Investor Meeting - Day 2

Company Participants

- <A>: (02:21
- Adrian O'Connor, Director
- Alison Reed, Executive Vice President-Operations
- Andrew J. Bowden, Senior Vice President & General Counsel
- Anne Helen Richards, Director
- Barry Lee Stowe, Chairman and Chief Executive Officer, North American Business Unit
- Guy Robert Strapp, Chief Executive
- John Warburton, Executive Director of Distribution at Prudential UK & Europe
- John William Foley, Executive Director
- Lilian Ng, Chief Operating Officer-Insurance
- Michael Andrew Wells, Group Chief Executive Officer & Executive Director
- Nicolaos Andreas Nicandrou, Chief Financial Officer & Executive Director
- Paul Chad Myers, Chief Financial Officer & Executive Vice President
- Seth Harris, Distinguished Scholar and Teacher
- Tony Wilkey, Chief Executive-Prudential Corporation Asia & Executive Director
- Unverified Participant

Other Participants

- Andy Hughes, Analyst
- Arjan van Veen, Analyst
- Blair Stewart, Analyst
- Jon M. Hocking, Analyst
- Lance M. Burbidge, Analyst
- Marcus Barnard, Analyst
- Nick Holmes, Analyst
- Oliver George Nigel Steel, Analyst
- Ravi Tanna, Analyst

MANAGEMENT DISCUSSION SECTION

Michael Andrew Wells {BIO 4211236 <GO>}

Good morning, everybody. On behalf of my 23,400 plus colleagues, I want to welcome you here today. I was watching the city slice up on that screen that is most of my travel itinerary for the last 18 months if you're wondering where that list came from. It's been a lot of fun to step into this role and I would be starting my 22nd year with the Group. I thought I knew a lot about the company before I accepted it, and I can tell you after the initial phase in this role, it is amazing to see the people and the operations we have globally. And hopefully today, when you get a chance to see some of these management teams up here for those of you that are new to the Group, you'll get a feel for the depth and breadth of the talent we have working on your behalf.

We've got a full day today. So we're going to -- Nic and I will start. Well, I'll do a quick strategic overview. Nic Nicandrou, our Group Financial Director, will give you a financial overview, cash capital, some of the key metrics. Tony and the team from Asia will walk you through some of the operational issues, some of the growth and successes we're having in that region. Followed by that, Barry and the team from the U.S., an update on what is a fascinating part of the world right now.

Just a couple of questions last night at the pre-event on politics and regulation and things in the states, but a lot of opportunity for us there and they're going to delve into that as well, as we have, I think, an interesting speaker for you on that. And then John Foley and his team as well as Ann and her teams will walk you through what we're doing in the UK market to compete in which again another structurally important and opportunistic market for us.

So let's get started. It's been an interesting year. I think it would probably be the understatement of the morning. You've seen an amazing market for interest rates on the risk free level in our key markets, that drive and define capital regimes and set the pace both the U.S., UK and other markets. Massive movements in absolute rate volatility, volume equity, material regulatory changes from Solvency II to some of the changes we've seen in the UK and DoL in the U.S. and the questions about capital regimes in the U.S. now, all of these things going on with a very heavy political background. Not just the U.S., but Brexit, a number of changes in Asia. And all of this has been an interesting time.

And I think the single takeaway I would give you from my role is what you see with the Group is we are big enough to be impacted by any and all of these combined. But as you see from today's numbers we've put out, we're strong enough and resilient enough to adjust and ask them benefit from these changes. So there may be a sales impact, there may be a structural impact, they may change the way we do something but we have the scale and market to adjust to all of this in stride. We will hopefully demonstrate that to you today.

We start with what is a well-discussed and well-proven strategy. I think the emerging piece of the change in this strategy for me is we've always talked to you about the structural opportunities in Asia and I'll give you a few minutes on that again this morning. But you are seeing clearly at the consumer level the structural issues and challenges highlighted by the political and regulatory issues in the U.S. and the UK. So a byproduct of DoL is highlighting the level of under saving, that's in this U.S. retirement market, and again increasing the demand for the kind of opportunities that we can provide for consumers.

The changes in the UK and the advice model structures, et cetera, is the consumers, clearly – I don't talk to anyone in the UK that isn't concerned or aware of the fact that they're responsible for funding their own retirement now. And they have very strong opinions about that and they're looking for solutions. And again, we have entities that can provide that. So that's what it feels like and on the ground. The structural opportunities ahead of us, they contrast by region in the East. Very young, first-time buyers of health and protection in markets that typically do not have government-provided health or government-provided retirement at a material level or a level that consumer thinks is appropriate and very high cash savings rates. So these are typically first-time buyers, very young, mid-20s.

Our Western markets, the pre-retiree or retirees who are trying to make their investments work at a combination of risk and reward that provides them competitive returns without more risk than they're comfortable taking. And any risk is to them is material. So suddenly, a VA with a withdrawal benefit they can't outlive or with profit product that's outperformed the market, proper asset management from a firm like M&G or Eastspring. These are solutions that fit into where they are. And again, the advise models are influx in these markets and we're adjusting to those, given size and scale and capabilities.

To capture those, you need quality franchises. The structural demand in the market isn't material if you're not a scale player to capture that. So we have that in each market. I think the Asia team would tell you that one of the keys now if the consumers are first-time buyers is the scope and the breadth of your distribution model, so we're 500,000-plus agents, 10,000-plus branch of banks that we can distribute through, okay? And we have a unique footprint in region, which Tony and the team will walk you through.

The U.S. – the material change is around the advised component of the products. Jackson is unparalleled in its ability to train, develop and support advisors in the U.S. It's wholesaling as it's referred to the U.S. capability, it's the largest team, it's the most effective team, okay? And if you talk to advisors, one of the most trusted advisors they have in their business practice. And that's again 20-plus years of doing things to help advisors grow their business ethically and efficiently, and that's tremendous leverage when you go into regulatory changes and process changes that are going to vary by firm to firm. So Jackson is very well positioned to deliver at the wholesale level what it needs to, as well as its product manufacturing capability.

And in the UK, it's consumer centric. Can you demonstrate to a consumer that had they invested with you, you'd have done well? Can you demonstrate value? Are you trusted brands, right? And both M&G and Pru UK have done that successfully. How do we measure the success and how don't we? So we've given you public targets. As you see from today's numbers, we're on track to hit those. Asia is the only market we've given you a growth target, but it's growth of earnings, it's growth of free cash flow, okay? So this is cash and – this is capital creation and cash. What is not up here is a market share number, what is not up there is a top-line number. The same is true for the Group. Growth is growth in value, right? Value measured, earnings, capital creation, cash, all right?

Now, do all markets need to hit at once? How do we allocate capital? Are we depleting? Are we holding back capital for one market in Asia or one market in the U.S. because of Hong Kong? I get those questions a lot. The answer is generally no, okay? The Asia markets, for example, have all the capital they need to go, but that doesn't mean we deploy capital on things we don't think create value. So we look at the markets, we look at the distribution channel dynamics and we look at the products that we think create the highest return for you when we deploy your capital, okay? How does that translate?

If you look on the right side of this graph – I apologize for those you I'm standing in front of. What you see is the growth of insurance margin, the technical income, if you will, the fee income, the life income. But what you're not seeing is a high concentration and spread income, okay? If we were focused solely on top line in multiple markets, not just Asia, that's the easiest button to push right now. And we think from a return on capital point of view, the least attractive. So disciplined execution on allocating capital.

So are the teams not interested in top line and the teams not interested in market position? Of course not, this is the most competitive people I've ever worked with. And their market positions reflect that. Asia, clearly number one. The U.S., clearly number one. The UK income drawdown, pensions, number one. Look at M&G's percentage of the institutional business, okay? These are market leading franchises, and our market position should be a byproduct of us executing well. But again I don't want any – please don't read between the lines of my comments that we're not focused on winning on the sales front, but the measurement of value for this organization is growth of recurring relationships that are profitable with consumers. Sales is a factor in that, as you can see, a competitive one for us.

So how have we done in this tumultuous year? This is the half year numbers. Last time, we've given you a full report. You've seen earnings growth, free surplus generation effectively cash growth, and Solvency II is as we've told you before sort of a poor fixed rest. But even under its lens, you can see the absolute capital generation. So growth in capital, growth in cash, growth in earnings. At a period in time when the industry is looking for growth, we've got it. It is more opportunistic. It is not in our markets, it is not in all segments of a country, it is not in all segments of a distribution channel but we have the scale again to pick the pieces of the market we want to get these sorts of results for you.

Is Asia done growing? I get this a few times. Is the structural nature of our original pieces in Asia, going back, Nic, is it no longer true? The answer is no, and I would challenge it on four parts. There is a penetration opportunity in underpenetrated market, underserved market, that's measurable. There is a health gap that is clearly measurable. There is a population dynamic. Just the youth and the growing development of their income and their capabilities. And of course, there is a wealth factor in that.

I would argue you don't need all of these to occur concurrently to have a very fast growing business. Let me give you an example of just two. So if you take a look at the Life business. We're going to increase of our customer base. These are the blue and gray bars, if you will. Combine that with an increase in our case size, and then look to the right of that the increase in our absolute sales, the magnification of that, the compounding effect if you will. Again, first product sales majority of the time.

So can we successfully address these consumer needs and come back to them and have them buy a second product? Can we successfully address their concerns for their families and their – what they see is alleviating risk, so when they start buying, saving in asset management products that use Eastspring. I believe we can, and I believe that's our ability to execute and the quality of the products and the quality of the people that deliver it for us. And there's a compounding effect later on our book that's yet to materialize. But there is clearly a compounding effect you can measure now in the structural demand.

What does that produce for you? First off, it's produced the resilient back book. Recurring regular premium, key, key dynamic to our Asian business. Growth of the in-force has been dramatic. That is your recurring cash flow. And diversification across markets. Why? Because the portfolio effects. If you think there is political interest rate, equity, regulatory changes, it's critical to continuing to grow. And that's growth of sales, growth of new relationships and impact in the region. And in Asia, it's critical to have scale for negotiations with counterparties. If we want to do business with a bank that's in five countries, we're there. And we arguably have one other competitor they can likely talk to that has a similar footprint that can service their consumer base that they care about.

So again, there is a – there are advantages to our business model in Asia that are unique and they translate into recurring premium growth of earnings for you from that back book, and it's our reasonability to take care of those consumers so they stay with us and come back time and time again with their needs.

Is it measurable consistently? It is. Is it measurable towards the public targets? It is. And has it contributed to the growth of the Group disproportionately? It has. Asia is a material part of our growth. We have good growth in our other markets. But when you see the outweight, if you will, of Asia in our growth rates, and again it comes from just the key structural demands we've discussed.

So moving to the U.S. So you have a changing political, regulatory and social dynamic in the States. Interesting times. I had a Southeast Asian regulator ask me last year about our two most politically volatile markets, the U.S. and the UK, which I thought was fascinating question given our footprint globally. But people are very interested in what's going to happen there. DoL, how does this affect the delivery of products? I'm going to let Barry and the team get into this, the specifics of the U.S. model.

What you're seeing basically two themes emerging in the states. The types of solutions that we bring retirees are moving from the VA asset pools, to the advisory asset pools, and there's a tremendous opportunity there in scale if we can correctly execute on it. Second, we don't talk – there was meetings over my 20-plus years here, we stood up and tried to name all 10,000 baby boomers retiring everyday for you, trying to add a face to that. We don't do that anymore. But I do think it's important to look at where we are in the baby boomer opportunity in the bottom left box there, if you will. We're at the beginning of the 20 years. So the structural demand in the U.S. for solutions that provide an underserved population assurance they won't run out of money are material, and there's quite a long time to run with that.

So as Jackson adjusts its products and its services and its delivery to that opportunity, there's a long, long list of consumers who need what it is Jackson does well. So you have a broadening of the markets they're in and you have an underserved very large population that's got a good asset base. Capabilities will be everything, not just existing product but technology, service, wholesaling all those dynamics will be key. I get asked the question a lot in my travels, do you have to believe Jackson did it differently compared to its peers in the U.S.?

And the answer is, it did do it differently than peers. It is a better product for the consumer, and that's measureable and we'll show you that today, and it has been from the beginning. It was hedged from the beginning. We had no capital issue. Has it been tested? Yes. We went through a crisis. The capital models were tested and the hedges held up beautifully. And the team is in place to produce that outcome. It's highly capital-generative. The fees on the VA product are good because the consumers are doing well.

We have a back book that's profitable, and relationships with clients that we're happy to have and happy to have them reinvest with us. And there's not another company in the U.S. that was in this space that can say those things. So yes, it was a unique experience, it's still uniquely positioned. And I wouldn't underestimate the level of trust we have with advisors because of those combined effects. We have represented them well with our consumers, and that gives us license to do business with more of their clients. That's where trust comes from there is the experience.

Also produces high levels of organic capital, which produces very good cash flow to the Group, support dividends, the other activities of the Group. It's £3.7 billion of cash remittances from Jackson to Group collectively. And, again, this is maintaining higher levels of regulatory capital, maintaining our – Jackson's rating level. This is not stripping Jackson, they're putting it into run off or diminishing its growth in any way.

Pivoting to the UK. So self-reliant structural changes here, as I mentioned. You see more and more demand in the UK from consumers for a risk off trade that has higher return, and it's an almost impossible question to answer for them. The savers here, you hear the same thing in the States. Sorry, certainly here, more pronounced living here now in the UK.

They can't afford to live off the return they can get in a time deposit from the bank. So they start with that premise. They have varying views of their risk tolerance. The advise models here are still relatively limited, so a lot of the work is done themselves. They're very diligent about it. The number of sites and research and things people do is amazing, when you talk to them. But what they want is smoothing long-term results, proven asset allocators, proven asset managers.

So what you see in our UK franchises is very good results for the clients that have been with us a long time. Very good demand from new clients, and that can be measured in the proof unrelated products that can be measured in asset management products. And our concentration on getting that performance right is the quality measurement. And then the distribution is following that very effectively. But you are talking about one of the largest asset management models in the world. And our position in it now is a series of capital light products, if you will, that address a lot of the consumers' concerns.

The Group itself think it's well positioned across the cycles. We've talked about this before. You have very good earnings quality from source of earnings and diversified sources of earnings. You have very good diversification by business type, strong currency mix, disproportionately U.S. dollar based. So in FX effect, the pound effect to us is diminished a bit. And then I think one of the key elements is that the in-force earnings growth. The natural momentum inside the business, if you will. If we sold nothing, that sort of test, how do we look. So again, in an industry looking for growth, we have 13% growth in our in-force alone. So we think that's a very strong set of skills, set of capabilities going into any cycle and it's demonstrating the resilience across the cycle.

I've told you all before, this is one of my favorite slides. I think this is one of the best ways to look at a company like ours. And it's not anyone – well, we could drive anyone of these higher relative to the other two if we focused inappropriately on just one item. Could we grow top line faster and trade off earnings? Yes. Could you grow capital faster and exchange for growth? Absolutely.

What you see, though, is very consistent long-term growth of operating profits, sales and capital generation, cash. Across all these cycles, across all these political issues, across all these market volatility issues, across all these interest rate climates. It's a very unique picture. I said to you before once I think we compete with ourselves on this and it's not a low bar. But I think a very good accomplishment for the teams that are up here with you today.

So to wrap up my piece and I'll be back up later for the Q&A section, the strategy has been appropriate. It stays appropriate. The scale we've developed over the years in the businesses gives us optionality that peers don't have. The operational excellence of the firm improves monthly. You see that in my travels and we are better at everything we do 10 years ago, five years ago, one year ago. As we grow, we improve, and we're very good in institutional learning, having one business unit, share what somebody else is doing. And again, that's one of the dynamics we get with our footprint and the size of our team and how close they work together.

So the resilience improves, and capability, as well as client relationship growth, as well as back book growth, as well as earnings growth. And we think there is tremendous headroom ahead of us in all of our key markets.

So with that I'll turn it over to our Group Finance Director, Nic Nicandrou. Thank you. Nic?

Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Sorry, there was no song for me, so that – it threw me. Yeah, we don't do the glamorous stuff in the finance engine room. Okay. Thank you, Mike, and good morning, everyone. In my presentation, I will recap on some of the distinctive financial features of Prudential Group and provide you with a trading and a capital update.

So I'll skip through the normal cautionary statement and go through to the next slide, which summarizes the key financial drivers that have underpinned the quality and resilience of our earnings, our capital and our balance sheet. On earnings, what defines our success is our ability to consistently attract profitable new business flows, which match the quality of our large existing book. For our life operations in Asia, this is achieved by adding new regular premiums with a high health and protection content to our stock of recurring premium business.

In our other operations, our earnings prospects are determined by ability to gather, retain and grow fee paying assets. Now while the impact of new business in any year is incremental, it is the compounding effect that promotes the Group's resilience and predictable delivery. Each new business vintage is highly profitable, driven by a disciplined approach to capital allocation and by our relentless focus on achieving strong returns and fast payback. The capital velocity that is created by this approach means that the Group is highly cash generative on all bases, including Solvency II where the Group surplus rose to £11.5 billion at October 31, equivalent to a ratio of 189%.

Now, we combine our focus on capital generation with a conservative stance to balance sheet risk. Since the 2008 financial crisis, we have consistently prioritized credit quality over yield. In the current uncertain environment, we regard it as good business practice to hold appropriately strong solvency buffers in each business and a healthy level of cash at the Group. Taken together, these distinctive financial attributes are a key source of strength and resilience for Prudential, and provide us the flexibility to adapt to all parts of the cycle without compromising delivery.

I will now turn to how we have driven the business forward this year, starting with our life operations. Prudential's overall new business contribution production remains strong in the first nine months of 2016, at the time when most companies in the industry are finding growth elusive. On a constant exchange rate basis, new business profit was 9% higher at £1,970 million delivered against the backdrop of lower rates, ongoing uncertainty surrounding the DoL ruling, and our deliberate actions in certain markets to preserve value.

Asia continues to power forward, growing new business profit by 23%, reflecting higher sales and improved business mix. The 21% decline in Jackson's NBP is driven by lower variable annuity in new premiums. In the UK, we have maintained a post-pension reform sales momentum to deliver a 41% increase in retail NBP. Product and pricing actions taken across all three regions have more than offset the adverse effect of lower rates. Currency tailwinds have added a further 10 points to the reported growth rate, which was 19% on a sterling basis. The positive progress on this important value measure demonstrates once again the strength and resilience of Prudential's new business franchise.

In Asia, the structural drivers of life insurance demand remained intact. Our scale and geographic reach have enabled us to flex our business in response to local country conditions, while maintaining strong overall momentum at a regional level. As I have already mentioned, in the first nine months of the year, PCA delivered a 23% increase in NBP ahead of the 16% rise in sales. Many of the key country trends observed that the half year stage persisted in the third quarter, including the strong sales performance in Hong Kong and a relatively subdued production in Indonesia.

The regional performance continues to be supported by a robust level of new regular premium sales, up 18% in the period, contributing 94% of total APE. Agency sales were up 21% driven by improved productivity. The 27% increase in health and protection NBP underscores the quality of new business written this year and underpins the earnings momentum in the region.

In the U.S., the annuity market continues to be disruptive by the uncertainty surrounding the DoL ruling in line with observed market trends. Jackson's variable annuity sales in the first nine months of the year were 28% lower. As we have said before, Jackson's earnings are primarily driven by fees that we levy on separate account assets. These assets stood at a $145.6 billion at September 30, 8% higher than the start-of-year position. The increase reflected $4.6 billion U.S. of net inflows equivalent to an annualized growth rate of 5% on opening assets and $6.8 billion from the positive effects of market appreciation. The fact that the business flows remained positive despite the reduction in sales reaffirms our view that DoL is a sales not an earnings event.

In the UK, as our life business pivots towards retail, savings and investments, our success in this market will be increasingly driven by ability to gather, retain and grow customer assets. We start from a position of strength in that we run the largest active with-profits fund in the country, and we're already the market leader in bonds. Post pension reform, we revamped our drawdown and personal pension products and broadened our proposition to include (28:49). All offering are popular through fund investment option.

Our strategy is already bearing fruit with new and recurring premiums from our refreshed retail offering, rising strongly this year to £6.7 billion, you can see that in the red bar, as we look to reverse the negative flow trend from the legacy business. The earnings signature with profits products is more gradual, which means that the successful expansion of PruFund will take time to earn through. However, this does not detract from the fact, that we are building another important store or future value in a highly efficient way. While new annuity business is no longer an area of focus, the sizeable and well-seasoned in-force annuity book will remain an important and dependable source of core profits for a number of years to come.

In asset management, we have seen some more encouraging net flow trends in the third quarter. At M&G, net outflows slowed to £1.1 billion for retail business, a much reduced level when compared to the previous five quarters, in part reflecting improvements in investment performance. External funds under management benefited from the positive effects of market appreciation, closing 8% above the start-of-year levels. At £136.2 billion, they're now only 2% below the high water mark of March 30, 2015, although albeit the proportion of fund from the higher margin retail business is 10 points lower at 45%.

Eastspring delivered £0.6 billion of third-party net inflows in the last quarter to move into a positive flow position for the year. Overall, funds under management are 29% higher than the start-of-year position, benefiting from the reliable internal life business flows and positive market movements. Like M&G, Eastspring is also seeing a small drift away from higher fee business.

Turning to capital, the Group Solvency II surplus stood at £11.5 billion at the end of October, equivalent to a ratio of 189%, some 14 points above the June 30 position. The movement in our surplus over this four-month period is analyzed on the right. Operating capital generation was £0.9 billion, which brings the 10-month total to £2.1 billion, $1.7 billion of which represents underlying business performance and $0.4 billion reflects the benefit of management actions.

Positive market effects and currency movements added a combined £1.3 billion of capital in the period. I said at the half year that in taking actions to reduce the sensitivity to downside market risks, we retain the upside potential. The effect of the 20 basis points rise in UK and U.S. long-term swap rates between June and October has therefore come through the results accounting for almost all of the $0.7 billion market effect and contributing around 5 points of Solvency. With UK and U.S. swap rates rising by another 15 and 30 basis points respectively following the U.S. election, the overall Group ratio today is high.

I can confirm that at the end of October the Solvency II position of PAC, our main UK life entity, was at the upper end of the 130% to 150% target range. Jackson's RBC is also robust over the 400% level. This update confirms both the capital generative nature of our operations, which at an underlying level add around 20 points of Solvency each year, and the robust overall surplus position which continues to provide ample headroom to absorb any downward moves from here.

I would now like to delve a little further into our ability to generate capital operationally by looking at the capital velocity of our new business franchise. The chart on the left shows the amount of capital we have invested each year in writing new business, while the one on the right depicts the undiscounted capital that we expect to generate from each vintage over the next 30 years.

As you can see, we continue to direct our new business investment in a disciplined manner, targeting high-return opportunities. The £745 million invested in 2015 is expected to return eight times the initial investment over the next 30 years, with Asia contributing the lion's share. The fact that the 2015 cohort is expected to generate more capital per pound invested, the 2011 cohort which was written when interest rates were higher also speaks to our ability to sustain returns as the cycle changes.

In all cases, expect that capital emergence is front ended, with over 50% generated in the first 10 years. Payback of the initial investment is in fact achieved in just over two years. The capital velocity created by successful additions of these highly-profitable new business vintages is what underpins the Group's growth and cash objective.

As you can see on this next slide, the contribution from the five most recent new business cohorts written between 2011 and 2015 shown in blue has doubled the capital that we expect to generate over the next 10 years from the pre-existing base. The people on the ground who delivered this powerful dynamic remain in place.

Now, the expected releases from life operations are not on the source of capital generation. This slide captures all of the Group's sources and uses of capital over the last four calendar years. Working across the page and starting on the left, the set of bars in the box represent the capital that we expected to generate each year, from both the 2010 life in-force book in red, and from each new business vintage written since that date in blue. Some £9 billion was generated in aggregate from this source, representing the largest component of the stack bar shown in the middle.

Over this full year period, positive experience in our life book added £1.9 billion and our combined asset management operations contributed a further £1.9 billion of capital. Some £2.6 billion was deployed to finance new business, with a further £1.2 billion, covering the adverse market impacts. A net total of £9 billion was therefore generated from all our operations during these four years, £5.6 billion of which was remitted to Group with a balance retained locally. This £5.6 billion of cash remitted by BUs covered central costs and funded £3.3 billion of external dividends. Around two times the aggregate payouts to shareholders in the previous four-year period.

Now what this analysis highlights is that our cash generation is predominantly driven by the expected releases from our large life in-force book, which is our most reliable and predictable source of capital. It also illustrates how our capital velocity has produced meaningful step-ups in both remittances to Group and dividends to shareholders. The capital dynamics that I have summarized in the previous four slides remain intact. We continue to focus on growing the underlying free surplus generation of each business, and we retain our disciplined approach to capital investment and risk management.

All four businesses are able to serve finance their organic growth need and hold appropriate capital buffers locally to enable them to invest in new opportunities and cover unplanned events such as the effects of markets or the market stress or new regulatory capital shocks. Remittances from business operations are informed by this assessment and by the Group's requirements to service its providers of capital and maintain a healthy level of central cash to finance in strategy opportunities and provide flexibility in times of stress.

Our approach to setting the external dividend is also unchanged. We set the annual dividend at a level, which is affordable and can be increased safely even under stress. We believe that this philosophy has served the Group well. Our current payout level is strongly covered by all the measures that we use to assess it. Now when you combine this with the strong capital dynamics of our business model, we have a high degree of confidence in our ability to grow the dividend by 5% per annum. In line with the approach that we adopted in recent years, we will continue to assess the potential for additional distributions such as dividend step-ups, but we will only make these if we are convinced that in doing so, we will not jeopardize the 5% growth rate going forward. We will assess the affordability of such additional distributions by reference to a variety of financial indicators, as shown on the slide, alongside evaluating the opportunities available to accelerate on growth.

In updating our dividend policy, all we have sought to do is to align the wording to what we actually do in practice. So there is no new news here. You should not therefore read this as signaling a change in either the prospects or the earnings outlook for the Group. In my view, it signals confidence, balancing certainty for investors with sensible flexibility.

Before I close, I would like to briefly touch on balance sheet quality. Overall, there is little news to report here. Our portfolio has remained defensively positioned, are well diversified and are subject to strict concentration limits. In the UK, we have maintained our high credit quality buyers, while in Asia, we continue to invest predominately in sovereign and investment-grade securities. In the U.S. the portfolio has been significantly derisked since 2009. The middle box shows that today Jackson has a much increased allocation to cash and treasuries, a higher proportion of investment grade assets and importantly a substantially reduced exposure to RMBS and high yield securities. Overall, our credit portfolios have performed well in the third quarter with Jackson reporting only $2 million of impairments.

I will conclude my presentation by reiterating two points. The first is that the group has maintained its forward momentum this year in the face of some meaningful regulatory, economic and market headwinds. Asia's structural opportunities continue to underpin our momentum, enabling PCA to grow new business profit by 23% year-to-date. Our disciplined approach here and elsewhere coupled with our ability to flex in response to local conditions is producing another highly valuable new business vintage in 2016. In our fee-based businesses, the more subdued flows this year are not hindering our ability to grow assets managed.

The second point is the consistency with which our business generates capital operationally, not only on a Solvency II basis where £2.1 billion was delivered by the end October, but also on other established basis. Our broad geographic, currency and product reach is an important source of strength, which combined with our prudent approach to risk management creates a highly-resilient group and one which is able to trade profitably at all points in the cycle.

With this, I will now hand you over to Tony.

Tony Wilkey {BIO 19184129 <GO>}

Good morning. Good morning. I'm here today with the team from PCA to give you an update on our businesses in Asia, a series of businesses, which we're all incredibly proud of. Joining me, Adrian O'Connor, the Chief Financial Officer; Ms. Lillian Ng, Chief Operating Officer, Insurance; Guy Strapp, Chief Executive of Eastspring.

In the audience, we also have Steve Bickell, our Chief Risk Officer, who goes everywhere with us; and Michele Bang, Deputy Chief Executive of Eastspring. This is an incredibly talented team with over 100 years of experience. I think Steve might actually have that much experience himself, but mostly experienced in Asia. This is the team that has been in place for at least the last 10 years and has delivered a quite exceptional set of results across the region.

Okay. No one else can paint this picture on this scale. We started our life insurance business in India in 1923, followed by Malaysia in 1924. Almost close to 100 years of experience in the region. And today we have 13 insurance companies in 12 countries, and we're quite proud of the fact that we hold top three positions in nine out of the 12 markets.

For asset management from humble beginnings in Singapore in 1994, Eastspring today is the number one Asian asset manager by firm excluding Japan. And leveraging the growth of the life business, growing retail and institutional, Eastspring now has 12 asset management businesses in 10 Asian countries.

Developing experience over time is critically important, especially as we grow and expand. One great example of this is Laos, really should pronounce it Lao where we entered earlier this year. We were able to ramp up quickly in this new market by leveraging sales practices and techniques from Thailand, underwriting and claims expertise from Cambodia, IT support and expertise from Singapore. This enabled us to move very quickly and scale up something that will be very important when hopefully next year Myanmar opens up.

Speaking of scale, and you know we like to substantiate any statements that we make with facts, we've become quite a sizable business. Today, we have every day 60,000 customer interactions every day. New customers are onboarded at the rate of 5,000 per day. New policies are issued at the rate of £260,000 per month. Every month we recruit 17,000 agents and process 120,000 claims. PCA has indeed become quite large yet fast-moving business.

I think we've been leading the conversation for many years about the investment case for the emerging middle class in Asia. The total population in PCA's footprint estimated by IMF by 2020 will be 3.7 billion people by 2020. That's 5 times the population of the G7. Further based on estimates, there will be an addition of 178 million working age people over the next 15 years in our footprint. This means our core segment of emerging middle class will continue to grow. It's estimated by 2017, that's next year, there will be over 450 million households with disposable incomes of $10,000 or more. That's our target market.

In addition to this, the protection gap has continued to widen as people earn higher incomes and raise their living standards. This translates into on average a protection gap of about $100,000 per person or per family. Clearly, the level of protection sold in the region to-date has been inadequate.

All these fundamentals have and still today create incredibly strong demand for the products and services offered by our insurance business and by Eastspring Investments.

Our markets can broadly be divided into different segment dependent upon their respective stages of development. You can see GDP per capita scale on the right. I mean, the emerging middle class, this is populations or countries where GDP per capita is lower than $1,000. These people typically seek out relatively simple savings and protection products. Mass market, mass affluent $5,000 to $40,000 per capita, looking for slightly more advance products. And then the high net worth segment $40,000 or above, looking for more personalized, quite sophisticated investment products.

Protection needs tend to be more pronounced in the mass affluent and mass market segments. There are opportunities for life protection in the high net worth space, but for us this will mean larger ticket, term life, critical illness type products. Most of the insurance products sold in that space in Asia today tend to be in the form of universal life, which is something we don't particularly have a strong appetite for.

Further, typically when GDP per capita crosses $10,000, the mutual fund market emerges, and that's where the – basically where North Asia is and where we've been able to grow significantly. So you can see the split between ASEAN emerging market economies broadly where life is and has prospered very well and North Asia complementary where we've grown our mutual fund business very well through Eastspring. And as you'll notice from our recent exit, we exited Japan, the life insurance a few years ago and then recently announced that we're exiting Korea.

Okay, I think our outperformance be it on life or asset management is quite exceptional and it's really based on continuous – was talking about this before, continuous focus on executional excellence.

Life businesses have grown materially over the last few years, particularly in ASEAN. And as I mentioned earlier, Eastspring has become the largest Asia ex-Japan retail onshore asset manager. This is a real powerhouse in the making. Guy is going to go into a little bit more detail in a minute.

Spotting the opportunity in Asia was not difficult. Everybody could see it, but actually capitalizing and taking advantage of the opportunity through crisp execution, the right business model, right products, the right distribution channels, the right team and significant instincts and expertise in the region is what's made us quite successful.

Agency is our core channel. Mike mentioned earlier over 500,000 agents, but it's not about the size of the agency force, it's about the quality of the agency force. We talk in terms of productivity. One metric we're quite proud of is year-to-date, NBP, new business profit per agent is up 37%. So it's not APE per agent. It's what they actually sell, and as you know, they sell a lot of health and protection, which tends to drive pretty robust NBP. So year-to-date agency NBP up 37%. So, it's about maximizing the value of the franchise we built, not just driving volume.

Mike also mentioned about our bancassurance platform. We have access to over 10,000 active branches. This is more than 2 times the size our next nearest competitor in the bancassurance space. We've been working hard to extract more value with our bancassurance partners by focusing our bank sales on higher-value regular premium products. Nine months year-to-date, regular premium through bancassurance accounted for 92%, up from 85% prior year, so moving away from single premium products with the banks and growing more regular premium.

Eastspring on the distribution front have over 350 distributors, that's excluding India. Institutional clients of over 150 and hundreds of direct sales folks across 10 markets in Asia. If we pull in all this together, and again to reemphasize, the key to success here has really been the management team, again not only the folks who are with us today in the room but also the thousands that work and toil on a daily basis in the Asian markets.

I'll turn it over to Adrian now.

Adrian O'Connor

Thanks, Tony. I'm going to talk about over the next two slides about earnings potential and earnings resilience. Two key metrics have grown dramatically over the last 10 years. And we've picked 10 years on this slide for the reason that actually Tony says that this team has been together for 10 years. Actually Tony has been here for 10 years, I was a year later, so we've picked it for that reason. And on those two key metrics, value on the life insurance side and funds under management on the asset management side, they are the key drivers of future earnings of future earnings.

Now I was very, very surprised to see on the embedded value. You can see end of 2005, embedded value was £2 billion. At the end of - at half year 2016, it's over 8 times that amount, equivalent to about a 23% CAGR over that period. What does that actually mean? Well, IFRS equity at the end of the half year was £6 billion. So we've got £10 billion in the in-force, as Nick related to it earlier on, £10 billion in the in-force of future profits. That compares with annual profits after tax of just less than £1 billion. So we've 10 years - in the in-force, we've 10 years of profits there.

And on the Eastspring side, funds under management drive revenue, drive profits. Again we've seen a dramatic increase over the period from the end of 2005, at £26 billion, it's quadrupled to £115 billion. So there is potential in the in-force both on the insurance side and on the asset management side critical.

Now turning to resilience. Resilience is driven by a number of what we call earnings levers on a number of dimensions, and we've got three dimensions here to talk about.

The first one, the most critical one is the one on the left, and it is about geographical diversification. As you know and as we've repeated over the last 10 years we have delivered year-in year-out and the volatility in growth has been reduced because of that diversification, because we've been able to flex in countries and increase production where all this has (55:38) fallen off. And the really interesting thing is in 2005, the two biggest producers were India and Taiwan. 2010 it was Indonesia. Today it's Hong Kong.

Switching now to sources of earnings, which we pride ourselves upon. The core is 60% coming from insurance, the difference between what we receive in charges and what we pay out on health insurance, on critical illness and on pure life insurance. And that is underpinned by at least 25% of our APE over the last 10 years coming from insurance products, H&P as we call, and it's still stable. It's dropped off a little bit in the last couple of years because Indonesia has come off, but it still is driving those numbers.

And then the other two sources – main sources of our income that we like are charges on our ILP and profits from Eastspring. Very robust. And as you can see between 2010, the inner donors and the outer donors, the mix hasn't changed that much.

And finally turning to Eastspring. Eastspring's funds under management are underpinned by the life insurance business, the assets from the life insurance business. And as you know, it's regular premium, so with a constant flow coming in, the 70% of the funds under management is the life insurance business. But in addition to that, on the retail side where it's more profitable, is basically two powerful engines at the moment. One is what we call North Asia: Japan, Korea, Taiwan, very different to the insurance business. And the other is our joint ventures in both India and China.

