# Prudential PLC Q3 2013 Interim Management Statement Conference Call



## Company Participants

- Chad Myers, EVP & CFO, Jackson National Life Insurance
- Jackie Hunt, CEO, UK
- Mike Wells, Executive Director, Jackson National Life Insurance
- Nic Nicandrou, CFO
- Tidjane Thiam, Group Chief Executive

## Other Participants

- Abid Hussain, Analyst
- Alan Devlin, Analyst
- Andrew Crean, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Fahad Changazi, Analyst
- Farooq Hanif, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst
- Oliver Steel, Analyst
- William Elderkin, Analyst

## Presentation

### Operator

Hello. Welcome to the Prudential Plc Third Quarter interim management statement analyst and investor call. (Operator Instructions) Just to remind you, this session is being recorded.

Today, I'm pleased to present Group Chief Executive, Tidjane Thiam. Please begin.

### Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Jerry. Good morning to all. I am joined today by Nic Nicandrou, Group CFO; Mike Wells, COO of Jackson, at a very early time in the US; and Jackie Hunt, our UK CEO.

I am pleased to report that Prudential has continued to make good progress in the Third Quarter with a particularly strong performance from Asia. So let me take you through the highlights for each of our main business units, starting with Asia.

In Asia, new business profit in the first nine months grew by 20% to GBP990 million. And APE grew by 15% to over GBP1.5 billion. Our Asian business had a strong Third Quarter, delivering sales of GBP513 million. And new business profits of GBP331 million. Nine of our businesses grew sales at double-digit rates, in local currency terms, in the Third Quarter.

Thailand more than doubled its sales, up 120%, due to a strong contribution from our new venture announced last year with Thanachart Bank.

China was up 62%; India was up 27%; Hong Kong was up 23%; Indonesia and our Takaful business in Malaysia were both up 22%; Vietnam up 17%; Singapore up 16%; and Taiwan up 12%.

Our business continues to be primarily driven by several favorable long-term structural trends. To name a few; GDP growth; high savings rates; a growing middle class that has a strong appetite and need, not only for savings products but also for protection of their health and that of their family; low penetration of protection products; and a limited welfare state.

These positive long-term trends are not significantly affected by short-term economic fluctuations, as evidenced by our performance in the Third Quarter.

Moving now to the US from Asia; Jackson's[ph] new business profits were up 11% to GBP756 million, reflecting three main positive factors. First of all, higher sales of our new VA with no living benefits Elite Access, which has really become material this year; pricing and product actions that we have continuously taken and talked to you about; and the beneficial impact of higher long-term interest rates.

Leaving now the US to focus on the UK. In our life business, new business profits were GBP204 million, 10% lower year over year, due to lower bulk annuity volumes mainly. Retail new business profits were actually up 2% over 2012.

Our asset management businesses have continued to perform well with external funds under management up 18% year over year to GBP143 billion, largely driven by positive net flows.

Overall, we believe we're on track to achieve our two remaining 2013 growth and cash objectives.

So that will be the highlights. Let us now take a closer look at each of the four businesses in turn, starting with Asia.

Our businesses have delivered a very strong Third Quarter, leading to a strong year-to-date performance with broad-based growth across our key sweet spot markets. And across both our core distribution channels, agency and bank partnerships.

What we call our sweet spot markets are Hong Kong, Singapore, Indonesia, Malaysia, Thailand, the Philippines and Vietnam, an area with close to 600 million people and more than $2.5 trillion of GDP, which would make it a G5105[ph] (inaudible).

In the standalone Third Quarter our sweet spot markets delivered APE of GBP428 million on a local currency basis, which is 22% higher over our prior year. This strong volume growth has helped drive year-to-date new business profits up 22% in local currency terms again.

Our multichannel distribution platform continues to be a unique advantage in the region. In the discrete Third Quarter, agency APE grew by 22% on a local currency basis with strong contributions from all our businesses except Korea, where APE fell 43%, reflecting our discipline in not offering low margin guaranteed products in that market.

On a year-to-date basis, agency APE growth was 16%, driven by a continued increase in the number of active agents, higher case sizes and higher number of cases per active agent.

The bancassurance channel delivered discrete Third Quarter APE growth of 27%. All of our top five banks recorded double-digit growth, with Thanachart delivering a particularly strong performance after coming on stream in May 2013.

So I'd like just to run you through a few key markets, six actually; Hong Kong, Indonesia, Singapore, Malaysia, China and Thailand.

In Hong Kong, we delivered year-to-date APE growth of 23%, led by sales of our popular Evergreen Growth Saver and PRUmyhealth lifelong crisis protector products. Our Hong Kong agency force has had a particularly strong year, with productivity in this channel up by 25%, mainly driven by higher case sizes.

I would like to spend some time on our performance on Indonesia as it is a market that has attracted a lot of interest, as concerned in previous year about emerging markets. And particularly Southeast Asia.

Our year-to-date sales in Indonesia, on a reported exchange rate basis, have increased by 15% with new business profit growing at 16%. Please note that, on a local currency basis, both APE and new business profits grew by 22% versus the 15% and 16% I just indicated. So that demonstrates, we believe, a continued strong underlying performance of our business in that country.

The continued growth in Indonesia is supported by mainly three drivers. The strong underlying demand for protection products; our expansion outside Jakarta; and our exceptionally strong and growing distribution.

Taking these in turn. First, the continued growth of the middle class, the increased availability of medical services, the absence of a welfare state and the lower penetration of savings and protection products means that demand for our regular unit-linked savings and protection products remains robust.

