administration expense efficiency, highlighting our cost discipline and lean operating platform.

Overall, fee-based earnings increased by 12% to 1.788 billion. Earnings from spread-based business decreased by 6%, reflecting the impact of the anticipated reduction in spread margins. This move down in spreads is due to both lower reinvestment yields and lower positive contribution from duration management swaps as they continue to roll-off.

We would expect these trends to persist, although continued upward movements in US yields may help to reduce the speed of the decline. The recent US tax reforms are relevant for all of our major financial measures, but do not fall evenly across years or reporting metrics. So to help you, I'll try to summarize the major impacts together on this one slide. These changes are ultimately positive for Jackson as they should result in higher levels of retained earnings and capital generation, all else being equal.

The 2017 year-end balance sheet impacts primarily relate to a lower level of deferred tax assets. So for IFRS, this reflects a lower corporate tax rates on the net DTA balance. For EEV, the reduction in DTA is outweighed by the positive effects of the more favorable tax rate on future profits. And on Jackson's statutory capital position, the impact at the year-end includes a combination of DTA calculated at the lower tax rate and the removal of the carry back of net operating losses previously allowed.

Notwithstanding this, Jackson's obviously remains in excess of 400%. The stated year-end statutory capital position does not take into account any estimates of the impact of required capital as at this stage the NAIC is yet to make public how it intends to incorporate tax reform into its assessment of capital. We expect a period of engagement between the NAIC and the industry to follow over the coming months, likely incorporating some of the other outstanding reform areas such as the C1 asset risk charges. We will of course participate fully in these discussions and update you once this position is clearer.

Going forward, we expect Jackson's effective tax rate to improve by roughly 10% from around 28% to approximately 18%. This decline in ETR incorporates new headline corporate tax rate of 21% and the continued benefit from the DRD which is worth about another 3 percentage points under the new tax regime. At a Group level, we expect the effective tax rate rolls a benefit and reduced of around 16% to 18% going forward. This lower effective tax rate will be beneficial for earnings and capital generation over the long term.

In the UK, our newly combined businesses have delivered a very encouraging performance with IFRS up 10% overall to 1.378 billion emphasizing the benefits of its scale, distinctive investment capabilities and well seasoned in force life portfolio. M&G Prudential continues to work towards this transformation to a modern savings and investment business and is on track to deliver the 145 million annual savings we set up in August.

In life insurance, core earnings remained in line with our expectations at around 600 million per annum with the 7% increase in the transfer from with-profits offsetting lower in-force annuity profits, following longevity reinsurance transactions in 2016 and 2017.

The higher transfer from with-profits includes a rising contribution from PruFund business, which now accounts for 15% of the total at 42 million compared with 10% in 2016. Given the fast growing scale of the PruFund assets, we expected to become increasingly material to the UK result. Other movements in the life result are slightly higher overall than in 2016 and these comprised three main elements: First, a lower level of contribution from management actions as I flagged at the half-year stage; second, a one-off impact of 204 million as a result of moving the basis of our longevity assumptions from CMI '14 mortality tables to CMI '15'; and finally, an increase of GBP225 million in the provision we set aside for the review of past annuity sales following confirmation from the FCA on the approach for assessing the cost of redress. Our provisions does not include the benefit of potential insurance recoveries of up to GBP175 million.

In asset management, M&G has had a great year with external net inflows of 17 billion at record levels and external AUM finishing the year up 20% at GBP164 billion. IFRS operating profit has moved up with these underlying drivers, benefiting from higher revenue, a small improvement in the cost-to-income ratio and higher performance management fees of GBP53 million.

We have seen good results in both retail business where Europe continues to lead our progress and in institutional where we retain a healthy pipeline of future capital commitments on top of the net inflows that exceeded 6 billion in 2017. With this performance and a positive outlook, M&G Prudential is well positioned for the ongoing transformation process and to begin the path to demerger.

Moving to the rest of the P&L account and covering the remaining items outside the business units results.

I've included within IFRS operating profit there are three main items to note: Firstly, the additional restructuring costs of GBP44 million relating to the M&G Prudential merger and transformation program; secondly, the GBP50 million cost of implementing the Aladdin platform across the Group; and thirdly, the additional interest costs of GBP65 million related to debt issued during 2016 together with currency effects.

Within the non-operating result, investment variances primarily relate to negative marks on derivatives used to protect against downside equity market risk in the US VA portfolio. These are in line with expectations, given the appreciation in equity markets and consistent with the movements we saw in the half year.

On an EEV basis, the positive offset of higher future fees from higher account values results in an overall gain, which is a better indication of the full economic effects. 2018 has been a more volatile year in the investments market so far. Throughout this period, our hedging program has performed as expected generating positive, below the line movement at the low point of the S&P. And we have no reason to change our approach in light of these recent market fluctuations. Including the impact of tax reforms already discussed, the gain on the sale of our US broker-dealer NPH, currency effects on sterling strengthening and the dividend payments in the year, shareholder funds has increased by 10% on a IFRS basis and by 15% to 44.7 billion on an EEV basis driven by operating returns.

Moving now to new business, new business profits increased 12% to 3.616 billion with a broad mix of growth across each of our businesses. This was higher than the 6% increase in APE sales and includes the benefit of continued improvement in Asia's mix towards better quality business with higher returns. As I flagged at the nine month stage, the tailwind seen earlier in the year from the rising yields was no longer a significant contributing factor in the rate of growth by the year end, although the higher level of yields remain a positive for the overall economics of the business.

In Asia NBP has increased by 12% with health and protection contributing growth of 26% as we continue to pivot the business towards protection income, in line with our strategic focus. In Hong Kong NBP was 8% higher and outside Hong Kong, NBP was up 20% and both agency and bank assurance channels recorded double-digit growth. Reflecting the progress we have made in this regard, the economics of the new business we wrote in 2017 are at their highest level ever. So behind the sales performance remains our focus on improving quality and economic returns, attributes that we continue to emphasize across the business.

In the US, sales were largely unchanged on the prior year with growth in NBP mainly the result of the lower assumed tax rate on future cash flows. Jackson continues to make good progress to position for the growth opportunities in the advisory market, building fee-based platform arrangements with many of its major distribution partners. New business from these sources remains low by comparison to the traditional commission based business, but is accelerating and we are encouraged by the early progress made to date.

In the UK, new business trends remain favorable with stable economics and sales driven by individual pensions and income draw-down within the retirement account wrapper, which now stands for 81% of APE in these segments. The success of this business means that sales through the retirement account are nearly 2.5 times the peak volumes of retail annuities, that we wrote in 2008. This demonstrates clearly the strength of our product proposition and the ability to adapt to external change and to capture the opportunity that this brings. How and where we invest our capital and how we manage that business, ones it's on our books has a direct correlation to the conversion of in force value into cash and capital generation.

To capture the underlying progress of (inaudible) the expected return from the in-force life portfolios and the contribution from the asset management businesses. This highlights that each of our businesses had generated growing contributions as expected, given the growth in the life portfolio and the stronger year for our asset management operations. After investment in new business, the underlying movement in 2017 before variances and restructuring costs, was an increase of 9% compared to 2016.

Moving to the breakout boxes on the right, contributions from assumptions and experience variances were in line with 2016, after adjusting for the one-off contribution from the contingent reserve financing in our US business in 2016. We continue to reinvest a significant proportion of our free surplus in new business, given the returns and growth potential that are superior marketing position and capabilities provide. Asia remains the primary destination of our new business investment, accounting for over half the total in 2017, reflecting the relative scale of the opportunities there.

In the box on the lower right of the slide, you can see the increased investment in the UK and Europe, this is primarily due to the higher level of new business within the period and remains highly efficient, given the attractive returns available. Under Solvency II, this includes an amount that relates to the with-profits business, reflecting shareholders participation in the downside scenarios of some 1/200 stress events at current interest levels. In the context of PruFund having gross inflows of 11.8 billion this year, this is a fraction of what would be incurred in writing new annuities with the payback that is over three times faster and returns that are over four times higher. The benefit of the recent strength in PruFund flows is now starting to emerge more significantly in earnings, as I covered earlier and validates our strategy to prioritize growth in this area.