Both Nick and Mike referred to earlier that we've confidence in delivering our targets in 2017. We are confident because of the performance in IFRS and FSG to-date at the half year 2016 because of the potential that I've shown and also because of the resilience of those earnings.

With that, I'm now going to turn back to Tony, who will go down one level and going to start talking about countries, businesses.

Tony Wilkey {BIO 19184129 <GO>}

Thanks, Adrian. So, China, several of you had asked a little bit more color on our business and opportunity in China. So we're going to give you a little bit of flavor. I mean, we've said this many times in the past, over the long term to really be truly successful in Asia, you have to be successful in China. I mean, it speaks for itself. China is not a country; it's a continent. It's a continental-sized opportunity, 31 provinces, 8 of which have populations over 65 million, 5 provinces have GDP over $1 trillion, life penetration less than 2%, and a large mortality gap of $30 trillion. Three-quarters of the population could be defined as middle income by 2030, again, our target market.

Our life JV in China was established in the year 2000 with CITIC Group. As we've said in the past, we enjoy an exceptional relationship, with exceptional as in good relationship with CITIC Group. We were the first UK insurer awarded a license in China.

Today, we've expanded our footprint from 6 provinces 10 years ago to 15 provinces and 65 cities. That's an average expansion of five cities per year, Tier 1 and Tier 2 cities, and we're not done. We're continuing to expand our footprint. In fact, just last month, we opened a new province on Anhui, right next Shanghai, which is being dubbed the Silicon Valley of China. Interestingly, when you look at it from the air, the center of town resembles the Union Jack, so, we should do quite well there.

Our current coverage, where we are across China, gives us access to about 70% of the GDP of the country and 60% of the population. We're in 9 of the 10 top provinces as ranked by gross premiums.

Drilling down a little bit further. Guangdong Province, what used to be Canton many years ago. This is the largest gross premium contributor in the China market and a proxy for the wealthy eastern seaboard. It's also the birthplace of CITIC-PRU although we've subsequently moved our headquarters to Beijing to be closer to the regulator. A good relationship with the regulator is very important when doing business in China, and I think we have – we've worked hard to build those relationships.

Based on IMF estimates, the GDP of Guangdong Province in 15 years will likely overtake that of the UK. Today's population of Guangdong is in excess of 120 million people. Life insurance penetration in Guangdong 1.9%, still very low, and the State Council, as many of you may know, has come out with a proclamation [Foreign Language] (01:01:35-01:01:36) which is to grow insurance penetration by 2020 to 5%. When the State Council gets behind driving policy in China, things really start to happen, and so we're very well-positioned to capitalize on this opportunity supported by government initiatives.

It's a big business today. If you look at new business sales, APE for China on a year-to-date basis, we count them at 50%, which is our shareholder level, but if you look at them on 100% basis, today this is our second largest business. So it's actually starting to become quite material within PCA. It's still willfully (01:02:21) under where it needs to be to capitalize on the opportunity that resides there.

So, I'm going to ask Lilian to talk in a little bit more detail about what we're doing in China and the other markets.

Lilian Ng {BIO 4943480 <GO>}

Okay. Thank you, Tony. I think everyone now appreciates the scale of the opportunity presented in China's insurance sector. Now, the key to capture that opportunity is to expand distribution reach, but for value creation. For agency in CITIC-PRU, we measure growth in terms of active agents rather than just body count, and this all starts with recruitment. We have selected 16 cities out of the 65 to lead this recruitment drive where we have provided specific resources, guidance and training to reach their goals. Now, in order to increase the chance of success, each city actually utilize analytic to identify the optimal profile of the recruit in their own specific province.

At the same time, we continue to reform the agency operating model with general agency management for cost-effective expansion. We now have 30,000 agents, and the active agency actually grew by 73% over the year.

For bancassurance, we've moved from a product-driven strategy to a customer-oriented strategy. Now our insurance specialists in the banks will upskill to deliver solutions to fit customers. We've also chosen to limit the volume of deposit replacement products and focus on regular premiums.

Actually, we started this shift in quarter four 2015 and that is well in advance of CIRC circular to limit the sales of short-term products in March this year. With that, 85% of our bancassurance sales are now regular premiums, compared to 53% from our peer group.

Now, for value creation, we have a risk management framework that helped guided the distribution strategy that I have just outlined. Now, our risk management capabilities are very well recognized. We are the only foreign insurance company invited by CIRC to participate in the China-U.S. Sovereignty Workshop that was held in August this year.

I think the recent Single Day's online shopping spree, which I'm sure you all heard about, showcased China as having the world's most digitally savvy consumers. There are now over 700 million Chinese online. Now, to cater to the demand of this consumer group, CITIC-Prudential is making it easy for consumers through an interactive digital journey across the value chain.

We partnered with a mobile insurance service platform to provide training, sales support and customization products. And then the distributor can step through with our customer from advocation to underwriting and rounding off with the issue of policy, all electronically, and this takes around 30 minutes to complete. And when it comes to the moments of truth, customer can elect to submit and settle claims through a recheck (01:05:48) based application. Now, as customer demand efficient engagement, they're also looking beyond just a product, they are looking for holistic solutions. Recently, CITIC-PRU launched a health and insurance management campaign, covering health screening, online medical consultation, expanded coverages, and access to top medical institutions. Now, all of these customer-led activities has actually resulted in 71% growth in our health and protection sales for the year, and we are the only foreign insurer awarded an A rating in the Annual Service Assessment reviewed by CIRC.

Now, across the border, to Hong Kong. There have been a lot of attention to the Hong Kong insurance market off late. Actually, the life insurance market in Hong Kong has experienced double-digit growth over the past decade. Now, this consistent growth is a reflection of the strong demand for insurance. Purchase preferences are driven from a wealthier ageing population that is more health conscious. And insurance solutions help diversify risk, protect families and wealth. This attributes also appeal to Mainland Chinese visitors going to Hong Kong. Now, with the growth in the industry, the regulator has been active in introducing guidelines with emphasis towards market conduct and consumer protection.

Now, this is demonstrated with the implementation of guidance of 2016, focusing on treating customers fairly and the important factor for Mainland policyholders, to ensure Mainland Chinese customer acknowledge the risks of buying insurance in Hong Kong.

Now, Prudential Hong Kong has the right platform to tap into the continued demand. We have a market leading multi-distribution that is the envy of the industry. We offer comprehensive and innovative range of solutions. Wrapped around these, we have a comprehensive and robust infrastructure for execution. Prudential Hong Kong has a balanced portfolio that has been actively managed and this portfolio has delivered consistently across multi-dimensional metrics.

Now, to keep up with the pace of delivery, the business needs to evolve to maintain growth quality. To stretch a high-performing agency further, we have refreshed the approach to recruitment. Starting from profiling to get to the right agent, depending on the attributes of the recruit, we put them through differentiated on-boarding, in order to strengthen areas requiring improvement. Now, this is made possible because we have an award winning training platform and team. The impact, we do not only have the largest agency force, our productivity is 60% higher than the market average.

Moving to bancassurance. Now, in line with Standard Chartered Bank's strategic direction, the partnership has been investing in digital technology to increase customer touch points and enhance customer experience. Riding on this and recognizing the customer preferences, our insurance specialist team is reconfigured to promote protection. Now, this has resulted in our health and protection sales growth of 35% over the year.

For our distributors, we have (01:09:41) ability framework to align with customer expectation. And we see the adoption of best practices as a competitive advantage, while staying ahead of regulatory requirements.

Now, Prudential Hong Kong customer engagement strategy is based on the motto of digital first. Now, having a mobile sales platform and a 24/7 online servicing platform is now the new norm. This is the expectation from our customers. Our digital first playbooks goes beyond that, with an innovative enhancement.

As part of our protection drive, we launched myDNA. This is the first commercial deployment of the genomic technology in Hong Kong. It uses the customer DNA to identify pre-dispositional facts relating to his or her health and wellbeing, delivered on the mobile platform. Now, when we do all this, we're not there just to create noise. We track, we monitor impact, and ensure their conversion to financial results. The weighting of number of protection policies during the promotion increased from 31% for the year, compared to 20% in the previous year.

Moving to another of our mature market, Indonesia. I think the Indonesia insurance market is often being referred to as one of the most attractive within the ASEAN. There had been success in growing the insurance industry, but penetration, I think, as we've heard, remains low. 50% of the population is below age 30, and the size of the consuming class is tripling in the next 15 years to $135 million. So, outlook for long-term growth is very positive. Now, this is reinforced by the financial services sector master plan from OJK, with the ambition of financial inclusion and strengthening of the Syariah financial service sector.

Prudential Indonesia is the leading insurer. We have the widest footprint for customer reach covered by 400 sales offices in 160 cities. Now, our early mover advantage in establishing presence and brand recognition in the second tier cities enable us to leverage for future growth. Our agency market share is nearly three times that of the number 2. Now, being the only insurer with above 90% brand awareness, reflected our brand dominance. So, our platform is actually well positioned to capture future growth. But this will not be sufficient for us to win in the future. As the market and consumers behavior change, the business needs to evolve.

So, to build on our success, we are investing now for the future. I think you've heard a lot about our mass agency recruitment model. And this will continue to serve us well to build scale in the second tier city. At the same time, we are formulating proposition to attract the young ones, the millennials, as we call them, to build a business as long-term career with Prudential.

53% of our agents and 32% of our leaders are younger than 35. Now, with the support of PRUforce, we are now recruiting around 7,000 agents a month. PRUforce is a mobile agency portal for onboarding, client management, performance monitoring, and integrated learning. And to pave way for future growth, we are strengthening the infrastructure to nurture our core agents and leader. We'd pay their compensation, training, campaign and recognition. Results so far in the right direction. 78% (sic) [68%] of our agents are what we call core producers, compared to only 59% a year ago. The overall agency productivity improved by 5%. So, we are transforming processes to increase capacity and efficiency, again with electronic point of sales and online servicing. Our electronic point of sale, PRUsmart, has actually reduced the time from receipt to issuance by 50%. And to echo OJK's ambitions, we've identified Syariah as a material growth engine. Currently, Syariah is a product line, and we are the market leader in this space with 38% market share. But Syariah contribution is less than 18% of the total insurance premium in the market. We are building Syariah as a business.

First step is to reinforce our sales force. We actually have 97,000 Syariah licensed agents, the largest in the country. So, we are conducting Syariah-specific recruitment seminars supported by training, with motivational speakers specialized in that field. Now, our continued investment to evolve the business is important, so that we have the right capabilities, resources, know-how to execute, and to deliver sustainable profit.

Now, similar to Syariah in Indonesia, Tony earlier mentioned about the protection gap. The protection gap in Asia actually poses opportunity for us as an insurer. The issuer protection gap has been recognized for years in Singapore, there are some progress but slow. The average coverage is less than 150,000 (01:15:52), compared to the re-cal (01:15:54) coverage of 350,000 (01:15:55). The obstacle is actually cultural, with most believing that they could insure themselves with savings rather than transferring the risk.

Prudential Singapore recently conducted a survey, and the survey said, 9 out of 10 did not have life insurance coverage being recommended at the time of purchase. And 73% of those not fully covered are underprotected because of budget constraint. Now ,this result and the sentiment highlighted the need to educate consumers on having adequate protection for themselves and their families.

We have been all embracing platform to drive awareness that lead to appropriate solution and digitally enabled. To raise awareness, we have launched a PRU Relationship Index to highlight the need to protect oneself and their families. We've seen an increase in protection in sum insured by 41% in the first half of the year. So, we're moving towards narrowing the gap.

In Malaysia, Prudential is the pioneer in selling protection link. So, riding on the success of Singapore, we'll be expanding the launch of the relationship index in Malaysia to reinforce protection, and this is in line with (01:17:20) goal of increasing penetration of life insurance to 75%.

Now, with all the activities to drive protection, the impact is our health and protection sales is growing faster than the overall sell by 25%, while the sum insured per ringgit of APE sell increased by 11%. So, another part to closing the gap.

So, we are scaling up the high performance businesses as future growth engine. And Vietnam and Philippines are the highest gold markets, with favorable outlook. Prudential is the leader in both market and it is important that we invest to increase operational capacity and deliver service excellence.

In Vietnam, with all the activities on transformation, we have seen improvement across a variety of metrics, including 60% of policy now underwritten automatically. In Philippines, with the automation realignment of processes, we've seen significant improvement in turnaround time. And the issuing rates have improved by more than 90%.

Now, other than the areas I cover, one other aspect for PCA insurance to win is to optimize out investment outcome. So, this is a good time for me to pass to Guy, my fund manager, to speak on the exciting happenings in Eastspring.

Guy Robert Strapp {BIO 15272859 <GO>}

Thanks, Lilian. Okay, some snapshots on Eastspring. It's a wonderful franchise, a business I'm incredibly proud to be a part of. And here we show some FUM with a record level as at the end of Q3 at £115 billion. I'm not going to take all the credit for that because clearly some of that is pound weakness, but the thing that's driven the numbers that have already been shown, in terms of underpinning Eastspring's growth, relate to constant strong inflow, but from third party and from our life client.

And so this is planned, nonaccidental growth. And as I'll talk about in a moment, it's something that we are focusing on in terms of sustainability of our growth going forward. You'll see on the right hand side that we had a slower start to this year in terms of Cotley (01:19:50) flood, really came about from the middle of last year when we saw some China market interference both in terms of currency in stock market. It destabilized investors, sentiment deteriorated in Asia, and we saw our outflow in the first two quarters of this year, a rebound in Q3. And I get the sense that sentiment is starting to turn, albeit fairly slowly. It's a low interest rate environment, it's difficult to find investment opportunities. And Asian investors haven't had the best of time investing in the Asian equity market. So, if you look at the MSCI Asia ex Japan index over the last five years, it significantly underperformed other markets in the world.

So, we will see. It will take time for third-party confidence to resume in the market. But, as I said, we are enjoying wonderful flow from our life colleagues. We had record flow in 2014. We followed that up in third-party space with record flow in 2015. 2016 is a bit softer, and I think that's explainable. Importantly though, in those numbers, and Tony mentioned we're in 10 markets, 8 of those 10 markets year-to-date have experienced positive flow, so there's underlying reasonable strength across the franchise. And one of the real takeaways, I looked over the last 12 years, is in every year Eastspring's experienced positive net flow, aggregating up both life and third party.

Turning to investment performance, we live and die by the numbers. And you can see here that this is the rolling three-year returns, taking a fairly lumpy measure of the total picture of performance of all the portfolio. So, if we are performing above benchmark, the index, we get a tick, and if we are below benchmark, we get a cross. And we aim to have about two-thirds or slightly more of our funds on sale, if you like. So, outperforming the competition or outperforming the benchmark. You can see a deterioration here over the last four or five years.

We are a value manager, and value in Asia has been particularly hard hit. As I mentioned, investor sentiment hasn't been strong, but where it has been strong is investors have chased high-yield defensive stocks. And that has been very much the theme really for the last four to five years.

Interestingly, there has been a little bit of a reversal. It'll take time to come through the numbers. There's a small uptick, but I wouldn't read too much into that, at least it's rolling three numbers, but there has been something of a reversal in confidence and investors reassessing their appetite for securities, so buying into a cyclical and value stocks at the cost of exceeding what are very expensive multiples on some of the high-yielding securities. So, for us, this is one of massive reversals yet. It's a pointer in the right direction, it's being backed up since the U.S. presidential election, so we've seen a further rotation or further evidence of a rotation toward cyclicals, toward value stocks at the expense of expensive defensive. So, good signs, but we're not going to claim any victory until we're back and at least two-thirds of our funds are performing.

We've retained, importantly, our number 1 position, a couple of folk have already mentioned that we are number 1. We have been for four years in the retail market. Importantly, over the same time period or over that last four years, we've improved our institutional ranking from about number 12, currently to number 3. So, we've made inroads there.

In many respects, Eastspring doesn't chase aggressively institutional opportunities. I've got biggest institutional clients sitting next to me. So, we are sensible about how we utilize our capacity as case capacity in asset classes by not necessarily chasing institutional business which, as you all know, can be at significantly lower margins. So, we have a sensible approach to our institutional opportunities. But where they're available, we certainly seize those chances.

I'll quickly talk about growth. I think my mandate is to ensure the sustainability of growth and there are several initiatives that we are embarking on to ensure that for the next 5 years and the next 10 years.

Firstly, around talent. And on Monday we announced the appointment of Virginie Maisonneuve as Chief Investment Officer for Eastspring. It's a position I've been doing, but more and more part time, and it was the role I originally took 10 years ago when I joined the business.

Having been Chief Executive over the last three or so years, I found that other things are occupying my time, not the least of which is to grow the franchise. So, Virginie is a world-class hire, and it's an important one us, not only to secure what we have in terms of business as usual and the $140 billion of assets that we run both in Singapore and around the region, so she has a full remit, but it's also critical that we have somebody who can think about the broadening and deepening of our investment capabilities. One thing I'm passionate about is Eastspring not becoming a niche Asian player, it's great to be an Asian specialist, but I want us to be relevant to our constituent clients over the next 10 years and beyond, and to do that, we need to do more than what we currently do in terms of our manufacturing.

So, a key hire, investment in talent. There have been other investments in talent, and we will continue to do that. We are also expanding investment capabilities. We've been doing that mostly organically. In talking with Tony and Mike, there's a bit more of a willingness to consider inorganic opportunities, Virginie is part of that. She already had discussed the ideas around team lift-outs and the like to complement what we already do and expand on that. But some organic initiatives that we've undertaken, we've built a quant team, we're running novel strategies, we've built a global emerging market equity team that is highly rated. All we need to do is see a bit of a sentiment swing back to emerging markets, and that team will be role rewarded. But John Foley in the UK Life Team gave us a top-up just recently, another $1 billion (01:26:25) in preference to external third-party managers. Just on the track record, I think the team is about 10% ahead of the global index over the last 12 months, doing a great job.

And the case study here is infrastructure. I won't spend time, I think, at the last Analyst Day, I mentioned infrastructure. Tony Adams and his team, closest thing we've ever done to the lift-out, he is ex-JPMorgan, he brought along two of his former colleagues. We have $1.2 billion from life and $1 billion in debt, $200 (01:26:52) in equity. We are about to put ink on paper with the really interesting deal with the World Bank infrastructure arm, IFC, in global emerging market debt-related infrastructure, and that's a $500 million transaction, and I'm happy to talk about that more another time.

But a really great solution for life, it's diversifying, it gives duration extension, it gives yield pick-up (01:27:23). And the beauty about doing these things within the business and for life, is that we then look for third-party opportunities to commercialize these sorts of capabilities. And not surprisingly, in infrastructure, with like-minded insurance companies in Asia and the large sovereign wealth funds, we are already engaging in what will be the next step after we deploy the $1 billion for life.

And then pulling all that together, the talent and investment capabilities, is an investment and a focus on our infrastructure and our technology. And the way in which we're doing that is to redesign what we call our target operating model. It's the foundation of what we build all of our asset management capabilities and client experience on. We've probably underinvested, and it's time that we do invest if we're going to double and redouble this business again over the next four years and so on. We've got to have a more robust platform. And so, we are doing that, looking at our technologies right through mid-office and front office, which will give our investment professionals a better experience and give our client base a better experience.

And part of that, and we've also mentioned there, direct distribution. Part of that is the digital experience. So, our joint venture in India generates now about 20% of their sales through an app called I-Pru. It's a fragmented market and the point of sale is often in a rural environment. So, the app brings the client complete with IML and all the tick boxes that are required, brings them to the mutual fund opportunity in their location. We are looking at that sort of opportunity, the digital experience in other markets where we do this business-to-consumer, B2C, and Taiwan is a great example. So, we're about to do a trial there where we have direct sales and we're going to digitize the client experience and make that a more robust one. Tony?

Tony Wilkey {BIO 19184129 <GO>}

Thanks, Guy. We're running a little bit tight on time here. so I'll summarize the next couple of slides.

The digital (01:29:40) Lillian, it's something really two terms to take away for PCA in terms of digital, digital by default and digital dividend. Digital by default, this is not new for us. I mean, we could tell you that we opened our digital loft or garage or whatever people choose to call them in Singapore 14 years ago. 14 years ago, we set up a team to build the first e-submittable applications for life insurance in Singapore. We've been doing this a long time simultaneously, and I think more importantly than fancy fonts and abs (01:30:18) is the pluming has to work. And we spent a significant amount of time and money making sure the infrastructure was stable, scalable and secure. And now we're rolling out more and more applications.

Today, 13 of our life businesses are used in e-submission of applications, five of our life business have 100% utilization of e-submission of applications, and this is in a country like China and Vietnam where it's lot of high volume, small tickets coming through the machine. So, a lot of work has been done there.

Digital dividend, we will not take up initiatives in this space just to talk about it. Everything we do in the digital space has to clearly demonstrate to us that it is going to add value to our P&L. So, we'll continue to work on data analytics, propensity modeling and all this kind of stuff, but it has to be provable that it will actually drive repeat sales rate, incremental new business profit and so on.

Something else that's also talked about quite a lot in our business is wellness. I mean, you can see from the slide we've done an awful lot of work here. We tend to take a little bit of a barbell approach. If you look on the left, SAFE STEPS, this is a very important initiative in the region and all thanks to Barry Stowe for starting this through the Prudent's foundation a couple of years ago. This is important work.

One person dies every 30 seconds in Asia in a road traffic accident, 500 children die a day in Asia in road traffic accidents. So, we put together a whole bunch of program using (01:32:10) Michelle Yeoh, who is a very famous Asian personality, actress. If you watch National Geographic, you will see our educational, there are only 30-second clips, but teaching people how-to basics like we may have learned years ago, look left, look right, look left before you cross the road; if you are on a moped, which is everywhere in Asia, wear a crash helmet; how prepare for tsunamis, tycoons and so on. So, a lot of work. We need to keep people alive before we can give them fit bits and ask them to walk 10,000 steps a day. So, that's a lot of work being done in the emerging markets, and this is something again, we're very passionate about.

The other end of the extreme, Lillian talked about this with myDNA, which is the first-to-market that we launched in Hong Kong. It will basically tell you, take the swab and it will tell you where you might have deficiencies in terms of, you need more vitamin B or omega-3 and stuff like this. And then it connects to an app directly to nutritionists on the phone who will advise you, what you should be eating and so and so forth.

Ultimately, this will migrate to real-time chat box using artificial intelligence in the background. That's the plan to make this more widespread. And as Lillian said, people had bought policies. Since we've launched this initiative, they have actually come back to by another policy to participate in the program.

I mean, this is our track record, this is our CV, I think you will know it well. Our earnings over the period have grown by six times, our weighted life premiums last year were £10 billion, over three times what they were in 2006. Eastspring firm has travelled over the period. I think, overall, a fairly acceptable set of results. But based on the opportunity we discussed earlier, there's a lot more work to be done, right?

I think this slide is fairly self-explanatory but on the right side, I mean, where we're focusing obviously it goes to that same, we're focusing on continuing to execute well for the delivery agenda. But, we have to do a much better job in China, we've made good progress, but it's not enough. We have core advantages in ASEAN that we need to capitalize on better, grow the protection cap, it's profound, it's not only an opportunity for us to make money, but it's an important thing for us to do for the people who live in the countries, where we live, work and operate. And, Lilian mentioned, we've made good progress there.

Step-change Eastspring, doing okay, but there's a lot more to do and (01:34:55) that in motion, and innovate where it makes sense and it can have an impact in driving results for us. So, I think, that's it. I think, now, we take Q&A. Sorry, we ran a little bit over. (01:35:19).

Q&A

A - Michael Andrew Wells {BIO 4211236 <GO>}

All right. So, this session, we'll take questions for the PCA Team. The group Q&A, we'll host at the end of the day along with wrap-up. So, if you want to ask a question, wait for the rolling mic, raise your hands and then, before you ask your question, please do state your name and your firm's name. Can I go to Arjan there on my left for the first question?

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

Okay. Thank you. Arjan van Veen, UBS. Two questions related to China, please. Firstly, the most obvious one, obviously a couple of weeks ago you didn't pay – made some changes. So, to the extent you can, if you can update on the impacts or potential impact to your business and whether there has been any clarification from either Safe (01:36:10) or CIRC round definitions on that announcement.

And, secondly, given it's your first priority in terms of acceleration of China, your margins there have been or are somewhat lower, which I presume is because it's still bancassurance dominated. Your agency growth has been extremely strong, you've overtaken one of your key peers in terms of number of agents. And I think, Ginnie (01:36:36), if I heard you correctly, it was 16 out of 65 countries where you're really focusing in terms of growing that agency force. So, if you can talk about what is – in terms of when you think about the growth rate there going forward and how easy it is. So, what are the key obstacles, one in terms of growing agents, quality agents? And then secondly on the margin side, do you think there is a potential opportunity to quadruple that or whatever in terms of getting good quality product? Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay. Let me take the macro and Lilian can add some detail. And I'll take the second first, on the margins in China. I mean, this has been a very deliberate effort. It was probably started about 18 months or 24 months ago to deemphasize bancassurance. Our partner is CITIC Group, CITIC Bank is a big bank in the country. But a lot of the appetite for product in China through bancassurance, similar to some other markets, is single-premium, interest-sensitive type products, these are deposit-replacing products where we are uncomfortable, so we backed away from that. And in fact, within the foreign sector, we used to rank number 1 or number 2 within bancassurance. I think we have dropped to number 5 or number 6, and we have no problem with that.

As we moved way from bank to single premium, we focus more on growing the agency, Lilian mentioned we are at record levels in terms of size, but also productivity. Agency is able to deploy that richer product mix of health and protection. This drives margin, solves needs that customers are looking for. So, I think we're making some good progress there. I don't know if you want to add anything?

A - Lilian Ng {BIO 4943480 <GO>}

Yeah. I think in terms of the products being sold by our agency versus our competitors is actually as rich. It's a whole life, (01:38:20) type products. I mean, maybe later Adrian can comment on some of the financial assumption underneath. But, bear in mind, we are evolving to that more richer product portfolio, at the same time also bancassurance. So, I think going forward you'll be able to see improvement in margin year-on-year.

A - Michael Andrew Wells {BIO 4211236 <GO>}

I think, Arjan, to put it in context, 10 years ago, working with (01:38:47) we would have had a tough time convincing them to move to a slightly different distribution focus and a different product mix because, especially for many of the domestic Chinese companies, one of the most important metrics is market share. And, as you know, for us, market share is not an objective, it's an outcome. So, we work very hard to get them in this position of creating value. The China Team, the most heavily weighted bonusable KPIs growth in embedded value, which would – forgive the pun, (01:39:19) would literally be such a foreign concept years ago.

On the first question, which is how could we come here and not have a question on UnionPay and China, right? I mean, this is much a Hong Kong thing, it is a China thing, and this is again not new. They started it, interestingly, the timing, on the Friday just before Chinese New Year in February with some guidance coming out of safe and subsequently mulled on throughout the years with something coming down a couple of weeks ago. Again, I don't know if you want add?

A - Lilian Ng {BIO 4943480 <GO>}

Yeah. So, actually, the reason is actually not a change by UnionPay. All they are doing is affirming that the use of a UnionPay type cash card is not suitable for capital account type products and it's including insurance products with investment and savings component. And that is something that is actually reinforced and triggered by our payment solutions provider through the banks. So, from that perspective, our customers, I mean, since that reinforcement if I may quote, they are just using the right means of payment, mainly bank cheques, (01:40:34) cash. So, actually, we haven't seen any negative impact as a result.

A - Michael Andrew Wells {BIO 4211236 <GO>}

I mean, it's interesting as (01:40:45) we've all lived in Hong Kong for an extended period of time, there's generally not a lot of news in Hong Kong, some interesting stuff going on with the legislation right now, but generally there's a not a lot of news. So, stuff like this get a lot of visibility in the media and, from our perspective, throws a lot more attention to it and really causes us concern in terms impact to the continuity of the business. I think survey says 80% of our Mainland Chinese customers who buy products in Hong Kong, 80% have Hong Kong bank accounts. It's just the UnionPay is like an Oyster card and it's just been very convenient, and so that people – I think there are 17 or 18 alternative payment channels available.

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

Okay.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Jon here, please.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Good morning, everybody. Jon Hocking from Morgan Stanley. I have two questions, please. Firstly, on China. Just wonder if you could comment on your degree of strategic alignment with CITIC. They're interested in growing this business to a large size, interested in capital return. You mentioned you've managed to deemphasize a bank channel with them. (01:41:55) how do you think about it when you sit down with them in terms of business planning? And so, linked to that, ultimately is the ambition here to have a wholly-owned Chinese business when that becomes an option.

And then second question on Eastspring. In terms of distribution, you mentioned 10,000 U.S. GDP shift when mutual funds become more of a standard (01:42:15) life product. How do you see the distribution of Eastspring evolving and how are you sort of preparing the ground for that in terms of sort of country mix and channel mix? Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Sure. I think I can take the Eastspring thing, and again let me do the macro on China. Lilian can add some color. Again, I think as I stated earlier, the relationship with CITIC is as good as it's ever been. The Chairman of CITIC, Chairman Chang Zhenming, came from the insurance business and he is incredibly interested and passionate about the business. They have been incredibly supportive of the direction in which the business is going. They (01:42:53) significant assets. And CITIC group is a massive state-owned enterprise and they brought a lot of distribution and asset and other types of opportunities to the business that we've been able to grow.

I think the business planning (01:43:10) in China really run through the board and we have equal representation on the board, so we do the business planning jointly and make sure the strategic direction of the financial KPIs will flow in the right direction and again weight in on value more than volume and getting them offset, we must have significant market shares, has been an interest and exercise, the laws there in China is 50-50 for foreigners. There's one exception. Frankly, you've seen over the years many of our foreign competitors have actually sold out and there has been a lot of pressure in the marketplace from the local partners. Obviously, this is that where the opportunity presented to increase. I think that's something we would have to look at very closely.

A - Lilian Ng {BIO 4943480 <GO>}

On the business planning side, I think the last couple of years we've been working very hard to actually educate our other partners to think in terms of what is the value of an insurance company. It's more than a market share. So, over the last (01:44:20) and I mentioned earlier about shifting our strategy towards regular premium. Actually, this is endorsed by actually one of the directors who sits on the CITIC Prudential Board. She is actually the Chairman of CITIC Bank now and I think she saw how we have been able to increase value in the right way. And I think it was a bit of a challenge. Probably if you look back 12, 18 months ago, going forward, I think they understand what does it mean to drive (01:44:50) an insurance company. So, very, very supportive.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Good. Guy, you want to take this?

A - Guy Robert Strapp {BIO 15272859 <GO>}

Yeah, sure. So, Jon, on distribution, you can think of Asia, question was Asia, but there is North Asia and South Asia basically and we look at the reciprocal of the life business, so we generate most of our sales in North Asia, most of that's intermediated, sophisticated investors through securities and brokerage houses in Japan. (01:45:14) comes out, it's private banks, regional banks, local banks, and that's successful. I'm fully aware that the pressure on banks to generate a return and so commissions on trial, it was a sensitive topic and conscious of nothing is intermediated away from the incline.

So, yeah, I think the experiment, well, not experiment, the successful program that they've run in India in terms of digital access to clients is a really interesting model. We're looking into that in Taiwan. In Malaysia, we actually use some of the agents. We use both some independent agents, as well as PruLife agents, to distribute some mutual funds. Again, it's on a pretty small scale, but these are the models that we're kind of considering in terms of wiser access to client, and I think as Southeast Asia becomes more affluent and that 10,000 barrier is breached, we've had several strategic discussions about wealth propositions and how we can utilize the top tier of agents without cannibalizing the lifestyle, and we're thinking about that as well. And time is on our side because a lot of the Southeast Asian economies are still some ways away from getting to that 10,000 level, but it's on the radar and it's going to be relevant in the next five years.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Put Blair here, please.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Thanks very much indeed. It's Blair Stewart from Bank of America Merrill Lynch. I have two questions. Firstly, on Hong Kong and Mainland Chinese business into Hong Kong. How do you assess the risk of a more draconian approach, for example, to stop the business being done completely. And if that had happened, what would your approach be, would you be able to migrate any of that business back on to the Mainland? First question. And secondly, just an indication really as to the rate of change in Indonesia at the moment, at what point would you expect to see a positive new business growth coming on-stream again, please? Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Sure. I think, relative to potential risk, Blair, in Hong Kong, we've taken the approach, the strategy fairly consistently that you need to be prepared and actually winning on both sides of the border, which is precisely why building and ramping up our China business is very important to us. I don't think anybody has a crystal ball, but OCI, the Hong Kong regulator, and CIRC in Beijing, the China regulator, are very familiar with the flows. They have been measuring and monitoring for an extended period of time. I think it would be very challenging for them to completely close the border at this stage. I don't know if you want to add?

A - Lilian Ng {BIO 4943480 <GO>}

And I think by the fact that I think I mentioned earlier about the implementation of the important factsheet for Mainland Chinese policyholder buying insurance in Hong Kong.

Actually, that's also in partnership with CIRC. So, I see that as a formalization that they are endorsing the purchase and ensuring the consumers understand what they're buying.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Yeah. I mean, there is obviously a concentration in the Hong Kong business today, as I think Adrian mentioned five years ago, Indonesia was the big engine; 10 years ago, it was Korea and India. If we do our jobs well, five years from now it should be China. And hopefully you won't be complaining that we have concentration risk in China at that point. So, the second one in terms of Indonesia, where we are, I don't know if you want to add a little bit of color?

A - Lilian Ng {BIO 4943480 <GO>}

I think, in terms, as we say, we are sort of evolving our agency model. What we're tracking on that is make sure there is month-on-month momentum to drive that growth. Hopefully, when the economies pick up, we will see (01:49:16) stepping up. I think this will be the last quarter and there will be an inflection point starting 2017.

In terms of the market, I think if you look at the markets that there seems to be some growth there, a lot of this is actually generated from the local player using very short-term products. Some of them, as extreme as we say, quarterly renew products. So, they can do premium four times in a year. So, I think if you just look at where we are, so we focus on growing our agency, continuing to grow there with the regular premium space.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Yeah. I mean, in Indonesia, we are not sitting there waiting for the market to turn. We continue to execute on a daily basis. We've improved our agency selection tools, our onboarding, continue to open new GA offices around the region. At times like this - and we kind of went through similar times with global financial crisis back in 2008, 2009. I hate to sound terribly tactical, but you have to micro or nano manage the business on a daily basis. Are the agents active? Are they seeing enough clients? So on and so forth. Regular sales metrics, so we've been driving that consistently throughout the year looking at month-on-month progress, so direction of travel month-on-month throughout the year looking positive, so feeling better.

Can we go to Lance here, please?

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Thanks, it's Lance Burbidge from Autonomous. A couple of questions. Sorry to dwell on Hong Kong and Mainland China business, but I appreciate it's hard to tell how China could shut it down, but let's say it did somehow. What would the agents that are focused on that business actually do and how would you cope with that transition? And I wonder if Adrian could give some idea about (01:51:14) impact on the authorized profits for the overall Asian business and over the next two years, as to how much that would impact.

And then on China as well, I'm a little bit confused as to where we are in the process of what we're seeing. Our new business profit growth was only about 10% in the first half. And so, I've seen some of that is bank insurance drifting off and the agency business growing. Could you kind of give an idea in terms of what agency growth was and where you might expect that to go because some of your competitors are seeing much or very rapid growth in that side?