Sales of these products were up 28% in the Third Quarter in local currency terms. We continue to invest in understanding our customers' needs, which underpins our ability to innovate and sell products which are always well suited to meeting our customers' requirements.

Second, our strategy of expansion outside Jakarta is progressively bearing fruit with non-Jakarta APE up 31% in local currency terms, comprising now almost half of our total Indonesian sales. This evolution is typical of what we have seen elsewhere in the early stages of the development of an emerging economy.

Urbanization leads to the growth of the main cities. But also. And as importantly, to the growth of a number of medium sized and smaller cities where business opportunities are significant. Companies only neglect this at their expense and, as always, there is effectively a sizeable first-mover advantage by country that we have much talked about. But also by town. And we expect this to continue to play out over many years to come.

Third, our agency channel, which is central to capturing the significant profitable growth opportunities available across the archipelago, showed continued strong momentum with the number of active agents significantly up over the year. Our agency recruitment, onboarding and training model remains a core competitive advantage. And is instrumental in driving sustainable, high quality growth.

Moving now from Indonesia to Singapore, next door. Sales grew by 18% for the year, with broadly similar contributions from both our agency and bancassurance channels, illustrating the benefits of our multichannel approach.

This is a strong level of growth in a market that is sometimes, we believe wrongly, described as mature. What I would call the wealth effect is particularly strong in Singapore, which is a wealthy country where the population keeps getting wealthier. Not a bad place to be.

So our agency channel in Singapore delivered 21% APE growth, led by both a continued increase in the number of active agents and higher productivity. In the bancassurance channel, overall APE grew by 17%, led, once again, by a strong contribution from new[ph]. Our long-term track record in Singapore underlines the quality of our execution in delivering additive growth, from both our agency and bancassurance channels.

Moving on to Malaysia. In Malaysia, we saw strong demand for our flagship PRUlink One product, a protection product with savings riders, as part of our actions initiated in the

Third Quarter of last year to refocus the business away from high volume, lower value products towards low volume, higher value protection products.

For a few quarters, this produced a drag on our published sales growth number, as we were comparing a period where sales were lower but higher value, this year, to a period where sales were relatively higher but lower value last year.

The beneficial impact of our new approach can now be seen more clearly in the figures from the Third Quarter of last year, as they are truly comparable with the Third Quarter figures this year. On that basis, APE was up 13% year over year. And NBP over the same period was up 18% in local currency terms, validating this refocused strategy.

Moving now to China. Our strong start to the year in China was confirmed in the Third Quarter and we're really pleased about this. Year-to-date APE sales are up 48%. And NBP is up 44%, reflecting increased levels of cooperation with our JV partner, CITIC. And rewarding us for our long-term approach to that market and our patience.

In the discrete Third Quarter, reported APE was up 62%. This growth had been broad-based, with APE in the agency channel growing by 85% while the bank channel grew by 61%. In the agency channel, growth was led by higher productivity. And in the banking channel by an increase in the number of branches where customers could buy our products.

So let us finish this tour of Asia that took us to Hong Kong, Indonesia, Singapore, Malaysia and China, by talking about Thailand. We have been operating with Thanachart Bank since May this year. I am pleased to report that we have made a strong start to our new relationship with Thanachart, which has achieved GBP15 million of sales in its first five months of operations.

To put this in perspective, Thailand overall achieved total APE sales of GBP37 million for the whole of 2012. So Thanachart has produced GBP15 million in five months this year. As a result, as mentioned at the outset, overall Third Quarter sales more than doubled over the prior period. And we have been able to activate over 90% of Thanachart's branches since May so that most of these branches are now contributing to our sales.

Our bancassurance model is our core expertise and has been perfected over many years of cooperating with our banking partners across the region. Our experience has allowed us to work closely with Thanachart's pre-approval so that, with an approval on May 3, we sold our first policies the next day on May 4. And all that means we were very pleased to take the PLC Board to Bangkok for its annual meeting in Asia in September; a very successful visit.

But speed of execution has become the core skill of our Company, as demonstrated in the UOB partnership and now in the Thanachart partnership. This allows us to convert quickly and effectively new distribution opportunities into tangible value, delivering valuable products for our customers and meaningful returns for both our banking partners and Prudential shareholders.

Looking further ahead, the favorable structural trends of low insurance penetration, significant demand for savings and protection products from a rapidly growing and wealthier middle class, are not affected in any major way by short-term investment market volatility. And continue to underpin our long-term prospects in the region.

The quality of the execution of our team in Asia, combined with the unique nature of our multi-product, multi-distribution agent franchise, with top 3 positions across 8 out of our 12 markets, made us confident that we remain well positioned to deliver sustainable growth in IFRS earnings and cash generation over the medium to long term.

In summary, our business in Asia has delivered strong sales and new business profits in the Third Quarter. The quality of our execution, our ability to drive additive growth through our bank and agency channels. And to sustain strong customer demand for our products which meets real and important needs, were all key to delivering this performance.

We continue to see strong activity levels across our distribution channels. And remain confident in our ability to capture the significant, long-term, profitable, organic growth opportunity in our chosen market. And we remain on track to double Asia's 2009 new business profit by 2013.

Leaving Asia now for the US. The US market, we believe, continues to offer good long-term growth opportunities, due to the transition into retirement of a baby boomer generation, which will create 10,000 retirees per day for the each of the next 20 years.

In that context, new business profits grew by 11%, to GBP756 million, benefiting from higher volumes of our non-guaranteed variable annuity Elite Access, from pricing and product actions. And from higher long-term interest rates.