My next slide shows how cash and capital generation moves through to central cash, the strength of the organic capital generation comfortably funds new business strain with the majority of what remains remitted as cash from the life operations to the Group and the balance used to reinforce the capital position of our local businesses as they continue to grow to scale. The chart on the right shows how cash remittances of 1.361 billion from life operations and 427 million from asset management, we used to cover the growing dividends and corporate and other costs such as the net retirement of debt in the year.

We continue to run the Group to a robust solvency capital position with the shareholders Solvency II surplus of 13.3 billion at the end of 2017. As expected, given the growth in the business, both owned funds and the SCR have increased over the period, but the scale of the surplus has also increased and the cover ratio remains largely in line with the prior year at 202%. Our strong Group solvency position is replicated at the local regulatory level 2 with capital well in excess of regulatory requirements. The impact of US tax reform is the main reason for the reduction in the US RBC ratio, which I've already covered. However, I would also remind you that a US RBC does not include the benefit of swap gains from use of the permitted practice, which if included would add another 45 points to the year end ratio.

My next slide provides you with the usual bridge between the 2016 surplus and the 2017 position. Operating capital generation of 3.2 billion remains the key driver of the change, which has helped to absorb the adverse day one impact of US tax reform, as well as funding the dividend payments and sub-debt redemption. In addition, management actions relating to the UK have added 0.4 billion. The sensitivities on the right hand side of the slide, continue to demonstrate that our Solvency II position remains resilient to market stress, while retaining the upside potential from favored market position. We continue to hold significant levers within the Group and at business unit level to manage external market effects combined with appropriate headroom in our solvency surplus to act as a buffer when required. It is the strength of our operating capital generation and the risk management practices that we have in place around this, that have enabled our businesses to successfully navigate external economic stresses without disruption to the underlying businesses.

Now my final slide on the 2017 results, I just wanted to take a step back and provide a view of the major drivers of earnings growth and the quality in the period. It is truly these measures that generate the consistency of the Group's financial progress, support the resilience and sustainability of earnings through the economic cycle and provide the scale, which benefits our operational and strategic delivery.

In Asia, our growing base of recurring premium business means we start each year with a clear earnings base, which compounds with the subsequent year of new regular premium business.

As I have already highlighted, our strategic emphasis on health and protection is also increasing the proportion of earnings derived from insurance income, another indicator that our growth is a high-quality growth. In the US and in the UK, it is the distinctive structure of the product proposition and the performance of the funds available to customers, that continues to underpin net inflows and appreciation in asset values on which our fee earnings are based. Across each of our businesses, these key drivers are growing well. Taken together, the combined effect of continued and consistent operational delivery is highlighted in the 15% uplift in embedded value to 45 billion at the end of 2017.

Now stepping away from the FY '17 results and turning to the UK Annuity sale for couple of moments. This is a major step in the continued de-risking of the UK Life business representing the transfer of around the third of our shareholder backed annuity portfolio. This is a positive development with attractive terms achieved. It validates the quality of our UK Annuity portfolio and is another example of our ability to execute well.

This sale will ultimately see a reduction in capital held against both credit risk and longevity risk. Credit risk is a larger component of this where we have reduced credit exposure for UK PAC on the Solvency II basis by around 30%. On completion of the Part VII transfer, we estimate that the sale will lead to $1.3 billion reduction in the SCR and a 0.2 billion, sorry, pound -- and a 0.2 billion decrease in owned funds resulting in increase in PAC's capital surplus of GBP1.1 billion. Of this, we expect to recognize 0.6 billion at 30th of June under the reinsurance agreement.

The capital benefit from the sale will be retained to support the UK demerger process. It puts the solo UK regulated insurance entity on an extremely solid capital footing at the outset of the demerger with the pro forma cover ratio of 150% as if it was all completed at the 2017 year-end, including the transfer of Hong Kong subsidiaries. In reality, we would expect organic capital generation over the period before completion to build this number further. This provides us with maximum flexibility as we work to optimize the capital structures of both entities prior to separation.

While the impact on the EEV is less than 1%, on an IFRS basis, we expect to incur a loss on sale of up to 500 million in the first half of 2018. Going forward, your estimates for M&G Prudential's IFRS profits should recognize that the annuity portfolio being sold, contributed approximately GBP140 million to the 2017 UK core life operating profit of 597 million. This transaction is a significant milestone for M&G Prudential, as it continues to transition towards a derisked business model and an appropriate balance of risk exposures.

I would be remiss to be not to share with you some of the high level steps we will be taking to effect the demerger of M&G Prudential. Although many activities and actions will run concurrently, as you'd expect, the exact timing of each will be the subject of various factors, including regulatory approvals, the Part VII process, and for the debt management operations, suitable market conditions. We will look to minimize any associated costs during this period, and looking ahead, we will provide you with updates as we move through this process.

To position the businesses for separation, we will optimize the capital structure of each entity to ensure they're both appropriately and robustly capitalized. It will necessitate the creation of a new holdco entity for the UK operating companies and the realignment of the Group's debt capital position across the Prudential PLC and M&G Prudential entities. This may include redemption or debt liability management for issued debt.

As you will be aware, many of our Asia businesses started Life with branches of the UK with-profits fund, which provided a highly effective approach to launching new territories. Over time, as they have grown in scale and to align ownership with operating or regulatory structures, these operations have moved under the ownership of the Asia business as subsidiaries. The last of these is Hong Kong, as the largest and by far the most complex is being more appropriate to adopt a two-stage process. We completed the first stage in January 2014 with the domestication of the Hong Kong branch and for the second stage as part of the M&G Prudential demerger process, we will now accelerate our plans to transfer ownership from the UK Life business to our Asian entities. At this stage of the process, we have had very close engagement with all stakeholders, many of which are firmly in motion.

So, in summary, a very encouraging financial performance during the year of significant change for the Group alongside continued positive progress in the key earnings drivers of our business and 8% growth in the dividend. These results are demonstration of the outcome of the strategic decisions over many years, the scale and positioning of each of the businesses in their chosen segments, and the discipline with which we execute the growth opportunity and proactively manage our existing business portfolios.

By both growing and enhancing the quality of the business that we write, while remaining and maintaining a robust capital position, we are simply reinforcing our confidence in the financial outlook for the Group. This resilient underlying position with all of our businesses performing well shows that we begin with the demerger process from a position of strength, following which, both Prudential PLC and M&G Prudential will be better placed to maximize their value creation potential.

Thank you, and with that, I hand you back to Mike.

Mike Wells {BIO 4211236 <GO>}

Thank you, Mark. So, in summary, again, strong growth in Asia, right balance of the business, the US continues to deliver, and probably, the UK, the strong performance underlying the rationale for creating a simpler, more focused strategy there, and again, adopting the structure to maximize the opportunities for all of our businesses. So what I'd like to do if we could is invite my colleagues up the -- to join me for the Q&A and then we will address any individual concerns you have, quick questions you have in just a moment. Could we get the mic working please for Jon?

Questions And Answers

Q - Unidentified Participant

Hi, this is Jon Hocking from Morgan Stanley. Thank you. I've got three questions, please. Firstly, thinking about the go forward pre-PLC business, so US, Africa and Asia. How should we think about the binding constraints on capital for that business. Seemingly you're going to be try to get ahead of the Solvency II framework, but I guess, the advantage of Solvency II did have the Asian business, of course, if you get diversification benefit you could step-up some of the (inaudible) the protection business, so I guess, I am asking, how do you harvest the diversification benefits across the go forward growth business? This is the first question.

And second question, just looking at Jackson's capital and there was a lot of moving parts I get in that business and that market at the moment, the sort of 400% number you have got on the sort of headline basis. You've got a few things to come through, you mentioned C1 changes, I guess, we still haven't seen the impact on UVA framework. So can you give some color please in terms of where you think the RBC ratio will settle down for the market and then what impact there is on the (inaudible) of Jackson's capital back up to the Group going forward?