A - Michael Andrew Wells {BIO 4211236 <GO>}

Sure. Should the border close completely, what would happen to the agents? Difficult to tell. I mean, these agents all, by licensing requirements, have to have Hong Kong ID residency cards, but originally many of them came from the Mainland. So, one could conceive that there might be opportunities elsewhere should that happen, but again, I think that's something we're not expecting or anticipating. In terms of the margin movement, I don't know, Adrian, if you want to talk about that a little bit?

A - Adrian O'Connor

If we actually refer back on, in terms of profitability, refer back to (01:52:37) in Hong Kong, those actually show us a bit of the (01:52:38) between Mainland and local. And even now, it's significantly local, so, I mean, the in-force bulk of business in terms of producing roughly is still coming and still come from, so this phenomenon is not, in terms of profit in the short term or even the medium term, that great, not a big issue.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Guys, the other thing I think just for context, so again 15% of Hong Kong's business is China, it's about 70 basis points of group earnings?

A - Michael Andrew Wells {BIO 4211236 <GO>}

I know a lot of attention on the topic, but again I think in the extreme, the teams got it well-handled and an impact to a group our size is very manageable.

Here we go. Andy here, please.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. It's Andy Hughes from Macquarie. Three questions if I could. The first one is on end use, maybe a brief question. But, obviously, we've had to focus on cash over top-line growth, and I'm kind of wondering how India fits into this because if India is currently worth three times in (01:53:43) value, it's not going to be a huge cash generator relative to the market value of the holding. And I noticed those slides in India today, on the life side in your presentation. Second question is on Hong Kong, (01:53:55) this time. Interest rates are ticking up in the U.S., which may or may not mean that reversionary bonus rates go up, because obviously the IFRS earnings with profit fund are (01:54:04) pretty low as interest rates has been low. Where are we on reversionary bonus rates for the kind of with profit business in Hong Kong? And is that still on its way down? But as interest rates tick up do we expect that to increase and how sensitive to earnings is that, please?

And the final question on Indonesia. So obviously, you mentioned the master plan, which I think is 1 million (01:54:23) target, which is 7,000 a month as a market leader. That's going to take a long time to get to a million (01:54:29) many agents. So, I'm just wondering is the slowdown in Indonesia driven by lower agent growth or is it driven by because I look at the consumer confidence index that you highlighted last time for Indonesia, and that's actually recovered to very strong levels, which would suggest that the market confidence is still there amongst consumers. So, I'm wondering why you think it's going to be 2017 before is turns a corner? Thank you.

A - Tony Wilkey {BIO 19184129 <GO>}

Okay. Why don't I take India if you can do Hong Kong, bonus rates and Indo? On India, as you will have seen, well, before the IPO - let's back up - the regulations changed early in the year permitting foreign companies to go from 26% to 49%. Within that, what was very clear was, even if you board up to the 49% you would not get control of the operations in many ways. You just memorialize the fact that you are an investor in that market, and truly leveraging our IP I think in that market required control. Further, I mean, there were some small placements of Indian businesses that you might have seen that were, from our perspective, I think quite excessive multiples coming through. So, we didn't buy up.

India is - I mean, our business in India is great. Again, a great partner. It is one of the biggest and considered one of the best insurance companies in the country from a PCA perspective. It's probably one of the lower value businesses we have in the portfolio. The regulatory environment there is incredibly complicated and dynamic. And so, there were whole series of reasons we're not doing that. We went through the IPO in September. And, you're right, they're priced at the high end of the range, 3.4, 4 times embedded value. So, I mean - so ICICI floated (01:56:21) the piece of their share. We maintained our 26%. We have optionality going forward. That's pretty much where we are.

A - Adrian O'Connor

On the Hong Kong question, I mean, I'll just again refer you back to my presentation earlier this year because the vast majority of the current profits come actually from the protection fees. And the second thing to mention is that the design of our PAR (01:56:46) products throughout the region actually is probably different to what you find here is. It's very - reversionary bonus is probably a third of the bonus and two-thirds comes from addition bonus. We offer a total return proposition. So, yes, reversionary bonus have been coming down because of the low interest rate environment, but the impact on profitability in the short term is very small - not for a period of time.

A - Tony Wilkey {BIO 19184129 <GO>}

Indo?

A - Lilian Ng {BIO 4943480 <GO>}

So, I think in terms of the aspiration of the government, I think what they're looking for is spreading the agency growth. And that's why, to echo that, we are embarking on getting the Syariah business up and running and where we see that's how the agency footprint can expand. But actually, currently, what we're seeing in the overall agency in the market is not growing. I think the challenge, I think we've mentioned many times, given the difficult challenging market, if we recruit an agent it's very difficult for them to close a case. So, it's not about difficultly in recruiting, it's difficultly challenging inactivation (01:58:00) of the agents to make them earn enough to sustain themselves as an agent. I think that's what we're seeing. So, hopefully, with the economic environment recovering, they're able to close better, we'd be able to sustain more agents.

A - Tony Wilkey {BIO 19184129 <GO>}

The Syariah point is very important. As you know, in Malaysia, we lead the market in Takaful. In Indonesia, amidst 250 million people, the majority of the population is Muslim and uptake of Syariah has been incredibly limited. So, I mean – and broadly, if you look side by side at profit signature from product of conventional versus Syariah, it's generally the same.

So, as Lilian mentioned, this is a business. It's not a product line and we've got close to 100,000 agents licensed to sell that product. And we think there's great opportunity to expand in that area. That's also that Syariah tends to be a little bit more provincial than Jakarta base. Most of the competitors are fighting over business in Jakarta, 16 million – 18 million people in Jakarta whereas we built the platform out in the province is much like what we did in Vietnam and less competitive space, greater opportunity.

A - Adrian O'Connor

We're squeezing one last question.

A - Tony Wilkey {BIO 19184129 <GO>}

Nick.

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes from SocGen. Many, many apologies. Back to Hong Kong. Just wanted to ask, irrespective of union pay and regulatory intervention, what is the basic attraction to the Mainland Chinese of the product? I mean, is it the with profits structure that you think is – I guess my question is how sustainable aside from all of the regulatory side is this level of massive inflow? And I fully appreciate, by the way, Mike's comment. It's not relevant to earnings but to say it was obviously just at the moment it is.

A - Tony Wilkey {BIO 19184129 <GO>}

Yeah. It's – I mean – I mean, it's actually it's more than the product proposition. I mean, it's – frankly, I think we have got a lot of successful traction based on who we are. If you look at our name, why isn't our name with them (02:00:17) in Chinese? If you look at our name in Chinese, it's [Foreign Language] (02:00:19) UK Prudential and a lot of the Mainlanders feel like they're buying a piece of the UK when they buy product from us, which has a great history of – [ph] have lower instability (02:00:31) and so on and so forth. So, it's – that's our service. It's exceptional in Hong Kong I think compared to what might be broadly realized on the Mainland. So, it's a compliment of different pieces.

A - Lilian Ng {BIO 4943480 <GO>}

But actually you dive into the technical products, the products in Hong Kong are more attractive. I think it's given. In Hong Kong, it's a principle-based regulation, so there's more flexibility for insurers to price the products whereas in China it's more rule based. And actually this has been actually discussed by the CIRC to see how they can create a more competitive set of products.

So, having said that and that's why it's also important for us to win in China. So, going back to our strategies we need to do well in both.

A - Adrian O'Connor

All right. Thank you very much. So, we break for coffee now out in Prudential Club Lounge. If you could be back here at 10:50. Thank you.

A - Barry Lee Stowe {BIO 15021253 <GO>}

Hope everyone is well. For the next quite a while, I think about we have a total about three hours on stage before you today, myself and the Jackson team. So, an exciting time for our business in North America. It's an exciting time in North America as you have all read and seen. Some interesting things going on and the political scene and the regulatory scene is obviously going to be woven through the story we tell today because it's important. But there's a very big story to tell here, and it's consistent with the story we told you in the past.

The slide that you see before you now, this is not the first time you've seen this slide. You've seen it for many years. I mean, I've been with the group for over 10 years now and I can remember my very first investor conference. Clark Manning standing up and talking about baby boomers and this wave of baby boomers that are coming towards us. And so, this is consistently being the linchpin of our North American story.

It's happening. Everything we said was going to happen is happening. We've been talking about it for a long time. Again, referring to the events of last week, most of the pundits are suggesting and I think accurately that one of the reasons that President Elect Trump was successful is because he was listening to voices that others did not hear. He tapped into anger and frustration amongst a segment of the population that believed its issues and its needs were not being listened to. Many people in this group fit that description. So, you look at this cohort. So last year was - in 2015 that's when the people born in 1950 turned 65.

So, you see we're only a few years into the baby boom. The number of people that are going to be retiring each year for the next decade is going to go up and up and up. And here's an interesting fact to it. If you look at these people, if you look at American households where the principal householder is between 65 years and 74 years old, the median net worth of that household is $232,000, and that includes the equity that that family has in their home. These people are not going to live to be 72 years like their parents or their grandparents did. They have every expectation of living into their 90s.

This is a real problem. It's a problem that has not up to now been effectively addressed and it's one that now finally there is broad bipartisan support in Washington recognizing the gravity of this issue and wishing to deal with it. It will be a public, particularly with a unified Republican Government. You will not get Trump care, Trump retirement. That won't be on the table. This is a private approach enabled by political and regulatory leadership.

It's an interesting moment in our industry in the United States where there is a real prospect, a real opportunity for those who leave the industry to be influential and helping to shape how America grapples with this problem. It's important - if you want to participate, if you are leaving the industry, when we do leave the industry commercially, and I would suggest to you in this retirement space where we play this guaranteed retirement income space, which is the dimension of the marketplace, that leadership, political and regulatory leaders are focused on, we are the leader in that space. We have a track record of capability and competence and performance that no one else can match. So, we are engaged very much in this process. It is important to be engaged. And I think that over the course of the last year, we've learned a lot. We've taught a lot but we've recognized that there is a real opportunity to shape the future.

A lot of the questions that you've been asking over the last several months have been related to regulatory change generally, specifically to the DOL rule and to the NAIC the prospect that there could be changes through the NAIC in terms of capital regime since 2004. We will address all those issues today. What we want to do first is address the DOL issue.

And we stood before you in the past and we have talked about our view of DOL, how we think we will be prepared for it, how we think it could benefit us, what the short-term positive or negative impact might be. But we thought it would be useful for you to listen to someone for a little while this morning and have the opportunity to interact with someone who can speak to this topic with enormous credibility, Seth Harris, I thinks he's probably most accurately described - you can see his CV, but he's most accurately described as the go-to guy for left of center politicians in the United States on everything relating to labor. So, he's studied labor issues in university. He's spent his entire career dealing with labor issues, advising both the Clinton administration and obviously the Obama administration where he acted as Deputy Secretary of Labor and then as Secretary of Labor for President Obama. He left the government service by about two years ago now and went back to academia and to the private sector.

But Seth, we've gotten to know Seth over the last six months. He has brilliant insights into this issue. Obviously, he has - he's uniquely qualified to talk about the rule because he was in the room when it happened. We've blamed him for it on occasion in the past, but he says, no, he wasn't the only author of it but certainly was influential in crafting the rule. And I think what you will hear him say about the rule and the view of regulatory authorities in Washington, how they feel about the products that we sell and how we sell it may surprise you a little bit, but I don't want to eat in to anymore of his time.

So, would you join me in welcoming Secretary Harris to the stage. Seth? Thanks for being here.

A - Seth Harris {BIO 16362382 <GO>}

Thank you very much. Good morning, everyone. So I'm – you may have heard that my former colleagues at the U.S. Department of Labor produced the new regulation that a lot of people are calling an epical regulation that's going to transform the U.S. retirement industry. So, what I'd like to be able to do is give you a little insight into what their thinking was and perhaps what the effect will be of the regulation.

The rule essentially says and let me say it's a thousand pages long and extraordinarily complicated. I leave the details to others who are going to present shortly. But the rule essentially says that advisors who are making recommendations to individual retirement investors, individuals who are trying to get advice about retirement, about their retirement investments and the advisors getting compensation for providing that advice, as virtually everybody in the business does, those advisors must give advice that is in the investors', the customers' best interest, not the advisors' best interest, not the advisors' employers best interest but in the customers' best interest.

So, the rule was designed to deal with the problem that in Policy Circles we call leakage, leakage. And that is investors retirement savings should not go to excessive fees or excessive commissions or undue risk. Retirement investors save this money, they need their money to be able to support themselves through retirement. So, to the extent possible we want to keep that money in their hands, in their retirement accounts.

It's important to note that the regulation does not target particular products. I mean, different products are treated a little bit differently in different parts of the rule, but as a general matter, it is a rule about distribution of retirement products and all retirement products. Generally speaking, all advice about all products must be provided in the best interest of the investor – of the customer.

It's also important to point out the U.S. regulation is not the UK regulation. We were fortunate that your regulators went first and we had an opportunity to see the results and the turmoil, the controversy, and our regulation is significantly, the U.S. regulation, it's not ours, I don't work in the Labor Department anymore. But the U.S. regulation is significantly less prescriptive. It is a principles-based regulation, and the core principle, the most important principle is this best interests principle, that everything that is done by the advisor must be done in the best interest of the customer. And it is based on – I believe here is what we've thought, here is what was in our minds when we were promulgating this regulation.

For the ordinary American, figuring out how to invest their savings, so that they would have sufficient money to support themselves through the rest of their lives after retirement is much too hard. It's extraordinarily complicated, the products are extraordinarily complicated, it's – as some of the consumer and worker advocates have said to me since I left government, it's just too much work for ordinary Americans, it's too hard to understand everything they need to understand to do a really good job making sophisticated investment decisions. So, they need expert advice. They need help from someone who really knows the business.

Now, that creates sort of an interesting opportunity and maybe a counterintuitive result I think from the rule. Let me talk about a little bit about what the advisor does, although you all know this business far better than I do. But the premise of the rule is that the advisor essentially has two tasks. One, they have to help the customer, the investor, to understand the investors' needs, right? How long am I going to live and therefore how long do I need to have income, right? How much risk can I tolerate? What assets do I bring to the table? What sources of income do I have available to me among many, many other questions, morbidity risks and other events (02:13:57). So, that's task number one.

Task number two is, there are a dizzying array of products that are available for people who are trying to invest their retirement savings. So, the advisor is supposed to be not nearly expert in helping the customer to understand their needs, but also understanding the products and then figuring out which product best serve each individual investor, customer's needs, right, that matter. Boy, is that a hard job. That is a very, very, very difficult task. And what this rule says is, in the process of conducting that work, everything you do must be in the best interest of the customer. And we're just – what is – what's the sort of counterintuitive take on this. Let me – I don't want to sugarcoat this, the consequences of this regulation. This is a very complicated regulation. It requires a tremendous amount of work to comply. I am advising a number of clients. Jackson actually is not one of them, but I'm advising a number of clients about how to come into compliance with this regulation. It requires lots of paper work, lots of disclosure, lots of policy changes, systems. It's a lot of work, so I don't want to suggest that this is all a breeze.

But there is a reaction in the business community. I think the initial reaction almost always is new regulations, bad. So, I want to tell you how this new regulation – I'm not going to try and sell you that it's good, but I'm going to try and sell you that maybe there's something counterintuitive and interesting and important that's going to happen here.

Leakage is not the only problem in American retirement security, and Barry referenced this point but he didn't label it, so I'll label it. Millions and millions and millions and millions of Americans are arriving at my age, a little older, maybe significantly older, without enough money for retirement. They don't have traditional pensions that will pay them a reliable amount of money every month in retirement that, in the U.S., we call those defined benefit pensions. You all heard that phrase before, right? So, they have a pot of money and it's not big enough, and that's called adequacy or more precisely inadequacy. They have inadequate savings. So, they need to grow their savings. And because they don't have a traditional pension, they need a guarantee of a life time income flow.

So, this rule requires that the advisor sit down with the investor and talk about which products will satisfy that need. Now, not everybody has that need. There are high-worth individuals who are essentially self-insured, who maybe don't need that help, maybe they do. But there are lots and lots of folks who need to grow and need a guarantee.

The best interest standard says that the advisor must at least introduce into the discussion the products that will provide that kind of service, that kind of an outcome, variable annuities being one of them.

So, I would go so far is to say that, if you are not as an advisor or a broker dealer or some other kind of company that provides retirement advice, if you are never introducing those kinds of products into the discussion, variable annuities and others, into discussion with anyone, you're likely violating the best interest standard because you're supposed to marry needs to products. And in some number of cases, variable annuities and other products that guarantee lifetime income and that allow you to grow your wealth, accumulate further retirement savings, right are necessary products for the customer. So, that may well create an interesting business opportunity.

Okay. So, let me, now, before I turn over to Q&A to you, let me ask the question that you all have in your minds. What about Trump? And let me just say, that's the question he would want me to ask as well, his - he would - if he were here he'd be upset that it took me this long to get to him. So, maybe to put a finer point on the question, will the regulation survive a Trump Presidency? I won't comment on whether anything else will survive in Trump Presidency, but will the regulation survive at Trump Presidency or more precisely will it be modified, will it be killed, what will happen?

The honest answer is we don't really know yet, right? Precisely four people have been hired for the Trump administration, the President elect the Vice President elect, the Chief of Staff and a Senior Advisor. We don't know who the Secretary of Labor is going to be, my formal position, the person who will be most directly involved in this, the person who runs the agency that promulgate the regulation within labor department, we don't know any of that. We don't know who the top economic advisors are going to be in the White House. There are lots of rumors floating around. Decisions may well have been made, but they certainly have not yet been made public.

There are going to be some calls to get rid of the rule entirely, but one way to understand the election, and I think we're also trying to figure out what the election meant, is as follows. It was the revenge of the working class and middle class in America. They've been left behind by globalization and technological modernization. They're angry that the government seems to help everyone but them. They're uncertain about their place in society. They're worried about their economic future and their children's opportunities. Does that ring a bell with anybody from the UK, right. Very similar I think, not identical but very similar.

So, while those voters may not be able to tell you about this regulation or even know that it's out there, this regulation was intended. We intended this regulation to serve those voters, to protect the retirement interest of those voters among others. So, there's sort of a complex little line that the Trump administration is going to have to walk.

If you believe that President Obama and my successor and friend, Tom Perez, won the debate over how retirement products are distributed and the risks that are attending that, well, then repealing the regulation creates a potential political problem for the Trump organization, the Trump administration and their political base. If you don't believe that then he maybe has a little bit more freedom of movement.

So, we're in for, I think, the phrase, interesting times, was used. We're in interesting times in the U.S., so let's make this more interesting times by opening it up to Q&A from you.

A - <A>: (02:21

08) Yes, sir.

A - Seth Harris {BIO 16362382 <GO>}

But I think they want you to identify what organization you're with.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Yeah. Good morning. I'm Jon Hocking from Morgan Stanley.

A - Seth Harris {BIO 16362382 <GO>}

Good morning.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Good morning. The comment you made about having to consider the retirement security of the individual from an advisor's point of view, is that limited to the products they got on the shelf? So, is the obligation type in the best interest of the client given the toolkit you got available as an advisor or is that not a defense? (02:21:37)

A - Seth Harris {BIO 16362382 <GO>}

That's a superb question to which we don't yet have a complete answer from my friends in the Labor Department. So, the question is, in essence, whether the decision regarding what products you include on your shelf is itself a recommendation that is subject to the best interest standard. I've sort of rephrased what you said, but I think that catches what you're saying.

So, in the case of organizations that are selling entirely proprietary products, it is permissible to limit your shelf to proprietary products subject to a much, much more extensive set of disclosures and explanation as to why you're only offering proprietary products. With respect to independent agents or hybrid agents who have products from multiple manufacturers, it's much, much more complicated.

I think the answer will probably – I don't want to over predict here, but my guess would be, my sort of educated guess would be that you are not required to have a comprehensive set of products on your shelf but you can have a limited shelf but you must be able to justify that shelf and the advice must include an explanation that there are other products out there you may want to talk to someone else. And here's why I think that's what's going to happen.

It would not be reasonable to expect, for example, insurance agents to become experts in more exotic retirement vehicles simply because that's not what they do and it's – they're not intended to be deliverers of that kind of a product, distributors of that kind of product. So, my guess would be that, as long as there's clarity about why the shelf is limited and that the investor should look at other options as well, I think a more limited shelf will not itself violate the best interest standard. Is that fair?

Let sort of flip around the room a little bit. I'm sorry, I'll come back, I promise.

Q - Marcus Barnard {BIO 2103471 <GO>}

Yeah. Marcus Barnard from Numis Securities.

A - Seth Harris {BIO 16362382 <GO>}

Hi, Marcus.

Q - Marcus Barnard {BIO 2103471 <GO>}

If the agents got an obligation to sell something that is appropriate and in the best interest, is there any liability if that product doesn't subsequently do what it was supposed to do? I mean, does that fall back to the agent or to the product providers? Are there any sort of redress if it doesn't provide the income expected?

A - Seth Harris {BIO 16362382 <GO>}

That's another excellent question about the rule. So, I want to - first, I want to distinguish between best interest and acceptability. The standard under other laws is a version of an acceptability (02:24:30) standard. This is a different standard. The advice must be in the best interest given all the circumstances in which the investor finds him or herself. So, it really does require understanding the needs of the investor and then understanding the products and matching them up. The suitability, which is the literal phrase of the standard under others laws, is a different kind of standard.

So, I think, and I'm going to say something here that's counterintuitive to a lot of people, I think. The fact that an investment performed poorly in and of itself is not sufficient to violate the best interest standard in my view. The best interest is judged at the time, at which the advice is given, right? It's - I think it would be unreasonable for anyone to expect that any kind of retirement advisor is going to be able to predict into the foreseeable or even unforeseeable future, how any particular product is going to perform. Having said that, the failure of a product to perform as expected is likely to spawn lawsuits. And that's one of the big changes in this rule, the enforcement mechanism.

The manner - I'm not going to get into a lot of detail about the rule, but very simply, if you want to give retirement advice in return for compensation, you must enter into - in most cases, not all cases, but in most cases, you must enter into a contract with the retirement investor, and with that contract, subjects the advisor and then probably the advisor's employer - or the advisor's financial institution is the phrase to use, to a private lawsuit, or worse, a class action lawsuit by that investor, and perhaps similarly situated people. And those lawsuits will be brought in either State Court or Federal Court in the United States, courts that have not encountered these kinds of retirement income issues before in most cases.

That enforcement mechanism is - I don't want to overstate the case or try to speak for everyone, is certainly one of the top two or three or four issues among people in the retirement industry with this regulation. They're worried about their litigation risk arising out of the rule. No one over here wants to ask the questions, so why we don't we come back over here.

Q - Andy Hughes {BIO 15036395 <GO>}

Thanks so much. Andy Hughes from Macquarie. Just catching up on that litigation point. Some guys have volatility controlled funds, and...

A - Seth Harris {BIO 16362382 <GO>}

I'm sorry. Say it again.

Q - Andy Hughes {BIO 15036395 <GO>}

Volatility controlled funds...

A - Seth Harris {BIO 16362382 <GO>}

Yeah. Vol control funds.

Q - Andy Hughes {BIO 15036395 <GO>}

Yeah. Are they something that's particularly worrying in this market environment? My second question was, I'm thinking about best advice, I wouldn't even know how start to compare a variable annuity with guarantees, and work out what the value is for the client versus a straightforward mutual fund. I mean, is that the problem? It's just not easy to prove that you gave best advice than it was value for money.

A - Seth Harris {BIO 16362382 <GO>}

Great. So I'm not the right person to ask about vol-control funds in the market. Vol-control - I'm just - that's not my area of expertise. Vol-control funds are treated like any other product under the rule. They're subject to the best interest standard. They're subject to disclosure requirements. They're - I don't think that they are uniquely disadvantaged by the rule, except to the extent that there's really a requirement of a full explanation of what the product does and doesn't do. And vol-control is going to be a challenge to explain two ordinary Americans. And the risk that it won't come out the way it's promised is not insubstantial, as I understand it. You all are more expert again than I am.

The - explaining the difference between mutual funds and variable annuities requires the adviser to be expert in the products and be able to explain the products in a manner that is accessible to ordinary Americans. Although the rule doesn't literally say that, in order to understand and articulate their best interest, I think that that's going to be what's required. The question of a guarantee, which is available in a VA, which is, as I understand it, certainly not available in any of mutual funds that I own, that is a consequence of this dialogue between the advisor and investor.

How important is a guarantee to the investor? I'm hypothesizing to you that because defined benefit pensions are - they're not quite unicorns in the United States, but if you don't - if you work in the private sector and don't work for a unionized corporation, they're approaching unicorn status. I think that guarantees at least have to be a part of the conversation when an investor says, gee, I don't know what I'm going to do about making sure I can make my house payments, making sure I can support my kids (02:30:04) I need some reliability.

When that kind of language comes up, I think that has to be a part of the conversation in best interest. It doesn't mean that every single time that, that is the product that has to be bought or sold. But it's unimaginable to me that you're operating in someone's best interest and not having that conversation. Now, having said that, there is the shelf question that we talked about before. Not everybody offers every product, but I think it's going to be very difficult to not have those conversations and satisfy the best interest standard.

We've got a lot of questions.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Thanks. This is Lance Burbidge from Autonomous. When Secretary Perez gave his evidence, the first thing that he mentioned was the expense of variable annuity effect (02:30:55) the unsuitability of variable annuities to the wrong person. I wonder how that squares with your point that actually you think it's an acceptable product. Do you think it's an acceptable product that's too high charging, and so the charges have to come down, or something else?

A - Seth Harris {BIO 16362382 <GO>}

So, Secretary Perez was talking about distribution. I don't think that he was painting all VAs with the same brush. I think that more than anything else, what he was doing was commenting on the complexity of, not merely the product, but the manner in which the product is compensated, how it's paid for by the retirement investor. It's - but I don't think he intended to say variable annuity is bad always. And even if - let me just say - and he's a dear friend of mine. But I would also say, even if that were his view, that is absolutely not what this rule says.

The original version of this rule, as we originally proposed it in 2010, was extremely prescriptive and guided retirement investors towards low risk, low fee investments. That was the push of the rule and again, it was partly an answer to this question, how do we deal with the fact that retirement investing is fantastically complex for the ordinary American to make - it's too much work, they can't figure it out.

So, the answer was we'll make the decisions for them. We'll either set up a set of defaults or we'll just outright make the decisions for them. And that was greeted unenthusiastically in the political environment. Is that fair? Maybe I'm understating it a little bit. And so, this rule does not do that. It mildly favors certain simpler products by requiring less for those who sell them, but very few products are treated that way, very, very few. And they're very, very simple, and low risk, and low fee.

This rule treats VAs like every other product, that if it is in the best interest of the customer, you got to least talk about it. And if it's the right thing, you got to recommend it, and let me also say, they got to sell it. They then have to sell it. And again, if you take adequacy seriously, as I know my colleagues, the current colleagues in the Labor Department do, they are deeply worried about it. They care very deeply about lifetime income. There is legislation pending in the United States Senate right now that will push annuities very aggressively, create new opportunities for annuities that is supported in large part by the Labor Department.

In fact, some of the provisions are based on rules that the labor department has in draft ready to go that advocate for lifetime income illustrations, for example. So, lifetime income is at the core of the retirement debate in the United States. And the folks in the Pension Agency in the Labor Department want that. They want folks to move towards lifetime income because they understand, without defined benefit pensions, this is the only way you can go.

So, I'm getting the red flash in the light. Should I take one more? No? No, I shouldn't take one more. I'm staying - let me just say. I apologize to those of you who I just teased. I'm staying for lunch. So, if you can grab me at lunch, I'll be delighted to answer more questions. Thank you for your time.

MANAGEMENT DISCUSSION SECTION

Barry Lee Stowe {BIO 15021253 <GO>}

Thank you. So, there's something interesting going on here. When these rules first come out, we wring our hands as an industry and we say, they're after us again. They must be listening to Suze Orman on TV, who says annuities are always bad, and not one should ever buy one. But something is going on here. And you heard it from Seth, who is the most credible person I can think of on the topic. And through Seth, we've had the opportunity to meet people within the Department of Labor, to meet people within the Department of Treasury, to meet people in consumer activists groups who focus on the needs of retirees, groups like AARP and lots of others.

And what we hear consistently when we sit down with them and say let's take all the noise out of the room and explain to you what we are trying to do, what we think our product is meant to do when it's sold properly. We get enthusiastic thumbs up from everyone. This is great. This is - it sounds like exactly the product that people need. There is - as Seth said, there's a bill that just moved out of Committee in U.S. Senate that would require people receiving distributions in certain instances or retirement be shown an illustration for a product that provides a lifetime income. Mandatory provision of that illustration, that's obviously very good for us. And that bill moved through the Senate Finance Committee with - I think was unanimous, broad bipartisan support.

So, something is happening here. The trajectory – there is a political support in Washington for this. There is a trajectory of regulation that is focused on consumer centricity, higher quality in every respect. I didn't press anything. Anyway, I'll keep going. Hopefully, the slide will come back. But there's going to be a drive towards quality in every respect. There we are. So, I think what we will see as we go forward is a drive for a higher quality advice, for higher quality product, for better performance for consumers.

I'm going to answer your question here in the next two minutes about vol-control funds too. I'm going to nail it for you, okay? You can – the slides are not copyrighted. You can have it laminated and show it to people. And in terms of service, in terms of how we interact with people, that's what's going to be the mandate of our industry and companies that are well suited to this environment as I think we are because hopefully you'll leave today having even stronger conviction than you already have with Jackson is the – clearly, the best-in-class operator in this retirement space.

I believe that there's a confluence of things happening here that's going to precipitate higher quality, a flight to quality and potentially a dramatic expansion of this market, the VA market specifically has almost halved in scale over the last several years down to about $100 billion in flows last year. When you look at that slide I showed you early, the baby boomers and the trajectory of the number of people retiring, the demand is going up. So, there's a disconnect there that I think the trends in the marketplace are going to correct.

So, let's think about these four things I noted: quality of advice, quality product, quality performance, and quality service. And let's start with advice. So, if you look at the bottom of this chart, what you see there really in terms of the industry, there's about 100,000 advisors, who characterize themselves as regular sellers of annuity products. Of those, about 50,000 wrote a Jackson policy last year, so you look at that and say, holy cow, 50% market share. 13,000 of the 50,000 we call top producers. They gave us, on behalf of customers, assets of at least $0.5 million, at least $500,000 in flows. So, those are our top producers, 13,000 of those last year.

This is always how we have characterized our marketplace. This is how we've talked about distribution, always in this context. As these people to sell this product and for the ones that sell it, they really like us. But as you move up, what you realize is there's over 300,000 retail financial advisors in the United States. Most of them have not been selling this product. I think our future as an organization and our industry's future is tied, not to just to the 100,000, but to the 300,000. As the regulatory environment evolves, and you heard Seth say this, and Seth in delivering messages like this, there's no one more credible than Seth.

As the regulatory environment evolves (02:40:25), more and more financial advisors are going to realize, perhaps be told by their compliance departments that you need to be illustrating products that offer a guaranteed lifetime income. So, there's an enormous segment of the market out there in terms of the distribution landscape that don't currently sell these products that should be.

Now, what are the obstacles to this? One of the principal obstacles to this has been the fact that VAs and other annuity products have always been sold with compensation – with commission-based compensation versus fee-based. And for many of these 300,000, that's the principal obstacle. They don't like the idea of taking commissions. They like fees. You can have a rationale argument with sensible people about which is better for consumers, but they believe that a commission by its varying nature indicates that perhaps they've chosen their best interest, not in the clients best interest. And so, they simply avoid the problem by not selling commission-based products.

We've now launched an advisory-based product. And you've seen us with products like Elite Access, in the past take new product ideas, and get traction very quickly, and grow them into significant flow and revenue streams. And I have every confidence that you will see that with the advisory product as it takes off in the coming quarters.

So, there is a huge opportunity here, an untapped marketplace, if you will, in the advisory space. And as these advisors, again, are seeking high-quality lifetime income solutions, we will benefit from that. It is natural that the company who has managed this with discipline and with positive outcomes for all constituencies, through the cycles, for its entire history, will benefit significantly, as more advisors start selling these products.

So, let's talk about product for a minute. I think, again as standards increase for the provision of advice, as regulatory regimes emphasize the importance of lifetime income, you have to believe that our product has much greater appeal. So, look at the sum of the options, in the world in which we live, these are the products that people talk about. And we have listed here the key considerations. The thing that a retail investor, this typical baby boomer, these are the things – he's going to look at it and say, here are the things that I might need. I would love to have a lifetime income without giving you my money irrevocably and can never get it back because I want to have the prospect of liquidity if I need it.

I would like to have a death benefit. I would – after having drawn down income, I would like to leave something for my kids or for my grandkids. That's the need that many people desire to have. I need protection. We are an organization – our industry – the thing that defines us, that makes us different than mutual funds or banks or anyone else is that we can sell protection. This is how we get paid. We sell protection. And I talked to you for years about the protection story in Asia. Fact of the matter is we have a tremendous protection story to tell in North America. Different kind of protection that we're providing to a different demographic, but it is a basically a protection product that drives our organization.

They want the ability to select investments. The reason they want the ability to select investments is because, they don't just want, they need access to untapped market returns. You heard Seth talk very clearly about the adequacy issue. You address the adequacy issue by giving people equity market returns. There is no other place to invest in this environment, and I would suggest to you for the foreseeable future, that we'll offer the retail investor the upside that the equity markets will.

And many of these people would like tax - tax deferral is a very useful thing. It's not important - it's not as important to the guy that's got a net worth of $232,000. But as you move up the food chain, the tax deferral benefit is material. So, these are the sort of things they may be thinking about.

I mean, you can read this. I don't have to go with the punch line. Only our product has the prospect of filling every need. It is a unique product proposition. It allows the customer to decumulate, to take a guaranteed lifetime income.

It cannot go down, but it could go up based upon the performance of his portfolio within the product, which, if he gets it right, he finds himself in the position where he is accumulating faster than he is decumulating, comes out at the end of every year having - after having taken his income, he's got more than he started with. That's the ideal scenario. It doesn't always work that way. He might not pick the right stocks and so forth. But we do give enormous amounts of freedom to consumers, 91 different funds from which they can choose, some of which would be very familiar to some of you, some of which have your brand name on some of those funds. And by giving them that flexibility, it creates a very strong story for that retail investor.

Performance, which is really like the second part of product. So, we've shown you things similar to this before. You see the number of living benefit funds. What that refers to is if you buy our variable annuity product with an income guarantee or a withdrawal guarantee, I should say, these are the number of funds, which you have to choose from, around which we will wrap that guarantee, that protection. We offer 91 funds. Now, you notice it drops off dramatically after that.

That's because every other competitor in the marketplace today, if you buy the guarantee, forces you to choose from vol-control funds, which consistently underperform the market. So, my view is -and it's an interesting statistics. So, if you look at the 91 funds we offer, 21 of those funds over the last three years have offered a return of 7% or greater over the three-year period - 7% per year over three years, 21 of the funds, about a quarter. Because they are being forced into vol-control funds with other competitors' products, none of the other competitors have a single fund that has performed at that level.

Now if you take - if you assume for a moment you're taking a 5% withdrawal every year as your level of income, and you're getting a 7% return, then that creates that ideal scenario. In 25% of the cases, roughly, 20% of the cases that you can see with the Jackson product, you achieve that ideal scenario, a continued accumulation with a lifetime income. But none of the competitors are offering that because they're not - because they're forcing people into vol-control funds. So, my view, I'll answer your question, is that this candidly is - ought to attract regulatory attention because the very premise of the product is accumulation and income.