We have continued to manage our volumes and product mix proactively in this highly competitive market. As a result, Jackson reduced its sales of variable annuities with guarantees by 15% to GBP12.5 billion. In parallel, sales of Elite Access grew to almost $3 billion in premium from $630 million last year.

Sales of variable annuities without living benefit guarantees, of which Elite Access is a significant proportion, now represent 30% of our total variable annuity sales, up from 15% at the same period last year, further evidence of a successful implementation of our diversification strategy.

We continue to pull[ph] the same levels, adjusting pricing and product features as appropriate, to achieve our target profitability, while remaining within our risk appetite. Both hedging and policyholder behavior continued to track in line with our expectations.

In summary, in the US, we have continued to execute discipline, our strategy of optimizing the balance of risk and value[ph].

Moving now to the UK. Retail new business profits were up 2% ahead of last year at GBP193 million, offsetting a 9% fall in retail sales volumes. This is an illustration of our value over volume approach. Overall, new business profits were GBP204 million, reflecting lower bulk annuity sales in the current year.

In retail annuities, I would like to underline the performance of our with-profits and guarantees[ph] annuity product, which showed continued strong customer demand, with volumes growing by 15% to GBP66 million.

In our internal vestings business, a positive impact of higher fund values was outweighed by increased levels of customer deferrals, leaving overall annuity volumes 3% lower year over year.

In other products, investment bond volumes fell, as expected, as a result of implementation of a retail distribution review, while corporate pension volumes reflect our selective participation in this market.

While we remain well positioned to operate in the RDR environment, or post-RDR environment, we expect the short-term disruption to persist, as both distributors and customers adjust to the new regulatory landscape.

Looking now at our bulk annuity business, we completed one bulk annuity transaction in the Third Quarter, worth GBP12 million of APE. Our approach to this market reflects our disciplined capital allocation process, where we allocate capital only those transactions that meet our high hurdles, in terms of return on capital and payback periods, as we make all of our businesses across Europe compete for capital.

Lastly, I mentioned to you at the half year that we were reaching the closing stages of a project to domesticate our with-profit business in Hong Kong. As announced in September, we have now received approval from the UK and Hong Kong courts on the timetable for the completion of this project.

We are aiming for the domestication to become effective from January 1, 2014. So overall, the UK continues to perform well, in line with its stated strategic objectives.

Turning now to asset management. Our asset management businesses have delivered a good performance with net inflows of GBP10.9 billion in the first nine months of this year. And third-party funds under management growing by 18% this year to an historically high level of GBP143 billion.

In our Third Quarter, M&G external funds under management of GBP124 billion were 19% higher over last year, with year-to-date net inflows of GBP8.9 billion. This represents the eighth consecutive year of net inflows for M&G. M&Gs diversification, by geography, by channel, by fund and asset class. And its strong investment performance, differentiates our business from most of its peers. And has helped it deliver a strong performance over a long period.

Eastspring Investments, our Asian asset management business, saw a 12% increase in external funds under management, with positive net inflows in the Third Quarter offset by adverse investment market movements.

Let's say a few words, at this point, about our balance sheet. We continue to remain defensively positioned on the asset side of our balance sheet. At the end of September, our IGD surplus remained a robust GBP3.9 billion, which is stated after deducting the 2013 interim dividend. And is equivalent to a cover of 230%[ph].

To finish, I'd like to give you our outlook for the remainder of the year. Our strong performance for this year. And in particular, our strong Third Quarter, continues to be driven by Asia, with the US and the UK also making material contributions. The macroeconomic context is improving, with advanced economies showing signs of recovery.

Asian emerging markets are forecast to continue to grow at faster rates than developed economies. And will continue to account for a significant share of future global growth. We believe the Asian economies fundamentally have enough policy flexibility and leverage to perform well across the cycle[ph].

The underlying drivers of our profitable expansion in Asia, rapidly growing and wealthier middle class with significant unmet savings and protection needs, remain intact. Our leading market position in our chosen sweet spot markets. And our excellent execution, allow us to provide valuable products and services to our customers. And generate significant shareholder value.

In the US, we remain focused on meeting the retirement needs of a growing baby boomer population, while in the UK, our with-profits annuity and asset management business in M&G are profitably serving the better relation[ph] and savings needs of an aging population. We are confident of delivering our 2013 objectives.

We can now move on to Q&A.

# Questions And Answers

## Operator

(Operator Instructions) Blair Stewart, BofA Merrill Lynch.

## Q - Blair Stewart {BIO 4191309 <GO>}

Three quick questions. Firstly, maybe a few words on the business in the Philippines. And how that's been affected by the unfortunate events of late.

Secondly, with the US separate account assets up strongly. And the business mix improving, seems inevitable that that business will be capable of returning significantly more cash to the Group. I just wondered what shapes management thinking in terms of whether to return that or to keep it within the local entity.

And thirdly, just on Eastspring. I noticed that flows were somewhat flat, in Q3; I just wondered if there was anything going on there. Thank you.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Blair. On the Philippines. And again I wanted to renew how sorry we are about what is going on there, we have been extremely proactive. To give you some numbers, we have 7,401 agents. And 486 staff in the Philippines. So it's a significant business.

What we do in those cases we really have a well-established process, unfortunately, to handle this because typhoons are a feature of life in Asia. We have a well-established process. So we account for all of our staff. In the worst place, which is Tacloban, we have about 60 agents. Unfortunately, out of the 60, 28 have not been yet accounted for. And we are working actively to find them.