And then final question, just on China, interesting to see your views on what's happening in China, there's obviously a lot of moving parts at the moment with the merger with the regulators et cetera, the regulatory environment seems to be quite fluid. Can you talk a little bit about how you see your business evolving, how well positioned you are? Thank you.

A - Mike Wells {BIO 4211236 <GO>}

Okay. Great. I think we will divide these up and so binding constraint on capital, Mark, why don't I start and you finished. We've always said that in outside of the UK, the binding constraints to local capital regimes, it's not a -- if you think of dividend fungibility of capital that's the driver and the -- where the other jurisdictions recognize Solvency II, their privacy is, they are on regulatory regime and how we treat it. The other thing, it should be, will remain is, we don't run any of the businesses to regulatory minimal capital. There isn't a jurisdiction we do business in that they don't look to us to maintain what is almost a AA level, if you're going to put a rating agencies who are to mark on it, but if you want to have long-term relationships in these markets where the regulators are much more holistic, much less resolution recovery focus than you see in Western markets, particularly, obviously, in terms of Asia. So they want to see reinvestment in the community, they want to see how we treat clients, they want to see the -- our charitable activities and they want to see a well-capitalized foreign entity again, because you're competing with domestics in every market.

So we probably could bring some of them down closer to regulatory. But if you want a long-term, we want a 90-year position in the market, they have to see you as committed and not as a foreign player that comes in and strips as much as they can in every year. So there's a lot of reasons to maintain well-capitalized firms in the local basis, and then those roll up to Solvency II.

We never said, as we discussed and was debated early on of our dividend policy of Solvency II, I still don't believe that's the prudent metric for, because it's not a cash metric, it's a capital metric. So it doesn't affect us on dividend, the divest -- it doesn't affect the financials, if you think about it from a dividend point of view. There is a -- so the intent is to maintain a very well-capitalized international business with capitals levels that rival anyone that we -- anyone we compete with. You can look at that from as the regulatory college and our key regulators get together and adjust and that's just starting now, they're aware of it, but they're not, that is work that is in its early days. So I can't -- I am not going to commit to you what that model is -- the final model is going to look like.

But our intent is the Board and Management of the company is to maintain highly capitalized, highly rated entity, similar to our current position that's in -- effectively in compliance with all international capital standards, because we're just too big to not be. So I get asked earlier this morning when I was with the media, does (inaudible) matter, it doesn't matter, it's not been a binding constraint for us. We understand the framework. We understand the framework is changing. This is no -- this is not about adjusting a ownership model to adjust to a regulatory or a capital model. We'll maintain well-capitalized businesses, heavy liquidity, our in-house bias would still be cash net, capital as we've discussed many times, it's so cash flow testing and we'll share with you more and more metrics on how we do that is, I think, we're pretty transparent on how we stress the businesses. If you want to add anything to that?

A - Mark FitzPatrick {BIO 20178326 <GO>}

The obvious point is that we're going to continue to be subject to Solvency II until the point of demerger, so we will continue to run the business and be very focused on that. And then over the course of that period as we discuss with regulators in terms of what the new capital position and capital model will be, we will then be in a position to communicate that through.

A - Mike Wells {BIO 4211236 <GO>}

Barry, on Jackson's capital.

A - Barry Stowe {BIO 15021253 <GO>}

Yeah. You're right, John, there are lot of moving parts, I mean, the principal impact that we had this past year was Tax Reform, so that -- and I think you called that out Mark in your comment. So that's over $600 million impact on free surplus generation. That's a one-time here. So I would say to you broadly at the risk of being too forward looking, I would say, we broadly should be optimistic about Jackson's ability to continue to generate cash.

A - Mike Wells {BIO 4211236 <GO>}

Chad, do you want to comment on the future direction of NAIC and some of that work?

A - Paul Chadwick Myers {BIO 2234559 <GO>}

So the -- I would say, there's a couple things coming down the road. What we don't know yet is the timing or the magnitude, so we do have the NAIC. They will presumably react with respect to the denominator portion of RBC. We don't know yet what the magnitude of that will be or the timing and they have not actually formed the group yet to do anything about that. They already have an ongoing process with respect to the C1 factors that's expected to come in, in 2019, our hope would be and we will have this conversation with them when they have the appropriate folks in place. We think those two are best put together, because our interactions between their view on long-term default rates and the taxation and recoveries come through there. So hopefully that would be come together. If it does, that would be better, that would be a 2019, if they came together, if it doesn't the potential for a 2018's denominator, 2019 C1 factor and we think 2020 Oliver Wyman, so there's things with NAIC our own project. So there are things coming down the pipe that will presumably, again we don't know the number, that will presumably put downward pressure on the RBC ratio. That said, I think everything we've seen suggests that we were generating capital we don't have anything at this point that would imply that we don't -- can't continue for dividends at the level we've been remitting in, so hope that answers your question.

A - Mike Wells {BIO 4211236 <GO>}

Nic, on China.

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. So on regulatory developments, yes, we've seen the creation of a new regulatory body, to regulate both insurance and banking. I mean, look, we see this as the outlooking of the decree, if you like at the October party Congress, which is -- which set that activity objective for the industry to return to its core. In other words go back to its derisking purpose, play a role in the financial development of the economy as also financial stability and in time improve the provision of health services and also care for elderly.

So, I think, it's step one, I think the other reason why this has come together is to ultimately implement the liberalization of the sector as well. Now, in order the regulators need to build up their regulatory capacity in order to regulate the sector that potentially more than 50% -- more than 49% can be owned by foreign companies. So this is pretty much in line with the direction that was set back in October. We don't think it will impact our business in the short or medium-term. If anything, a stronger regulation is good for businesses such as our own.

Now should I give a business update on China more broadly and the opportunity? So, again, with the benefit, I guess, of spending more time there since I addressed you at the Investor Conference, I am kind of even more excited about the prospects in that market both on the Life and Asset Management side and our ability actually to harvest those prospects. So now, I mean, you heard me talk about the opportunity, I can put some more numbers on that now. China is now the third -- officially the third largest market in insurance, in terms of premium income, it's got to the kind of $500 billion level, if you look at the insurance assets that are managed in that market, it's got to the 2 trillion level, 2 trillion is 20% of GDP and in most developed markets, the penetration of insurance assets yet to be something of the order of 270% of GDP. So that's yet another indication of growth.

Out of the 1.4 billion Chinese today, only 115 million have insurance, any form of savings or insurance and typically they would hold about one-and-a-half policies per individual. Again, you contrast that to Japan which is the world's second largest market and typically on average people hold seven policies per person. So that just talks to if you like the opportunity there.

And one final stat for you, a lot of the development of the sector has been focused on savings, health is becoming a big part of that market, 32% of expenditure is out of pocket, you compare that to low-single digits in Europe and another developing a statistic is that a quarter of the world's diabetic population is, which is around 114 million people, are based in China, so the spend just for diabetic treatments is about 110 billion. All these are opportunities for companies like ourselves who play both in the savings and the health space to play a role.

And on the Asset Management side, the market at the end of '17 was $1.8 trillion, that's about 15% of GDP. Again, in the EU, Asset Management -- Retail Asset Management is 75% of GDP. So six-fold increase. So, I think, a China when it comes to Asset Management flows will just dominate those in the next few years. So what have we done in the course of the year for our business? I think we continue to broaden on the Life side of footprint and to grow into that. And that's -- that has a compounding effect on the numbers, on the financials of our business. So we expanded -- we added another branch, another province. So we now have 18 in total. We added the Sichuan Province and we're delighted to have such a broad footprint across China, because even though China maybe liberalized in terms of shareholder ownership, there is nothing to indicate that the rate at which they are approving new licenses and new provinces will change. At the same time, we added three more new cities. So we've gone from the 74 that I spoke to you on a lot back in November to 77 as we expanded our presence in the Henan province, which is an important province because it's got 94 million people and it's the fifth largest economy in China.