And if you - when someone says, okay, I want that product, and you say, great, we've got that, here is your income, the accumulation just went away. I don't see how that can possibly be best advice. If you need a VA product it, must be a VA product with investment freedom. And we have talked to a number of distributors. And Seth has been kind enough to join us at some of these meetings, some of our major distributors, the Raymond James, the Merrill Lynches, and so forth, LPL, et cetera, all across the country, talking with him at a very senior level and talking about the issues around DoL, and the state of the market, and so forth.

And what many of them are saying is that they will struggle having on their platform accessible to their advisors variable annuity products that don't offer investment freedom. So, my hope is you'll – we'll actually see more competitors coming back and offering investment freedom. I think that's good for consumers and that's good for the marketplace, that's healthy for the marketplace, and that's our hope.

Now, finally, let's spend just a moment talking about service. So, we've gone through this. Mike has told you the story before, Clark before Mike told you this story, we genuinely do have a real operational advantage, a real competitive advantage in the marketplace, by virtue of the technology and service platform that's been built in Lansing, Michigan. Just truly extraordinary. To my knowledge, we're the only life insurance company operating in the United States on a single administrative platform. I've talked to some of my peers at other companies, who are bemoaning the fact that they have 14 operating platforms. They've consolidated different companies over the years and just never dealt with the IT dimension of the integration.

Jackson has always been very disciplined. When we – we've done a couple of bolt-ons, you'll recall. Every time we – within a year, that's on the Jackson platform. That's one of the reasons we are able to operate from a cost perspective at half the industry average and a third that of some of our principal competitors. It's incredibly flexible and efficient for advisors, as well as easy to deliver service through an advisor or through our customer service people.

So, those – all of that capability remains in place and is useful. I get a report every month, shows customer satisfaction, for October, 99.79% customer satisfaction. Of the people that interacted with us that month (02:51:18), 99.79% said they had a positive interaction with Jackson, which is – we can always do a little better. We got 21 basis points in there we're working on, but it's a pretty good outcome.

The important point on this slide is the last one. We talk about – we're only selling really through a universe of 100,000 reps. And about half of those are selling our product. And there's 300,000 people who are fee-based RIAs, whatever who don't currently sell our product. And I talked about compensation as an obstacle.

One of the other obstacles there is that many of those advisors are accustomed to doing their business, managing all of their clients' interests on a single wealth management platform. And they only sell the products and services that can be sold directly through that platform. It simplifies their life. It's point, click. They can sell, do service through that integrated platform. If you're not on that platform, you're not going to sell much.

Now, we do – there are organizations, who do sell for us, wire houses, who operate off these wealth platforms as an example. They do sell for us, but it's a very cumbersome process because they're talking to their customer and they've got everything on the screens, like, (02:52:42) going to talk about lifetime income and we shut this down, let me go to the different website, let me log in, let me find what I need, and it just makes it a more cumbersome process. And it's obvious – should be obvious that it is a deterrent to sales.

We've been working now for almost a year we call the plumbing to integrate our products into the wealth management platforms in North America where the vast majority of the assets get managed. That will facilitate the rise of our prospective advisory product in terms of volumes that will make it very easy to access that product because you can now sell that product very easily on that wealth platform on a fee basis.

You can service your client. Then, on that platform – that Jackson product on that platform. You can even go in if things are happening in the market and you say we're going to move out of fund XYZ and to fund ABC. And you know he's got exposure to that fund through some money that's just sitting directly in the fund and he's also got that fund within a Jackson annuity. You can quickly go in and make both trades. It's much simpler process than what they have to go through today, so this is an extremely important point.

Now, we talked just a few moments ago, try to scale the opportunity, try to measure the opportunity by talking about the number of advisors who are out there that don't sell the product. Let's look at it a little differently by assets. So, here's the various different distribution sources that we currently work today and here are the assets that we generate from those.

So you can see independent broker-dealer, we've always talked about this. The independent broker-dealer is the most significant exposure we have. But we had a lot of business from banks. We got a lot of business from the hybrids, the guys who work on some cases on a commission basis; but in other cases, on a fee basis. We get very little from the RIAs because they're normally pretty disciplined about commissions, they don't like commissions, they don't like the right products that entail commissions.

There are big broker-dealers like the LPL as an example, with whom we do a fair amount of business. And the wirehouses, the Merrill Lynches and so forth. It's complicated for them as I just described to do business with us, but they do. Now let's look at it not in terms of the level of assets that these different distribution channels give to us, but rather the assets that they actually manage.

If you look where we have always concentrated the independent broker-dealer, we probably got 20% share there. That's probably about where it should be. That's probably all-in. It's probably about the percentage of assets for their entire client base as they should be given to Jackson to fund a retirement income and then they invest in other things as well.

So, we've done a really good job with the independent broker-dealers. But we've had faced obstacles everywhere else that principally relate, as I said before, to the way the product is – you get paid for selling the product and what you have to do logistically to manage the transaction. We now have a fee-based product. We're doing the work on plumbing, so we will be integrated not this month, not this quarter, but over time, we will become more deeply and deeply integrated on to these wealth platforms and that's going to make an enormous difference.

There's $16 trillion of assets sitting out there. There's $24 trillion of assets sitting in qualified accounts right now, IRAs, principally 401(k)s. There's some overlap, some of that IRA money will obviously already be on these platforms through these channels. But think about it, £16 trillion sitting there now, over £20 trillion moving towards these channels as these people move towards retirement.

The scale of this opportunity is gigantic, and if you believe and which I believe that it will be about a flight to quality, it will be about embracing higher standards, it will not be about resending the DOL rule, it will be about modifying it to make it work more efficiently and more effectively for consumers. Seth says one of things that surprised – even Elizabeth Warren is now fussing (02:57:55) at the Labor Department saying, we published this new rule and annuity sales are going down, what's wrong with you people, they're supposed to go up. Because they didn't realize that this whole trial of our class action suit might be annoying to some distributors. So they've missed the very important point there, that if you accept that regulation will be more consumer-centric, we'll focus the industry on quality.

And if you accept that there is a real desire to drive the sale of more lifetime income products and that that's going to be pushed in a bipartisan fashion by political and regulatory leadership in the United States and then you look at this, you have to believe this is an extraordinary story. I'm absolutely convinced that this is one of the greatest commercial opportunities that this group has faced and we have the advantage of being perfectly positioned, highly competent, a strong track record of capability to take advantage of this from a shareholder perspective, but to speak less commercially, but to actually solve a gigantic problem in American society, where our skills are uniquely suited to do so, which I think is an incredibly positive situation to be in.

We want to spend a little bit of time now getting a little more granular on DOL. We want to demonstrate to you how we think this impacts us and importantly demonstrate to you the high level of preparedness we have for the rule as it exist today. There is the prospect that the rule may not be implemented when we think it will be in April and with full implementation in January of next year. There certainly is the prospect in the Trump administration, which is fundamentally skeptical of regulation that there's the scope for this rule to change and that there are things about it that should change. But in any event, it should be important to you and it's important for us that you understand that we're fully prepared to deal with it.

So I'm going to ask Drew Bowden, who is our Senior Vice President and General Counsel at Jackson, and then Alison, who is also – Alison is going to come up as well and Alison is the Executive Vice President in charge of operations for Jackson National Life Distributor. Drew and Alison?

Alison Reed {BIO 21766911 <GO>}

Thank you.

[06KBSX-E Barry Stowe]

Who's in-charge of the clicker?

Andrew J. Bowden {BIO 17449535 <GO>}

You can have your own.

Barry Lee Stowe {BIO 15021253 <GO>}

All right.

Alison Reed {BIO 21766911 <GO>}

Thank you.

Andrew J. Bowden {BIO 17449535 <GO>}

Good morning. As Barry said, my name is Drew Bowden. I'm the General Counsel of Jackson's operations in North America. I've been with Jackson for about a year and a half. Prior to that, I ran the examination program at the United States' Securities and Exchange Commission for three-and-a-half years, before that, I was in the industry. What Alison and I want to do with you today is really try to answer a couple questions that you would ask in advance about the DOL. Talk a little bit more specifically about what did the DOL do in its rules, we'll get through that. Two, talk about what impact that we think that the DOL rules will have on the industry at large, sort of across the entire industry. Then, I'm going to turn it over to Alison, and Alison is going to share with you what we've been seeing from our distribution partners, from a Jackson perspective and the preparations that we've been making at Jackson in order to be ready for the rules when they do go into implementation. Does that sound okay?

And I know we're coming up on our time, so we'll move quickly. So I'm going to start first with what did the DOL do. Seth gave you some of the sort of the philosophical, theoretical policy, imperatives that were behind the rule. I want to get down in a little bit more just brass tacks and talk to you about what the rules did.

The first is I sometimes hear people as a misnomer, people call it the DOL rule, it actually was a package of rules. It was new rules and rule amendments that totaled well more than 1,000 pages. What you have in front of you in the following four bullet points might be the shortest executive summary of the DOL rules in the history of man, and I'm going to try to get the room quickly for you. But these are the key takeaways that I think if you really want to understand the rule and the levers that it's pulling that you have to know.

The first is, what is the – the DOL expanded the definitionary (03:02:17) of fiduciary. So, the DOL has jurisdiction over what are called the qualified assets, so retirement assets, pension funds, 401(k), IRA. Think of it as money that individuals have set aside for their retirement in a tax-advantaged account, it's advantaged by the government. If you and I ran a distribution firm, if we were in the business of advising retail investors, depending on what firm we're in, somewhere between 50% to 70% of the total assets in our firm would be qualified assets.

So, the DOL in theory, potentially, their rules could impact between a half the 70% of your business. The first thing is the DOL rules only impact, they only come into play over that part of your business if you're deemed to be a fiduciary as the DOL describes that term. And with these new rules, the DOL substantially expanded the definition of fiduciary. It used to be under the old rules the DOL had a five-part test (03:03:13) that had been placed since 1975. It used to be that in order to be a fiduciary, you had to, among other things, give regular advice. And there had to be a mutual understanding or agreement that your advice was going to form the primary basis for the decisions made by the investor.

And so there was this concept in the old DOL rules of what I would call a distinction between sort of a sales person and a fiduciary. A sales person episodic, one time. I come to you, I offer you something, you either buy it or you don't and I go away. I could engage in that type of a relationship with you without being a fiduciary in that part of my book and therefore, not covered by the DOL rules.

With the new change, what the DOL alluded, they expanded the definition of fiduciary to literally include any communication that a reasonable person might consider to be a suggestion that a person act or refrain from acting in a particular way. So my shorthand for that in the interest of time is the DOL rewrote the rule. And now if you smile at someone who has retirement assets, you're a fiduciary, and there's no getting out of it. So that's 50% to 70% of your book, you're now subject to the DOL rules, where maybe potentially you might have been some of that before, but now it's all of it.

So, the second thing you did is you have to understand how the DOL rules work, right? Under the DOL rules, once you become a fiduciary, you're prohibited from using that investor's assets in a way that benefit you or any of your affiliates. It's prohibitive, that's the starting point. So if you get – so commissions is a perfect one. So, if I'm a fiduciary and I'm in a situation where I could sell you a mutual fund and get paid A, or another product and get paid A times two, I'm conflicted, I'm a fiduciary, that is prohibited under ERISA. And so the only way you get out of it is, I used the short hand up here, adopted a new PTE, that's a prohibited transaction exemption. So there are about 57, I think by last count, prohibited transaction exemptions.

So, if you engage and you want to use client assets in a way that will benefit you through variable compensation, I have a conflict, will benefit your affiliates, I'm going to sell you a product that one of my affiliates manufactures or manages or sells, then you have got to – if you want to do that lawfully, you have got to do it under a prohibited transaction exemption. And the DOL passed a new one that you've seen called the BICE, that is intended probably will be the most heavily used by all the people who are now fiduciaries where they weren't before and came under the rule.

So, the BICE – in the interest of time, I won't go through all of the ramifications, but the BICE has fiduciary standards written into it, hard wired, I would argue elevated fiduciary standards about anything that existed in the business and those applied to everyone who's a fiduciary, whether you work on a fee basis or whether you work on a commission basis. The second part of the BICE is, if you get paid variable compensation, if you get paid commissions or if you get paid variable comp by product manufacturers, so mutual fund A pays you X to distribute its product, and mutual fund B pays you X minus 2 variable comp in any way, then you have to also sign the contract that Seth referenced into, and you have into enter into a contract to your client with agreements, warranties, disclosures and certain other provisions in it. So, the BICE is a pretty significant lift in order to comply with the prohibited transaction exemption.

The third thing that the DOL did and the third big takeaway is they removed fixed index and variable annuities from a pre-existing prohibited transaction, that was 84-24. So the easiest way to think of this is, if you were a fiduciary under the old rules, a big if, because you operated in a way to not be a fiduciary because you didn't want to deal with those rules, but if you were a fiduciary under the old rules, and you sold an insurance product, you did it under Prohibited Transaction 84-24. And Prohibited Transaction 84-24 is much less burdensome than the BICE. So, think of the lift to get through the BICE is here, 84-24, the standard in selling an insurance product was basically the deal that you struck had to be as good as a deal you could strike on an arm's-length basis and the comp had to be reasonable, and there were certain other disclosures. But BICE, significant lift, 84-24, not perceived to be as significant a lift.

When the rules were proposed by the DOL in 2015, they proposed to take variable annuities out of 84-24 and put them into the BICE, but to leave fixed annuities and fixed index annuities in 84-24, which would have created an unlevel playing field, right? Variability annuities would have had the higher, but had to comply with the BICE; fixed and fixed index, a lesser standard. When the rules came out in 2016 to the surprise of many people, the DOL removed not only variable annuities, but also fixed index annuities from 84-24. So, much less burden.

And then, the last thing on the rule that I'd say is significant that Seth mentioned is, from a former regulator's perspective, an interesting piece of regulation, where the rules were written, again not with the expectation that they would be enforced by the DOL or the IRS or any other regulatory authority, the rules were literally written with the idea that they would be enforced in courts by litigants. People selling products would get sued by their clients to enforce the rules. So, a significant impact there. So, those are the four big takeaways from the DOL rules that I think are driving some of the things we're seeing.

Next, DOL industry-wide implications. So, think of this conversation, what I'm going to try to lay out for you is if - let's pretend we'd all gone back in time and we had just read the thousand pages of the DOL rules and had a conversation to say, okay, how (03:08:59) this plays out? How does that affect the industry? What happens from here?

These are some of the things we came up with. So first on the product side, the new rules discourage commission-based products and encourage fee-based products. I told you under - remember under the BICE, everybody has to meet the impartial conduct standards. If you get differential comp commissions, you have to do a contract and do a whole bunch of other stuff.

So, this is nothing new from a regulatory perspective, the industry has been moving to fee-based business for years. When I was with the SEC, we did a paper for the chair of the SEC and we called it the migration to fee-based. And so I think these rules just accelerate that migration.

The next two on product really go together. It says the distributors want to reduce product conflicts and menus. I'll start with menus. Again, if we ran a firm, I think many people who were in the business of advising retail investors thought of their business, their client as their advisors.

So if we had a firm, I'll pick a number, we had 10,000 advisors. Typically, our product menu in large part, not exclusively but in large part was my advisors want to sell this, so I put it on the platform. They want to sell this, they've put it on the platform.

So you get a proliferation of funds and insurance products and other types of securities that your advisors are selling, because that's what they want to sell. Well now under these new rules, you're a fiduciary. Somebody had mentioned what if a product goes wrong. You're potentially at least on the hooks.

So, the natural inclination is going to say, right, I'm going to narrow the field of products that I offer to ones that I could do due diligence on and feel really good about. The second thing you want to do is you want to reduce product conflicts. So under those rules, any type of differential compensation puts you at risk.

So once you've set, I'll use mutual funds for the time being because there are so many of them. Once you've said okay, I'm going to narrow my menu of funds I offer, now the game becomes I want to get paid the same thing by every mutual fund company. I don't want to be conflicted to choose one fund over another. I wanted to be leveled. So, these two really go together from a product standpoint, from a Jackson perspective as your clients are now going to want to do business, potentially the fewer manufacturers. And when they do choose their manufacturers, they're going to want their product to look similar.

So for us from a product perspective, it used to be when you launched a new product, you had futures, you had options, you put it out on the market and people sold it. We're moving into a phase where you're going to see a little bit more white labeling, where your partners are going to say, I would like to only offer the following options, I would only like to offer the following compensation scheme at my firm, so that happens.

Next on that, with that our projection is we'll see increased lead time in filings, so people are going to come up with new products, they're going to come up with customized products. Not a huge deal, but I do think in some of the state insurance departments, they're going to see more flow of product that they're going to have to review and improve than they have in the past. So potentially, longer lead time.

Next, on distribution. Distributors must decide whether to offer commission-based products under the BICE. So again, simply put again, if we went back in time and we ran our firm, and these rules came out, I think looking at that 50% to 70% of our business that was qualified, and therefore, now under the DOL rules, you could arguably say one of three things. One, I don't want to advise any qualified assets, I want to get out of that business entirely because it's too high risk for me. I'm just not going to advise people on their retirement assets. A second would be, I'm going to advise people on their retirement assets, I'm willing to do it, but I want to do it on a fee basis, not on a commission basis because fee basis is less burdensome potentially, and potentially a lower risk. The third is, I'm just going to use the BICE, and I'm going to continue to sell products on a commission basis and operate from there, maybe changing the mix over time. And Alison will sort of pick up with you what we've actually seen out of our distribution partners on that.

Data, infrastructure and delivery, Barry talked some about plumbing. I won't go on, on this one too much, but I think it's probably one of the underestimated parts of the DOL rules with the BICE and the contract there are extensive disclosure obligations that distributors have to meet with their clients, so they're now obliged to deliver information in a systematic, periodic and accurate way to their clients about – in particular for us, of variable annuities. There was no central clearinghouse or standard industry format to capture data about fees and expenses and features in variable annuities previously. As a result of this rule, people had to come together and for the first time, we do have an industry standard, I think it has 700 data elements in it to capture all of the basics of the various variable annuity products, which is again laying the groundwork and paving the way, I think for the plumbing to be built for greater utilization of the product.

Mix of business with FIAs, it's maybe a little bit too arcane for now. I'll try to do this in 30 seconds or less. So under U.S. securities law, we mentioned insurance products, generally fixed annuities, fixed index and VAs. Under U.S. securities laws only variable annuities were securities. So, if you sell a variable annuity, you're subject to regulation in addition by the DOL, by the Securities and Exchange Commission and FINRA. Fixed annuities and fixed index annuities were not securities products. They're just insurance contracts.

So going back in the past, you or I could have had a business where we sold fixed annuities or fixed index annuities and we did not have to be affiliated with the broker-dealer. We just had to be an insurance agent. Under the rules, what the DOL said is, if you're selling fixed index annuities, you have to be affiliated or be designated as a financial institution, which is a broker-dealer, an insurance company or a bank.

So, those people who have been in the business of selling exclusively or predominantly fixed index annuities now have to figure out how they're going to associate or be designated as a financial institution so that they can comply with the rule. And Alison will explain to you kind of why that's important as well.

Legal and regulatory, I won't go much into that. I'll turn it over to Alison. Short-term uncertainty, the interesting thing to me about the rules is when they came out. Being the General Counsel at Jackson, the question I often got, people would come and say, what can we do under the new rules, how do they work, what can we do and what can't we do.

One of the most interesting things about these rules, they don't prohibit anything. Seth made this point. You can do anything, you can sell any product, you can arguably have any comp scheme that you want to have. Do what you want, it will be decided after the fact in courts, whether or not you've acted in the clients' best interest, your compensation is reasonable, do you have any structural conflicts in your interest. So, nothing black and white.

So, from a legal and regulatory perspective in the short to medium term, it's created a lot of uncertainty about what you can and can't do in this business. Another point on that I would put is the DOL issued sort of its first fulsome set of frequently asked questions under the new rules which were designed to sort of clarify and clear up any misperceptions or misunderstandings that people had about a couple of weeks ago. And they came out and I think they may have sowed as much confusion as they cleared up. People got it, said to themselves including me, oh I didn't think that's what the rule said. So, there's a lot to be sorted out in those.

And increased liability, the new rules increase litigation regulatory risk. The important point there is it's for distributors. The rules directly apply to distributors of the product, not manufacturers. And with that, I'm going to turn it over to Alison.

Alison Reed {BIO 21766911 <GO>}

Thank you, Drew. So I'm going to spend the next few minutes covering two topics. The first being our broker-dealer partners assessment of the DOL rule. And secondly, Jackson's DOL preparedness.

So first, I'll start with the broker-dealer assessment. As you saw from Barry's slides, Jackson has extensive relationships with the top broker-dealers in the U.S. And it's these broker-dealers that are directly impacted by the DOL rule. Since the rule's been released, Jackson's had ongoing conversations with our broker-dealer partners, specifically related to their assessment of the rule. And I'm going to share with you four trends, key trends that are emerging from these conversations.

These include their intention to comply with BICE, their definition of reasonable compensation, their intention to limit their product menus, and the applicability of BICE to nonqualified accounts. So, let me start with intention to comply with BICE.

You've heard that broker-dealers and our distribution partners, they do have several choices under the DOL Fiduciary Rule. They can comply with BICE and continue to offer commissionable-based product. They can move away from commissionable-based sales and go to a fee-only platform for their qualified business or they can preserve choice and do a combination of both.

What we're finding is that 17 of our top 20 firms based on 2015 sales will comply with BICE under the DOL rule. Only two firms have said they will not comply with BICE and they'll move over to a fee-only platform for their qualified business. Now, this is a positive trend for Jackson because of those 17 firms, Jackson has historically been predominantly a commission-based product manufacturer. It's also important to note of those 17 firms that they do intend to offer fee-based product to preserve choice. So give their advisors the choice to offer commissionable or fee-based products to their clients.

Next, I'm going to talk about reasonable compensation. And under BICE, broker-dealers will need to standardize compensation by product type. This is an area where broker-dealers have been a little slower to comment. That said, seven of our top 20 firms have indicated that they will reduce upfront compensation in a range of 5% to 6% upfront with a trail commission ranging from 25 basis points to 50 basis points. Only two broker-dealers thus far have indicated that commissions will come in lower than 5%.

Another important takeaway, as you see no green in this table and green is the highest upfront-only commission. Broker-dealer partners have indicated to us that they're going to move away from that high, all upfront compensation. Again, Jackson views this as a positive. It's a positive because commissions are coming down less significantly than we originally anticipated with the release of the rule.

The third thing I want to cover is limitation on product menu; you've heard this a couple of times. 18 of our top 20 broker-dealers have indicated that they will likely or will limit product menus. In fact, one of our top wirehouse firms have indicated that they will limit their product menu to four carriers effective in January. Jackson being one of those VA carriers and we feel that Jackson is going to find their way on these limited product menus because of the strong consumer value that our products offer to their clients, one being the customizable product offering, the ability for the rep and the client to pick and choose the features and benefits and pay for only that corresponding charge.

Also no investment restrictions associated with the living benefit guarantee and superior performance. And that superior performance will result in greater accumulation and the likelihood for increased guaranteed retirement income for the consumer.

And then finally, I want to touch on BICE to nonqualified. Clearly, the DOL rule addresses qualified accounts and IRA accounts. But based on our conversations with broker-dealers, at least half of the firm so far have indicated that they're going to apply BICE standards to their nonqualified business. And when I say BICE standards, that means limiting the product menus and applying their definition of reasonable compensation to their nonqualified accounts.

They will not require their clients to sign the Best Interest Contract for nonqualified sales. And they're doing this primarily for consistency purposes. Consistency at the firm level in terms of similar policies and procedures to be monitored at the firm, and then also consistency at the client level in terms of the products being offered for both account types as well as how they're getting paid for both types of accounts.

Next, I wanted to talk about Jackson's DOL preparedness. Since the release of the proposal in 2015, Jackson established a formal governance structure related to the assessment of the DOL rule and its impact to Jackson. As Drew mentioned, we've broadly categorized this into three main areas including product, distribution, and legal & regulatory.

So let me start with product, and again, fiduciary changes. At the product level, again, broker-dealers have a choice, and we do feel like and we know that most broker-dealers will comply with BICE initially. However, because of the additional requirements as well as the liability associated under BICE, we do feel like there will be a trend or a movement towards fee-based accounts.

Now Jackson launched its first fee-based variable annuity Perspective Advisory in September of this year. And this is our first entry into the fee-based VA space. And when we enter this space, we introduce the unique product structure as compared to what's currently offered in the marketplace today. That structure offers a short, modest surrender charge schedule. And what this does is it reduces the overall fee to the client, reducing fee drag over time and giving more opportunity for accumulation and step up to increase that guaranteed retirement income.

Jackson will also launch its first fee-based IOVA, Investment-Only VA, in January of next year. In terms of product standardization, broker-dealers under BICE will need to eliminate any share class conflict. In terms of that, Jackson was one of the first product manufacturers to voluntarily close its standalone L-share contract. And we did this in July of this year.

At the same time, we introduced a bundled share class. And what this share class does is it effectively eliminates share class conflict for our distribution partners. In terms of distributor-driven customization, as I mentioned, the definition of reasonable compensation, a lot of our distribution partners are going to standardize the commission by product type.

In July of this year we also launched the streamline process to more quickly implement those commission changes on behalf of our broker/dealer firms. And in terms of lead time, we do think lead time for product filings will extend. And Jackson has an experienced and dedicated product implementation team that has reduced the product launch cycle as compared to our peers.

So, let's move down to distribution. Again, we're going to see fiduciary changes, and that's the majority of the distributors we feel, over time, will shift over to fee-based products. And fee-based variable annuities are not new to the industry. However, historically, they've been fairly unsuccessful with over the last five years representing about a 5% market share in the industry. And we feel like Jackson will have a competitive advantage in this space because of our effective and largest wholesaling team. We also have strong relationships with our existing partners in this large pool of assets. And we have product launch experience, specifically with the success of Elite Access.

In terms of data, infrastructure and delivery, again, as Drew mentioned, under the BICE agreement, they're significant transactional disclosure that our broker/dealer distribution partners are going to have to comply with. At Jackson, we took a leadership role in designing and implementing these standardized data feeds, so broker/dealers can consume that information and comply with the disclosure requirements.

In terms of mix of business, 2016, it's likely going to be another record year for FIAs sales. In Jackson, feels like we're going to be the benefactor of FIA sales being on a level playing field with VA sales. This will be because FIAs are going to be subject to standardized products, the definition of reasonable compensation as well as reduced compensation from an incentive basis. The other impact to FIA, as Drew mentioned, is the impact of independent agents. Independent agents will have to affiliate with the financial institution to sign that BICE contract.

Independent agents have historically sold about 60% of the FIA business, and Jackson is subject to this. However, it has an immaterial impact on Jackson business because, last year, only 0.5% of our overall annuity sales were sold through independent agents.

And then finally, legal and regulatory. Jackson spent significant resources from an internal legal perspective. We've also participated actively in industry trade groups as well as work with some of the most experienced outside counsel. And that assessment has resulted that the DOL rule directly impacts our broker/dealer partners, not the product manufacturer. In fact, our assessment is concluded that the class action risk that's been talked about with the best interest contract is borne by the distributors not the product manufacturers.

So, with that, I'm going to turn it back over to Barry. He's going to close out the morning session.

Barry Lee Stowe {BIO 15021253 <GO>}

Okay. So, just before we go to lunch, what we've tried to do this morning and we'll continue to do it after lunch, a bit more as well is to remind you of what I think you already know about Jackson, which is, we're the leading manufacturer of prudently-priced, consumer-centric retirement solutions, best-in-class, you heard Alison referred to, best-in-class, most professional, most productive, most efficient phase to the advisory marketplace, the scalable, efficient operations I've already alluded to, the low-expense ratios that those drive. Strong risk management this afternoon right after lunch. We'll come back and Chad will take you through the finance that – given by our risk management, the economics of the business as we sit here today, which I think will be encouraging to you, and all of this activity driven by what I consider to be best-in-class senior management team.

It's a very, very strong proposition, a terrific enterprise and extraordinarily positive space right now to deal with the changes coming at us. So, on that positive note, I will release you to lunch. Raghu, 1:15 or 1 o'clock, yeah. 1:15. Quarter after one, we will reconvene. Enjoy your lunch.

Paul Chad Myers {BIO 2234559 <GO>}

Good afternoon. Welcome back to the rest of the Jackson presentation. What we help to accomplish over the next six hours or seven hours here is the complete and total understanding by everybody of the VA business. Anyways, so general topics for today, I'm going to talk about net flows, market position, general update of the health of the VA in-force book as we typically do in these venues. We'll get on to the assumption review. We just finished that up our 2016 process. I'll give you a little bit insight to there. And it seems like there has been a few questions about the NAIC VA rates. We'll spend a little time on that as well.

So, starting, jumping right in to the kind of where we are in the market. So, you've heard some of this before, but just to put some numbers in front of it. We're obviously in a very challenged environment in the U.S. right now with the regulatory environment being what it is. And we've seen something come out of that that we haven't seen in a couple of decades, which is the fixed and indexed annuity market is now larger than the variable annuity market, which has happened just over the last year or so.

A big part of that came in the form of the DOL regs that were coming through and there was the expectation that the index annuity products would be exempted. And so, what you saw was focusing – here is a low regulatory risk product that I can earn a big commission on, sort of gets me market participation. And frankly, in the market that we participate in right now, Barry was talking about the well controlled (03:30:57) funds and just how poorly they generally perform. There's not as much daylight between an indexed annuity and a well-controlled fund (03:30:59) as there is between our variable annuity and an index fund. So, that's really fueled a lot of the growth that we've seen there and obviously variables falling off at the same time.

What we have seen though is, since the rule came out, we had clarification and index annuity has got pulled back into or got kicked out of 84-24 is a stabilization there. And I think index annuity market is going to be much more challenged coming into next April than it has been. So, obviously, we've seen an inflection point there. And as the market now pauses and thinks about what kind of risk am I taking by selling these index annuity products as well.

And so, where we sit right now is still a lot of people are sitting on their hands, still a lot of broker/ dealers that are making decisions about what reasonable comp is. We saw Alison's slides. There's been a lot of decisions made, there's still more to be made. And even though those have been made, in many cases, they haven't been communicated out to the reps, it's more with the carriers that they've been having these conversations.

So, we should get more clarity in the upcoming months, and that will hopefully start to get these lines back in the more historical proper context. But, clearly, a big headwind that we've had. Another one that's also not terribly clear necessarily is, if you look at the captive share of variable annuity sales in the U.S. they moved up quite a bit. And if you think about the fact that in a captive distribution force you have, you got much more control over the distributors, so the end reps (03:32:39). So, if the end rep (03:32:40) is a little queasy about selling variable annuities and you want them to sell your variable annuity, there's obviously more, say, market power there if you will to get that through.

So, this also is not a trend that's particularly helpful to us because we don't sell in the captive channels. So, what you've seen is a pretty big headwind for us. Overall, we're slightly better than the industry overall, which, if you think about the fact that, in the variable annuity industry, think about these trends, the fact that it actually gained the market share over this period and we definitely will continue to see some benefits from the consolidation of distributors that we see coming out of the whole BICE, DOL reg. It's, again, a good performance in a bad market, and I don't think you can get a better picture than the one on the right.

Here we're talking about the overall – total growth of us versus the industry. I'll get more in the net flows in a few minutes. But our positive performance is really a function of a couple of things. It's good net flows, which is, again, fairly unique in the industry at the moment, as well as good performance. Because we haven't put everybody into these constrained balance portfolios or well-controlled funds (03:33:55), we actually have seen the performance come through. And so, what you've seen is good growth in AUM for us versus an industry that's going backwards.

This is a slightly different look than if you look at the general top line of VA. I think we've had this one up here before, slightly different context. Historically, what we've shown in this is we're controlling the risky also known as really high-margin portion of our business, and this has really been a range when we're dealing with the sales capital and managing the risk of the overall book. This is really the range we've been at over the last several years. So, despite the turmoil we have in the market, what you do see is that we're really just kind of in the low end of the range that we've been for quite a while. When you look at, specifically, the living benefits of VA sales, which clearly are going to be more of the focus as you've heard so far today of sales going forward.

If you're sitting down during the financial plan, the investment-only VA, the lead-access type of product doesn't – isn't necessarily favored in that conversation because really all you're selling is tax deferral. What you really see is the income guarantees. The fact that this part of the market has held up pretty well for us is actually quite encouraging.

If you look at overall net inflows, so, again, the grey bars are the sales. So, sales are kind of in the low end of the range we've had over the last several years. The red bars just being the annuity surrenders that come through. And you see those have been building as the block is building . That makes sense. But we still – I think as we talked about coming in the DOL and when there was much less certainty, we had a lot more ability to absorb bad news than most of our competitors do. And we have been able to withstand relatively significant shock in the market. Thinking back to that prior slide, here, we're still generating positive net flows. We – through nine months a little over $5 billion of positive net flows against an industry through – we only have data through Q2. That was $15 billion in a whole, so very, very stark performance difference between us and the rest of the industry.

So, I think one of things we're seeing now, it's a little bit of a nuance relative to prior years. It's been a lot more of a net flow story coming out of the crisis. We start with a small book and most of the growth that we're seeing out of Jackson is coming out of the net flow side, that the market performance on a small block just wasn't enough to be that impactful.

What you're seeing is obviously we have lower net flows this year due to the – just due to the issues in the market. But with the size of the book now, the $145 billion, even if we were to go back to our – to the heyday of $12 billion to $13 billion of net flows, you're really talking about a situation where 9% or 10% move up in the market is every bit as important as you would see record net flow. So, coming into more of a balance where modest market growth coupled with modest net flows even if we couldn't find a way grow from here, you still have a pretty good growth trajectory on the business with reasonable markets underpinning it. So, really just to point out that net flows aren't as important as they used to be. They still are important. We still want to grow the business and fulfill those consumer needs that are out there, but it's becoming much more of an AUM story than the net growth or net flow story.

So, just the general – you'll see the slide again later. Different purposes for it. But just wanted to set the table a little bit, a little refresher over the last several years. So, clearly, we've been in a pretty strong world (03:37:50) market from 2011 to 2014, flattish since 2014 in terms of the S&P 500. 10-year treasuries have been in a broad trading range were obviously also in a pretty severe downturn for the last two years since our reverse (03:38:07) and all it takes is one good election to overcome quantitative easing couldn't do. And then on the right-hand side, I'll get back to this a little bit later, but just to introduce the topic because this does bear on some of the accounting. This is the 30-year treasury rate versus 30-year swap rate. And what we're seeing is a severe dislocation. There were 30-year swaps are trading about 55 basis points to as much as 60 basis points under treasury, so which is not economically supportable theory or wouldn't be supportive of economic theory but, nonetheless, that's where we are. A lot of that is Dodd-Frank and Basel type regulation that's driving things. But just thinking about the context of – over this period of time, we've obviously had a lot of accounting volatility. And so, I just want to go back to a couple slides, I'll run through that, I'm sure would be familiar to many in the room. But just the kind of take, a lot of the accounting volatility we see in the various equity and rates markets just boil back down to cash flows, which is the way we tend to look at it.

So, there's a whole bunch of this coming up, so I'm going to pause for a minute and just walk you through what we're looking at here. So, these are – this is the guarantee book only, right. This is not the core contract. There's no M&A fees in here. This is just the benefits we expect to pay out on the withdrawal benefits and the fees that we collect from policyholder on those. This is just a prospective look. So, what you see is, again, starting with (03:39:36) top guarantee fees only. We're using our statutory, prudent, best estimates, so it's best estimate with a margin type of assumptions for all the policyholder behavior.