In addition to that, we always work with NGOs, you know we have a very extensive cooperation, particularly with Save The Children, in the region. And I was in contact with Justin Forsyth yesterday. And we have made funds available to them to alleviate some of the situation. we have also committed to matching all our staff donations across the world. In our experience. And probably (inaudible) and the earthquake and tsunami in Japan, is that our staff are very generous. And that will lead to material amounts.

So at a high level, that's what we're doing. And frankly, at this point, the business is low on our list of priorities. It's first of all human tragedy. And we need to deal with that.

The US, yes, look we've had a strategy which has been very clear of growing the funds under management. In the end, that drives our earnings; you've noticed the operation of earnings, which is very pleasing.

That will allow me to make an important comment on the cash. What we're focused on, especially in the new post crisis world, is cash generation, rather cash remittance. So what I can tell you, Blair, is that the cash generation will remain extremely healthy. And will grow very significantly.

Remittances are a different matter, because we live in the new world where there's dialog with regulators around that. And we really have three concerns; one is to continue to rebuild.

The business gets bigger, which is what we keep telling everybody. Everybody's pleased with our growth. And so are we. But if your business is growing at 15%, 20% the balance sheet grows too. So part of what we generate has to be retained.

And if you just want to keep the same capital strength, you have to retain a proportion of that. You have to reinvest in the business, because we're writing at extremely attractive IRRs.

I'm not sure everybody realizes that. But VAs currently have the highest margins ever. After all the pricing actions. And the turning the cycle, we are writing at extremely high margins. So it's a very attractive business.

And finally, you have to remit. And really you know we don't hold cash; we don't keep cash any more than is prudent in the businesses. But after that, the level of remittance has to be agreed with the regulator and has to be prudent.

But over the long term. And I wouldn't commit over a six months period, or one year period, over the long term, meaning two, three, four years, yes, with growing cash generation you can expect growing remittances. But there may be time lags at different points in time.

And Eastspring, you're right, that's the one place, possibly, where you can see the impact of the so-called Asian crisis. Because it is, of everything we do, the most exposed to short-term economic effect and market volatility. So yes, Eastspring had flattish flows in the Third Quarter. And that was expected; there's nothing untoward. It's just a consequence of what's going on in the markets in the region that have been quite agitated.

But I'd just like to make a comment there on interest rates, because I think there's sometimes confusion. As you know, our exposure to interest rates is to long-term interest rates. And it remains geared positively to interest rates.

Fundamentally, if you think about Asia's two businesses, interest rate guaranteed products and protection, on the interest rate guaranteed products, higher interest rate are positive. And on the protection business it's in an EV[ph] world, not only the cash flow, in an EV world, (so maybe it's) negative, because it's discounted at a higher rate.

But net/net. And we give you sensitivities now and disclosure it's[ph] positive. So higher interest rate between what we gain, if you look at Hong Kong you've seen that the NBP really increased more than 60%; that's interest rates. And net/net, it's a positive in Asia.

So long-term interest rate will give positively. And really the short end we're not really exposed to. And a lot of the market chattering[ph] is cautious about the short end of the yield curve, which really has a limited impact on our economies[ph], very limited impact.

And actually, if interest rates in the short term go up to defend the currency, that's a very positive for us. And if they go up to control inflation, that's very positive for us, too, because inflation is bad. And no long-term inflation is good[ph]. So that's how we look at the whole interest rate question in Asian market and market volatility.

Sorry for long answer.

## Q - Blair Stewart {BIO 4191309 <GO>}

That's great. Thank you very much.

## Operator

Jon Hocking, Morgan Stanley.

## Q - Jon Hocking {BIO 2163183 <GO>}

I've got three questions, please. On the US, I just wonder if you could comment on how long this mixture from guaranteed to non-guaranteed products could continue? How far can you take this. And are you seeing any push back from distributors on that front? This is the first question.

Second question, wonder if you could comment a little bit on M&G, what's happening in terms of the types of products you're selling? Are you seeing a shift out of fixed income into equity strategies. And what's happening geographically in terms of distribution?

Then finally, I just wondered whether Jackie had any initial views on Pru UK, versus her old shop[ph]. And what's she thinks the opportunity might be for the business? Thank you.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Jon; thank you very much.

## Q - Jon Hocking {BIO 2163183 <GO>}

I don't expect her to answer the compare/contrast. But I thought I'd ask.

## A - Tidjane Thiam {BIO 7518525 <GO>}

I didn't expect anything less from you. US, we have (inaudible) Mike on the line; so Mike, do you want to take the first one?

## A - Mike Wells {BIO 4211236 <GO>}

Yes. I think, Jon, we're obviously -- the mixtures that we talked about in New York. And the attempt here isn't a full transition from one product to another, its products that work across the cycle; the lead access is focused on diversifying the client's asset.

So your question about the BDs and the distribution, the broker dealers, they actually like the product a lot. They're looking to us for a lot of training in branches and with the advisors. And we've spent a lot of time prepping the wholesalers. And as we discussed, about a year before we launched, getting their skills up to deal with third-party constituents in this. And actually, we're bringing some real value here.

And that's the feedback we're getting. So zero push back from our distribution partners. If anything, they've more time in the offices, more time on the product.

The one thing you are seeing is, the S&P[ph] in the US had a huge run this year. And so I'm exceptionally pleased with the numbers of lead access, given the fact it's an alternative asset. But the S&P, which is having quite a dramatic year. So no issues there at all. We're going to continue to drive the mix of products away from guarantees. But as Tidjane mentioned earlier, the margin on our core P2[ph] product is excellent. So we're not unhappy with the sales there, either.