We're growing out our agency distribution. We've increased the recruitment rate by 48% since last year, we now have 44,000 agents, that's twice as many two years ago and four times as many four years ago. And the sales are increasing at 46% on the agency side.

On the banking side, we're increasing even faster at 51% as we leverage more than 4,000 strong branch network that we have across -- that we distribute across our business.

On the quality side, we're building the health and protection piece very fast given some of the statistics that I mentioned earlier. 41% of our sales in China are health and protection. In fact, even a bigger, a richer proportion of the mix in health was written in the second half in terms of health and protection, more than 50%. This is driving the new business profit up and you've seen that double. Building up the digital capabilities, it's one of our most modern businesses, both at the point of sale, where we can issue 8 out of 10 policies that are issued are in 30 minutes. A lot of work on claims, 99% are processed digitally. 17 services done on a need basis and all that is -- and a lot of the queries now being dealt with by chatbots, generally 20% to 30% of all traffic from agents and customers are now going through these chatbots. And it's important in a country like China given the importance -- given that it is leading the digital economy.

Well, I can give you two more stats on that, 35% of all financial services customers will use digital means to transact and the payments that are made using digital platforms in China are 50 times the level that you see in the US. So unless you are kind of highly automated and digitized in this market, and this business is pretty much leading the way within our portfolio, very excited about our prospects. Thank you for your question.

A - Unidentified Speaker

(inaudible) One other number you did leave out, CRRC rated the business number one, which is no small feat.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. It's Blair Stewart from BAML. I have got three questions on China. I think I have three questions. Number one, is the demerger contingent on completion of future UK annuity deals, you've still got two-thirds of the book and have you got the bandwidth to deal with multiple processes?

And secondly, if those annuity -- future annuity transactions do take place anything like the one you've just announced, would that imply that excess capital would build-up in the UK business? And if so, what would be the plan? Maybe, too early to talk about that. But the main point is, would there be excess capital emerging in the UK businesses, if those annuity books were to go as well?

And thirdly, just a quick one on the US RBC. Chad, can you remind us of the organic rate of build in RBC points given that you've just seen a significant drop, what's the organic rate of build, let's say, before paying any dividends to Group? Thank you.

A - Mike Wells {BIO 4211236 <GO>}

So on the demerger, no, it is not contingent on any future management actions. It is to Mark's point though, we need cooperative debt markets, it's probably there, if you said, what's the variable and we need a court system to approve a Part VII, those two are outside of our control, but we're confident on the debt side and we're reassured I would say on Part VII. I don't think there's any obvious barriers given the process and the regulatory support. John, you want excess capital?

A - John Foley {BIO 4239156 <GO>}

Well, on the question of where we do more, we'll keep that option alive, but we have nothing on the table right now. You know, it's a big deal and we only closed at 3 o'clock in the morning and that's why David is snoring away out at the back there. But it's the biggest that's been done and I'm really proud of the team for doing it. In terms of capital, well, we have to remit our capital of the Group. So that tell us what to do with it. But we take this, the annuity book like the rest of our business. We will evaluate it, what's best for shareholders, what's best for our business in the longer term. And for the moment, it is not right.

A - Mike Wells {BIO 4211236 <GO>}

And Blair, on bandwidth, I think if there's one thing we demonstrated this year, it's bandwidth. I think we tell the teams endlessly, it's business as usual first and all these projects are sort of nights and weekends. And I think we can -- if we chose to do another tranche, we could, but it is a -- it would be more about optimizing the capital for the new entity, and then if it's excess, it's excess and we look at distributing as we always would. Chad, on RBC capital generation.

A - Chad Myers {BIO 21189527 <GO>}

Yeah, so Blair, the underlying tends to be around on stat basis, around 1 billion, I'd say is the underlying capital formation that we typically would see. That said, we are in a position right now where stat reserves are floored out. So we get a little bit of a asymmetric dynamic going on now in terms of no real offset for -- no economic offset going on in the stat reserves for the hedges that are coming through, which has tended to drag, call it 300 million right now run rate. So the underlying run rate is closer to 1 billion, 1.1 billion, but there is a drag right now because of where the markets are. It's actually a good problem to have, but doesn't look as good on the numbers.

Q - Blair Stewart {BIO 4191309 <GO>}

(Technical Difficulty)

A - Mike Wells {BIO 4211236 <GO>}

Use the Mic.

Q - Blair Stewart {BIO 4191309 <GO>}

(Technical Difficulty)

A - Chad Myers {BIO 21189527 <GO>}

Right. So I mean, 1 billion would be equivalent to about 100 in RBC points.

Q - Blair Stewart {BIO 4191309 <GO>}

(Technical Difficulty)

A - Chad Myers {BIO 21189527 <GO>}

Yeah, I'd say, it's an equivalent number right now.

A - Unidentified Speaker

Okay, Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. I'm going to try again on the UK. Is the 1.1 billion release or improvement, it's a surplus, an approximate figure that we can take for future tranches of 12 billion if that happens. Secondly, within the solvency ratio of the UK insurance business, how much debt is effectively injected down as presumably Tier 1 capital from the center? And then the third question is on M&G's capital position. What is M&G's current capital requirement and how much capital has M&G got within the business?

A - Mike Wells {BIO 4211236 <GO>}

John, you may start us.

A - John Foley {BIO 4239156 <GO>}

Yeah, so -- no, Oliver, you wouldn't be able to extrapolate the capital release from the book across the whole book because what we would I think have loved to have done, would have been to slice the book vertically and sell components of it, you can't do that. We've broken the book into various cohorts, if you like, and they have been sold all to one counterparty, but they could have been sold in different blocks to different people and they will attract different prices. The other thing is that, it depends on the market as well at the time. So if you look at where we've done this trade, it's a different price to where other trades have been done. So there are that combination of factors. So I don't think there is any ability to read across directly.

A - Mike Wells {BIO 4211236 <GO>}

Sorry, UK debt, Mark do you want to take that?

A - Mark FitzPatrick {BIO 20178326 <GO>}

So in terms of the UK debt, so at this stage, what we're going to look to ensure is that, each of the businesses are well capitalized and well set up for success in the future. We will be able to share with you in the future and due course more information about what that capital structure would look like, but at this stage, it's too early to say.

Q - Oliver Steel {BIO 6068696 <GO>}

(Technical Difficulty)

A - Mark FitzPatrick {BIO 20178326 <GO>}

At the moment, no. (inaudible)

A - Mike Wells {BIO 4211236 <GO>}

And then M&G capital? Anne, do you want do that or Mark?

A - Anne Richards {BIO 4145347 <GO>}

I've the number, but not sure that what we've actually said publicly on the number before. So --

A - Unidentified Speaker

I don't think, it's -- but it's not a particularly material number at all.

A - Anne Richards {BIO 4145347 <GO>}

Not in the grand scheme of things, though.

A - Mike Wells {BIO 4211236 <GO>}

Well, that's enough.

A - Anne Richards {BIO 4145347 <GO>}

Okay. Greg.

Q - Greg Mason {BIO 15241526 <GO>}

Good morning, everyone. Greg Mason, KBW. Three questions. One is, if you look back over time, as you were discussing earlier on, the bank -- the Asian bank insurance deals to be (inaudible) into the Group, top of the head it's about GBP3 billion over the last five years, going forward, you have to renew deals, possible new deals. So in terms of, I was thinking about free capital generation in Asia, including that item, what sort of number do you think we should be budgeting annually for that number. I have something like GBP300 million, GBP400 million per annum, it might be wrong?

Intertwined to that question, are there any -- currently any contingent loans between Asia and any other parts of the Group, because they used to be. Second question, it was a two-part one. Second question is like, all mutual heavily incentivize their management to do the separation. I think cumulatively this year got GBP9 million, something like that for this year and (inaudible) --

A - Mike Wells {BIO 4211236 <GO>}

Can you show me that later?

Q - Greg Mason {BIO 15241526 <GO>}

Are you going to modify your LTIP schemes in anyway for the separation because --

A - Mike Wells {BIO 4211236 <GO>}

Okay. So let me go to a couple --

Q - Greg Mason {BIO 15241526 <GO>}

Last question, sorry.