The assumption within this is, just to keep it simple , is a static, it's a static model, 5% gross returns, so that's before any fees are taken out. We're not taking an account of any other fees that have been collected to-date. We're not taking account of any reserves that are currently setup for these benefits. And, yeah, let me guess, that's pretty much it. So, what we're looking at here is, the gray bars are the fees we collect, the red bars will be the benefits that we're going to pay over time. This goes back to 2011, so we're just going to kind of roll forward. And you see going back 2011, PV of fees of $3 billion, PV of benefits with $0.5 billion, so a good economic position to be in. Back in 2011, if you think about the fact that a fairly good portion of this block was written pre-crisis, if you're going back (03:40:35) in 2011. I think it's, overall, pretty strong story. So, now we start rolling forward.

If you look at spring 2012 in there (03:40:45), so what happened in 2012, we had a 14% positive return in separate account, rates went down a little bit with strong GMWB sales. And what you saw is, again, probably fairly sensible. Fees went up. Benefits went down because the market was up a fair a bit and the net PV moved up. Again, the accounting wouldn't necessarily reflected this, because of the - depending on which accounting metric you're looking at, but this is what's underlying cash flows.

(03:41:16) of 2013, you see, again, very good year in equity markets, 20% separate account return, rates were up, sales were off a little bit from the prior years. We're starting to manage sales down at this point in time. And what you saw was, again, good progression there. Fees up. Benefits basically flat because they were - there are some point in which they kind of floored out. If you think about when you get out to the tails there, that's mostly longevity type of risk that's there, not so much market risk. And really no increase from the benefits, so therefore, again, net PV continues to decline.

If you roll through to 2014, modest return in the equity markets, rates dropped. Again, $15 billion of sales we saw, which continues to the gray bars build. Not that much build in red bars. NPV continues to decline. So, again, good story there. 2015, we saw basically a slight negative return in the equity markets. This is all pre-fees. So, if you think about the average contracts, it's going to have 3% to 3.5% in fees on it. So, an effective return after that of closer to negative 4% to 5%. What you see now is fees continue to go up because we're putting new business on the books. And as you also have lower equity returns, people started to go on the money. Persistency goes up, so we'll have more people sticking around, which means two things, it means more benefits, but it also means more fees in the meantime. So, this is the year we're starting to see benefits climb a little bit, but you see still the net PV of the cash flows continue to be positive.

And then rolling forward to 9/30 of 2016, we saw a reasonably good performance through nine months, although that 7.2% doesn't tell a whole lot of a story given what we've seen so far this year, a couple of many bear markets and a Brexit and election doesn't get - captured in that one. But what you saw then was, again, a good progression in terms of the profitable business coming on, continue to build in the NPV and we find ourselves at a position now where, again, the guarantee book, as we've seen all along, has been - is very healthy, a lot of cash up there to support any benefits we're going to have in the meantime. I think I did neglect to say at the beginning, there is no hedging in this. This is just - if we assume no hedging, we just have cash-in, cash-up.

Now, if I move forward to the stress scenarios that we look at as well, so you'll see, the upper-left-hand corner, will be the same graph than the prior chart. Again, very strong position there. If you think about - there's lot of noise in the IFRS below the line first half, which is rate-driven. I'll get on to a little bit more of that in a few minutes. But realistically, if you think about what happens to rates, the cash flow, the bottom-left-hand corner, is a 100-basis-point rate shock down. It doesn't really change underlying cash flows. It just changes the discounting of those cash flows because, again, this is a steady 5% gross return. So, irrespective of the accounting, I should say that this is a very a volatile business. Actually, looking only at cash flows and the 100-basis-point rate shock from 9/30, not much impact.

Could you step over here to the right, bottom right, down 40% shock. You see we actually go negative there on PV of fees less benefits. Again, this doesn't include reserves. It doesn't include hedging, any of that. So, if you think about down 40 shock on an unhedged basis, not the worst outcome in the world.

The fact is we are hedged in those. So, just in reference, if you wiped out the guarantee fees because if you assume we just spend the guarantee fees on hedging, the hedges we had in place at that point in time would have generated about $16 billion in gains relative to the $11 billion of fees or so, we'd still be in a fairly strong net positive position on a hedge basis. So, the position of the VA book, the guarantee book, continues to be very strong really. It's kind of a no news type of thing. I know it took 10 slides to get to nothing's changed (03:45:30), but nonetheless that'll would be helpful to get the context.

Speaking of context, so we've got - I think I've had this one up in previous meetings. But, again, just kind of a refresh or think about how things are coming through. So, the green bars are the S&P historical returns. And if you look at how - basically, it's the middle quartile is what's in the bars. And so, the mean return on the S&P over that, overall, the 20-year period you can measure. It's about 9.3%. That's what that comes to. If you think about EEV, which is more of a equity risk premium type of model over interest rates. What comes out the EEV model was about 4.4. So, probably not that unreasonable and unrealistic given the dynamics that we have in the market these days. Step to statutory, you know, is at historical-based distribution but we're out in the tail. This is the 90 CTE that averages at 10%. Worst scenarios, that shows a 20-year return of about 2.2% compounded, which, of course, is basically the worst 20-year experience we've had historically.

And then you get into IFRS, which is a market consistent type of analysis. And the red bar there actually works out to a negative 0.3% return. That's not a tail measure. That's the mean, so you're then going to calculate your distribution based off of that. So, IFRS is clearly taking a fairly dire view. And if anybody is curious about why that number is negative even though rates are positive it really just has to do with geometrics returns.

If you think about it, 50% drop and 50% increase. You need 100% increase to get back up from the 50%. So, when you do stochastic analysis and you average, you get to something that actually goes negative because it's so close to zero.

So, keeping this in mind in terms of where the underlying returns are, I think it's fair to say all of our accounting basis take a reasonably conservative view on returns at least relative to historical. And clearly, IFRS would be the most severe and the most interest rate geared. So, if we think about now rolling this forward and two more of the accounting basis, so again this is the same – that $8 billion is the same graph we looked at twice before, the one with the three-piece graph and one with the three quarter 2016 number. All we've done here is we've gone from the 5% annual growth rate gross to move down to a risk neutral return. So, you basically go into treasury type or treasury or swap type of returns. And what that does is you get better discounting in terms of the PV of fees, but you also go to a huge increase in the benefits, which makes sense if you think about it. Because if you're at – if you basically at zero equity return and you're deducting 3% or 3.5% in fees every year off of a contract, all these contracts are going to go into the money fairly quickly, then they're going to have low persistence or high persistence. It'll stick around and you're going to have some benefit from fees from policies sticking around, but you're going to have a big increase in benefits. So, if you believed that basically zero growth is the story for the next 50 years or 60 years, this would be more the cash flow profile you're looking at and note that it's still a net positive.

Moving to the next step on IFRS, so IFRS can use the risk neutral assumption. Also, within IFRS, again, this is a refresher. You can't book a gain on sale for a guarantee. So, under FAS 157, the guarantee is an embedded derivative, you pull the derivate out in market at the beginning and effectively we have more fees coming in than would be required for the benefits that are assumed to come through. So, there's this kind of excess part of money. That excess part of money can't go into the reserve, so it comes in as basically as earned. It's not fitting in the reserve.

So, when you think about the PV of all those types of stuff and where the reserves go, there's roughly half the fees that we collect that don't end up in the reserve. So, now you get to a point where this might look a little bit more like what you think of the IFRS numbers, but you've also – you've gone from a kind of reasonable scenario into a fairly dower look at rates and then you're ignoring half the fee. So, for those of you continue to scratch your head over how IFRS can continue to be so volatile and look so messy in years like this, that's really the dynamic that we're dealing with there.

So, just bringing this back up again. We talk about the longer-term trend within that. Really, what I'll do is I get into the – just some metrics on the VA book and move towards the assumptions. I'd focused more on the last little bit of this which is the 2014 to 2016 range where we've been a little bit flat on equities, the more recent downturn we've seen in interest rates and then the big negative move in swaps.

So, we'd shown this years ago. I guess, it's just – it's instructed to go back again because we're looking at a – and this is again another one of those examples of how we look different than the rest of the industry. If you look at the – this is broken into the pre-crisis and post-crisis block, and what you see is about 85% or 90% of our in-force is written post-crisis. And even for that business that was written pre-crisis, if you look at the GMDB over on the left, that cohort of policies is still barely in the money, at 3% (03:51:22) of the money on average. The post-crisis cohort on the GMDB is about 10% out of the money. I

If you look at the GMWB, remember, all of these products or many of these products have ratchets and roll-ups (03:51:33) and things like that, which is why you will never get too far away from the money.

If you look at the GMWB side again, it's like 45,000 policies pre-crisis on average, about 4% of the money. This goes back to the ability to invest outside of our controlled worlds. And the performance that comes along with that helps. When markets go down, you'll also get the benefit of markets coming back up, and that's what we've seen there. So, whereas we've had, a lot of our competitors, if you put the same graph up there, they'd that have much, much deeper in the money or a much higher degree of moneyness for that block and thus reasons why they continue to work to mitigate those or reduce them or buy them back or whatever the case may be.

For the post-crisis cohort, and you see that's again the lion share of the overall policies we have. On average at 9/30 about 6% of the money. That should make sense. If you think about, again, back to the 2014 to 2016, the market was relatively flat, slight trajectory up but relatively flat and we got fees coming out. You also have, for those people who are not yet taking their income, they'll have bonuses applied with the policies. Those step goes up. And so, if you think about, over a couple of years, that's about where you'd expect the average policy to be.

So, as we start thinking about some of the characteristics of the annuity block and that which we're learning through time. And you see here we have going back to about five years ago, this is just the overall variable annuity withdrawal rate that we're seeing, our surrender rate. You see it's been very, very stable over that period of time, right around 5%.

So what we're – I think what we're seeing is we're getting more and more supporting data for – if you think about the assumptions that this is a product that hasn't been around all that long relative to other financial products that have been out there, so we're still trying to build a policyholder behavior set as an industry, trying to figure this out. As a company, we're trying to figure it out.

Nice thing here is that we've got some – I think, we've got some good indications of the stability of the block over this period. If you think about – markets have gyrated a fair bit there in some period of time (03:53:48), rates have been up and down, volatility has been up and down, lots of things have happened over this five years, but it's been pretty stable.

Again, these are people's retirement assets. They're not treating it like their own personal hedge fund. They're actually out there, saving, retiring and growing their assets and withdrawing to support their lifestyle. So, what we're seeing is, again, I think a pretty robust dataset now of, say at and near the money in terms of what lapses do look like for our block or WB block.

Of course, what we don't have is a real rich dataset on deep in the money lapses. I'm not wishing that upon us, I just assume never actually have to have that dataset if we don't need it. But we don't have really many in the money policies as you can see from the prior graph. And even the periods where we did see things deeper in the money, the market just didn't stay down long enough for us to get a really, really good set of data.

So, within that, we have looked at – when we think about setting those types of assumptions where we don't have the data, we generally err on the conservative side, it's where we try to be. We do have the ability to look at other similar products and product types that might be deep in the money. There is some relatively high guarantee, old life type products that are still on various books, we have some of it, where there's no economic incentive for people to surrender, so you can draw across from that.

Some of our more unfortunate peers have a little bit more wholesome dataset on deep-in-the-money lapses, so we're able to draw some stuff from the industry data. But at some point, I'm sure we'll get more deep-in-the-money lapse data, but from that which we know things are pretty stable, and continue to track as expected.

Also in the category of things, we're feeling better and better about through time is allocation. So, we've taken a fair bit of heat over the years from competitors especially, in some cases, analysts or shareholders about the investment freedom aspect of our business. So, we don't force allocation. As Barry's talked about, we got 90 different funds that people can allocate to within the guaranteed structure and we obviously are taking some level of risk of people gaming us on that.

What you see here, the dotted line across the top is the assumption that we have within our pricing. Within that, (03:56:29) about 84% has been for quite a long time. And what you see is that policyholders have been – going back 12 years now, policyholders have almost always been below that line in terms of their allocations. And one of the things you see and you will see some movement in that line but if you superimpose the S&P 500 over that, what you would see is that we don't have – our customers are not actively rebalancing broadly speaking. They tend to just ride up and down with the market. The market reallocates them and we see a very stable selection of funds and holding up funds within that. So, again, this gives us more comfort over the types of assumptions we can make and what we can build the business on. Clearly, investment freedom is a huge portion of our offer to the market and we got good experience there to be able to rely on.

If we look at our current kind of demographics, if you will, of the book, so within the GMWB book, if you look at people, if everybody wants to start taking withdrawals today, what you can see there is roughly 40-ish percent would be less than or equal to 4%, a little bit more than that potentially and greater than 4% to 5%. So, if you think about it, the bulk of the book basically looks like in a flat market 20 to 25 years of payments before people will run out of their money. So, just thinking about simple – keep the math simple.

If you think about the fact that our average policyholder is going to be early-to-mid 60s when they start taking income, that puts them into the mid-to-late 80s. So, this is why the product is built the way it is, that's why it's sustainable. What we're effectively saying is if you live a long time, we'll cover you there; if the market drops a lot, we'll cover you there, but we're not writing effectively in-the-money guarantees at policy issues. So, I think that range is helpful to understand the business a little better.

In terms of the bonuses, again, people can select different bonuses within the products that we have – an unbundled product that allows them a lot of choice in terms of the actual options that they choose. We think that 6% (03:58:52) is the most common differentiated charges for each of those. So, the more risk they give us, the more fees we'll take from them. And 6% is the most common simple interest bonus. So, if you line these up against competitors, it's also important to note that many are compounding annual bonuses. This is a simple interest bonus.

And I think the other thing that's important to recognize here if you just think about this on, again, a more simplistic basis going back to – if I take a 5% withdrawal rate, it's going to take 20 years to exhaust my fund, again in a flat market. If you think about people only get a bonus if they defer a withdrawal. So, if you don't take a withdrawal in a year, then you get a bonus.

So, if you think about something in that 5% to 6% range, again remembering simple interest that probably gets a little bit more confusing. But effectively what they've given up is 120 of – or 5% of the potential benefit that they're going to claim over the lives because presumably they're not going to live any longer because they bought one of these guarantees. So, the tradeoff between the bonus and effectively the available amount of withdrawal is an economic neutral to us. And so that's actually why these bonuses are existing out there to just give away money. So, what you do see is, again, I think a prudent business model. Set it at income levels that makes sense for people, that makes sense for us and really gets back to we're covering people in the tails, again, the tails of longevity or the tails of the market.

So, moving on to assumptions. Again, just a little bit of a refresher here. There's really two sets of assumptions we have to think about. Best estimate, which is really just kind of middle of the fairway type of guess at what the assumptions ought to be going forward. Typically in IFRS and EEV with the exception of FAS157, you see we use the best estimate type of assumptions.

Under the prudent estimate, so it's basically take the best estimate out of margin that's required in the statutory reporting side. So, if you look at our statutory numbers, there is prudence already built into the assumption set. The last point can have a significant degree of judgment obviously with, as I was saying before, lapses in particular. Somewhat to, to some extent, utilization as well. These are things that we don't have all the answers on yet. So, we do have to use judgment there, but we do typically take a conservative view as assumptions. So, I think as you've seen throughout the years, we haven't had any game-changing type of assumption resets. And in fact, in general, our assumptions have been – our experiences and things like that have been generally positive.

So, annual process, so we look at this. Again, we just basically wrapped it up, we're going through all the governance type of aspects of it. So I'm not going to give you the actual numbers, but I can give you some guidance on it.

So, if you think about where we're sitting now, magnitude of changes are similar to recent years. So we've seen, for instance, VAs tend to have very modest decreases in persistency for instance. That's something that continues to kind of come through in a similar pace, similar small changes in mortality. The overall trends that we're seeing for VA are lower lapses. I think that one has been in place for a while. We saw this year a little bit of a decline in the VA mortality, which basically ends up being like a little bit of more persistency when you think about the guarantee world. And we saw expenses coming through modestly higher.

On the expense side, we've got things like risk in governance that continue to increase, just in the financial sector in general, cyber security, things like that. DOL obviously is something recent. So, we do have a small expense adjustment coming through this year. The mortality impacts really differ across the different business lines. Again, to the extent mortality is effectively looking like better persistency in the VA, that'll tend to look like lower lapses. And then, just generally better persistency across the board driven by VA.

So, just to refresh or to think about this little box down here, better persistency could be good, could be bad, depends on the market you're in, depends on the product you sold. And it also very much depends on the reporting metric.

So IFRS, typically speaking, if we look at better persistency, lower lapses under IFRS, that's typically a modest negative. Think back to that chart a few turns back, where we're assuming basically risk-neutral market returns and ignoring half the fees. So, if you assume the policy sticks around longer, you're going to have more benefits to pay, but you only get half the fees coming through in the reserve.

So that tends to be on IFRS negative. EEV tends to be a positive because you have something a little closer to a realistic equity sort of returns and you get to include the fees. And then, statutory tends to be neutral to slightly negative. So, if you think about this year, I mean what we're seeing is nothing really out of context from what we've seen in the last several years. You'll get the same kind of dynamics playing through there. Obviously, the book's bigger, so the numbers will trend over time to be a little bit bigger each year. But what we're generally seeing coming out is modest negative for IFRS, EEV in positive, and statutory a little hit, mostly due to things like the expenses and mortality impacts coming through. But we're talking at levels that are very, very small. So nothing – again, nothing to get terribly excited about within the assumptions to that.

So, speaking of exciting topics, NAIC. So, I think it's important to understand a little bit of the context here, too, because it's become an interesting process. There's a lot of – I think there's been a lot of speculation and concern where there really aren't a whole lot of facts to be able to work off of them. So, I can give it to you the best that we know them at the time.

If you think about back to where we were, this started out year, year-and-half ago as a targeted improvement on captive, basically captive insurers in the U.S. VA companies were struggling – some VA companies, depending on what kind of benefits they had and what kind hedging they were doing or struggling with, some of the accounting noise that was coming through either on IFRS or stat. So, they set up captives to be able to change effectively the accounting and try to do it in a way that's a little more opaque. The commissioners were actually getting – I don't know if they, themselves, were bothered by it but they were getting a lot of feedback from analysts, shareholders and such that what is it about the system that you set up that has all these people wanting to do captives, is there anything you can do about this.

So, they basically start looking at what can we do to reduce the incentive, to use captives. Not that they're trying to outlaw captives, but just trying to fix technically whatever it was that was going to cause those captives the need to be in place.

So, in the process of doing this, they engaged Oliver Wyman to come in and do a quantitative impact study, again extensively looking at the captive issue. And then, that took on a little bit of a life of its own in terms of effectively a complete re-proposal of the entire statutory system of capital and reserves, which then, of course, got industry interested and a lot of others.

And there's a lot of pushback there, a lot of concern. What's interesting is, I think the Oliver Wyman report really kind of was more of a flashpoint because it wasn't expected to be exactly what it came out to be. And I'm not even sure that the NAIC was necessarily thinking they were going to get what they got. But Oliver Wyman basically re-proposed the whole system.

And you also had some rhetoric about that time coming out of the working group about – we need to implement this as soon as possible. We need to get this done by 1/1/2017 if we can. Anybody who's worked around the NACI knows that nothing happens in less than, generally, three to four years typically for something big like this because there's a process there. So, it's not just a major kind of – we got a new idea, let's try it, kind of group.

So what we've seen now is Oliver Wyman has come out with their proposal. We just finished the comment period yesterday. So, all of industry comment letters went in yesterday and as well as the industry I spoke to you like the ACLI, American Academy, people like that would have – interested parties would've put things in there.

During this process and while there was just kind of couple week fire storm that seem to brew over the Oliver Wyman report coming out, there was a lot of conversation with the commissioners, with the working group and it became very, very clear that they were not looking to rush anything through, they were trying to be deliberate about this and I think the process maybe got a little bit ahead of where they had expected it to go. So, the conversations I've had with some of the commissioners and some of the industry folk, where we really stand right now is we're going to get the comment letters in, they're going to take a deep breath, they're going to take a look at this and say, is the Oliver Wyman report the right way to go? Are there other ways that we might want to look at this? What's the full subset? If we're going to re-propose the entire VA reserving and capital structure, we need to do so with due deliberations.

So again, they'll take a look at the comment letters, that'll determine what the next quiz looks like. The next quiz may be a refinement of Oliver Wyman study. It maybe something completely different. We may even get a request for comments on a whole new system or ways to change the existing system. So, I think there's a lot of still potential, possibilities to go from here.

One thing that is clear, it's going to be slow and deliberate, they're not going to rush in anything. The next quiz study is likely to take six to nine months. There's a possibility if things - if everybody got into agreement and things run on fast track, that you could see something in 2018 if it changed. I'd say it's more likely 2019 given the amount of work that needs to be done. And that said, it's not clear, much is going to change off of that, because again, we have kind of wondered away from the original remit, which was to deal with the captives.

I'd say as we look through - at this point, there's not enough information to be able to just say, okay, here is the number with, here is the number without. There're some relatively significant features within the Oliver Wyman proposal anyways. So, they've - and I'm sure many of you are aware of these, but just to walk through them, the higher CTE thresholds, they've gone from markets - the rigs currently call for a 90 CTE capital threshold. They're taking it to 98 CTE, but they're taking it to 98 CTE and then basically dividing by four. So, there must've been 90 and 70 gets divided by four.

So what does that mean? Well, that's part of the problem with this. This is kind of hard to tell, right? So that's why we need more analysis on this. I think generally speaking, at least when we look at that, that higher CTE threshold, and what they're trying to do with this really is trying to get more credit for specifically interest rate hedging coming through. That's part of the feedback they've got. That's part of why the captives exist. So they're figuring if they push it far enough into the tails, that the hedging will come through better, which is part of the why they're at 98.

So, the 98 CTE divided by four seems to be broadly neutral from here, we can tell on our book anyways. They're going from what is - the worst of which would be risk-free swap rates, specifically swap rates. Think back to that market chart a couple back where swap spreads have inverted. Going from swap rates to corporate discount rates, that is a huge positive in terms of reduction, reserves and capital requirements broadly speaking.

There is a proposal potentially for standardized policyholder behavior. That one is probably not a good idea just in general. I mean, the industries are moving more towards principals-based. And if you think about the wide dispersion between GMIB, GMWB, GMAB, GMDB, if you think about people who have deep-in-the-money policies, broken back books versus people who don't, there's such a wide discrepancy of potential policyholder behavior coming out of that to standardize it. If they're going to standardize it, they're likely going to do it on a more conservative basis. That's probably negative all in all if they go that direction. Again, this is all the type of things that would be embedded in the next quiz study in more detail.

And then deferred tax assets, so they're looking at recognizing more deferred tax assets within this. So, some positives, some negatives; some big, some small. I think broadly speaking, our view on this would be that if you, taking a best guess of where some of this might be parameterized and looking at it on our book, capital would be roughly similar to what it is now. Reserves would be roughly similar to what it is now. And it would probably be a little stabler than it is currently, mostly due to the discount rate piece. So, I don't think there's necessarily any hugely bad news in the proposal, again depending on where things get parameterized. The only caveat to that would be there was kind of a afterthought.

We haven't really done a whole lot of work on this yet, type of comment from Oliver Wyman in the report which basically went to effectively kind of a market consistent view of equity drift with the spreads, so maybe risk-free plus two, or risk-free plus three (04:13:39) or something like that. But that would not be helpful. But that also doesn't seem to be very well-developed and I will say that there's a very strong pushback in the U.S., both at the regulatory side and insurance company side against going to more consistent world. I think the lessons of Solvency II and similar types of approaches have been well figured out in the U.S. and nobody seems to be interested in going there.

I would say also that - so I guess on the next steps - actually going to the second (04:14:14). So, what I would say is within this, you could go the Oliver Wyman route, there could be something completely brand new. There's actually some relatively small technical fixes that you could do to the current regime that would actually fix this. So you wouldn't have to go to a brand new regime with all those complexity.

There are some relatively minor tweaks you could do to get to the similar outcome and I think that'll also be part of the conversation. So, I think, broadly speaking, we're pretty relaxed about where this is going and the pace that it's going on. And we'll just have to see. I mean, anytime you open something like this up, there's risk, but seems to be heading in a reasonable direction.

So next steps, they're finished with the comment period, they're going to synthesize all that, come out with what'll be some sort of next step quiz study, quantitative impact study. We'll have to see what comes out of that. I assume if they get reasonable numbers in a reasonably robust industry-wide outcome, then they'll look to propose that. That likely fall sometime in the second half of next year; if it falls in the second half of next year, it most likely gets implemented in 2019. So, that's kind of where we sit with respect to that. And I'm sure we'll have Q&A in a few minutes, so I'm sure there'll be some questions on that.

Just a little bit of – I guess a little bit again background on this. So, if you think about the current risk-based capital framework in U.S., it's a regulatory standards that more kind of a BBB type of level. AA type of capital levels tend to be around 3.5 to 4 to 4.5 times that regulatory capital minimum, the required capital minimum. So, it's a much more, say, levered version of the capital ratio than we typically see in Europe for instance.

What's little complicated within that is that the historic structure is more of a formula-based, factor-based approach for most everything outside of VA, where this is kind of four times capital, three times capital type of requirement makes sense. The VA with the C3 Phase 2 being what it is, is more akin to European's style solvency ratio or solvency regime, and doesn't really make as much sense within this overall framework, and certainly doesn't make as much sense at a 400% type of ratio, especially when you get into the tails and things start becoming a little bit more interesting.

So, that's part of why they're looking at this because it's a little bit of a square peg in a round hole type of problem. A lot of this, again, is manageable, I mean we've been able to manage through. We were not out there saying, hey, can you please fix this? We've been able to manage around it, with things like our permitted practice on interest rates, and voluntary reserves, which I'll get on to in just a minute.

So just a refresher, if you look at – let's refer to it as example one there, this will be pretty standard again for the more factor-based, formula-based ratio. If you said you had $4 billion of capital, $1 billion of required capital, $3 billion of excess and you got an RBC ratio that pops out of that at 400%. So that's kind of where we would normally be if you think about it with respect to – there wouldn't be a lot of required capital probably there in the VA, so that should be a more benign equity environment or industry environment.

If we skip out (04:17:56) to the right-hand side and you think about if you properly hedged it, so excess required capital really is – over required capital hasn't changed. What has changed is the required capital coming out of the model, and I'll get into it in a minute why that might move. But you've basically taken a similar financial position, you got more capital than you had before, you've hedged it properly, but your ratio has dropped.

So, that would be the way the regime works now. So with us in terms of – you can do a couple of different things, you could just report different lower numbers, which are going to be a little bit confusing, I think, to the market. If you got companies, VA and non-VA companies spread between 200% RBC and 700% RBC, you can't measure anything consistently in terms of the actual financial strength of the company.

So, you could do nothing, you could set up a captive insurer, which a lot of our competitors have done and that effectively brings you back over to the left-hand side or you can do what we've done, which is to set up voluntary reserves. So, if you think about – in this case, if we just basically set reserves higher to capital down, reserves go up, the capital goes down by £1 billion, you move just up right back to 400% RBC. It's really just a different way of looking at the exact same problems.

So, what we've intended to do is, again, report with volunteer reserves and disclose the number without, so it's very transparent, anybody can take a view of what they think the financial strength is, or (04:19:33) on the company that way.

This is the general problem that we're facing with the current regime, at which the volunteer reserves do solve. So, you got the red line just being the AG43 type reserves. The black line being, generally, the CTE 90, the C3 Phase 2 type of scenario. And what happens, I mean there's different scenarios of the stat where (04:19:55) you get some dislocations here, but lower interest rates are the biggest problem. Again, because the reserve calculation is a completely different calculation, and it's done off of more of a portfolio rate or corporate type of rate. The black line there, the required capital is being done off of risk-free, and in this case, specifically swaps, not treasuries.

So, what we've seen with swap curve inverting is a much more onerous view of the required capital and these - as treasuries have been as low as they have, swaps even lower, it's a pretty dire view in terms of discounting.

If you think about why are you using this rate for. Conceptually, let's say we had a drop in the market and we had to put up £10 billion in reserves, so we have £10 billion of reserve, but what are we going to do with them? Well, we're not going to put them in cash, and we're not going to put them in swaps because you can't buy a swap, we're going to put them in corporate bonds or possibly treasuries but we're going to put them in something like that, that's the discount rate that makes sense when you're looking what's the present value of this liability.

So, it's that disconnect within kind of the technical pieces of the overall framework that causes this issue. So, when we use the volunteer reserves, that blue line that's going up there, what we're really doing is just stabilizing the difference between those two lines, and the tail where you get this kind of non-economic implication coming through on the right side. Hopefully that makes some level of sense.

And I think what we've seen, too, is if you look at the Oliver Wyman-type proposals, what they would tend to do is raise the reserves, the required capital to be somewhat more consistent to where it is now, it would raise the reserves and really kind of quantify what we're really already doing through voluntary reserves. So, other one - I mentioned there are a couple of things that they could do with the existing framework. One would be to change the discount rate on the required capital side just to narrow that gap. The other issue would be, for instance, with voluntary reserves you were into (04:22:12) deferred tax asset admissibility. So, you don't get the necessarily full-blown after-tax benefit of those reserves going up, because those aren't the actual tax reserves that'll come through.

So, again, that's another technical fix that could be done pretty simply, and we'll see how the overall dynamic plays out.

So, just a couple more slides to wrap up here and we'll get to Q&A. We talked about the fact that, obviously, it's been a rough market environment to be in. We continue to see good strong asset growth driven by, again, good net flows, not as high as they were but still strong net flows. And all those growth done with a stable RBC ratio and stronger remittances back to group.

So, we're quite pleased with the overall performance of the book and how it's coming through. I'd note on the RBC ratio, we got the little blue bar there. So, we have this permitted practice in the U.S., where we basically are allowed to carry our interest rate swaps at book value as opposed to ad market, which is consistent with the Michigan code but not consistent with the NAIC, the SSAP 86 type of approach. So, we have a permitted practice to be able to do that. They're bona fide hedging transactions, so we effectively could hedge accounting for them.

For the most part, generally speaking, we have permitted practice in place to keep from having a dislocation in higher rate environment. So if rates go up, these are swaps to protect against down rates. So, rates go up, we're going to get a mark on the swaps under SSAP 86, so we won't get a release swap on the reserves, because the reserves will floor out on stat. They don't, for instance, don't floor out on IFRS. They do floor out on stat. And so, you get a dislocation there.

So, we've had this permitted practice in place for 10-ish years at this point. It makes sense from a hedging and accounting perspective. What it does do, though, is it keeps as a book when the market's lower and when you think about going back to this one. As you get to the far left of that graph, you get this big dislocation due to interest rates. We're carrying our swaps at book in that case. And so, we're not getting the full benefit of that. What we're showing here is really the effect of that permitted practice of the impact of carrying the swaps at book.

There was conversation around whether we would look to remove the permitted practices this year just given the fact that the swaps at this point in time are much more aligned with the economics in this extreme low rate environment. But since the entire world seems unchanged in the last week and rates are significantly higher, our expectations, we probably leave the permitted practice on. And of course, this is through September rates are much, much higher since then. So we'll see much less pressure.

In effect, we will have moved a fair bit back up that curve on the right-hand side there from left to right. So, permitted practice will be less of an issue. But it is worth noting that as of September 30, despite the fact it's been a relatively volatile year and both rates and equities - and in fact we paid the bulk of our dividend at mid-year, ex-permitted practice, we're basically up on capital for the year. So, capital formation's still good and strong despite some of these headwinds.

So, going back to where do we stand on this? And this is obviously one of my favorite graphs. That's why I like putting it up. But we're selling a - we've talked about a differentiated approach to the market, a differentiated back book in-force, everything we've done is different, and I think disciplined, which you see is that coming through here.

We don't have a broken back VA book to have to drive along. We've got very profitable vintages of VAs we've sold. We've been able to manage - despite the huge drop in interest rates, we've been able to manage the spread business to a pretty consistent and high level and you see - you can see all that coming through here.

And what this does do is it gives us - you think about just the roughly double the ROE of the industry. It gives us a lot of room to absorb whatever kind of shocks come along. I mean, even if you took the view there was going to be a significant increase in capital coming out of the NAIC thing, which I would subscribe to, you'd still see massive outperformance relative to the industry, and very, very strong returns just across the board. So, we're quite happy with the performance here. Again, in a volatile market, this is a good place to be.

So, with that, I will turn it back over to Barry to wrap up.

Barry Lee Stowe {BIO 15021253 <GO>}

So, just to sort of - to wrap up our presentation before we open the Q&A, I just really wanted to say in the case you missed the first and second and the third time I said it, just one more time for old times' sake, we genuinely are in a unique position, and maybe one of the most positive positions we found ourselves in, in North America, in a very long time, because the regulatory trajectory is moving towards us. It's going to result in outcomes that play perfectly to our skill set, not just - not the skill set as we define it, but the skill set, as defined by our history, our capability, which I think are well known to you and well known to most of the industry.

So we've - key to that capability is our ability to navigate the macroeconomic environment, nobody knows, what lies ahead, it could be volatile. But as Chad has just demonstrated, we continue to manage this business with - very capably and with incredible discipline to produce the right outcomes for shareholders and for consumers. So, we are hugely optimistic. And I know that this has been a year when maybe the world has not been hugely optimistic about the space in which we play, but what I hope you've learned today is that maybe that glass, which you thought was half empty, is actually half full, maybe more than half full, that the prospects of this enterprise are brighter than they have ever been. And again, we're just incredibly well positioned to take advantage of the environment, which we see emerging.

And with that, then I'll ask - because Chad's already up here, Drew and Alison are - they'll come on up, and let's answer some questions.

Q&A

Q - Michael Andrew Wells {BIO 4211236 <GO>}

All right. So, questions for Jackson. When we started (04:29:27)...

Q - Jon M. Hocking {BIO 2163183 <GO>}

This is Jon Hocking from Morgan Stanley. I've got three questions, please. Firstly, thinking about this sort of fee-based VA product, that was - seemed to be something that's with less and cash capital consumptive from a strain point of view. Could you comment on just the returns and payback potential of that product versus the sort of commission-based product? That's first question.

Second question, I think in recent history, you've said that the hedge program is pretty short dated and you're rolling the program. I just wondered whether the potential change in the interest rate environment changes that, when there's a chance to extend the duration of that portfolio and whether that is something you're looking at.

And then, just finally, just I didn't quite – just on the slide 32, when you're going through various scenarios of the fees and the benefits that there's a big jump in the benefits – (04:30:20) the benefits on I think from year 40 to 50 (04:30:23). I don't fully understand what was driving that.

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

Yeah.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Thank you.

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

Let's see. Yeah, so starting with the first question on the new fee-based type of products, it may not be completely intuitive, but it's actually from a statutory perspective, there will be – well, it depends exactly on how we distribute it. But the expectation (04:30:45) there will be some (04:30:46) there. If you look at the product that we have – we currently have out there, there is a small surrender charge. That surrender charge covers the upfront policy issue cost and general marketing type of cost. There is the possibility (04:31:03) likelihood of going to a fully liquid type of market. And we've seen good acceptance on the surrender charge that it does make sense to protect ourselves that way.

Realistically, the payback's fast enough on these products that a fully liquid version could make sense. And so, it'll just be more expensive to the consumer. So, the question whether you're going to want to pay the extra to have the full liquidity. It may not be enough of an up charge to make that problematic. If it does go to fully liquid, then we would see some strain in year one. But I think we're still typically seeing year – paybacks by year two or year three on those. So, it's still a very attractive dynamic there. You think about the current environment, surrender charges are sufficient to be able to cover all that upfront commission costs. So, there's really no meaningful strain as is.