## Q - Jon Hocking {BIO 2163183 <GO>}

So the distributors don't feel in any way backing away from the guaranteed product and having to go to competitors to fill those sales needs?

## A - Mike Wells {BIO 4211236 <GO>}

Okay, different question. We're doing activities right now, similar to what we did in the last year, where we're not accepting 1035s for a period managing capacity. And it's a very different set of conversations this year than the last year. Part of having done it once. And returned to the market successfully. And we've done everything we said we were going to do, which last year we had a lot of competitors breaking against us that were going away and all sorts of silliness.

What you're hearing from competitors is, they'd rather us maintain the product quality. And a proper balance between consumer pricing and stakeholder pricing, versus raising the fees again to manage volume. And having a less quality product.

So any time you disrupt a sale process, somebody's unhappy with you. But the number of calls. And the tone of the calls, are materially different than last year.

I'm not going to tell you, Jon, that everybody was happy. But we're not getting the -- they appreciate the integrity issue on the product. And I'm hearing that more and more. And I've talked to a dozen retail reps this year that do a lot of business for -- this week, I'm sorry, do a lot of business for us. And that's the tone of the calls.

## Q - Jon Hocking {BIO 2163183 <GO>}

Okay. Thank you. That's very clear.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Okay? So M&G, first thing I'd like to say about M&G is that the result we've had have been absolutely outliers[ph], completely exceptional by any historic standards. And so is the level of flows have been just stunning.

And you should expect some mid reversion there, because historically the flows were GBP2 billion, GBP3 billion, GBP 4 billion, not GBP8 billion, GBP9 billion, GBP10 billion. And I expect that over time, it's going to go and rise[ph].

Looking at this year, really structurally we've had very strong flows in Europe. And negative flows in the UK. It will be volatile month by month; an improvement recently we've seen in the UK. But overall that's the net picture.

So if you think that retail is about GBP5.9 billion[ph], you've got something like GBP6.5 billion, GBP6.4 billion[ph], of positive flows outside the UK. And minus GBP0.9 billion[ph] in the UK, roughly. That gives you overall[ph] balances EPNS[ph] and in the US only small[ph].

So the feature, the structure, has been that. If you look at products, as the equity flows are higher, period for period they're about 23% of the flows now. And they were 13% last year. So there's been a -- unsurprisingly, you only see that[ph] cyclical shift towards equity. And that transition is going to pay out; we're quite relaxed about it. Money will flow out of fixed income and will go into equity. It's underway. And it's going to continue in the coming quarters.

So Jackie, we've given you enough time to think about your answer.

## A - Jackie Hunt {BIO 16204866 <GO>}

Thank you, Tidjane. And morning, Jon. So by way of opening, really I should just highlight, obviously I'm two months into the new role. And I have been saying to all who will listen that I do get a bit of a honeymoon period. I'm still looking at parts of the business. And forming some views. Initial observations --

## A - Tidjane Thiam {BIO 7518525 <GO>}

Not just the honeymoon.

## A - Jackie Hunt {BIO 16204866 <GO>}

Initial observations, you wouldn't expect me to do a significant compare-and-contrast. But clearly the strategy for Pru UK is very different to Standard Life strategy. It's a much more risk-based business, as opposed to the asset-gathering model. And really, plays to its strengths I think in that risk space.

So if you look at the areas. And what attracted me in part to the role, we have an immensely strong retail brand. But we differ from some others which are largely intermediator brands. I think that gives us the resonance; we're still the man from the Pru. And Prudence. And all these things, in the consumer arena. And I think that has paid actually hugely to our benefit over the course of the last four, five years.

If you look at our with-profits fund performance, clearly that has been strong against backdrop of a product that hasn't sold in large quantities elsewhere. And that is driven, really, by the customer performance that there's been off the back of those with profits funds.

So again, when we talk in December I'll share with you some of the analysis, many of you will have seen it, how strong Pru UK's with-profits performance has been, relative to other similar funds out there.

And finally, I think the thing I would highlight is around annuities; obviously, it's a key strength of our business. It is a growing part of the market. There are areas where we have what I would see as market-leading propositions. So something like the income choice annuity. You've seen a significant uptick in the sales of income choice annuity products over the course of the last nine months. And that's because it's the perfect customer proposition, inasmuch as it gives a secure income with some opportunity for upside as well.

So we will come back, I think, to this broader question of observations on December 10. But maybe that gives you a little bit of a sense, Jon.

## A - Tidjane Thiam {BIO 7518525 <GO>}

All right? Thank you very much, Jackie.

## Operator

Andrew Crean, Autonomous.

## Q - Andrew Crean {BIO 16513202 <GO>}

I wanted a couple of follow-up questions, one for Jackie. Has she reflected at all on the linkage between life companies and fund management groups in the asset-gathering space? Because that was an area which I think Standard were exploring a lot. And it's where I[ph] think a different strategy has been taken.

And secondly, I wanted to follow up on what you were talking about in terms of capital generation, cash to Group, in the US. The implications seem to be that here was a one-off uplift in the regulator's requirements for capital for you in the United States, where you wouldn't be able to remit cash back to Group from the US business in 2014. Was that a wrong deduction?

## A - Tidjane Thiam {BIO 7518525 <GO>}

Everybody here is shaking their heads. It is a wrong deduction, if I may[ph]. But maybe I was too cautious in my comments. I'm just very reluctant to commit to very short-term remittance, to make shorter remittance[ph] commitments, because it is just not smart, frankly. It's not the way things work.