A - Mike Wells {BIO 4211236 <GO>}

But, that was three.

Q - Greg Mason {BIO 15241526 <GO>}

But that was a two-part --

A - Mike Wells {BIO 4211236 <GO>}

All right.

Q - Greg Mason {BIO 15241526 <GO>}

Contingent financing in the US. I was just wondering what the contingent reserve funding, what capacity is there to do, how much extra capital can be released into the RBC ratio through further tranches of that?

A - Mark FitzPatrick {BIO 20178326 <GO>}

Right. Let me do the first couple. So we've never disclosed the, I think, most of the bank transactions have copy agreements so I'm not going to the specific numbers and we don't give forward-looking capital creation statements in Asia. Although, you can see from the metrics on here, our expectations on the backbook and the percentage of recurring earnings, which I think gets you a lot of weight to your question from the materials we have distributed.

On the -- there is no management incentives tied to the structural changes in the Group. We will have to adjust our LTIPs, we've extended out in a duration that would go -- obviously, those awards will go past the separation date, we'll have to work with our Board (inaudible) have those deliver the arguably probably the dual shares. But there is no financial incentive for anybody sitting up here to do this outside of their normal responsibilities as the stewards of the business.

And then you asked intercompany, which I don't think we've done yet, I think, that's probably best way to come back with all this at once for you and the two will look in the performance, I think, that's probably a fair look at it, but it's not material.

Q - Greg Mason {BIO 15241526 <GO>}

Obviously (Technical Difficulty)

A - Mark FitzPatrick {BIO 20178326 <GO>}

Not much, the contingent financing.

A - Mike Wells {BIO 4211236 <GO>}

Not much.

A - Mark FitzPatrick {BIO 20178326 <GO>}

The contingent financing.

A - Mike Wells {BIO 4211236 <GO>}

Not. Not.

A - Unidentified Speaker

Again that's where we did last year (Technical Difficulty). So there is nothing else there on contingent finance in US.

A - Anne Richards {BIO 4145347 <GO>}

Thanks. Arjan?

Q - Arjan Van Veen {BIO 5197778 <GO>}

Thanks. Arjan Van Veen, UBS. If I could ask two questions, please. One thing, I suspect, the main one is the Hong Kong transfer of ownership. And I think that anyone that in your release saw a date around which is end of 2019, actually the UK Part VII transfer is -- it's within the UK. So I wouldn't necessarily think that is a show stopper unless you want to move capital out of the UK. So just maybe a bit more color around where you really need the approvals to make go through in some sense of timing.

The second one was, and next is on the Hong Kong RBC quantitative impact study that came out recently, minus 10, I guess, your portfolio would be quite benefited by the proposed changes. So if you can maybe talk a bit about that and how material it could be for you?

A - Mark FitzPatrick {BIO 20178326 <GO>}

So, you're correct, the long work stream in the project is -- the transfer Hong Kong is actually, so we've discussed that with all key stakeholders and we don't anticipate that. We've got to work through all of the granular details, but we don't anticipate any barriers, it's just -- it's a lot of work to get the regulatory models in all of the various stakeholders sign off on it, but everyone is aware of the transaction, we're not surprising anyone with this, we're not -- we've effectively pre-cleared the activity with all the key regulators. So, again -- we're responsible for following their processes. But we think that's our work stream, not a approval issue.

The Part VII is a UK issue, it is depending on PRA bandwidth and court bandwidth. So we don't want to try and anticipate in front of you that we can manage. The PRA, we have a good relationship with we know how that will go and there have been briefed all the way through this process and supportive the court side. We know what's best practice. We know what outside firms can, (inaudible) general counsels here at the right way to do that.

But we are getting into a different space and I think we have to be conservative on our estimates there. But those are the two long ones.

And then, again on the regulatory front, we've got to get all the regulators onsite brief, ready to go in their normal course of meetings, right, so you probably a couple of meetings each. So that's got a good nine-month plus window to it too. So that gets you to the timing.

And then on the financials, I mentioned earlier, we anticipate we will go off of for a half year or a full year results. So we have audited financials to basically materials off of and so we're not incurring any unit cost to do that. We're trying to keep the frictional cost of this to a minimum. So it's a -- that would define timing as well, when the next window would be, okay. But we will keep you briefed on those as they occur. We'll keep the releases be very public on the work streams. But it's work dependent, not an ambition calendar wise. Your other question.

Q - Unidentified Participant

The quiz in Hong Kong.

A - Mark FitzPatrick {BIO 20178326 <GO>}

The quiz in Hong Kong. Thank you.

Q - Unidentified Participant

Okay. Well, it's too early to draw any definitive conclusions the quiz that was undertaken, kind of was only partial, not all the parameters were tested, for example, they didn't test on that allowance for diversification, they didn't include any risk margin. So that is all to come in subsequent quizes, and of course, their level of the liquidity premium that they included in the quiz may well or matching adjustment for one to another expression may well change.

So there'll be another quiz in the course of 2018 and probably another one after that, we're looking at an implementation in 2022, some time away to align with the potential introduction of IFRS 17, so we got those two changes to look forward to. But as to your point, whenever we've moved to a more risk-based regime in many parts of Asia, given the nature of what we do, which is a regular premium with a very heavy health and protection content, then we see that providing tailwinds we saw that in China has been moved to CROS [ph] with our solvency level increasing from indeed to kind of 150, 160, 170s to the high 200s to a 19% at the end of 2017. So too early to say but directionally, it should be positive.

A - Anne Richards {BIO 4145347 <GO>}

Andy?

Q - Andy Hughes {BIO 1540569 <GO>}

Hi, Andy Hughes [ph], Macquarie. Three questions per company. (inaudible). So first one is, just to understand the debt structure that seems to be the more complex bit of that was going on. So if you to issue replacement securities in the UK, would you still get the grandfathering? Or would you just -- are you saying that, any new debts raised in the UK would have to be Solvency II qualified and you'd lose the grandfathering result to switch?

Second question on the holding company for the remaining business, (inaudible) at that stage in the remaining PLC business which is no longer on the Solvency II. So presuming any future debt that you raise post the demerger will be senior debt. So does that kind of mean there is an incentive for the sub debt holders to kind of switch. And that's one way in which you can get people to move from the PLC into the UK business.

And the third question is on Malaysia. Obviously this year planning by the end of June to sell down 30% of the Malaysian business, which I guess could be a GBP1 billion and so how much do you think it might be and are there tax implications from that just comment on the ease to do that and while we're on potential disposals, are you still fully committed to the two Indian businesses getting the valuation there.

And the last question would be on the US --

A - Mike Wells {BIO 4211236 <GO>}

That were the sixth. Let's call it six, okay.

Q - Andy Hughes {BIO 1540569 <GO>}

Yeah, I just wanted if Jackson had to diversify its product mix a bit through M&A as a result of the demerger process or whether you're going to keep that as it is? Thanks.

A - Mike Wells {BIO 4211236 <GO>}

Okay. So, Mark, can you start with debt.

A - Mark FitzPatrick {BIO 20178326 <GO>}

So in terms of the first two debt questions and I'm not really in a position to say much more than we've said in our release in terms of the debt, because we want to be able to have a conversation with everybody, want to be able to have conversation with the market in terms of what we do and how it is that we're going to do it. We haven't had any conversation yet in terms of the regulators in terms of what we might do around grandfathering Solvency II components. So I think we would look to have those conversations and be able to give you an update in due course around that, and therefore and that would also be the answer to the question in terms of the future debt and the senior debt. I think we'll be able to give you a lot more color about that in due course. But at this stage, just want to give you a sense of the fact that the underlying position is one of ensuring that both entities are going to be well capitalized strong set out for success.

A - Mike Wells {BIO 4211236 <GO>}

Nic, you want to discuss the conversations with Bank Negara on Malaysia?