On the hedging, we've seen a nice move back up in rates. I think it was – as we backed away slightly from the (04:32:04) so I wouldn't say we're quite to the point of a healthy rate environment yet. So, we're basically on a tenure back to where we were at the beginning of the year where we – so, I don't – absent a bigger increase, probably 100, 150 basis point, this is probably where we needed to go from here higher and then call it a three to five-year portion of the curve. We'll likely stay on the short end. This might give us a little bit of scope to move a little bit further out. But I don't see any major changes.

And what's the third question? Sorry.

A - Barry Lee Stowe {BIO 15021253 <GO>}

Slide 32.

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

Slide 32. Okay.

A - Barry Lee Stowe {BIO 15021253 <GO>}

(04:32:42)

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

Yeah, yeah. Slide 32, yeah, okay. So, that was...

A - Barry Lee Stowe {BIO 15021253 <GO>}

That was a great slide.

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

That was great - yeah, I just want to hear it. So, the (04:32:51) benefits in 2015 was the question, right? Yeah, so basically, what you got going on there is you had negative separate account or negative equity growth in 2015. And so, what you would've seen through that is if you think about fees of, call it, 3% just for round numbers, and then you would have - the vast majority of our policyholders who are not taking income yet, they're still deferring, so the vast majority of them are getting bonuses. So, if you think about a 5% or 6% bonus, plus the fee drag and plus the negative market, what you see is - you'd expect an increase in benefits down the road. And that's the dynamic we're seeing come through there.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Nick here.

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes at Soc Gen. Three questions, really, (04:33:44) Chad again. Looking firstly at the variable annuity stat reserves, you did increase fees very significantly in 2015, by some $900 million. Now, I know, as you described, you don't want to get into the accounting noise and the reserving is also pretty weird. But can you tell us why you had to strengthen reserve so much in 2015, and what the outlook is for this year?

And then second question is looking at your cash flow projections, which are very good, but as you say, they don't include hedging, they don't include reserving or accounting noise, can you tell us what the impact would be on reserves if the S&P 500 did fall by 40%, which is what you show? And then thirdly - I mean, I hope that doesn't happen by the way

Then thirdly, could you tell us what you think are the basis risk within your hedge program because - and correct me if I'm wrong here, but one of the attractions of the prospective product is the wide asset allocation, as you've described. Now, this is very difficult to hedge, right? I mean, most people would say that. So, in your scenarios, I assume you're not actually taking into account the potential basis risk, which is pretty difficult to measure anyway. But could you talk us through the basis risk because in the financial crisis, the thing that cost to the VA writers so much, a lot of it, was the basis risk? Thank you.

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

Sure. Okay. so, they're all going to be for me. I'm going to have to write something down, or I'm going to have to keep asking you. So, let me start with the last one, because that's the one I remember first. So, with respect to basis risk, what we've seen is - we look at the underlying betas of all the individual funds. So, we're geared - we're already - it's not something as simple as we just assume everything is S&P 500 and run from there.

So, we do hedge the actual underlying funds as they behave. Similarly, if you look at where the biggest piece of the basis risk tends to come from is really international and currency. And so, we do actually hedge a component of both the EFA (04:36:22) and the emerging markets off of that. That's the vast majority of the basis risk. And so, had we not done that, then you will have seen actually some more volatility in the numbers this year. But actually with that hedge, it's quite effective.

So, we, generally speaking, have not seen material amounts of basis risk, enough to really affect the economics. Generally speaking, and the best example I can give you is in the crisis. So, this is a little dated. But generally speaking, what we found is between the fact that you have funds that generally will carry some level of cash, right, most funds are going to have some - at least, mild amount of cash, and then just the transactional purposes, and the fact that the funds that we have - in general, if you look at the underlying positions, tend to be more equal weight than you get out of something like the S&P where it's much more concentrated. So, what - and I'd say probably, generally speaking, a little bit more of a value tilt.

So, what tends to happen is when we get big draw-downs in the market, we do experience basis risk. But it's a good basis risk, meaning that our funds don't drop as much as the larger indices. And so, we do track it. We hedge the parts that are material to it. And we just haven't seen - I mean, we've obviously been at this for quite a while. We have - we've had investment freedom as the core piece. Actually, what's funny is we call it investment freedom now. It's the way the industry has always been until the crisis happened. Everybody went to vol-controlled funds. But we - I think we got a long enough track record. So, we're comfortable with it.

The basis risk you're referring to in the crisis, I mean, at least with one competitor I could think of was much more concentrated with one fund family. And that got to be the bigger issue. If you look at ours, our largest single fund is typically around 7% of the underlying portfolio. And they tend to be - if you look at the larger funds, they tend to be more asset allocation and balance type of funds. And so, again, we tend to get a little more of a defensive tilt on that piece of it. What was the other two questions? Sorry about that.

Q - Nick Holmes {BIO 3387435 <GO>}

Why did you...

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

Strengthening reserves? Yeah. So, the long-term reserves you're talking about presumably.

Q - Nick Holmes {BIO 3387435 <GO>}

Yeah.

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

Yeah. Long-term reserves, yeah. Okay. Yeah. So, really...

Q - Nick Holmes {BIO 3387435 <GO>}

Just to recap, it was the 2015 increase in voluntary reserves...

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

Yeah.

Q - Nick Holmes {BIO 3387435 <GO>}

And also if the S&P 500 did fall 40% of what - what sort of number in reserves can you give us any feel for that? Thank you.

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

Yeah. What I can tell you is, they don't have the number - the reserve number off the top of my head. And obviously, it matters a lot kind of month-to-month in terms of where the hedge book is positioned. But broadly speaking and throughout the - we have a - $16 billion was the number at 6/30 that our hedge program would pay off, and then instantaneous down 40%. The reserve change would be in the general vicinity of that because we're typically - that's a down 40% as a limit that we have in our limit framework. So, we don't let those two wander too far apart.

With respect to the reserves last year, generally speaking, voluntary reserves are almost exclusively being driven off of rates. And again, this is back to C3 Phase II and the swap curve. So, what you saw is the more inverted the swap curve became or the more negative the swap basis became, the more voluntary reserves have gone up. So, we saw an increase in the voluntary reserves in the first half of this year as well. A lot of which is now getting backed out as rates have gone back up.

Q - Michael Andrew Wells {BIO 4211236 <GO>}

(04:39:57)

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

Yeah. Yeah. Rates.

A - Michael Andrew Wells {BIO 4211236 <GO>}

We've got Oliver here.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Yes, Oliver Steel at Deutsche Bank. Barry, you've sort of painted a fantastic scenario for VAs going forward. But your sales were down, whatever. They were at 28% at the nine-month stage. So, I was wondering if you can just give us a bit more of a sort of feel for how you expect things to pan out between the first nine months and your view of the future and what you're sort of hearing from agents as of now.

A - Barry Lee Stowe {BIO 15021253 <GO>}

Yeah. I hope I've said in there somewhere, if not, I meant to, that this does not happen overnight. But what has caused the disruption and in the market this year around annuity sales is obviously the uncertainty introduced by the Department of Labor rule change, the prospect that without full clear grant (04:40:58), which the current rule does not have, that by writing VAs, advisors could be actually creating liabilities for themselves, which they don't yet fully understand not having gone through the rule with a fine-tooth comb and have their broker-dealers not having gone through the rule with a fine-tooth comb.

And so, even in that - even before the rule was published, in anticipation of it, this time last year, you saw sales slacking off. And then, when the rule changed here, it was more severe. And until - and I would tell you that I wouldn't expect it to - there to be a significant uptick in the next quarter or two because we are - you have a lot of people that are saying, well, might the litigation that's currently in play against this rule - might that have some impact? And no one knows.

Now, there was one case that was filed in the DC, District Court, which I think most observers said it was probably not this particularly strong argument, not necessarily the way to go at the rule. And they kind of got their heads handed to them, the litigants in that. The case that most people are watching is the one where the U.S. Chamber of Commerce is the lead. Eugene Scalia is the litigant on that side - is the Counsel for the litigant on that side, and that's in Texas District Court. The expectation is that - when will the oral arguments - or are they...

A - Michael Andrew Wells {BIO 4211236 <GO>}

Tomorrow (04:42:30).

A - Barry Lee Stowe {BIO 15021253 <GO>}

Tomorrow. So, the oral arguments in that case are tomorrow. We would expect maybe by mid-January, you probably have some sort of sense of where that's going. That could change everything. But what is clearly happening is we have engaged differently in

Washington is that there is a – there's a sort of a coalescing that's taken place that a recognition that if – (04:43:04) this is the way that the entire system model work, but at least it's working on this one issue. There is this recognition that if you can actually get people on both political – sides of the political aisle to sit down and talk about an issue, you sometimes miraculously find that if you drew a Venn diagram of the (04:43:26), there's about an 80% overlap. And the 20% around which there's disagreement is manageable.

So, I kid you not when I say we have spent months talking to people who the industry has always assumed was hostile towards these products. And what we're hearing is we're not hostile towards the product. We love what the products do. Maybe we have concerns about how the products get sold. Maybe we want to understand the fees. What we get a lot is, well, the VAs are really expensive. Because it's really just a mutual fund, all you get is tax deferral and you pay four, five times what you pay for a mutual fund. And then, when you remind people that the VA has a guarantee, which often time is lost on them, they – it completely changes the dialogue.

I'll tell you this to give you an idea of the level of misunderstanding around these issues and the need for there to be more transparency and more clarity in messaging, the ACLI, American Council Of Life Insurers, which is the trade group for life insurance companies, just conducted some consumer research. And they went out to a scientific group and they asked them some questions about retirement. And some of the data points were shocking. They asked people, so, if you felt that as part of your retirement plan, you would like to have a product that provides you with guaranteed income throughout your retirement, an income you can outlive (04:44:59), to what vendor would you go to buy that product? Would you go to your bank? Would you go to a mutual fund? Would you go to insurance company, whatever?

0.5% of the consumers said they would go to an insurance company, when in fact it is the only place you can go. 40% of those people thought that they had a guarantee through their mutual fund. So, there's work to be done. We talk about – the advice that gets given. So, there's work to be done in terms of more clearly articulating the story for our industry in general for this product specifically, and the unique role it should play in the retirement plan of most middle class Americans. Will not happen overnight.

A - Michael Andrew Wells {BIO 4211236 <GO>}

(04:45:55)

Hi. It's (04:45:59) from Credit Suisse. Two questions, if I can. Firstly on the fee-based VA, what are – I was just wondering what are the barriers to entry on a – for a platform-based fee – sorry, a platform fee-based VA product? I'm just trying to understand, is this going to be a competitive space or not? And then, secondly, on the market consistent approach, if that is actually applied to the book, is that just a case that we have to get used to a lower RBC ratios sort of 300% or whatever rather than 400%? Or will you have to put up more capital?

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

Barriers to entry for fee based, I mean, if you can manufacture a VA with a commission, you can manufacture a fee based. I don't know if there is any unique barrier to entry in terms of manufacturing that product. But if you - are you referring to getting it on the platforms that I spoke of earlier?

Q - Michael Andrew Wells {BIO 4211236 <GO>}

Yeah, I was thinking about the platform.

A - Barry Lee Stowe {BIO 15021253 <GO>}

Yeah. So, that's - the barrier is not - is not just the manufacturer of the product itself, but it is actually getting it on to those wealth platforms, so that the advisors that are accustomed to working on a fee basis and are accustomed to having really quite a simple approach where virtually everything that they offer can be sold from and captured on this platform, none of the VA riders are currently on those platforms.

And there is - I can tell you, we've been working on this now for almost a year and working closely with a handful of the largest distributors, some of whom have - most of whom have their own sort of proprietary wealth platform. And it's not a small pass. This is not something - as I've said, it's not something that you'll - we'll have in the first quarter of the next year. I mean, this is going to take - to get it fully integrated will take quarter after quarter after quarter, but it will slowly happen.

The ability - so, does it become a competitive space? I would assume so. And candidly, I would hope so because the right place for the industry to be is for these - is for all advisors to have multiple, reasonable options to show to a client or a prospective client. That's where you want the industry to be. We don't want to be the only one on the platform. I think that weakens the case for the product.

I do think that we will - you'll find that we are the first or amongst the first to get to the full integration because we're working on it already. And I'm not suggesting that others aren't. But because - by virtue of the fact that we're already working on it, that's very useful, and by virtue of the fact that we've highlighted earlier the prowess we have around IT generally.

And to the - if you look at the - at our current system that advisors have to use even though they have to come out off of their system and go on to our system to do it, they find that system to be very user-friendly. We've got really an incredibly high-quality platform, driven by an incredibly high quality team. And I have a lot of confidence in their ability to craft these solutions and get them into the platforms faster than others. So, is that - am I answering your question?

Q - Michael Andrew Wells {BIO 4211236 <GO>}

Yeah, I mean, I was just - yeah, I think - I just want to understand if it's going to take a long time for others to catch up on the platform space. It sounds like that.

A - Barry Lee Stowe {BIO 15021253 <GO>}

It's going to take a while for anybody to get there. I would think we would be first. Those that aren't working on it yet, those that haven't conceived of this yet will be behind.

Q - Michael Andrew Wells {BIO 4211236 <GO>}

Got it.

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

Yeah, back to Barry's point, what I'm trying to get, we don't really want to see a bunch of proprietary platforms get built. Ideally, what we'll see is some industry standard – industry standards coalesce. So, you actually get a pretty open architecture. We're happy to compete on product. We don't need to compete on the plumbing aspects of it. And it will be a bigger and better market. Again, you look at the size of the opportunity. We can't do this alone. So, the industry has got to be with us. So, there'll be plenty for everybody. So, I think there's that part.

With respect to your question on – so, the marketing system point within the NAIC, assume that's what you're referring to, so I'd say that one is highly unlikely to go that direction. There's just enough – there's enough push-back, even specifically within the regulatory side. The – by and large, the commissioners – the state commissioners that make up the NAC are not enthusiastic about market system at all. And so, for them to adopt something that's market system, it wouldn't make a whole lot of sense.

The other aspect is from a timing perspective, that's likely to be a battle that's drawn out for quite a long time. So, if you're trying to get something sensible done for the bulk of it and then you've got this other thing hanging out there, it requires a lot more study and a lot more just real reactions from people. It's likely that, that would not get packaged together. Not saying it couldn't. But I think in the hypothetical world you're talking about, you've seen the cash flows, you see the way this all comes together, I think we don't need any more capital to economically support the business.

Then, I think it just really gets down to more of a question of where do rating agencies come out? Where do regulators come out? If they don't move the corridors on company action level and things like that, then you end up with – yeah, you would have to do more capital. Yes, (04:51:55).

Q - Michael Andrew Wells {BIO 4211236 <GO>}

It sounds like this is being pushed by the consultants as opposed to the regulators. Is that right or...

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

Hard to say exactly. I mean, I think the regulator was interested in a question and I think the consultants got pretty excited about the project.

A - Barry Lee Stowe {BIO 15021253 <GO>}

We have a very broad answer. We have a very broad answer to a fairly specific question.

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

Yeah. And if you think about it, I mean, Oliver Wyman was one of the major movers behind Solvency II as well. So, I mean, they have general direction (04:52:26) point of view, yeah.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Blair, here please.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. It's Blair Stewart from BofA. And three questions I think. Firstly, Chad, on utilization of the withdrawal benefit, what proportion of people who are eligible to do so actually make a withdrawal? Give us an idea of that, please. And, Barry, secondly on the DoL, is there anything you foresee in the coming, say, three to six months that may emerge with regards to maybe a quicker change of (04:53:04) or maybe a delay to the process? What do you expect in the next few months on that, given the change of administration? And thirdly on NAIC, how do you – or how should we assess the risk coming from standardized assumptions on (04:53:20) behavior, et cetera? Where is the debate on that at the moment? Thank you.

A - Barry Lee Stowe {BIO 15021253 <GO>}

Let's see. Let me take last one first. There hasn't been much conversation about that other than a conceptual idea. Again, I think this is not coming out of the commissioners. This is a point of view of Oliver Wyman would be my impression. And I think they'd like to see, in their opinion, things get standardized. It's obviously very problematic to try to standardize something as broad as those assumptions. I mean, if you said we need one last assumption for the industry no matter the product that would make absolutely no sense.

If you said we're going to make it this for GMIBs, this is for GMWBs by vintage or something like that, I don't know, maybe you get to some sort of reasonable place. But again, I think the distribution force that it's all through this important. The type of compensation structure that's there is important. There's just a lot of variables that are making it very difficult to make standard assumptions unless you were coming at it similar to the way the current structure is in play, which is you got to – if you think about it, you got a principles base layer, which is C3 Phase II on the stochastic side and then you got this relatively onerous, relatively blunt instrument, which is the standard scenarios, it's similar to the standard scenario type of mindset. I think that there's – I think there's broad consensus to the standard scenario. It's not overly helpful in the current regime. That will be another one of those things that I would tick-off besides rates and DTAs, the standard scenario adds a lot of noise into – over certain sectors. This would be akin to the standard scenario so that – that is kind of the wild card of, if they do re-propose and reopen this whole thing, do you get a wide consensus that is there and then somebody comes in at the last minute and slaps something on top of it, that makes that work. I mean, that's always a possibility, at the NAIC. It's happened before. But there's been no specific proposals that I have seen so far on what the parameters will be for standardized set of policy order behavior assumptions. So, is that helpful?

Q - Michael Andrew Wells {BIO 4211236 <GO>}

(04:55:48)

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

Well, we're not supportive of that. What we have laid out is, in our comment letters really along the lines of , if this is going to be a broader project and just trying to talk about captives, then we need to get all parties in there. I think they agree. Do you have something like the American Academy of Actuaries wasn't involved in this. So, if you think about the way that's came about, Oliver Wyman (04:56:14) went out, companies volunteered to participate in it at their own cost. So, you basically had 15 companies in this initial quiz study. And even the companies that were providing data were getting very little feedback from Oliver Wyman (04:56:30) in terms of what the ultimate thing was going to look like. So, it was a big reveal at the end of the process for everybody.

So, you've got lot of interested parties, a lot of brilliant minds out there that have not – had an opportunity to do anything with this yet until the comment letters came about. So, from our perspective, we should take a look at the broad – if we're going to open this up, we need to take a broad look at this including, is there something we can do to fix the existing regime, is there something better regime out there and then, thirdly, what are the parameterization you'd look like – you'd look at under Oliver Wyman's (04:57:03) proposal. That's where our position on it.

Does that address that question? Okay. I'd say that one other actually a little pointed out of that, I think I forgot to mention earlier. This whole thing started as a way to get rid of the captives and make things a little bit more transparent. There's nothing that has been (04:57:24) proposed that would make captives go away. And in my conversations with the commissioners, they're not interested in – because, I mean, the easiest way to do this sort of just been to say, no captives. That fixes the problem.

They are not inclined, don't want to go in that direction because captives are used for good reasons and a lot of different lines, and it would be very difficult to just say no captives over here and captives everywhere else. So, it seems pretty certain that (04:57:52) they hold ability as captive is going to stay in place. To the extent that that happens, if they do something, particularly the onerous (04:57:58) here, then all it's going to do is increase these captives not decrease these captives. So, I think that's an important backdrop to this whole thing because certainly it would not be the outcome that they want.

Back to your first question on utilization, what we tend to see, utilization is very much age driven. When we first wrote – started writing the product back in mid 2000s, we thought it would be a little bit more moneyness driven, but it's really very clearly age driven at least on our block, and you tend to see – some people who come in with an intent to get income right away, so they will come in and immediately start effectively utilizing it. The vast majority though typically wait anywhere between four years and six years to start taking withdrawals. And even then the people that are much more in the withdraw – (04:58:52) for utilizing thought in mid-70s. By then you should be taking income probably if you're going to. Even there, we see that 80-ish percent maybe, just kind of a high end of where we see that coming up. There are some people who clearly buy these just for the (04:59:08) and don't necessarily intend to use them if they don't have to.

A - Michael Andrew Wells {BIO 4211236 <GO>}

On the question – I'm sorry, Andy, one more question. On the – on your question about DOL and what might happen now, we had done a lot of work preparing for either a Clinton or Trump administration. We met Seth who you met today. We met Seth as part of that work and the engagement into what would have been a Clinton populated labor department. And our view was that, regardless of who won the election, that there was the prospect that though DOL rule could be modified, and we were getting very strong signals to that effect, it could be modified in a way to make it work better and genuinely accomplish what is set out to accomplish, which was to raise the quality of the advice, raise the standard for the provision of the advice and – but at the same time give – in so doing make people more comfortable that if you're advised to buy an annuity product that's – based on little higher quality advise that's a good decision for me to make. And so, again, the intent was that more people would buy products with lifetime income guarantees not less.

With that now that we're dealing with a Trump administration, I mean, candidly the conversation is easier because you – we'll have in place in the administration with – that is openly skeptical about proliferation of regulation and aims to undo a lot of the regulations that have been put in place during the Obama administration. So, in some respects, we're now pushing at an open door on some of these issues. We don't advocate the repeal of the rule. We – in fact, my view is if, for instance, I alluded earlier to this litigation in the Texas district court, if they were to come back and say the Department of Labor had no grounds to do this on whatever basis and they knock the rule completely back and say it's gone, my view would be we then, as an industry, we should next day we will sit down with Department of Labor and say let's figure out exactly what it was you are trying to solve and let's solve that and do it in a more sensible way with more collaboration. And if the court is telling us that actually whatever we come up with needs to be legislated not made via the rule-making process, then we've got a Republican, unified Republican congress that if we go to them for more republic administration and say the industry likes this, the regulator likes this, the department likes this, let's pass this legislation (05:02:02) we can get that done.

All of this stuff takes time. The manner in which this is implemented made it go sort of beyond just being a rule, it becomes law. And so, there are different tabs (05:02:14) for changing different portions of it, right, but some of which take a long time, some of which take a short time. Legislation takes a while. Overall rule change takes a while. Doing something simple like just going into the device agreement is easier. There is a much shorter process for that.

Our view is that what's likely to happen is a delay of the implementation. That's what the industry seems to be coalescing around. That's what we're hearing pretty consistently in Washington is there ought to be a delay of some period, so that all the parties they sort of have a dog in this fight, if you will, can come back into the room and sit down and talk about this further the premise being that the comment period maybe wasn't long enough or wasn't taking seriously enough or whatever (05:03:11). So, there's the prospect of getting everybody back in the room, collaborating, coming up with a better rule and then implementing that. And I think what will be important to that is, during that period of delay, in order to sort of remove the paralysis that we currently have in the market, what we would advocate is that, that the administration come out, when they announce, if they announced this delay and say, by the way, transactions up until the ultimate effective date of the rule, whatever rule it is that gets put in place will be grandfathered.

So, the advisors, operating under the current law, which worked reasonably well for a pretty long period of time would be comfortable going out and offering these solutions to consumers and not worrying about class action lawsuits and liabilities that candidly they just don't understand. So, long answer but hopefully that covers the ground.

Sure.

One thing I would add to that is, just - it's more than just (05:04:10). To fix this it's SEC (05:04:11)...

Yeah.

It really want to bring broader parties together (05:04:17)...

That - yeah. Now, that's I think a prospect that we have that we might not have had under a Clinton administration is - is to say, let's don't just fix this one rule, but let's step back and look at this marketplace that is regulated by SEC, by DOL, by state insurance commissioners. (05:0434). Shortly, we're all talking about how complicated. Seth stood here and talk about how complicated all this is. You bet it's complicated. What if we simplified it? What if we use different words? What if we stop talking about VAs with GMWBs and DBs and started talking about retirement income for life? They might go up but can't go down and we talk in terms so that people understand.

So, there's the prospect in this environment that we could actually do some really - accomplish some real change that would benefit consumers and advisors to make it a lot easier for advisors to do their job.

Andy?

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes from Macquarie. Two questions if I could. And the first one is about kind of if they all came in and you were selling fee-based products, the liquid version I guess with limited surrender charges, I got the impression that you're not worried about the volumes of that because obviously you've got a bit of an issue if kind of interest rates go up and everyone leaves and you got a big hedging loss. So, will you have to constrain the volumes in the new world (05:05:44) because you don't have the protection of the surrender penalties that you currently have?

I guess the second question was on the NAIC stuff. So, I think we ticked off most of the points on NAIC. There's just one thing you mentioned, which was the equity drift, because I think that affects you and probably nobody else because the volatility (05:06:00) of stuff that of equities by the time you got big equity shock.

And I think you mentioned that you might be capped to 200 basis points over risk free. So, I was just wondering kind of what you're assuming currently and how sensitive would that be if it was to reduce the 200 bps risk free. Thanks.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Yeah. So, on that one I think that was, again, they bracketed a lot of things on this and I am just going off of memory. I think it was 200 over risk free that proposes a potential, right. So, stat is a historic base, so I think, if I remember off the top of my head, I think it's 7.5-ish to think about the mean return on stat. S, it would be a drop from where we are today of some amount. The bigger issue is the volatility that it introduces. This is same kind of issues you get in Solvency II or you can capitalize up to a point but it just becomes a variable until calculation. Again, I just don't really think it's going to go in that direction, but that's the answer to the question.

And good – that first one is a good question. So, what we don't know yet is what the policyholder behavior would look like on a fully liquid position. We have some read across that we can get from – Alison mentioned the (05:07:15) share earlier, those have shorter surrender charges. So, we see – presumably people are paying for shorter surrender charges. They would be more likely to be liquidating contracts. We also have the post-surrender charge experience, so we can read across now.

We've tended to see things be reasonably stable. When people, sort of like with the fund allocations, when people buy one of these contracts, they're not really buying it to see, can I get a better deal two years or three years out typically. I mean, if you had a regime change, rates 1 to 10, and all of a sudden guarantees are free, that's a risk. If we get some movement but even there once people are locked into their benefits, it becomes a little more complex for them to economically want to move; number two, now, in the fiduciary world, it's much more difficult to move these policies. So, you do have that dynamic as well, but it is one of those things. We'll take a measure of approach to when we roll this out.

But it's a product that you would hope was purchased thoughtfully, that the advisor gave the recommendation thoughtfully. This is not a mutual fund where (05:08:30) then you flip in three months and just constantly chasing yield. That's not the role that this product plays in someone's portfolio. And so, you would hope that people don't view the product that way. And all the evidence today, we don't have a product to that surrender charges, but all the evidence today is that consumers behave. They do treat this product differently than that they do with other parts of their portfolio.

Q - Andy Hughes {BIO 15036395 <GO>}

There isn't any revised duty for the advisors (05:08:55) at year-end to the contracts. Interest rates have gone up 2%, 3% and then suddenly someone else is offering 6% a year for life.

A - Michael Andrew Wells {BIO 4211236 <GO>}

What's interesting about it from the advisor perspective is and to the new world, they're not going to get a commission for doing it, right. So, they're going - the incentive for the advisor to be more proactively moving policies around is not what it used to be. And that's part of why we have the (05:09:20) rule to begin with just because having upfront commissions does incent some people who are not - who aren't - for doing the business the way they ought to be doing in the best interest of the customer to generate more commissions for themselves.

I think that behavior actually abated quite a bit, even pre-DOL, from what we've seen in the industry. But in a fee-based world, flipping from one contract to another doesn't help the rep. So, it's got to be very clearly to the benefit of the policyholder for them to do that. The other thing, too, just to mention on that is that the pros and cons of having a shorter dated hedging program, we're able to adjust for those types of movements a lot quicker. If you said we're going to buy 10 or 20 year plus, yeah, then somebody leaves and you got a big mark left on that. We're able to adjust for lapses pretty quickly and the shorter dated enrolling of the contracts.

Just going to take two more. Lance?

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Thanks. It's Lance Burbidge from Autonomous. A couple of (05:10:29) on some. On the CAD (05:10:30), you talked about making very conservative lapse assumptions in the money contracts, but you don't have any experience. I mean, would you give some kind of quantification as to how conservative you mean relative to the assumptions you're making on policies that aren't in the money? Secondly, why would anyone buy an investment-only VAs? So, why you use - just putting one on platforms? And thirdly, you're obviously incredibly enthusiastic, Barry, about the prospects. And this is the only growth area in the insurance industry, well, if it is a growth area. There isn't anything else. Why are your competitors would you care to speculate as to why that's not that enthusiastic? In fact, they're selling their business, some of them.

A - Barry Lee Stowe {BIO 15021253 <GO>}

Well, I can't speak for why they might not be as boisterous in their presentations as we are today. I think it's a great opportunity for our industry. I think it is - uniquely positions Jackson because of our unique level of performance in every respect through the cycles. Going back 10 years there are fewer people writing VAs today because there has been drama in the space and not because there's something fundamentally wrong with the product, but because, if you make mistakes, you don't do right, you don't hedge or you're hedging properly or you're not disciplined when you define what the benefits look like and you guarantee income rather than guarantee withdrawals. You know the technicalities of this. But we're optimistic about it because we are very confident in our capabilities.

So, we believe we will – there's no doubt that this environment is emerging. And we don't believe that it's appropriate to step into that space and say we're going to change the world with fixed index annuities because they don't really do the job. They do – they provide an income but it doesn't provide the level of guarantee and it doesn't provide the accumulation opportunity that's – that you heard Seth say is part and parcel of the real problem for American retirees. And while it does offer some protection, it's protecting people from the modest loss and not from the catastrophic loss. It's like buying auto insurance, it pays if someone dings your car at the grocery store, but doesn't pay if it gets hit by an asteroid.

So, you know it's not providing the right kind of protection. So, I think part of why we're enthusiastic is because we feel so incredibly well equipped to deal with the issue. You'd have to ask our competitors how well equipped they believe they are.

A - Michael Andrew Wells {BIO 4211236 <GO>}

On the IOVA, you get that.

A - Alison Reed {BIO 21766911 <GO>}

Why would someone buy an IOVA, really, there's a couple of reasons. When you look at our breakdown of the IOVA business, it's primarily a non-qualified sale. So, 70% of our total allocation is going to non-qualified and our Elite Access product. So, they're primarily looking for tax deferral and the advantages associated with tax deferral.

Couple of other reasons. One is access to alternatives and non-traditional investments. What are the investments on our Elite Access platform. If you go to the retail market, you're going to see higher minimum premium amounts to invest. With Elite Access you can get in it as well as $5,000, $10,000 through some of these non-traditional investment options.

And then also comparing to a fee-based platform, within the VA wrapper you get a free round trip transfers up to 15 a year. So, a lot of that is cost savings overall for the consumer because that's packaged into the overall product.

A - Michael Andrew Wells {BIO 4211236 <GO>}

And with respect to your lapse question, it's not a simple one to answer because obviously models are pretty complex. I'd say, broadly speaking, once something is deep in the money, we're typically going to be somewhere between call it somewhere in a ballpark of a third of the base lapse rate that we'd assume. But that said, we have overlays or effectively caps on how high lapse can go for deep in the money policies that are getting closer to running out of money. Those would tend to drop – I mean, that would look something probably more like 15-ish percent maybe of base lapses.

So, I mean, they'll get as low as - on some policies as low as mid ones (05:15:30). But I'd say it's somewhere between 1.5% and 3% is probably the range where we would get to in deep in the money, and that's, again, go back to that consistent with where we've seen and I look at, a good example would be to all whole life policies they're not tax deferred, they're tax free payouts. They got 6% interest rate guarantees on them and we still see 1.5% to 2% lapse rate. I mean, that's a reasonable read across or something like that.

Okay. Arjan, a quick one.

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

Very quick. Arjan van Veen, UBS. Could you just - just on the NAIC changes, it sounds like, from your point of view, it doesn't really change the way you run your capital at this point in time. It's not like you're going to get more on the side of conservative. So, I just wanted to double check that. And then with the asset based charge is changing as of 1/1/2017, do you have any quantum you can give us around that one? Your peers has come out with things about 20 points to 25 points reduction obviously.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Yeah. So, yeah, I think, the way you said it is correct. We're not at this point based on NAIC looking at any changes to the capital regime that we would envision. We'll have to - again, still very early days, so we'll see what happens probably mid next year there starts to be more conversation around what comes out of the next quantitative impact study and if there's any sort of parameterizations that start to gel or even with what the model looks like. And I think in terms of the credit factors, yeah, I'd say that's generally in the right range 20 point, 30 points (05:17:11). I think that's pretty much where everybody in the industry seems to be. Our book is not massively different than the rest of the industry, so things are pretty - again, we have to look at the portfolio at the time, but I don't think that's indicatively off.

A - Unverified Participant

Okay. Thank you. So, we now take a break for coffee, and if we can be back here at 3:20 for the last section of the day, which is UK and group wrap-up. Thank you.

A - Anne Helen Richards {BIO 4145347 <GO>}

Well, good afternoon, everybody, and thank you for coming back. I think this is the home straight now although it's quite a long home straight. But I'm Anne Richards, I took over at M&G in June as most of you know. I think some two weeks before the referendum on membership of the EU. And as I've said to Mike on a number of occasions, I've come back and I've checked my job spec, there was no mention of Brexit at my job spec. So, it certainly made the initial couple of months a bit more challenging than might otherwise have been the case. But in comparison with some of the other technical stuff that I think you've been hearing about from other parts of the group today, I think asset management is a business you all understand. It should perhaps prove less taxing on the brain cells. It is a relatively simple industry that is not to say that's the same thing as an easy industry. There is a lot going on in our industry at the moment.

And so, over the next half an hour or so, I'd like to give you an update on M&G, which will remind you of where our key capabilities and strengths are. I'd then like to take that on to cover up some off the cyclical challenges that we face as a business. I shall go back to the agenda so you can see that because while we are a fee-based business, it is a somewhat cyclical industry and for reasons, which I think it's worth just reiterating and reminding everybody about.

And then I want to go on and talk about some of the structural changes, secular trends that are affecting the industry, and there are a quite a few of them, some of you have written about them. I think when I look at the industry in the last 25 years and probably longer than that, we are probably facing the greatest degree, the greatest pace of change in that whole period.

So, I'm going to talk to you about how that's affecting the industry and how we as M&G are responding to that. And so I'll wrap all of that into where I think the future is, what this means for the future of M&G? So, first of all, what do we do? As already we mentioned, we manage something like £266 billion of assets under management, and that is across a full spectrum of investment capabilities. It includes just about every flavor of fixed income, includes equity, it includes real estate and includes a variety of other alternative asset classes.

And our fixed income business in particular has one of the deepest benches in the industry, particularly in respect of the quality and the strength of the credit analysis that we perform there. Our equity business, I think most of you will know that, it's every fundamentally led, it's bottom up led, it's very conviction led. It's an unconstrained style and it includes a lot of specialized strategies for the special situations, income oriented or even impacts investing. Our real estate business is one of the market leaders. It expanded its business very successfully from its initial UK foundation, look increasingly to invest in Europe and Asia and North America. We have a multi-asset team, it's very long established as a team, it has a top down approach driven by really a very innovative use of behavioral economics to inform the physicians that we take these funds.

And finally our alternatives business has really I think quite an enviable track record, not an enviable, and seeking out opportunities, it's not harder to access parts of the investment landscape, including things like, real estate financing, direct lending, and infrastructure equity investment.

Now across that full spectrum of capabilities, we look at our client base through three main lenses, and I'll come on to this a little bit more in detail later on. It's handy shorthand, but in fact, of course, the world is rather more complicated than this. But, it's unique way of just breaking down the book of business that we look after. And of course, the single largest part of our business is our internal clients, and you're going to hear from John, immediately after me and I'd like to say frequently and often, how much we love him, how much we love his business. We manage a full range of asset classes for the UK, but also for other parts of the Prudential Group, and it's a close relationship. It's one that has an element of a win-win situation to it, because it allows us to develop jointly new ideas, new investment's ideas, which benefit both businesses.