We have a very good relationship with all the regulators involved. But the dialog is always ahead of us. And we shouldn't preempt that dialog. But the rules are very transparent. And our remittance work is very transparent. So no, we think that the level we have achieved is a sustainable level. So I'm not plugging[ph] any concern. Sorry if I created the wrong impression.

## Q - Andrew Crean {BIO 16513202 <GO>}

Okay.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Jackie, life fund management?

## A - Jackie Hunt {BIO 16204866 <GO>}

Yes, I think again, Andrew, it's an area that I have felt and continue to feel strongly on, where you can actually drive value across the Group. Where you do find, obviously large companies often in a better place to distribute and asset managers effectively to drive some of that retail growth performance. And elsewhere, it has been a strategy that has begun to pay off.

When it comes to where we are today, I believe strongly that you place your strengths, in the first instance. And clearly as I said in some of my earlier comments, our strengths here are on the annuity space and in the with-profit space more generally. So to my mind, that's really where we need to make sure we remain very focused, where we continue to actually generate the right financial outcomes for shareholders. And Tidjane's talked a lot about capital and cash generation; that will continue to be a significant focus of mine in the UK business.

I do think where the opportunity is to potentially broaden our approach we will look at those, make sure that we're not leaving any opportunities on the table. But it feels to me that that particular one is further down the list of priorities than some of the areas you would expect me to be concentrating on, things like enhanced annuities, those sorts of parts of the market.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Absolutely. And also, as you know, there is, even today, a very strong relationship between our life business and M&G. They work very closely together and we encourage them to do a lot of things together. We're getting a lot of the synergies already today.

## Operator

Farooq Hanif, Citi Group.

## Q - Farooq Hanif {BIO 4780978 <GO>}

I wondered if you'd comment on the Omnibus II agreement that's just come out. Obviously, we don't have a lot of details, apart from hearsay. But it seems like a bigger volatility balance, provisional equivalents, etc., etc. How do you feel about it, in terms of your Group. But also how does it potentially change product strategy? That's question area one.

Question two, going back to John's question about the mix of non-guaranteed and guaranteed annuities of VAs in the US. So am I right in thinking that you're still potentially likely to increase the non-guaranteed portion, therefore there's still going to be a countercyclical element to your growth rates? Or, do you think, given the really strong margins, you could possibly start pushing the guaranteed side a lot more and maybe change from your recent approach?

## A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you. On Solvency II, as you said yourself, we're getting emails as this call is ongoing on the agreement that has been reached. My first reaction is to say that I am pleased that there has been an agreement, because we all know that businesses and markets don't like uncertainty. And 13 years is enough.

So there's a bit of relief that we are moving towards closure. And really on our big, big issues, which you know, are pro-cyclicality[ph] having countercyclical buffers, I think we won the intellectual agreement within the industry. And we got so much in adjustment, there are technical issues there. I haven't seen the text. So I think that BBB (inaudible) worried about. I'm not sure what the resolution has been but I have every reason to believe that it's positive because suddenly the UK treasury and the UK regulator have all been well aligned now for what is necessary for the long-term health of the UK industry.

So overall, in short, I think it's a good package. But I have to wait until I see the detail. And what we're hearing on equivalents sounds positive also. I've heard 10 year mentioned, I've heard provisional equivalents, 10 year renewable; that's what we hear from a (break) point. That's also great progress compared to where we were a few years ago. So suddenly, as the leadership of this Company, I probably have never felt better about Solvency II certainly my years here.

## Q - Farooq Hanif {BIO 4780978 <GO>}

That sounds very positive.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Yes, product strategy it's too early. We don't even know what it is. So it's too early to talk about that. But we'll come back to it. But from what I say you can deduct that there is no earthquake, no drastic change, because we basically have been able to --

We've always argued that keeping it about -- we are a long-term business. So the premises of when you fail[ph] is that you liquidate all your liabilities instantaneously doesn't make sense for an insurance company. Even in a failed insurance company you liquidate the liabilities as they come due. That is the orderly way to do it and that's how every insurance failure has been handled.

So with the one year bar[ph] approach which is completely banking based, well that's wrong. It was very difficult over the years to get people to recognize that. I think we got over that.

We are happy with any solvency regime as long as it takes into account the specificities of our industry and it doesn't lead us to do things that are damaging to the customers, damaging to the economy, the long-term growth potential of the economy, through the savings rates linked to investment rates. And employment and growth for instance, by stopping us from investing in infrastructure or from financing the corporate sector beyond five years. Or for that possibility[ph] in financing the government beyond five years. There are very few AAA countries these days.

Anyway, I'll stop, because my list of my issues with the old framework is long. So we make good progress.

VAs, a follow-up for you Mike? Do you want to -- ?

## A - Mike Wells {BIO 4211236 <GO>}

No. I think it's a good question. The things we look at is, we're looking for the quality mix of our earnings and the strength of the balance sheet. So you have product mix in that, you have the appetite for with-guarantees. We don't have a materially different view of that year over year, even with the improvement in interest rates involved; again, those short-term looks. The book looks outstanding, just from a quality point of view, both the level of guarantee and as was mentioned earlier, in the performance the consumers have enjoyed.

We think we have a really good product that works for the retirees. We think Elite Access is a really good product; it diversifies[ph] away from complete equity in bond exposure for the retirees and potential retirees. And I think that what you're seeing is to do with the balance sheet and earnings issues with the consumer demand need issues. Those are going towards an appetite for a range of products and guarantees. That's what the industry's producing now as well, as a number of competitors have decided they like this business again.