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. So as you Prudential today enjoys kind of a 100% of the economics of our conversion business even though kind of the law suggests that foreign ownership -- foreign entity ownership is limited to 70% that's not unusual, we're not unique in doing that. So our ability are otherwise to continue to operate on this basis is under discussion with the authorities. We don't have an update for you at this point, but we hope to be able to update you shortly. I mean I'll go back to what Mike said, look, the what one of the things that is great about this Group is our ability to adapt to new situations. And whatever happens in relation to the level of ownership that we would have we'll remain very focused on driving value for your shareholders.

A - Mike Wells {BIO 4211236 <GO>}

You want to discuss India as well?

A - Nic Nicandrou {BIO 15589153 <GO>}

India -- I mean, we like India. I gave you a lot of stats earlier you know for China, I could do the same and I will you know for India. You have sizable population, 2.8% penetration on the insurance side is predicted to increase to 3.9% like 2025, protection gap of USD8.5 trillion, 60% of healthcare costs paid out of pocket and you have 1 billion out of the kind of 1.4 billion Indians not being covered from a health perspective. On the asset management side, retail funds, I mean that's even more nascent, it's USD350 billio, about 12 million kind of people in India own retail asset management funds, it's 12% of GDP. This is both sides -- both sides are likely to grow. And we have a good presence in the life company we have a player which has around 13% market share, it's growing itself -- it grew its sales last year by 26%. It's growing its market share, it's well balanced by reference to both product sets and distribution growing its distribution force and doing more through the 4,000 or so ICICI branches. And on the asset management side, we have number one player there, again 13% share today managing of the order of I want to say around 17 billion sterling on an AUM on 100% basis. So very strong distribution platform and many very highly performing funds and the good thing about the asset management side is we can own 50%, which is a great place to be. So now we like the country and and the opportunities to do more of these.

A - Mike Wells {BIO 4211236 <GO>}

Yeah, I guess, anyone, but I'd add to that. We've been down there together earlier this year on 20 year anniversary for us there. We talk about being active managers of the businesses, it's not trying to time the share price on a -- on the public piece of the Life, it's the decision is more, is it a market we want and earnings and capability position and over the long haul. And if we do, what structure can we own that in. And then how good are we at managing that structure and that's more of the lens, so yeah, I mean the last time I heard there some of the multiples that people are throwing around on asset managers, what it tells you is everyone's trying to get what we have, I guess someone's going to pay this, quite impressive. They're paying a fortune relative -- at this point in time for an entry point because they believe future now. Do we believe that we have the same view? We actually have a -- we think as a Group, we think as a Board that India is a part of our future. So the question is out from an earnings point of view, from a capability point of view, from products distribution, how do we want to do that, not do we think this is their share price for the lifeco or and again there is restrictions in what we can and can't do there. It's -- the market favors a bit the domestics, so it's a balance. But we like India and I'd say, if you're looking at it we're long.

A - Anne Richards {BIO 4145347 <GO>}

Andrew.

Q - Unidentified Participant

Good Afternoon. Simon (inaudible) speaking. I just got one question. You were talking about concluding or the Board concluding, but the UK PLC was not the logical owner of the UK business, so wouldn't be fairly soon. Can you go through the parts of that decision and why the thinking would not apply also to the United States?

A - Mike Wells {BIO 4211236 <GO>}

Yeah, I think it's, again it's multi-dimensional , it's not a single that was not the reason that were sole reason we're divesting it. If you look at it and say go back to the other comment I made about what is the business unit getting from the Group is a fair lens, what is the shape of our earnings going forward, what's the capital allocation. I mean all these lenses are applied and the things we thought that had the most leverage management focus, the alignment of the capital as you see moving Hong Kong and getting the quality capital. The quality up, the quantum down. Therefore the return on capital metrics better, how does that look in the overall Group and how does it look in its relative market? It looks fantastic in its relative market, it still has to compete heavily with the other business units in return and it's just a function where it is. It's a more cash centric earnings, which is a good thing, given it's the UK and the dividend demands of the listed entity here. And the market is more mature, so the earnings characteristics of stability, currency, things, they have a different appeal. So one of our views is as investors you may want to choose you have those characteristics, not just the absolute return on the earnings, that maybe part of your decision, you want pound denominated, you want less impact from political statement in Asia whatever I'm seeing or you are an emerging market portfolio manager and you want more emerging market earnings and the characteristics that come with that and the waiting in the UK diminishes that.

So all these things were part of the decision. The best part of the decision was there was no -- nothing to solve for and probably the most difficult part, so there isn't anything broken, it don't need -- there isn't a part of the asset management businesses that isn't developed or isn't a part of the distribution. There isn't a part of the skill set, there isn't an issue on management. So it's the why now was one of the most challenging because it's working very well. And if you think is as stewards of the shares and the capital, that is the right time then to do it. You don't -- we shouldn't wait till something isn't the way we should -- isn't the way we want it, right, let somebody else fix it. That's -- I've seen that argument, dozens of time you've seen it play out in the US recently, right, so this isn't a good bank, that bank, this is too good businesses, and we think that's from our stewardship point of view, the right time to make that call. So it was a very -- this is a long strategic processes that started a dozen years ago and it's evolved (inaudible) been the US the various times. I think the fundamental -- on the international businesses, do we believe their sharing of skills, capital, do we (inaudible) benefit? The answer is yes. We believe what the US knows about as a liability management, retirement, those things can benefit our Asian business where they're going yes, retirement will be the next frontier in Asia. It's already emerging in certain markets in Asia and so there is capabilities. But we'll come back to in Singapore with a more clear look at some of the things that we want to do together with them, but I would think of it as good diversification benefit, good capability sharing and future product if not format capability sharing.

Even in some of the -- we have a few markets in Asia where there's pretty robust retirement plans from the government, Singapore is a good example, still good asked about supplemental retirement plans when you talk to people, it's -- they are savers and they want to see -- they like some of the products they see elsewhere. So there's a lot of markets that we can do things we haven't done yet with capabilities we have in Jackson. Andy asked a question about diversifying Jackson. There is not a US life company board CEO that wouldn't kill to diversify into Asia with the footprint we have. I think that's a fair statement. They would -- so this gives us a great diversification US exposure leading position retirement income market and growing in the US leading positions in majority of our markets in Asia and we like the combination. And yes, there's more we can do in the US and we keep looking at different things.

A - Anne Richards {BIO 4145347 <GO>}

Ravi?

Q - Ravi Tanna {BIO 16926941 <GO>}

Thank you. It's Ravi Tanna from Goldman Sachs. I have three questions please. The first one is on the Asian business and the strategy there. I think you alluded to some of it just now, but I guess there's a lot of competitors that you just referenced both in the US, in Europe, and also very large players in Asia who are looking to expand their scale in the Asian market and looking for good quality franchisees. So can you talk to us a little bit about the thought processes around, were one of those companies to approach, how you would think about that as an eventual outcome given the demerger that's currently going on please?

And the second one is on the PRU -- M&G PRU go-forward strategy space. One of the areas that the business is perhaps arguably sub-scale is on the distribution side and you don't have a retail investment platform where many of your (inaudible) do, I was just wondering if you could comment about whether there is any ambitions to expand product or distribution capabilities please?

And the third one was just (inaudible) debt questions, but maybe it would be quite helpful I suppose is to understand the leverage capacity and so in that context, I know you talked about 500 million write-down through equity following the annuity sale, but could you just please remind us what the IFRS equity for the UK entity is please?

A - Mike Wells {BIO 4211236 <GO>}

Okay. So so the housekeeper sort of question. Again, without putting a number, we think that two businesses are worth we think and their markets are pretty large, and so is there any greater risk of PRU PLC being acquired with or without M&G PRU? The couple of firms that might be capable of doing it, I don't think the additional value of PRU -- M&G Pru and the model would have made that make a difference in their question and the ones I think can are known for doing hostiles. Yeah, it is always incumbent on us as a management team to demonstrate we're the best stewards of the business. And so we get up everyday having the right to recognize . So can we run it better than them? (inaudible) are getting returns that are competitive with anybody globally, are we growing in a way that produces quality results that are sustainable, all those things are the things that make you attractive well, so would be the difference.