The next largest part of our business is our institutional asset management business, and that is around £74 billion of assets under management. Again, it's a very broadly-based, very sophisticated business, and it's growing. And finally in the center, you have our retail business, which is roughly £62 billion of assets under management and the majority of that is through our UK Domiciled OEIC structures and although something like 40% of the clients invested in those OEICs are actually basis in Europe.

Now those of you will know, who attended our last Investor Day when Michael – Michael McLintock discussed some of the challenges that the business was facing, we are in what is an inherently cyclical industry, that's partly because markets themselves are cyclical. It's partly because investment performance is cyclical. And it's also partly because customer risk appetitive as we've seen in the last month or so proceeds into product demand is also cyclical. And sometimes it's easy to forget in that broad view of the strength of a fee-based business, but it doesn't go up in a straight line, there are peaks and troughs even within that growth trends that we have there.

And particularly, I think, when dealing with the first of these, investment performance, the challenge is always to figure out when underperformance is due to lack of skill or when it's due to external style factors and that really matters a lot because customer behavior varies depending on which of those problems you have. Customers are likely to walk. If you don't change the fund manager, when it's (05:23:59) due to a lack of skill which is a pretty reasonable position to have. But conversely, they are just as likely to walk if you do, for example, change a fund manager, when the issue is actually the external style factors at work rather than a lack of skill.

So, what we're trying to do is to go through team by team, individual by individual, and work out whether they're doing anything differently to what they've done historically which is leading to underperformance or whether that underperformance is consistent with the factors and the broader conditions in the market, and that will tell you either to take action which you sometimes need to do or simply do nothing intelligently. And doing nothing is often the hardest thing to do because we are, as preachers, as humans, are quite disposed to action. But sometimes patience is the single best investment. So, we've been through that exercise and we've made certain changes, and we've looked at where actually what we need to do is simply wait patiently.

Now, what I want to do is to drill down now specifically into the open-ended fund range because this has had some focus of attention in the past. And when you look at these funds, we have seen quite significant performance pressure, rolling back 12 months ago, if you look at the split by quartile of the performance of our open-ended funds, you could see that only some 36% of funds were above median, over one year to the end of September 2015, and that's a pretty tough backdrop to have.

But rather more encouragingly, if you roll forward to the end of September this year, you can see quite a meaningful recovery in performance over that one year number, so that's something like 53% of funds are above median. It's still not quite in the sweet spot which we would like, which will be two-thirds or more, but nonetheless, the trend is absolutely in the right direction. And it will take time for the one-year number to speak through into the three and the five-year number just because of the way that the numbers speak through the system. But it is really encouraging if you focus on that last column there, fund manager tenure. You can see that an impressive 63% of funds are hedged at (05:26:13) the median, since fund manager tenure. So, I think that's a strong signal that the direction of travel is right.

And therefore, it's not a surprise, if you then turn to outflows for having had a really difficult period through 2015 where we saw that very, very strong pattern of outflows month by month from the retail business, that that pattern has noticeably stabilized through 2016 as performance has improved. So, it's not quite sufficient, yet we obviously need to get it up to a meaningful and sustainable positive number. But nonetheless, it's very encouraging as a picture, obviously a bit of blip around Brexit. But even then, you can see that that was a relatively short-lived effect.

Now, I think our largest open-ended funds is the optimal income fund which did have a pretty tough time in 2015. And it has had a particularly strong year. And so, this is a very, very significant part of our portfolio, and it's very important to see this – very encouraging to see this really strong recovery coming through. And I would highlight, if you look at the since-inception number, this is 2007, was the inception of the fund, of Richard running these funds, you've seen above 7% return per year over that whole period from a bond fund, which is a really strong end performance from the portfolio.

We also obviously have a sizeable equities business, as I mentioned already, which is very much fundamentally driven, very bottom up driven. And we've also seen fairly strong challenges in performance over the last year. Now, there is no single explanation for this, we're bottom up led or individual stock led. But it is quite interesting, if you look at the following pattern, for here is the yield – you've already seen this, but here is the yield on the U.S. tenure, just as an example. And obviously, over this period since 2002, you've seen those yields fall significantly. If you then plot against that using MSCI data, the value versus quality index of stocks, and for one thing, the pattern is, as you can see, remarkably correlated. And although our equity funds are not simply value biased in isolation, and it would be overly simplistic to say that this explains all of the underperformance, you can see the extent at which quality stocks, strong dividend paying stocks have been pushed to a premium versus value stocks. But they've acted as bond proxies against this backdrop of falling yields. So, we have begun to see a recovery in performance in the equity funds this year, and that tallies very much with this uplift in yields that you've seen and this end of the performance of quality stocks versus value stocks in the broader market.

So, that has been helpful for us, and we hope that that trend will continue. If we then move on to the institutional client base, and this is something historically which we've probably not talked about as much as we should have done as a business. It has quite a different mix of assets to our open-ended funds because it's much more heavily oriented towards alternatives, towards alternative fixed income and towards multi-asset portfolios. And if you look at the five-year track records of both the real estate funds and the fixed income funds that we run in all their different varieties within the institutional business, those of them that have benchmarks and there are some which were absolute return targets and don't have specific benchmarks. But those with benchmarks, all of them without exception have outperformed over that five-year period. And with that performance backdrop, you can see how that's been reflected in the performance of the institutional assets under management where we've gone from something like £14 billion back in 2003 to well over £70 billion in 2016. So, a five-fold increase, give or take, so quite strong and impressive performance in that.

If you look at the top right, this is our pipeline. This is mandates which we have been awarded, but they have not yet been funded or where we have capital waiting to be deployed as the right investment opportunities come up. And we've got something like £4 billion of a pipeline, awarded mandates not yet deployed at across a whole range of different asset classes within this broad institutional business. So, very encouraging in terms of the flow that we see coming through over the next 12 to 18 months or so.

On the bottom right, you can see our client base spread, and it probably won't be a surprise to you to see that it's still dominated by the UK. But we are increasingly seeing signs of interest in the different strategies that we offer in Europe and even further fields in the U.S. and occasionally in – in Asia and occasionally in the U.S. as well. (05:31:04) somewhat more esoteric strategies that we have to offer.

But to give you a feel of how we're ranked in the institutional space, particularly in the UK, we manage money for something like 32 of the top 50 UK pension funds. And we have something like £3.5 billion of assets from third-party European insurance companies. We've won multiple awards in both fixed income and real estate, including this year, The Fixed Income Manager of the Year, the local authority pension fund investment award. So, it's a really strong part of our portfolio and which one we probably should spend more time talking about.

If we then move on to secular, the structural challenges which the industry is facing. I think that most of them will be pretty familiar to you. And the first one is a chart that many of you will have seen before on many occasions, I'm sure. But if you roll back to 2003 and you looked at how the global assets around the world were distributed by product, active core whether in equity or in fixed income was well over half of a typical asset breakdown that you had, you had something like an additional 20% in different types of specialty active and relatively modest amount for that stage in alternatives, in solutions and in passives generally.

Roll forward to 2015, and the picture is very, very different. So, that core active part has slipped to less than 40%, and you've seen the growth over that period in passives and ETFs which has almost doubled, in alternatives which is up from 70%, and in different flavors of solutions capability which has more than doubled as a proportion of the assets invested around the world.

And on the right is the BCG numbers, by the way, but on the right hand side, we've got there projection of how that's likely to be shaped over the next three or four years. And most projections, this included sugar (05:33:03) trend, very much continuing, with flows into solutions forming around about half of the effect, at passives over 40%, alternatives almost a third, and if you will notice, that doesn't add up to 100%, where is that being sourced from, it's being sourced from that core active piece.

So, the industry is changing, it's changing quite dramatically, and we have to respond to that. But the effects of this changing shape, this changing pattern has begun to feed its way through to pressure across the industry on margins, and dealing with that margin pressure is one of the topics around the industry, talking tables around the world.

You can see in this chart, the net revenues which is the green bar, where we've seen, again back in 2007, the average revenue fee basis points was something like 34, a little bit below 34 basis points. That shrunk to just under 28 basis points currently, and that's partly been a mixed effect, it's partly been an increased pressure for rebates, for example, for intermediaries and it's - but it's had an effect of pulling down that basis points in revenues.

The industry has probably been better than generally advertised at managing its costs in response to that. So, back in 2007, costs were just over 20 basis points on average, and that's now down to about 17 basis points. And as a result of that, the margin, although it has slipped, which is the orange line that you can see across the top, from a 40% average operating margin across the industry to something like 37% today. But nonetheless, that pressure has been cleared, despite the fact that global assets have been rising across the board. Another feature, which I think is part of this pressure, is that we have definitely seen higher churn across quite a lot of the investment book as an industry over this time period.

So, that's the first secular challenge. The second secular challenge has been the increased complexity of the distribution landscape. So, if you went back 25 years, we had a relatively simple world which could be divided neatly into direct-to-customer billboard advertising, tube advertising at retail and institutional, which was predominantly dominated by defined benefit pension schemes.

If you look at the landscape today, and this is an attempt to draw this picture with end customers along the top and with different flavors of intermediation along the bottom, and you can see the whole range of different flavors of intermediation which come between us as asset managers and the research that we do in the portfolios that we manage and then the efforts that we put around those products before it gets to all of those different individuals. And that chain, of course, is partly led by regulation, but you can also see where the pressure on the whole cost chain has come from because suddenly there's an awful lot more parts which have to be fitted into the same fee base.

So, it probably doesn't cover all of the nuances that are out there, but it does show you that in dealing with this, we need to get more sophisticated in the way that we look at and we choose how we distribute into this environment.

And the third challenge, which I've already touched on a little bit, is simply the tidal wave of regulation which washes over us in a fairly regular basis. And I would struggle to explain to you what each and every one of these abbreviations stands for. I hope there's somebody in the room that could, if we needed to do that. But this also (05:36:50) that we're all dealing with, all of these things touch asset managers in one way or another, intentionally or unintentionally. And all of these different regimes and regulations have to be evaluated and managed within the business.

There's no sign yet that this way of regulation is going to stop anytime soon. And of course, sometimes these regulations do collide in unanticipated ways. So, as an example, PRIIPs, MiFID and the IC&D all had somewhat slightly different interpretations in things that we had to do in terms of the way we communicate with our customers. And too often, the regulation that comes to us is internally consistent in terms of solving one particular problem, but not necessarily joined up, and there are unintended consequences of that.

So, those are the secular challenges. What do we do to respond to them? Well, the first thing as an asset manager that you have to do is you have to keep finding new capabilities that meet specific customer needs, and in particular, in this environment where there is pressure and there is competition, it's got the capabilities that are relatively hard to commoditize, things that actually somebody can't just turn into a passive product, if they want to. And to do that, you need to know your customers problems very, very well because that's how you can work what is that you can do that can meet their needs.

And distressed debt, for example, is one example of that, you can't hurry work out situations. You need a lot of patience and you need a lot of expertise to be able to unlock the value that can fit, sometimes within quite difficult situations. Private debt is another example of that, direct lending is another example. So, I'm always nervous in a forum like this because I know there are direct competitors potentially sitting in the room here. But I did want to talk through one very specific example of what I mean in terms of strategies that adds real value and meet particular client needs.

So, we have a strategy, the capability, which is called inflation opportunities funds, it is launched in 2012, currently AUM just under $2 billion, and it consists of two co-mingled funds and three single investor funds. And it's essentially a very, very long duration fund. The key duration is 15 to 20 years, targets RPI plus 2.5% on a rolling basis, and it's (05:39:18) very wide ranging, it's essentially a multi-asset fund, but a multi-asset illiquid credit fund that can invest in a range of assets that the asset has to have a contractual link to UK inflation.

And so, effectively what clients were doing is giving up liquidity and taking credit risks, but in return, we're generating a higher return. And in particular, permitting their inflation liabilities. So, this is a product for UK pension fund, for example, that has long inflation-linked liabilities and is a long-term investors (05:39:56) who can afford to give up liquidity, so it's a perfect match of a product and an individual investor need.

And when you look at what actually sits in the portfolio, there is a broader point, I think, which is interesting in this respect. So, if you look at these different assets, this gives you a flavor and the sorts of things that we're talking about across what is a very diversified multi-asset credit portfolio. So, Drax power station, we loaned Drax the money to finance the conversion of three coal-fired businesses and convert into biomass. And Sainsbury's there, we bought the Dulwich site from them and we've leased it back to them on a 25-

year lease. The housing association, Islington and Shoreditch housing association there, we loaned them the money to finance a portfolio of social housing, much needed social housing in the area. The top right, you can see the Royal College of Music. And we financed to build a student accommodation there, complete with rehearsal space, performance areas, and they didn't tell me this, but I'm assuming really, really good sound insulation. Leased back to the Royal College of Music for 45 years. And the final one on the bottom right, Lighthouse solar is project financed for a portfolio of solar parks which provide clean energy to something like 30,000 homes a year. And that particular deal, that transaction, won a whole host of different awards, The Environmental Bond of the Year, The Best European Solar Deal of the Year, and so on and so forth, highly commended for The Infrastructure Investors Deal of the Year. And I think this is interesting because it's not just this is matching a need for the clients, there is a lot of talk – the government has a lot of talk in this area at the moment. Everybody wants to be seemed to be doing infrastructure investing, but nobody is quite sure of what it means.

This is the kind of stuff actually investing in real meaningful infrastructure for the benefit society that has a real meaningful impact on society as a whole that we want to do more of, and it's about being that intermediary between the need, between the societal need, and an individual need, and for investment opportunities, and marrying that up with the pension funds, for example, who have the asset base that can make it happen. But it's not enough just to have a good purpose and something like this, of course, the key is actually has it done the business. And as ever with something like this, we're talking about four years, this isn't entirety of the cycle, but the performance has been absolutely excellent.

You wouldn't expect me to show rubbish performance, for the case that I do that, I chose performance is good. It's comfortably beaten its target, and importantly, if inflation does pick up, this should be a really important part of client portfolios. And you can see that that strength of performance and that client need has been made in the way that assets have roughly quadrupled over the four years that it's been in existence.

So, as one example of how we try and protect our top line by developing really strong, good, innovative product to meet these changing backdrops that we see in the industry as a whole. But of course, that's just one side of the equation, we also have to manage our costs, it's not just about growing the top line, it's about managing the cost line as well.

And I do think that as an industry, we are remarkably analog in our approach, we have been for many years. We've been very slow to adapt in the industry to some of the changes that some of the other financial sectors have actually been ahead of us in terms of moving forward on.

We have to simplify what we do, and we have to make it scalable. We've been awfully good as an industry of making things very, very complicated, and we're now going to this stage of unpicking that. Guy earlier mentioned target operating models, absolutely the buzz word at the moment, all about streamlining, simplification and scalability, and that's the key to growing through the cycle .

So, what are we doing within M&G to address some of the cost challenges that we have. Well, I break this down roughly into two main families of things. This is not all that what we're looking at, but here are two important parts of what we're looking at. And the first is the data and the digital agenda, now we've mentioned and Aladdin this morning already, it's a very important part of what we need to do. I think Mike was saying that he had an email e-mail from somebody who may or may not have been a fund manager of BlackRock, not possibly commenting on that thing, yeah, yeah, yeah, it's not all it's cracked up to be. But actually, it's not just about the – I think it was tongue and cheek, it's really good. But it's not actually just about that front-end and how it touches the fund manager that makes this really interesting. It's much more about what's happening beneath the bonnet of it all. So, Guy talked about the plumbing, and the plumbing is really important in all of this. We have a bit of Heath Robinson style of plumbing across most of our businesses, sourcing that out, streamlining that, getting the pipes and laying (05:44:52) straight lines, very, very important that we do that.

But the plumbing isn't just what it's about. If you think about plumbing system, the normal thing that flows through the plumbing is water, well, our equivalent of water is data. And too often, we've not worried enough about whether that water is clean and pure, and fit for purpose. We just stuck the data down it, and then manipulate it every time it pops out to the leak somewhere here or there, mess around a bit, stick it in a spread sheet. That's all horrible, horrible stuff.

Aladdin gives us a much cleaner data set which then has the effect of radiating out across our business, and making our operating model much simpler as a result. And we think that within M&G, as a result of the Aladdin implementation, we'll reduce the number of systems that we have to mess around with all these data in different ways from something like 600 to 300 or perhaps even less. So, it's a very meaningful change to the way our whole operating infrastructure works.

I mentioned a few other things up there as well, that we're touching on as well, looking at how we design and maintain our website, how we design and maintain our whole suite of things around our – the way we send information to customers and the marketing plans that go around about those, very, very important things in simplifying our business and making them much less onerous to maintain and manage.

On the right hand side, this is how we're trying to use Brexit as perhaps an opportunity to simplify our business rather than just thinking of it as an additional cost, which is tempting to do at different moments in time, particularly when we have no clear view of what Brexit is actually going to mean for the fund management business.

But it is giving us the opportunity to develop and to create this new operating model into a single super man co in Luxembourg, which is what we're aiming to do, which will simplify and streamline all of our fund offering. And that will include the establishment of a European ex-UK MiFID company to be the management company of all of that. So, as I said, we don't know the detail yet obviously of where the Brexit negotiations are going to get to get to in terms of what passporting regime we will have, for example. But what we do know is that we can create, through this mechanism, the options that we need to have in the business, the optionality in the business to allow us to respond to whatever finally comes out of the negotiations.

And if you think back to that slide that I showed you about the increasingly complex distribution world that we live in, we're looking at how we can adopt what we do internally to map better on to that very complex set of slides about the different touch points we can have with different sorts of institutional customers, different sorts of intermediaries, platforms and the end customer. So, we're thinking more about sub-advisory opportunities. We're thinking more about how we can do joint product development with our customers, along the lines of the inflation-linked fund that I talked to you about. We're thinking about this digital distribution, what that means for our business, a lot of conversations going on in that area at the moment, nobody seems really to have practice, thinking about strategic partnerships. And of course, thinking about what the implications of Brexit are to the way that we manage and shape our offering to the outside world. We have also announced that we're going to be launching - we're aiming to launch in the next couple of months two new funds in the news account (05:48:19) that we have established in Luxembourg, so as I say, continuing to generate momentum around the Brexit opportunities that come from that.

And then, the final part of the secular challenge is around regulation. And as I said, the tide shows no sign of turning there, but it's not really a great deal of point sitting and lamenting about it, our aim really is to engage constructively with regulators and policymakers wherever we can, trying to point out the unintended consequences of what they might do. But we are very deeply engaged in a number of different conversations around some of the proposed changes to different parts of the market in different ways, and we intend to keep on with that.

Now, the regulatory trend does bring us, I think, towards increased complexity. It does, in general, give us a greater administrative burden, I'm sure that will be familiar to everybody in the room because the trends tend to be that if you can't - evidence you did something right, (05:49:18) must therefore be that you've done something wrong. However, (05:49:22) there is no point worrying about it, we just have to try and get on the front foot. So, we're very much trying to be constructive and trying to get ahead of the game, where it's appropriate to do so.

So, one of the examples of that is that we were one of the first companies to say that we would take the cost of research directly on to our own P&L, that became really a totemic (05:49:41) issue across the industry. And we will try and to the best extent that we can, maintain that positive relationship, and I think, welcome any moves towards harmonization and towards improved transparency that come out of the regulatory frameworks as we develop.

So, that's about structural change, where do we go from here? Well, I think it's really important not to lose sight of the fact when we think of some of these things that are going on with the backdrop, so notwithstanding the fact there are some cyclicality to the industry. It is a growth industry, and there are still very many industries which have potential to grow in the way that asset management does. So, mustn't lose sight of that. The prospect for the industry, as a whole, I think remain extremely good. But we have to focus on what we need to do to succeed in this environment, and I think for any fund management company, for any company of any source, in fact, it's all about thinking about what is the capabilities that you need to meet the customer demand. So, if you speak to a Google or a Facebook or any of the tech companies, their first question isn't how much you make out of a product. Their first question is what is it. There is an untapped need that's out there, what can we do to fill that need. And that's got to be our starting point for how we think about engaging with our customer base and what we need to develop strategically as we go forward.

Clearly, we need to keep delivering investment performance, and it's got to offer value for money for customers and it's got to meet customer expectations, we live or die by that. We've got to align our distribution with this rapidly evolving customer base and think about how we can change it in order to meet these many new and different and complex roots to market. And if we're to do the final two bullet points correctly, if we're to do the fourth bullet point correctly, we need to do it through investment and simplification and scalability. And I think as an industry, we've probably underinvested historically in some of the areas that we're now playing catch-up with. But the other side of this, I think when you look at FinTech, when you look at RecTech, when you look at some of the really quite exciting developments which are coming onto this new world and landscape has developed over the last four or five years, we do have potential to leapfrog some of the really scale investments that we might have to do 10 years ago if we were making the sort of difference to our infrastructure that we're now talking about doing today. I think we can leapfrog some of that, and that is an advantage. But it is going to cost money.

So, what does that mean in terms of numbers and margins? Well, you would expect me to give too many forward-looking statements, then I certainly won't do that. But M&G has historically had a pretty competitive cost income ratio by industry standard. We've estimated peer group average is something like 62%, and we've typically come in underneath that. Last year, the number was 57%. But because we're going to be reinvesting in the business, we are likely to see pressure on that cost income ratio. So, what we're aiming to do and what we've been talking about internally is our aim is to keep that cost income ratio on average below the peer group average on a through-cycle basis. But we do it with the knowledge that we must invest now in order to create the scalability of the operating platform in the future. And there, you can just see what our trend has been historically over time.

So, just to finish then, I think M&G has very long tradition of creativity in the investment management space, and we need to keep developing those capabilities to find ways of conversing the ideas into really practical vehicles, in which our clients can invest. We have no shortage of channels where we can see a client need, and what really our challenge is how we prioritize those, it's not for once of choice of things to do. And so, continuing to capture that spirit of innovation, which is very much alive, I'm happy to say in M&G, which is actually a history, it's DNA, that's really going to be key to our success going forward, and that's absolutely front and center of our mind as we go into 2017. Thank you.

Now, I'm going to hand over to John.

A - John William Foley {BIO 4239156 <GO>}

Thank you, Anne. And thank you for those really kind comments about the internal cloud 120 billion buys, a level up (05:54:49).

Good afternoon, ladies and gentlemen. It's my great pleasure to be joined on the platform by John Warburton, who leads our distribution effort. We are your doublet for this afternoon. For Q&A, we will be joined by Jeremy Deeks, who is the recently appointed CFO for the UK Insurance business.

Now, I met many of you at the last Investor Conference. So, this is Investor Conference 2016 Part 2, when it was day one for me and John.

A number of things have moved on since then. But as we go through this presentation, I hope you will note that the strength of our business continues to be demonstrated by results, as well as the progress we are making to reengineer our operating environment.

So, this is our agenda today. There are some key messages I will highlight on the first few slides. And then, I'll hand over to John W. to explain and update you on the proposition, distribution, and our new business performance. We will also show you a short film that we use internally at Prudential, which will provide more color on our direct and intermediaries channels. This will give you an insight into why many of our partners and employees value working for our group. And I'll come back towards the end to talk about the work we're doing on our operating environment. Now before we move on, I think it's worth reiterating a few truisms about Prudential UK.

We discussed them in January that they are the cornerstone of how we think about our business and our role in the group. The UK continues to be a cash-generative business. The back book is important to that cash generation, and we will cover this in more detail in this presentation. The recent changes in our marketplace offer a business with our unique combination of capabilities, a new and significant opportunity for profitable and capital-efficient growth. As John will explain, this business is already demonstrating strong customer centricity, validated by excellent retail growth. And this is the cornerstone of what we are doing.

Now, three key capabilities underpin our ability to capture this opportunity. The first is our life fund and particularly our unique with-profit PruFund platform. Over time, we have broadened to six different funds, all accessible through ISA, bond, pension and drawdown efforts (05:57:44). We're enjoying superb growth in PruFund new business across all these efforts (05:57:49) as you'll see shortly.

The second is our outstanding long-term investment performance. Over the long term, with-profit funds outperformed the market consistently. The average return of our life fund over the 10 years to last year was 6.1%, and total AUM at that point was £116 billion. Around a third of all with-profit assets across the whole market is represented by this fund, and it could be said it's the only life fund left in town.

And crucially, this performance translates into materially better outcomes for our customers, that's why we're here. Third, our market-leading distribution capabilities. Through the combination of our intermediated and direct channels, we have not only weathered the changes brought on by IDR, but have executed on a plan to grow and strengthen our franchise.

Our intermediated model is rightly admired in the market and is being built up on the first-class servicing capability. A light (05:58:58) to our PruFund proposition intermediary business has gone from strength to strength, doubling sales volumes from 2013 to reach to £640 million APE in the first nine months of 2016.

Now, in order to sustain this momentum, I've hired a new management team to reengineer the operating model for our business. This is providing capacity and capability to ensure the continued success of this operation into the future.

So, those are the main messages I want to share with you this afternoon. You have my slides in your pack, and I'll go through some of the key areas of focus.

So, we showed this slide last year, but I think it provides an excellent recap of what our business is about. The UK is a significant operation or Pru UK is a significant operation with over 6 million customers for whom we have delivered excellent investment returns over the medium term. In doing this, we leverage adequate capabilities including, as you've heard, M&G, Eastspring and PPMA, note that Eastspring and PPMA did not (06:00:11) we'll come back to that. But significantly, also PPMG, this is Prudential Portfolio Management Group, and it is PPMG that develops this strategic asset allocation for over £150 billion of these funds and is the source of much of the performance success.

Now, Prudential continues to prevail as a leading retirement and savings brand in the market. This brand is extremely important to us, and clearly, the man from the Pru is not being forgotten. As I've already said, we have great intermediated distribution capability, and now a growing adviser channel in PFP.

And finally, our financial strength. We delivered strong and predictable free surplus and cash generation underpinned by our with-profit fund. And even in today's Solvency II capital regime, the with-profit fund is highly efficient. And through this fund, we will continue to write new investment business.

Our model hasn't changed. This slide covers the two key segments, retail growth on the left; and the management of the in-force business on the right. Now, absolute focus on the segmentation will ensure we continue to deliver our strategy consistently over time. Now, today, we are going to focus on retail growth, which John will cover in more detail. In-force optimization, as you will guess, is about making sure we use our resources appropriately and with the right focus to deliver value for customers and shareholders.

You will likely have questions regarding our plans for annuities book. Now our thinking regarding annuities is evolving, but our stats for the moment remains unchanged. Simply put, under Solvency II, the economics of writing annuities business doesn't work, at least, for us.

Nick and I have covered this repeatedly, but to quickly recap, the capital intensity makes little sense in the context of opportunities that we may have elsewhere in the group, even with reinsurance and other management actions when combined with this ongoing low interest rate environment, which is not an attractive new business opportunity for us. However, we do continue to see substantial scope to create additional value from the back book in terms of investment optimization, and we continue to make good progress with that activity. Today, most of our focus is on the success we've been enjoying in our retail growth business and the value that, that is creating.

And so, that seems like a good moment to pass over to John W.

A - John Warburton {BIO 17856169 <GO>}

Thank you, John, and good afternoon everyone. As John said, I'm going to focus on the retail growth trend and our participation strategy. I thought the ideal place to start really was the market opportunity that we see and what's driving that opportunity. You will have seen from the results that we delivered in 2015 that we've had excellent sales growth. Delighted to say you'll have seen from the numbers today that we continued that momentum into 2016. And this slide encapsulates the opportunity that we're seeking to address in the market.

We're targeted on the over 50s in the UK. Our brand plays particularly strong with that group of customers. It's a very large (06:03:51) of customers in the UK market. They do own and control over 70% of the liquid assets in the UK. And as you'll see, because of our own baby boomer here in the UK, that cohort is set to grow by 1.3% CAGR over the periods of 2030. Just to give some sort of context there, that's equivalent to the growth rate at an aggregate level you see from developing economies. So, it's a large growing customer base that owns a significant proportion of the liquid assets in the UK.

We're also seeing some structural changes in the market. You'll be well aware of these. And that's the transfer from state and corporates to personal ownership incentive risk. So, we're moving increasingly to a situation where individuals have to able to manage and take responsibility, not only for their own savings but actually the investment risk, the longevity risk and the inflation risk as well.

Overlay on top of that pension freedom, which is no doubt given a lot of freedom and flexibility to UK consumers, but with a quite lot of complexity and responsibility as well. So, that's driving a huge demand from consumers in the UK for flexible solutions that enable them to meet and manage the risk that they have. That's the need, that's the opportunity. And we've indicated in the center of this chart the sort of growth rate that we think you will see emerging within that market segment over the next few years, and actually, well build my point driven by those in line.

So, that's the opportunity. How we leverage it, how we're delivering the results we got today and what gives us the confidence we can continue to do that? The first one's around the proposition. So, PruFund is a unique proposition in the marketplace. What we've outlined here is some sort of, if you like, some of the key features that really make it stand out in the marketplace. The first point to make is PruFund is not a single fund. We have a range of PruFunds that are available. Those range of PruFunds convert to risk reward spectrum, and they enable advisors and consumers to choose the fund that's right for their appetite risk and also their capacity for loss as well. That opens up a broad part of the market to Prudential.

The second one is the diversification. So, PruFund is a hugely diversified fund. It is a multi-asset fund. It's got 25 different asset classes that's diversified globally. The third one, and John's already alluded to this, is actually the asset allocation capability through PPMG, Prudential Portfolio Management Group, which has been recognized as an award-winning and leading multi-asset management capability.

And the final element, and a critical element, is obviously the smoothing that we can offer, with it being in the with-profits fund. Really important to consumers here in the latter stages of accumulation and then moving through into the accumulation and seeking to take their retirement income.

And you could see that actually, that hasn't come across the performance. So, here, we demonstrate, and I think Mike covered this in his opening slides as well, that actually, we're taking the growth PruFund here, and absolute terms, has delivered really strong performance to our customers, but is also through the smoothing mechanism done that in such a way that it has taken a lot of the volatility at those returns. You will be aware of the debate, which was raging when freedom first came in and you can draw that, start selling about the sequence of returns.

Now the impact that has on individuals is it started to draw down the income. Again, smoothing can play an incredibly important part in terms of helping the consumer to mitigate those risks as well. So, PruFund incredibly important. The evolution of PruFund. So, this wasn't an overnight wonder. It wasn't an overnight success either. It's actually in 12 years in the making. And as I said, there's been an evolution and innovation in terms of how this range of funds have been developed and how we offer them to the market as well.

So, it actually goes back at pre-date, as we first launched in 2004, and that was where the PruFund grows through the single bond wrapper, which was at that point in time called Prudential Investment Plan, which is an onshore bond. So, it's the single fund in a single wrapper without a track record and made little or no traction at that point. As we start to establish a track record, it started to grow slowly, if you can see at the start of this chart. We then expanded the range on offer to launch PruFund Cautious. And you can see the first real tickle that we've seen in sales delivery here, and the performance track record is building throughout this period of time.

We then added the risk managed range to cover that spectrum. We added additional wrappers onto that. And then more laterally, we made it available through an ISA, an incredibly important financial planning tool. And more recently, we've actually made it available through our new retirement account, which is our digital-enabled offering into the marketplace. And through that series of innovation and development, we've been able to drive the type of growth that you've seen in assets from the management here, taking it today to, if you can see, at least at nine month point, £22.8 billion. So, we're really seeing over the recent past, it grow.

From an overall business model point of view though, the other thing that's happened, through that developments and evolution, it may have seen a wide range of needs to shape that the business has changed materially as well.

So, what we're showing you here on the right-hand side, is if you wind the clock back to 2011, what you saw was over 90% of our sales were through bonds. 75% of those sales have some form of protection, guarantee attached to them. So, quite a concentrated portfolio, what you're seeing through that development at the end of the nine-month in 2016 is a much better balanced portfolio across that range of wrappers meeting a range of needs. And the other thing is, is only 5% of those sales now have guarantee or protection on. That hasn't come to the expense of growing sales. You're seeing the exponential growth in sales, but that reduction means it's not only more or less capital consented (06:30) because of low guarantees, but actually a much better, balanced portfolio as well.

So, that's the proposition. How do we bring it to market? We bring it to market through a multichannel operation that we have. We have full reach to market, which is through independent advisors, the policy advisors, through our own advised business, Prudential Financial Planning, through our own retail voice contact center, and finally, in the work place through our corporate pensions division as well.

The two key drivers at the retail growth that you're seeing is actually our own advise business and through third party intermediators as well. PFP, a brand new advise business, so we took a conscious expert view here, so when the retail distribution review was landed, we saw it's not only a threat, but an opportunity to actually develop our own advise business, because we did anticipate the market would shrink and soon as available to advise, and in fact it did, as you all you know.

(06:11:32) we traded PFP. We built organically from zero, we've grown it to a situation, where as you can see, the end of nine months. This year, we had 269 advisors. We refer to them as partners. And actually, we've grown assets under advise to $3.6 billion at that point in time. These are employed by Prudential, they'll price under our risk framework. This is a robust business, delivering a quality service to clients, meeting their full financial planning needs.

And since the advise market, so this is third-party intermediaries, we've seen really strong growth that John's already alluded to there, because of the strength of the proposition that we've got to meet a real customer need. We're really playing into that sweet spot of what customers are looking for.

And you'll see, the market generally, and we were in line with the market, after introduction of the retail distribution review, declined in terms of the number of advisors, the number of firms that was supporting this declined in line with that. What you've seen since then is that we've more than rebuilt that support of base. So, we've grown it by a CAGR of 12%. So, 39% more advisory firms, our supporters of Prudential today than they were in the year immediately, following the introduction of the retail distribution review.

Not only that, for the penetration has increased as well. So, if you roll back to 2011, 44% of our advisory firms were recommending PRU for more than one products. Today, 60% recommend in this for more than one products, okay. So, we've not only expanded the support base, but we've deepened the support base as well. And that's come as results of the innovation that I spoke about before in relation to PruFund.

And with that, I think we'll now go to through the film that John alluded to as well. And you'll see the power of the proposition and distribution of our advisors and our own colleagues' things. If you can play the VP please.

[Video Presentation] (06:13:38-06:17:50)

So, you've heard the strength of the proposition, the strength in distribution, the strength of the brand and what we've delivered to the market and to advisors, customers, as well. And all of that has translated into a growth you've seen.

So, in the first nine months of 2016, we sold nearly as many retail products that we did in the whole of 2015, which was a highball for us at that point in time. So, you can see that continued momentum into 2016, a CAGR at 60% since pension freedom was announced.

How's that been delivered? It's been delivered through a broad base of the product wrappers. So, this is showing you what we refer to is our sort of retail growth portfolio in terms of the product wrappers. And what you're seeing is really strong growth right across it from bonds. While we're already the market leaders in bond, we're still seeing strong growth of 19% CAGR over that period.

In individual pensions, and it can drill down, where we've really seized the opportunity that pension freedom created to fill that customer need. We've seen CAGRs of over 100% in both of those product ranges. And again, in PruFund ISA, since we've launched that, we've seen a CAGR of over a 100% as well. So, really, strong performance across those.

We don't target market share, as you heard. Some of the total business units, we are about value rather than volume. But actually, this is an outworking Gov law, and it shows our relative performance in the market has been incredibly strong. So, in the total market, the way we participate in, we've grown our market share by 60% and in the two growth engines, I think, can drill down an individual pensions, you can say, that we've tripled and quadrupled our market share respectively since pension freedoms was announced. But that hasn't come at the expense of value.

I'll now hand back to John on that note.

A - John William Foley {BIO 4239156 <GO>}

Thanks, John. So, as we've said, our retail sales and retail new business, EV profit are growing over 40% year-on-year. We've been at this growth, while maintaining our retail new business margins. So, volumes have increased, but not at the expense of one of our key metrics.