We're watching what each of them are doing carefully and we don't have any material increase at all in our appetite for with-guarantee. We think we're writing a pretty good level now and I think that's demonstrated by a slowing down of sales here at year end.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's really clear. Thank you.

## Operator

Alan Devlin, Barclays.

## Q - Alan Devlin {BIO 5936254 <GO>}

Just a couple of follow-ups on the US. The impact of higher interest rates is very positive on your new business margin. I just wondered if you could give us some kind of color on the impact on the in-force. And possibly VA business on the supplier based[ph] business. Should we see similar impact on net profitability there?

Then, second, just following up from the last point, if you could give us a bit of color on the competitive environment in the US? I think one of your competitors, Lincoln National, has got some reinsurance capacity to help them grow. One of the things you mentioned IRRs are at a record high there. Do you think they'll start to come down as the competitive environment increases? Thanks.



## A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Alan. Maybe I'll ask Nic to take the first one and Mike the second one.

## A - Nic Nicandrou {BIO 15589153 <GO>}

Morning, Alan. The impact of higher interest rates is positive. But when you think about the Vas, that manifests itself in the high discounting of the obligations that we have, the very long-term obligations for any policies that are In the Money. So a higher interest rate discount[ph] those that are lower, or the discount effect is lower. So it's positive in terms of the economic exposures that we have on obligations.

In relation to earnings, you're right, that does come through on the fixed account. You would have seen that the business that we've written in the course of Third Quarter, because of the higher interest rate base, we've locked into a higher spread. It was up by around 55 basis points compared to this time last year, or 50 basis points compared to the first half.

So it comes through in the economics that we're securing on the fixed account business. But we are writing, of course, the back book. It's cash flow matched at the point of writing the business. So there is -- the in-force book the impact of the current rise in interest rates is not that significant.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Nic. Do you want to give some color on the competitive environment, Mike, please?

## A - Mike Wells {BIO 4211236 <GO>}

Yes. The Lincoln deal is interesting; it's a subsidiary of Wells Fargo that's doing the reinsurance on their withdrawal benefit. We haven't seen the actual agreement. But I think it's generally positive when you see large financial players backing the space, backing the products.

As you guys know, we never left it. So I see it more as an industry endorsement, no different than you're seeing some of these other competitors now come back to the market, with obviously much higher appetites for VAs with guarantees.

But the environment is interesting. I think the competitors are -- the trends, as we discussed in New York, continue. You're seeing a lot of these attempts to -- the risk management overlays from vol only -- vol-controlled funds to forced allocations to these sorts of models. And they definitely have some advantages for the writer and for the consumer, if used correctly.

The disadvantage is, when the S&P is up materially, they're not going to participate in that, the same way a portfolio of value centric in the more diversified funds are going to do.

So each of the strategies has strengths and weaknesses. Pru US has got a new product this year; they're pushing hard, which is focused -- it's a VA with effectively a bond-only portfolios in it that's kind of interesting.

But again, these all go to individual firms' agendas and what they're trying to accomplish with their own balance sheets, as well as trying to find if there's a consumer need for what they're putting out there.

But it's a pretty good crop of products right now. I think that's healthy for us as an industry. I think you're seeing it reflected into the earlier part of your question, the interest rate and accurately reflected in the valuations of the US sector in general.

And some of our competitors are much more geared -- or need higher interest rate levels for their back books to be effective.

As Nic mentioned, we've hedged interest rates, as we told you, for a long time. So that's not a particularly material issue for us right now.

## Q - Alan Devlin {BIO 5936254 <GO>}

Thanks very much.

## Operator

Oliver Steel, Deutsche Bank.

## Q - Oliver Steel {BIO 6068696 <GO>}

Two questions. One is actually just really more of the same on the last question, I'm afraid, which is how do you see the outlook for US margins from here? Because you actually raised your pricing earlier in the year and it's coming through in the margin. But equally, you're also saying it's the best margins you've ever seen, I think, on VAs.

The second question is, the comments you make about the review into policy behavior you've done is a little vague. You talk about generally in line with assumptions; I wonder if you could just expand on that and particularly where it isn't in line and to what degree?

## A - Tidjane Thiam {BIO 7518525 <GO>}

Thanks, Oliver. And I did in my remarks comment on how high the margins are, because I think that's not always understood.

And the policy behavior, of course, is an important point. We spent a lot of time on that at the Investor Day last year. So Mike, I'll let you take both.

## A - Mike Wells {BIO 4211236 <GO>}

I've got Chad sitting next to me; I made him get up. Do you mind if I have him do the policyholder behavior one? (Laughter). Chad, why don't you go ahead on that second piece. And I'll do the margin piece?

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

Sure. So on the policyholder behavior side, I think as you're aware, we do an annual refresh of the experience studies, which we tend to complete in middle of the year, portions of which will get reflected at midyear and portions of which get reflected at the second half of the year.

And so you'll see the net result come through at the year-end results. But from what we've seen, broadly speaking, lapse rates, utilization rates, the main things that drive VA are continuing to be in line with long-term assumptions.

We make minor tweaks every year as the experience warrants and this year is, I think, very much like what we've seen in prior years, which was that our guesses are reasonably good and we're not seeing any major shifts in policyholder behavior.