At the end of the day, would be the Board's decision if something came with an obscene amount of money for the business and that's something that the Board obviously has to consider, but it is by no means, you can back into the likelihood of it, I think we can, yeah, I think these businesses are competitive in and I think we hold around with anybody globally. So I mean we have plenty of scale. We don't need to do any sort of other M&A with someone to get attributes that we don't have now. One of the -- it's on one of the slides and I probably went by too fast, but just given the amount of (inaudible) there is no -- the resources we need to do new things we have not talking a lot about today just because of the time, but from the smallest most innovative startups to the largest tech firms you could think of in the world, we're really good partners and they want to do business with us. They want our brand, they want our data, they want our scale, they want our market positions. So we don't lack, I mean it's an interesting test about I think of our relevance, they see us as someone who if they commit resources and in some cases their companies too on the smaller firms that will, we're going to be there, that we're going to succeed and honestly from a personal point of view, I think it's one of the more -- it's one of the things I've learned in this role as one of the more fascinating looks at the business, because it's very much about, because they have to frontload so much of their work and they tie-up bandwidth much more than is to us and it's a very interesting sort of affirmation how we are as a business. We have to be good enough.

We talked to (inaudible) here, we have to be good enough to partner with them. We have to have tools they can connect with, data models they can connect with. We have to be modern enough, but I think you'll see us over time. You'll see more partnerships laterally and things that are different than the model now because we can't in because to them, they see us as a good business prospect for their long-term plans and again that -- it goes back to, is this a viable business, is this the right ownership structure, is this the right team. I think all of that Is embedded in there, but we've really got some interesting projects coming up. And again they're not going to pure financial basis there. People are bringing us the newest and best stuff and a lot of cases where we're putting it right to work, really great.

But no -- so I don't worry about hostile. So we have procedures around housekeeper that we look at all those combinations, partials, full, everything and we'll continue those diligently on those work streams as well. UK retail platform John or

A - John Foley {BIO 4239156 <GO>}

Go-forward strategy. Thanks for the question, I feel Nic (inaudible) coming on because I think we've really got a big opportunity here, I mean Mark put up the slide earlier on about how we see the opportunity, but the issue I think we have right now is two-fold. First of all, we are spending a lot of money to build the right platform for our business and that's happening as we speak and we are very confident about the outcomes there. The other thing I would point to you is that we have signed -- recently signed this administration partnership with TCS that puts us in a fantastic position to do far more with a partner who is already digitally enabled easier to do than and the last thing is that we look at what's happening, we've got 36% increase in PruFund, we've got 17.3 billion of inflows into M&G. I mean one of the issues we have is deployment of capital and Anne will give you an idea of what that looks like in a moment.

A - Anne Richards {BIO 4145347 <GO>}

If you look at the the level of capital that we have, I won't give you precise number, but the assets that have been awarded not yet funded, (inaudible) not yet invested (inaudible) largest capital queue that we've ever had. And if you just roll back a little to last 18 months or so, we've launched more than 20 different investment strategies and capabilities and funds of different, all of which are net inflow, if you like, so the range of capabilities and the distribution of those capabilities we already achieved and the flows that we got back is pretty comprehensive. So I think there's a lot what we can do on the digital channels as John has mentioned, but actually first and foremost, have you got the capabilities in the marketplace that the market actually wants to buy and that's the marketplace across all of the channels, institutional, wholesale, across Europe as we've seen as well as in the UK and the evidence suggests that we probably do if you look at infrastructure where we've been doing stuff alternative credit private assets as well as the go anywhere bond funds, the multi-asset funds, I mean the range of what we have that the market is interested in is quite compelling. So I think there's a lot more that we can do. And I think bringing the two businesses closer together will help accelerate, but you know we're doing it for (inaudible).

A - Mike Wells {BIO 4211236 <GO>}

And then the debt question, is there anything more there?

A - Unidentified Speaker

We will have more to say, in Singapore on that as well. I think we really want to showcase what our strategy and where we think we are going when we get to Singapore.

A - Mark FitzPatrick {BIO 20178326 <GO>}

And Ravi, in terms of the IFRS equity position, I think you should work on about 6 billion is what's in the accounts for the UK annuities piece, so that should give you a sense (inaudible).

A - Anne Richards {BIO 4145347 <GO>}

Okay. Abid?

Q - Abid Hussain {BIO 20229932 <GO>}

Hi, afternoon all. It's Abid Hussain from Credit Suisse. I just have two questions if I can. Firstly, on the UK, just wondering what sort of Solvency II ratio do you think is ideal for PRU M&G going forward? Is 150% too low and is that the sort right about level?

Secondly, on Asia agent distribution, can you just share your thoughts around the long-term viability of the agency channel in Asia. Do you think there's a threat from the rise of online distribution platforms, particularly in China. How do you see that space evolving?

A - Mike Wells {BIO 4211236 <GO>}

So on Solvency II, no, I think it depends on, I mean I think I'll let Mark comment on this as well. It depends on what the nature of the liabilities are and what the nature of the capital is. So one of the challenges with Solvency II is not a 150s or alike and you cross jurisdictions and there are even less so, but I think given the mix of liabilities and the other piece with M&G PRU is you have the back staff, but the earnings from the asset manager as well. So it's got a new source of liquid earnings, liquid capital generation. So we haven't said what the ultimate number would be. But if you said to me, is that a strong number for that firm given the liabilities that has what its capital structure looks like and what its earnings prospects look like to generate capital. I think it's a healthy number. You wanted to (Multiple Speakers).

A - Mark FitzPatrick {BIO 20178326 <GO>}

And remember that 13% of the credit risk is gone and then when you move Hong Kong an element to the interest rate risk goes with that as well. So the risk profile of the business is significantly reduced, significantly less volatile, and therefore you need to look at that lens, what is your preference to cover ratio.

A - Mike Wells {BIO 4211236 <GO>}

If you're in the UK the packed Board meeting, the first lens really is Solvency II, second lens is own risk appetite. And if you think about that's everything from our sensitivity interest and equity movements and it's all of the things that you say -- do we believe this is something we should be doing relative to everything else we're doing, it's much more personalized by company than it is sort of the more standard metrics. So both by -- both are important and both are certainly important in governance model. But I think it's fair to say the first lens is how does it fit with the risk appetite. So if you reduce the risk, the amount of capital you are holding theoretically should come down, again subject to market norms and all of the regulatory and everything else, the more risk you are taking obviously the higher it should be, but it will be well capitalized and everyone will have the agreement we need on that from key stakeholders before we let it go. Asian distribution --

A - Nic Nicandrou {BIO 15589153 <GO>}

Clearly, we are alive to the trends, where we have seen digital distribution gain traction has been predominantly in the P&C space and kind of very simple low case size kind of in the health space. Whenever it's come to high case size or something more complicated and when you're in Hong Kong you're talking about critical illness products that cover about a 113 or so different conditions. Whenever you've seen it increasing complexity, then they don't get a lot of traction. In fact we do -- we have our own sort of digital distribution, we have 1.6 million customers in Ghana alone just doing very slow case size protection and health business on the phone literally a couple of dollars a year.

So our view is that digital channels will complement kind of rather than replace, what we currently do, what's distribution, I think the winning strategies ultimately will be ones that combine both online and offline, online typically to do research and then offline when you have to deal with (inaudible) be it on the telephone or face-to-face. And we are developing the tools today, and there are many examples I can give you pretty much across all our businesses to equip our agents, to equip the people that sell our products in the branches in a way that enables them to do it as digitally as possible and then fulfill ultimately what the customer wants.

A - Mike Wells {BIO 4211236 <GO>}

And parts of that I think at the consumer level are they expect the paperwork, the forms of processes to be more digital. So if you're in our Singapore, you take your ID card and our app scans that and pre-populates all the fields and the consumers expect that it's the and maybe leading edge for insurance, but where they are elsewhere other people could do it. So part of our competitive study is the other experience the consumer has not necessarily what our insurance competitor does and a lot of it is ease of use, not necessarily purchasing. In China, they're doing photos, as well as that is all digital on the app and issued almost immediately but facial recognition, but they are taking a photograph because that is a more common way to access security and so there's going to different dynamics to, we have to follow whatever the, let's make sure we meet the clients' expectations wherever they are and those certainly are more digital the further ease to get.