Now, this is busy slide, but on the left-hand side of this slide, we show an acceleration of the value creation through PruFund. But, turning to the middle part of the slide, the red segment shows the value that's been added to the existing shareholder transfer from the with-profit business. The lightweight segment on top, so the pinkish bit, represents potential shareholder value creation from future PruFund new business, if we continue to grow the business broadly in line with market.

Now this is a projection based on the straight 7% per annum growth in PruFund new business from the start of 2017 onwards. This is a course indicative only, but it's a reasonable view of what might be achievable, given the strong underlying market growth. And that's the best we can do in response to the question we've been asked about the outworking of IFRS and with-profit funds, without making any solid predictions.

Now, as I said earlier, the UK continues to deliver cash from witnesses to group. And what you can see here is that we will continue to benefit for years to come from the business growth that we have delivered to-date.

Now, as John has highlighted, the success of our retail growth strategy continuous but to maintain momentum and also to execute the second leg of the strategy, which is around cash and in-force optimization. As I said, I've recruited a new management team. Some of these folks have been with the PRU a while, and have transferred into the UK business, and some with specific skills and experience, have been hired from the market.

You may have seen some of these appointments being announced, but I wanted to draw your attention just to a couple of the rows. And The latest recruit is Clare Bousfield, she's the CEO of our Insurance Business and brings a wealth of experience in the insurance and financial service industry more widely. And we're delighted to have Clare on board. We're delighted to have all these folks on board.

But given our large legacy state, and our 18-policy administration systems, I've recognized the need for external expertise to accelerate our infrastructure modernization and change agenda. I hired Steve McGregor as our Chief Transformation Officer, a role he absolutely nailed when he was at Commonwealth Bank of Australia. No pressure on Steve.

So, in summary, our performance for the first nine months of 2016 demonstrates the strength of our business. As we said in January, by our focusing on retail growth and in-force optimization is two distinct segments. We have a clear model on which to drive forward. The customer proposition and demographics are supportive. Our brand is one of the best in the financial service industry, and that product range is in the sweet spot.

My view is that this is a great business with great people, but we need to relentlessly focus on our customers and use our core capabilities, notably, the key assets of our life fund, our strong and diversified distribution, not forgetting our investment performance. We can continue to deliver value for both our customers and our shareholders.

Thank you very much. And I think we're going to go straight to – yeah. We're going straight to Q&A. So, Anne is going to come back. Grant, who is the CFO of M&G is coming up, as well as Jeremy Deeks as I mentioned.

A - Adrian O'Connor

Okay. So, we move to Q&A on the UK. We start with Jon here please?

Q - Jon M. Hocking {BIO 2163183 <GO>}

Hello. Jon Hocking from Morgan Stanley. I've got two questions please. Firstfully, is all PruFund sales constrained in any way by the strength of the fund? Obviously, you guys think you've done fabulously well as maintain the stability with-profit fund over many, many years. Are these sales actually adding to the stay over time and is there any upper constrained where you can sell? I think is the first question.

Then second question, just on the brand. The brand is obviously very resonant with – if you can remember the PRU, but given the other groups being on the back for a little bit in terms of advertising and just was profile of the market maybe in the last 10 years. Are you worried about the relevance of the brands that you keep in the 20s or 30s or 40s? Thank you.

A - John William Foley {BIO 4239156 <GO>}

Thanks, Jon. I'll take the second one first. It's a bit easier. The brand is extraordinarily resilient. So, one of the first things I did when I joined was went to visit our operation in Warsaw. They still refer to a building that PRU occupied before the war as the PRU building. And there's no signage on this building, it's extraordinary. It does resonate, do we need to do something about that and refresh, it's certainly in our consideration, yes. We don't feel the need to spend a lot of money on it, but there are some things we think we can do, and we've got a new brand proposition that we're with just bringing to fruition in the next couple of months. So, you should be seeing some more activity in that space.

As to constraining PruFund, the short answer is, not really. I mean, this fund has been going a very long time. The rate of growth is not causing any particular strain or drain in any particular asset segment. So, no, we don't see any constraints around the growth of that and the ability to outperform. But we do keep a very close eye on it. And one of the key metrics for us obviously is the investment performance and how we manage that.

A - Adrian O'Connor

Lance, there please.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Thanks. It's Lance Burbidge from Autonomous. First question is for Anne on sort of broad investment. Are we going to see quite a lot of global offices opening? I mean, a certain Scottish insurance company did a similar kind of thing. So, I just wonder if whether that was what you're thinking about.

There was slide on the remittances from the UK business. And there was £131 million in 2015 from non-shareholder transfer (06:27:23), as far as I'm aware PRIL hasn't ever paid a dividend. So, if could you just explain what kind of products that's coming from, an all-in runoff or not?

A - Anne Helen Richards {BIO 4145347 <GO>}

I'll take the first one, very quickly. I would be surprised to see a suite of global offices. One of the great things about being part of PRU is there's lots of offices around the world if we ever need to go and park ourselves in them. But we've got a strong European network, and there's clearly a lot more potential for us in Europe. And I'm just back from a week in Asia, visiting our operations out there, of course, dwarfed by the sister company Eastspring. So, I think you'll see us use existing infrastructure rather than feeling we have to go out and take lots of fantastic new real estate around the place.

A - John William Foley {BIO 4239156 <GO>}

Okay. Do you want me to answer the second one? In terms of the non with-profit transfer where that cash is coming from, the probe, look, has been reassured into PAC for a while. So, actually, that money is coming from runoff of annuities and the rest of the book coming through as cash remittance is coming throughout to the center from there.

A - Adrian O'Connor

Andy here, please.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Thanks so much. And the first question is also on the cash flow. You have seen the fund merger between PRIL and PAC. And there's a $1.3 billion dividend being paid to PAC from PRIL. Is any of that go to merger's shareholder dividends from PAC, or does that stay in PAC, or is it going to knock on dividend to shareholders with the exceptional leisure from the UK business as it results to the fund merger?

Second question is, I guess, we look at the PruFund sales and I compare them to the retail IP growth in the nine months, sort of £715 million versus £652 million. Does that mean that nearly all of the sales in the UK are PruFund, and basically, only £60 million IP of other stuff, and presumably that's kind of the long-term situation?

The final question on PruFund. Thank you very much to John, page 14. As I understand, the PruFund only pays profits to shareholders when people take money out of the fund and not major of this very backend-loaded profile, which kind of, I guess, in terms of IFRS terms, doesn't look quite strange to the other things. Is it possible to do finance against the bonus payments in PruFund, given this delay versus we normally have with-profit contract with some of it was realized to shareholders much earlier? And would that give you more freedom in terms of the UK business to grow in other things? Thank you.

A - John William Foley {BIO 4239156 <GO>}

Okay. Let me answer the first one. Yeah, so in terms of the cash remittance profile for the UK, I think we've previously guidanced somewhere in the £300 million to £350 million mark. And that remains unchanged going forward. So, I think that's how we would like to see remittance profile going forward.

Do you want to take the second one? John...

A - John Warburton {BIO 17856169 <GO>}

Yeah. The second one. The majority in our sales are through the PruFund range, and it is our unique and differentiated proposition in the market and you will be aware that we have the unit-linked funds and we also have collective sales. We will be looking to sort of develop those. Reality is our unique offering in the market is (06:30:45) when you should expect. And we'll see the PruFund would still be the predominant path for our retail sales.

A - John William Foley {BIO 4239156 <GO>}

As to financing, the outcome from PruFund, I think you've probably given us an idea to just about every banker in the room. So, I look forward to those all conversations. No, is the answer, we've not given a great deal of consideration to that.

A - Adrian O'Connor

Nick, here please.

A - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes of Soc Gen. I wondered, are you concerned about the churn in the old with-profits book in the changing sort of savings environment? Is that a threat to the profitability, because most of the profits come from that old book at the moment. Just wonder what your thoughts were. Thank you.

A - John William Foley {BIO 4239156 <GO>}

Yeah. I suppose, a couple of observations on that. So, I mean, as you would expect, we'll, we say, monitor the consistency of the books on a quarterly basis. We report on those internally and review that. And actually persistency is very resilient and very strong. And what we're seeing, general speaking since the retail distribution review is less churn, say, rightly wrongly. And our view was the commissioned might have been in sense is the churn in deposit commission's obviously gone out of the UK market.

There's no particular incentive or financial reward for an advisor to recommend the change. And of course, what you've got is quite valuable and accumulated benefits and guarantees within tradition with-profits. And we did see a tickle. The irony is in the short-term, of course, the shareholders will benefit, because (06:32:34) bonus itself would crystallize a service shareholder transfer. Basically, we're seeing a very resilient position against our volume assumptions.

A - Adrian O'Connor

Let's go to Ravi there please.

Q - Ravi Tanna {BIO 16926941 <GO>}

Hi. Just a quick question on consolidation. I'm just wondering if you're interested in possibly consolidating good profit books across the market or even perhaps annuity books, where you may be able to grandfather the old solvency rules?

A - John William Foley {BIO 4239156 <GO>}

So, I'll answer the annuity question. We're obviously looking at a whole range of options on annuities. I would doubt that we'd become a consolidator. But I think just about every other part of the range you can think of, we're interested in, or we are thinking about. As to with-profits, our business is going really well. We understand that I think to consolidate in that area could be - well, you need to understand very clearly what was in the other propositions, and we're pretty happy with where we are right now.

A - Adrian O'Connor

Marcus there please.

Q - Marcus Barnard {BIO 2103471 <GO>}

Yeah. Marcus Barnard from Numis. Can you just say what your plans to do with your partner numbers in your financial planning? Is that an area of growth, sort of 5% to 10% per year? Have you got any particular targets in mind in terms of coverage or size? And would you want to be the size of St. James's Place? Can you just say a bit more about that? Thanks.

A - John William Foley {BIO 4239156 <GO>}

Yes. I mean, we are growing it organically, and we're growing it steadily. I mean, from our point of view, it's more about building a quality and resilient business. And part of our model is that we do support our partners and with lead generation activity, so part of it here is about the extent to which we can help and support the drive and the lead generation for them to make them productive. So, it is a highly productive advisory business for us. And it's actually a business that although travels that we knew and it sound right is a standalone advisory business, we'll be making profit in its own right next year, which you can say to very few advisory businesses in the UK.

We don't have a particular target since it's a glass last ceiling. It is about growing it incrementally and organically. We're not going to get St. James's Place level and sort of anywhere near, in the near-term future. There's a big difference in the comps that we've got and the number of partners that SJP have got. But what you will see is to continue to grow that number year-on-year incrementally. And you've given your own experience sort of 5% to 10% growth, and part of them is probably about what we would expect to see.

A - Adrian O'Connor

Any more on the UK? Okay, Blair.

Q - Blair Stewart {BIO 4191309 <GO>}

Just a couple of quick ones. It's Blair Steward from BofA Merrill. To the extent you can, any comment on the FCA investigation to annuity selling practices? And post Brexit, if you move into higher interest world, and the PRA has a bit more flexibility around the risk margin, could that see you enter the annuity market again or reenter the annuity market? Thank you.

A - John William Foley {BIO 4239156 <GO>}

Yeah. That rule anything out in terms of annuities. I mean, we have a big book. And we had a very strong proposition, but Solvency II pretty much time at that for us, but if that changes it's back on the table. We will review, when and if that happens. As to the regulatory matters, I'm afraid we can't comment. We don't comment, I said the results, and I'm afraid we have to stick with that policy.

A - Adrian O'Connor

Lance?

Q - Lance M. Burbidge {BIO 3978332 <GO>}

This is last, almost going out and remember what my other question was, it was on I think the FCA have said they're going to publish the interim review on asset management on Friday. So, I wondered if you've got any predictions for what might be that?

A - John William Foley {BIO 4239156 <GO>}

It's forward looking, isn't it?

A - Anne Helen Richards {BIO 4145347 <GO>}

Predictions, yes, it's forward-looking. Well, I'm guessing, they want to spend a lot of time, months, and months, and months waiting through spreadsheet to come up with something that says everything in the garden is rosy and therefore there's is nothing for the industry to do. So, we anticipate there would be (6:37:11) that it is an interim report. Obviously, it's not the final version that's beyond this period. (06:37:16) anybody else has, so we just wait and see, which is based at Brexit (6:37:37) 7:00 on Friday Morning.

A - Unverified Participant

Okay. Thank you. So, we'll now move to the group Q&A. We'll have a quick changeover. So, bear with us for now. Thank you, team.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay. So, the objective of this session is to cover Q&A on the group and any of the questions that you might have either on the group or on the business unit presentations. So, who want to go first? Jon?

Q - Jon M. Hocking {BIO 2163183 <GO>}

Could I just ask the dividend question? Just to sort of clear it up. So on the dividends, say, I appreciate sort of practically nothing has changed here, but just interest of clarity so you're getting rid of the aspiration to go two times IFRS couple of below, does not sort of work on the other side in terms of you've been around the sort of 40% payout ratios, 6.5 times cover, you're notwithstanding the guidance, you want to grow 5%, would you, let the payout ratio go below 40% in any sense of this period?

A - Michael Andrew Wells {BIO 4211236 <GO>}

Look. I don't know how to answer that question without necessarily doing and changing what the new guidance says. The reality is that we have a number of opportunities that we look at and we assess that every time we do it. IFRS is one of a number of metrics that we use, but unfortunately just doesn't capture the amount of capital that you have to deploy when growing your new business, which is why over the last three years we've referenced the other basis as well. We've talked about the growth opportunities that we have today.

So, I guess in the same way it is entirely possible that you would go closer to 50% than 40% in the event that we have a stress event and we've said that we would drawdown and cover in that situation. It's entirely possible that it might go below 40% as well.

Nick?

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you, very much. Nick Holmes of Soc Gén. A question for Mike, which is what sort of level of group growth do you think is realistic over the next sort of three years to five years? And I'm thinking in particular in the past you have very strong growth, double-digit, but it's come from the U.S., I think as much as from Asia, now there is a lot of uncertainty about the U.S. I know Barry has a clear vision, but what would your thoughts or what would your guidance be for us about the realistic level of growth? Could you still maintain double-digit or realistically should we be considering single-digit growth over the next medium term? Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

I'm pleased that you're interested in our growth rate, Nick. That's good. I think the way to look at it, I think, and we're not going to get forward projections on growth, but I think we have shown you the resilience of the back book, and what you've seen in its growth rate without sales. I think we've shown you where we are in the marketplace is, where we're growing, where we're allocating capital, our capabilities by market, our ability to grow by market, our leadership by market. So, do I have concerns about us being a growth company going forward? No, I do not. Am I going to give you a number? No. But I do think you can see from the resilience of the back book, there's a better growth in Prudential, and I think that's one of our unique strengths. Okay.

Andy?

Q - Andy Hughes {BIO 15036395 <GO>}

Hi guys. Just quick question about M&A at the group. Because obviously, in sales if you've kind of got more headroom for different types of M&A in the outlook today. And, am I getting that incorrect? Sorry, because the U.S. previously have very narrow bolt-on deals within certain business units and that feels like you'd consider maybe larger deals? Do you remember what hurdle rates you're applying if you do any M&A and what the outlook is placed?

A - Michael Andrew Wells {BIO 4211236 <GO>}

I don't think our view on M&A has changed materially. I think one of the advantages we have, Andy, is we have the capabilities, the footprints, the talent candidly that we need. I think one of the things, hopefully, as seen today is we can attract new talent to the organization in each of our markets. So, you met some of the new folks in the UK. You've met some in (6:42:54) new folks going in Asia, both Asset Management Life, and then also same thing in the U.S.

So, the question becomes is the reliability stream we want? Back book of earnings that we think is correctly priced, you get back to the bolt-on sort of space. Guy was very clear that we would look at lift outs in asset management. It's a little different than acquiring an asset manager. I mean, I think you're all experts on that field. So, one of the challenges of acquiring asset managers is you require the asset manager then you require the managers. It's no different than broker dealers, the other question on I think PFB earlier.

So we're well aware of those challenges, but I think for us to continue to extend the franchise by acquiring talent, however that's defined, just getting good people to come to work for us, that's again the capabilities that help what we are investing in the business, the growth of the business, the tools you provide them. All those things to make it attractive.

The bolt-ons in the U.S. in particular, still interested, still opportunistic. The team looks at dozens of deals. There is nothing that's transpired in the U.S. in the last four-year, five years that we haven't looked at or been there and had an opinion about. So, it's not like we're missing something. To John's point about the bankers, every investment banker knows we're a buyer with certain types of liabilities, technical income, basically. And then in Asia, there's very few blocks or existing companies to buy.

So, I think with our confidence in our footprint and its capabilities and next one is growth, we have to be careful that we don't buy somebody else's problems, and that we distract the management team on to an integration exercise versus a growth and execution. And at this pace, I am highly sensitive of people being distracted, and I'm not. There's no sarcasm in that at all. These guys are working hard.

Okay. Oli here, please?

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. So a few questions, first of all in the V&B mix that you shared us this morning, you took I think about a 5% uplift in the margin because of management actions and mix. I was wondering if you could break that out, what you're going to have delivered that?

Secondly, there's been a slight sort of theme in some of the presentations today about sort of extra costs. So, restructuring costs in the UK, expansion costs at M&G, I think at Eastspring as well. I guess that the dollar effects in the States must've cost you a lot of money. So I'm just wondering whether that can sort of be brought in within businesses as usual costs or whether we should be thinking some figure?

And then finally, if the UK Solvency ratio is sort of pushing up towards the top end of the range, what happens when you push that top end of the range if it does?

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay. I mean, the V&B mix has been there earlier in the year as well. At the half year, we contributed 4 points to the half year on half year growth is now contributing 5. I mean, look there is a number of things that are happening. Clearly some of that has have to do with the interest rate environment and there is a number of places in Asia where we just withdrawn or drawn back, scale back if you like from some of the interest rates sensitive products.

In a number of parts, again in Asia, you know we're going harder at the H&P proposition. No coincidence but you saw the 27% increase in MVP. Some of that is volumes, some of that is of course more favorable economics, but some of that is mix. And then even within Jackson and within the UK, you get new ones that's having kind of lower lead access. For example a lead access is good in terms of internal rates of return, but just doesn't report a good MVP margins. So that's perversely helping that particular ratio, similar points in the UK as well. So, it's pretty much across the piece.

On the Solvency, it's still early days in the adoption of Solvency II. It's been a baptism-of-fire candidly, it comes in on January 1, and then within six weeks we get the first leg down in interest rates followed by Brexit, followed by further drops in Q3, okay. The last six weeks have been better. And when we did set this out, to say, 130 to 150, we said we're going to test and learn. I always and this is that it would be volatile and believe me it has been. So, yeah, we'll take the learnings, and then we'll react to that as this thing bets down and it's still sort of too early in its lifecycle.

You asked about the cost. So, there's clearly a couple of things going on. There's changes in the fundamentals of some of our markets that we're adjusting to, and then there's elements of scale we're trying to I would say monetize and not just offend but extend beyond competitors' capabilities or their incremental costs if you will. So, yet, you are seeing reinvestment. I think we've been clear that we are more than willing to reinvest in the asset management platforms in the various businesses. Is it something adjusting models, not particularly, I mean, it's mostly business as usual, meaning you have timing of your various expenses BlackRock's, the Aladdin platform, globally as it comes in but it's not relative to our earnings and relative to our normal expense base. There's are other things we're doing. We're reducing expenses as well.

So, in each of these businesses we're not taking a lot of time how they got. We're not going to stand here and we'll tell you we're cutting our way to grow that, but we are very careful on expenses and we do review expenses across the group, and are doing that consistently across all the business units. So a lot of incremental investment you're seeing. There's other activity going on that's bringing expenses down. Some of that savings is being spent as probably a fair way to look at it. And temporarily, we get lift out of all these.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Okay. Thanks very much. I didn't expect Barry to move from Asia to the U.S. to become even more bullish. Slight surprise.

A - Barry Lee Stowe {BIO 15021253 <GO>}

Protection and savings is just what we do, no matter where we are, that's what we do.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

That wasn't my question. You've said in the past that you don't want too much exposure to one particular cohort or one particular part of the economic cycle in the U.S. You talked about constraining sales and et cetera, so just maybe an update on how you marry up the VA opportunity if DOL goes well versus your capital and risk management? And how you communicate to investors your ability to manage risk as that gets bigger from bigger?

A - Barry Lee Stowe {BIO 15021253 <GO>}

Lilian, if you want to give him a little bit on how we're starting some of the more advanced models we're looking at and uptake?

A - Lilian Ng {BIO 4943480 <GO>}

Yeah. I guess it's a couple of things. Firstly, we have a risk function on a risk framework around that business as well. So we look at it from a number of dimensions both in group and in the U.S. In terms of sales volumes, I'm noting Chad made the point earlier on clearly. The input drives a lot of the risk profile more than the sales do. I think, historically, we've had a pretty binary limit to the sales. What we're looking at now is using something a little more sophisticated the looks of the risk waiting within individual project products and look for it over a period of time. So we've got less constraint over a particular sales level but we're looking at it in the totality of the enforced book. So, I think that the business will have more flexibility even though we're monitoring that risk profile very carefully.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Want to go to Marcus, then, please?

Q - Marcus Barnard {BIO 2103471 <GO>}

Yeah. Marcus from Numis Securities. Can I ask you if the sale of Korea means you'll be taking more focused look of what businesses the court has agreed would stay in or whether it was just an opportunistic sale? I mean, I'm thinking here more Taiwan, maybe perhaps even India in the longer term?

A - Michael Andrew Wells {BIO 4211236 <GO>}

Here you go.

I'll take that. I think, we've made it fairly clear over the years that for Korea from an insurance perspective if we were not there we would not be entering today. It's a very complicated market. It consumed a disproportionate amount of management bandwidth for the value that was attributed back to PCA and it was very opportunistic that in (6:52:17) we had a very keen bias that've been forward to take the asset. We're working through regulatory approval right now, so good outcome from a strategic perspective. I think beyond that there's nothing else...

Q - Marcus Barnard {BIO 2103471 <GO>}

Korean asset management business, thought you want to give them a feel?

A - Michael Andrew Wells {BIO 4211236 <GO>}

Yeah. No, Korea – so it's kind of like North Asia, I mean, if you go back to a couple of years north we exited Japan on the life side, but we have a very vibrant asset management business in Japan and the same in Korea. Eastspring Korea is doing very well growing, great performance, and we can plan on continuing to invest in that business.

Lance?

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Thanks. It's Lance Burbidge from Autonomous. Bizarrely, I'm going to ask a question about Korea as well. I assumed it absorbed disproportionate amount of capital as well. So will it have a significant impact on the group's Solvency position. Just also to clarify on the dividend, I'm afraid, just the sentence where you say potential for digital distribution, let's now make sure that is still potential in terms of special dividends and rebasing. And then finally a question for Barry. How important do you feel that the legislation that you mentioned in terms of getting advisors to actually talk about guaranteed income and retirement. How important is that to actually get product sold in a fee world where it takes a lot of time to solve anything (6:53:54)?

A - Michael Andrew Wells {BIO 4211236 <GO>}

So, now in the overall scheme of things, given $24.5 billion of own forms and $13 billion or so billion of SVR carrier just doesn't feature that permanently. Sorry to disappoint. On the additional distributions, clearly nothing is ruled out. We wouldn't rule out a special but rebasing will be the form of how we've used most frequently in the past and there's no reason to change our buyers towards that.

A - Lance M. Burbidge {BIO 3978332 <GO>}

Barry on the U.S., the VA?

A - Barry Lee Stowe {BIO 15021253 <GO>}

You know, I pointed that out in one respect to illustrate what's happening in Washington, the by partisan view that lifetime income products are an important component and that I think we're in a position where we can actually get the government to consider leveraging the sales of these products. One of the ways they can do it is same when you receive a distribution from the sort of an account, you are required to be shown amongst the options you required to be shown of a living benefit of a lifetime income option. It has to be useful. The fundamental issue though that you're talking about how difficult it is to sell the product. And we talked about the two-visit, three-visit, three-appointment sales process to sell a VA.

A lot of that I think is self-inflicted. A lot of that, it starts with the fact that as an industry, I think we lost control of the narrative around the product as evidenced by the fact that if you go to consumers and ask, what you go to get a guaranteed income product of only 0.5% figured that the only place you can get it is life insurance company. There has been no ways around the products that have historically going unanswered.

And I think we have just got to move to a period where we replaying that narrative and what we got a lot of work going on there to basically change people's mindset around these products. And I think if we are successful in that work, and I expect that we will be, I think if we are successful in leveraging the very useful and appropriate, I think, added to amongst political and regulatory leaders that's going to be really be helpful. If we do the job, we all to do on constantly improving the quality of advice, how these products get sold. I think that's useful. I think we've got to simply the way that we talk about this too. I think I had mentioned that from the stage and I know I mentioned that to some of you last night had cocktails.

We got to stop talking about P2, VA, and GMWB and confusing people with step-ups and so forth because while what we have to do in some respects around the hedging and the risk management and so forth does make VA a complicated product from your perspective, it needn't be nearly as complicated as we make it from the consumer perspective. I use the analogy of going and buying an automobile.

I mean when you go to buy an automobile, you sit in the car, you make sure it's comfy, yes that it will take me from point A to point B comfortably with satellite radio in air-conditioned comfort and it's going to do for me everything that I know I need. I don't need to understand how internal combustion engine works.

There's a way for us to simplify this. To do a better job of giving consumers potential customers, the information that they need to make sense of all decisions without making this so don't want complicated.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Jonathan?

Well thanks for great day. Just all your good work could be undone if - sorry, Jonathan Morris (6:58:06) from Lazard. All your good work could be undone if UnionPay issues a press release tomorrow. So we have to get more information on that because it's all our manager will talk about, wrongly I agree. You say that there's 16 other forms of payment that you take. Perhaps if you could give us a bit more detail on that. Could you just topics at the UnionPay as a means of payment, what would that do? And the issue really is deposit replacement products. Could you tell us how you're not selling deposit replacement product in Asia and give us more detail on that?

A - Barry Lee Stowe {BIO 15021253 <GO>}

Yeah. So as you - if you can put this Hong Kong things a day with UnionPay is the best way to look at this. There are other payment mechanisms available. What happens is, I think I mentioned this earlier, the card is very convenient, it's actually a debit card and it's very convenient and what has been happening especially on the second, third and subsequent premiums, there has been a natural migration away from UnionPay to these other payment mechanisms which can be TT, direct deposit, cash. And we can actually provide you with a list of what the mechanisms are and what's available. But it is interesting when you look at the data that because the percentage of second premiums that are coming through UnionPay is I think in the low teens. I mean, it's a very, very small percent. So there has been a natural migration. In a way, shame on us, because we have not driven that more aggressively as we're marketing schemes in and so on an so forth.

So we are driving that now. If UnionPay goes away tomorrow, well it's sort of has in a way for cash value or investment-type products. So our EGS of our products and any investment link that would be sold, we're not taking UnionPay on that type of product, which is a large proportion of what we sell. And what is being the impact if people continue to buy product, but they're using other mechanisms today. So what comes next beyond that for out of China and we can't predict, but clearly the demand is that interestingly to note and the media has had kind of a field day with this stuff since I guess the last few weeks or months it's actually created a more demand for the product. So if we see such that customers are showing up at our branches say and I read about this in the paper, I'm really interested in buying one of these products, some of them unrepresented by agents. So, I guess, unintended consequences, which aren't necessarily a negative thing. I do believe that the consumers will migrate to other mechanisms and that's happening. But, I think, the key point is and I hope we made this clear earlier is, yeah, this is an important risk to understand, but we really need to be winning on both sides of the board, which is why we've ramping up our business, I think quite successfully in China and as you saw if you look it on a 100% basis, that's our second largest business now. And the profits moving in a good direction and so on. So, I think, manageable, again we can give you a list of the 17 different facilities that are available in that regard.

In terms of the deposit replacing stuff with bank insurance, I mean I think the greatest example of that was perhaps the Universal Life in Singapore that you may remember, which is lifetime guarantee on the product and declared rate for certain duration. It actually puts a lot of stress on the balance sheet based on the interest rate movements and credit spreads. We pulled that product. In pulling that product as you can imagine some of our bank partners were at some degree of consternation, but part of the transition is working with them, working with the sales force, et cetera, to convince them to start selling more regular premium products and that's exactly what we've done and I think you saw the metric earlier if you look at the nine months to-date, the percentage of regular premium in all our bank insurance across the region has grown by about 10%, so manageable.

The good thing is well, and we think these bank insurance relationships, we've talked a lot over the years about selling health and protection through the banks. And it's tough to sell, it takes a bit longer, it's a little uncomfortable to sell. And we've actually made progress in that regard when we are selling critical illness through a lot of if not all of our bank partners now.

I think the essence of the single premium deposit replacing is one has to be disciplined and prepared to walk away from those opportunities. And as a result lose market share. Singapore is a classic. I mean, we held number one market share, that was interesting. We've dropped to three or four, now with somebody else is taking the lead by selling a lot of single premium Universal Life. Let them have it. that's not the way we're going to play the game.

A - Michael Andrew Wells {BIO 4211236 <GO>}

I think the other that aligns with that at China is CIRC, it changes effectively, materially more strain on short-term deposits for being product in the word longer term products. So I think you've seen fairly consistent message in the regulator on multiple frontier and I think certainly the changes that CIRC, there was nothing that's was unintentional. That is their primary capital regime. So I think there is a strong message which aligns with what we're doing there. We are benefited from that, the changes in that.

Ravi?

Q - Ravi Tanna {BIO 16926941 <GO>}

Thanks, it's Ravi Tanna here from Goldman Sachs. I just have a couple of questions please on Solvency II. So the first relates to the review this bank conducted by the treasury committee by its Brexit. And when I understand some of the submissions from companies that being going in. I was wondering to the extent that you are able to and I appreciate there is a lot of uncertainly, what's your views are generally speaking and also what you see is a kind of potential range of possible outcomes likely to achieve from last review and the second is a very simple one just in regards to you take a lot of management actions in the first half of the year to kind of boost the Solvency ratio as it were. Are there other thoughts in your plans going forward? Should we anticipate more of that to come?

A - Michael Andrew Wells {BIO 4211236 <GO>}

So on both real quick and I'll let Nick Nixon (7:05:06), an expert obviously on both. I think from a political point of view so we said all along and I said today, Solvency II is not a quickly good fit for us. I mean the way it treats Asia and the U.S. thing that's – we work with the regulator to make it work. Our argument all along, is it's quite procyclical massively sensitive interest rates. If rates go back up, I think they'll see how lever it is the other way. We wouldn't tie distribution metric or anything to it and I think you'll see that the challenges that come with that because it doesn't necessarily reflect generation of cash. So again, it might overly obvious focus on cash flows.

But we've been very public I think and consistent with what we think are the improvements that could be made if they're going to keep it. There's some that are UK centric, so around risk margin, around credits, around longevity, just the triple conservatism sort of embedded there and we're going to perform while sharing those comments with the committee and I think it's great the committee is taking a look at that. There's clearly a lot of complexity around what the committee's work is, what the regulator's work is, what the Brexit agenda is and the government. I've met some of the principles involved in that. Socially, I wouldn't want that task given the Rubik's Cube of regional politics that are attached to any changes to that because I don't they're simple and I don't think they're single dimensional by any means. So we're fine, we have, as what Nick has said, where our ratios are strong, our UK business is fine, strong, the management actions were to make sure that's true. Its – we can always given the value of what we have, we can always monetize assets. So you know as we told you and what we really doing is pulling our earnings forward in those scenarios as it someone does with that any reinsurance type transaction sometimes you do it because you think the pricing on the other side of the table, they've got it wrong and they think you've got it wrong and they wouldn't be there, other times you do it, because you want a great liquidity from future earnings, we have to make sure we convey that to you that we've done that. I think we've been very transparent we do that. We just given the value of our businesses and the consistency of earnings of our back books those options are ours and if we felt we needed to do it to maintain the ranges we told you we've needed capitalize we would, but otherwise we won't. I mean...

Is that everything you're going to say?

A - Barry Lee Stowe {BIO 15021253 <GO>}

Maybe just a little more color, I mean the treasury select committee we submitted our response last Friday, Julian? We've consented should the treasury select committee choose to do so for it the made public, there is not mean there that we wouldn't say, publically. I mean, it's no secret that we're not fans of Solvency II in fact we've been quite critical in the past. We see no reason to pull our punches in relation to that. And yes in an ideal world we'd like to see the whole thing dropped. I mean having spent the money, like you know...

A - Michael Andrew Wells {BIO 4211236 <GO>}

I was just going to stop just short of saying that, but all right. Trying to learn new things as described.

A - Barry Lee Stowe {BIO 15021253 <GO>}

No I'm not going to mince my words. Now as a minimum though, now whether that will happen or not remains to be seen, I think it will be linked to what sort of Brexit, the government is able to negotiate. But the notion though keeping something when we're not around the table as the methodology evolves is not necessary that smart so. We'll see what happens there.

Now, as a minimum, Mike touched on the areas we're urging that the UK consider the types of areas that are very UK specific responding as an example on annuities. Some of the gold plating that is in place around matching adjustment I think can also be relaxed and it can be made a little more friendly when it comes to investments in the real economy.

We're also though urging to select committee to make changes in areas which promote the ability of the UK business such as Prudential to compete and succeed successfully overseas. So we're looking for a more lenient adoption of the kind of rules that have resulted in us having to bear (7:09:37) in relation to our Asia surplus and we're seeking for permanent equivalence in terms of adopting RBC as we move forward.

So, we'll see where that goes. But, we're participating actively in relation to that. I mean in terms of the actions taken, there are some that assuming Solvency II continues unchanged which has to be a base assumption we can take. We still don't have full optimization in terms of the matching adjustment eligibility of the assets that back in its liabilities. We're quite high at 96.5%, but there's still a ramp we can go after and we're doing a bit of that and then the rest will be a combination of should we need to and candidly opportunistic in the terms that, you know, if the value/risk tradeoff is appropriate. So, that's what informing our decisions around that.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Anymore? Okay. I think Mike, we've met your objective of exhausting all the questions, so I hand you the floor.

So let me just sort of have one parting comment. I just wanted to repeat something I said at the beginning and this is clearly an interesting time. I mean that's one of the probably the understatement of the day, the questions at the breakout, the lunch, and things, the discussions about politics, about regulation, my sort of challenge to you at the beginning was I said we're big enough and we're at the global footprint to be effective by all of this and you see we have. But I hope we've also seen today we're resilient enough that the impact of this for us has been in some cases on sales but the growth of our earnings and the growth of the franchise and the growth of the capabilities, the growth of the talent all continues.

So I think it's, I'd say it's a testament to the scale of a business, the capabilities, the back book we're talking about, the value of the proposition we have to the clients and just proportionately the team. I said this when I started I was joking about the screen all the city slashing that appear. I've been to a lot of our offices in the last 20 months or so globally and I'm sure every CEO stands in front of you and says they have exceptional people and the best in the industry.

We keep putting more and more in front of you. There's lots of our colleagues here, we do. And I think they lead in their markets and I think we can demonstrate that in execution, and I can tell you in just the last year the difference in our capabilities and markets, there isn't a single business unit that there wasn't something they talked about today that they couldn't do a year ago.

So, this is a business that's growing. This is a business that's reinvesting in its capabilities, reinvesting in its talent and reinvesting in its markets because we think we have a winning proposition in the right places with the right product set. So I appreciate your support and I certainly appreciate you sitting here for what I'm sure is eight hours. Thank you for your day and enjoy the evening.