A - Anne Richards {BIO 4145347 <GO>}

All right. Nick?

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes of Societe Generale. I will make this very, very quick. Just a couple of questions on the US. First, are you thinking of moving away from variable annuity equity guarantees, I mean we maybe at the top of the equity market, who knows, are you concerned that you are maybe putting on too much equity risk and you want to do more with products like lead access et cetera.

And then the second question is, could you tell us the size of the net amount of risk? And Mike, I was very intrigued by your comment that policyholders are making very good investment returns from their variable annuity assets, which I'm sure is true, but the net amount of risk is fairly large I believe, and so that is an under-performance versus the guarantees. And I just wondered what's your thinking was on why that is happening? I'm not -- let me make this clear, I'm not suggesting that the net amount of risk is the amount that can be exercised immediately at all, but as an indication of performance of those assets, it does suggest that not all policyholders through that own selection of funds are actually achieving such growth returns. Thank you.

A - Mike Wells {BIO 4211236 <GO>}

So I can do as much in (inaudible) as Nic can do on China, if you want to do this. It is one of my least favorite metrics. And I think you mean if the return -- if the clients (inaudible) you see the appreciation on one of the slides we showed earlier and you know the guarantees are sub 5 (inaudible) guarantee after their money is depleted. So if you just think of simple economics, if their earning in the sevens net and the guarantee is sub 5, it's very difficult for the net amount risk if it produces a number that's negative to be indicative of them underperforming the guarantee, okay, so it captures a variety of other metrics. The less you sell, the better it looks as just I mean, a whole bunch wrong with it as (inaudible) we've used before we can (inaudible) in second a comment on, but Nick on the guarantee on the are we exiting the business because we're timing the top of the market no, I think we said before we reset the guarantee level annually.

So they effectively go up on the contract anniversary the client as does the fee for the guarantee. So if you and I created a variable annuity company today to enter the market, right, and we sold a contract today at this S&P level assuming they only buy the index fund, they can buy an index fund, we have the same, we would be the same pricing point as Jackson will be with the client renewing today on the guarantee fee. So the fees for the guarantee stay with the underlying exposure we have to the equity market, which is that we're not trying to money in the guarantee fess, but it's plenty as the equity exposure. So no there is no intention and the client behavior has not changed, we've seen a 1% or 2% increase in their equity exposure, it's still nowhere near our pricing assumptions. You wish for the consumers in the retirement accounts there slightly less I guess pro cyclical and their movements, but it's a nature of US consumers are fairly cautious with retirement money. So we've not seen any material shift in consumer behavior, but Chad you want to want to fill in some color around that?

A - Chad Myers {BIO 21189527 <GO>}

Yeah. I would say, the net amount of risk is probably the least favorite and we don't use it for anything for managing the book something that others disclose. So we've made disclosures in the past. It is the best example I can give you, just in terms of the flaws of amount of risk of the you had somebody who had $100,000 policy, had bought a policy with a $100,000 that had a benefit of $100,000 left. There's $50,000 of account value. So that would be measured as 50,000 that amount of risk. If they were 95 years old and they will take out $5,000 a year out of their account, that's going to show up as a negative indicator in terms of the amount of risk. The chances of them being able to actually access that for us to go on risk is roughly zero . So that's why we don't like -- we don't like the measure and if you look at the overall (inaudible) minus, I mean, our average policy is basically at the money. And as Mike said they step up annually with the market guarantee. So we are at a position now, I mean it's actually book is in the best position it's ever been. And even if you look at the net amount of risk, which is a flawed number, you'll see that it's as good as it's been over the years as well.

A - Mike Wells {BIO 4211236 <GO>}

So we're going to keep riding, Nick.

A - Paul Chadwick Myers {BIO 2234559 <GO>}

Just one other thing I'd just add on that in terms of -- the markets might look frothy from the equity side, interest rates backing up are actually quite helpful in terms of the overall value guarantees stuff that's indicated.

A - Mike Wells {BIO 4211236 <GO>}

We want to do -- we got three more. Do you want to call with that, then we'll go to break for dinner. Is that fair?

A - Anne Richards {BIO 4145347 <GO>}

(inaudible).

Q - Unidentified Participant

Just a quick question. Just interested in where you're going to headquarter the international businesses in London (inaudible) operations in London (inaudible) Singapore or America would be much better location. Is that something you'll review over time I mean is the next year's announcement or are you committed to London?

A - Mike Wells {BIO 4211236 <GO>}

No we're committed to London, I think you still got Africa, we don't have I think M&G and PRU to tell you that however motivating visits are from JHO to the business units and not critical and in the day to day operations of the current structure. So I think where the Group is centered is not an operational issue. It's a sovereign functions of the business. So it's everything from the rating agencies, the listing requirements, the interfacing with you folks the capital allocation, the preparation of financials, risk management, compliance side, those functions and those are staffed and work well here. I think another argument I'd make on a practical front is with everything, if you, so we're talking to management, what we're saying is, it's business as usual, all right and this stuff is done, just proportionally by Group and on the nights of weekends they said earlier.

The exercise to do a re-domicile would be massive, you would have every turnover, you would be replacing people that you know are already good and you may or may not get cost savings or some new -- I have heard the theory, I get a new investor, we find Asian investors have no problem buying shares on the FTSE and they tend to gravitate towards our most liquid, we are on Hong Kong, we are on Singapore, we have an ADR in the US and we are here. The large investors tend to gravitate to the most liquid market which is here. So we don't see any distinctive advantages, we like the rule of law, we like the talent, we like living here, there's a lot that says London.

A - Anne Richards {BIO 4145347 <GO>}

Okay. Alan?

Q - Alan Devlin {BIO 5936254 <GO>}

Thanks. Alan Devlin, Barclays. Just one question. It is PRU Plc is not initially best owner of MG Prudential over the long term, someone else thought they were a better owner, if you consider a say over the business or just the merger single draw process?

A - Mike Wells {BIO 4211236 <GO>}

It would the Board responsibility to look at anything that can had, but I think, again given the current success of the business, is it, there are other --there are other businesses about the same size in the UK and if some one was the buyer there, they have different characteristics each I recognize this is the best one and it's, but there is the question of we can manage -- if that process occur, we can manage it, but I think our preference and our intended model would be a standalone entity. When you're in the marketplace, you are subject to market activity I mean I wouldn't diminish, so that can happen, but I -- we don't anticipate that being the outcome.

A - Anne Richards {BIO 4145347 <GO>}

Final question.

Q - Unidentified Participant

Yes, back to the 6 billion IFRS net assets annuity, is that for entire UK annuity book or just the slice that you sold and what are the equivalent numbers in EEV terms? And then a follow-on to that, should I allocate the 300 million EEV loss, is that on the annuity disposal, the frictional cost of the demerger, which should I be worried about your EEV assumptions?

A - Mark FitzPatrick {BIO 20178326 <GO>}

So the 6 billion is the overall, so the whole piece, and in terms of the, can you -- would you mind repeating the second question?

Q - Unidentified Participant

Is the 300 million EEV loss a frictional cost of the demerger?

A - Mark FitzPatrick {BIO 20178326 <GO>}

That 300 million is effectively a loss of the result of the -- loss of future fees from the annuity piece. So I wouldn't see it as a frictional cost of the demerger. So it's a result of the sale of the annuity book which is something that we closed today and is effectively a co-part of the derisking of the UK business.

A - Mike Wells {BIO 4211236 <GO>}

Have everybody done. All right. Thank you for your patience and attention through a very long session and your support through the year. Our next meeting is Singapore, November 14 or 15. We hope to see you all there and we'll see -- if there are any questions, just follow-up with our team and we'll be back in touch. Thank you.