I'd say the only interesting part there is it's still on the very extreme cases, we just don't have a lot of experience. As Mike mentioned, most of our book is well Out of the Money and we do have some experience through the financial crisis to try to extrapolate from. Trying to set assumptions and the scenarios is still a little bit tricky. But we've been very defensive there, as I think we've shown in multiple venues in terms of just how adverse we assume the policyholder behavior to be in those scenarios.

But in terms of everything we're seeing that we have available information for, we're very much in line with where we've been in the past.

## A - Mike Wells {BIO 4211236 <GO>}

Then, Oliver, on the margin piece. I think the clearest way I could explain it is, we have the number one product in the space. So we have now as I told you[ph] a couple of weeks ago that we have the 1, 3 and 5 product now with Elite Access in the independent broker dealer space and they're all top 10 in the US industry.

We like the pricing on the product. We can sell more of it than we're interested in selling in a given year. So I think that demand is there, telling me that we priced correctly in the consumer and advisors' view. It's clearly benefiting from the higher interest rates. And I think one of the questions on margin would be your own opinion on where you think US rates are going, long term.

But we don't anticipate any need to -- we certainly don't need to reduce margins to sell more; that's not in the plan. And we think that the quality of the product for the consumer is very high. So I think we're at a very good balance of the different stakeholders' issues there.

## Q - Oliver Steel {BIO 6068696 <GO>}

Thank you very much. And just to follow up on the first answer, does that mean basically that there shouldn't be any material changes to assumptions at year end on a net basis?

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

That's correct, yes. Let's just say, on a net basis, it's going to be in line with what we've seen in prior years. I guess maybe I can answer it this way; we're not looking at anything like we've seen what our competitors come out with in terms of major announcements on profit or[ph] (inaudible) revisions.

## A - Tidjane Thiam {BIO 7518525 <GO>}

That's a key point really. You shouldn't expect anything from us (inaudible).

## Q - Oliver Steel {BIO 6068696 <GO>}

Thank you.

## Operator

William Elderkin, Goldman Sachs.

## Q - William Elderkin {BIO 3349136 <GO>}

I've just got two quick questions left. First of all, could you just give a sense of how the statutory capital of the US business has developed over 2013?

And secondly, just on the Elite Access product, could you give us a bit more color in terms of how your competitors have responded in that space?

## A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Chad, probably one for you, stat capital.

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

Sure, I think as I mentioned last year in New York a scenario like we've seen with equities up as much as they are this year is not -- from a statutory perspective our reserves are getting to floor type of levels as I mentioned. So we're getting some asymmetrical accounting on the statutory side. But irrespective of that, we're still seeing pretty strong capital formation through the first nine months and we see --

## A - Tidjane Thiam {BIO 7518525 <GO>}

Sorry Chad, can I stop you. We're hearing someone typing on a keyboard, if you can go on mute maybe?

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

So we've seen, despite the fact that the capital formation has been held back somewhat by the market being up as much as it is and the asymmetrical accounting at this point in time, we're still seeing a planned level type of capital formation. And with the strong fee base that continues to build as markets go up, that's obviously a short-term positive; REALIC's been a very good capital formation tool for us over the last year.

Let's say, with equity markets being up as much as they are, that's again depressing capital formation somewhat but still, despite that, we've managed to be, let's say, in line with plan.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you. Next question was Elite Access with competition, really for you, Mike.

## A - Mike Wells {BIO 4211236 <GO>}

Yes. There's about a half dozen products out now from various firms and some in the process of launching. We never anticipated we'd have the space to ourselves. So I think it's, again, a validation of the success of the product. And I think you've seen from the numbers we're about GBP4.3 billion through September on the launch. That's about as successful as anybody's launch in the VA that's profitable. So I think it's drawing attention from our peers.

Proper competition will broaden the dialog, increase the dialog, broaden the market space. Right now, the firms that US industry research would suggest are the three top brands in wholesale[ph] are BlackRock, Jackson and Fidelity. So I don't think it's a bad thing if we've got more people out there talking about the correct use of that.

I'm not real concerned about the competition in the space of this point candidly. It's a pretty sophisticated product to wholesale and I think you'll see the impact of the quality of our distribution team relative to peers in these numbers. When you lay these products side by side with ours over similar time periods, launched x number of quarters and see how everybody does.

## A - Tidjane Thiam {BIO 7518525 <GO>}

And just to build on what Mike said. And he's made that point. But just keep in mind all these products are also -- the sales are market dependent. Can always underestimate the impact of something like the S&P (inaudible). And the S&P has probably been in the last 12 months the single best investment anybody could make on a risk adjusted basis.

So alternative (inaudible) have returned less and you see yourselves being impacted by that and that's just normal and that's why we talk of diversification. As you go through cycles and markets move, it's good to have several options what you can push at different points in time. And Elite Access gives us a really very, very useful diversification.

## Operator

Greig Paterson, KBW.

## Q - Greig Paterson

Just three questions. One is just on the Eastspring outflows; I wonder if you could just talk to the potential for assumption changes on the Asian EEV, for persistency at the year end here[ph]?

Second just basically the same question; can you talk about the US in terms of assumption changes at the year end, just considering that Eastspring weak persistency? I was just trying to see if there was a change.

And the other thing is, did I hear correctly that Jackie said she was looking at enhanced annuities? I thought you, Tidjane, stood up at the half year and said you didn't like it because of the cannibalization, etc., etc? I suppose when you're answering that question you could give us an update on the FCA investigation into why not as much product is going open market, how that would have impact on you?

And the third, I was looking over the weekend and looking at my Fourth Quarter numbers and I realize that the Indonesian currency has depreciated again quite materially in the Fourth Quarter. And I know it's a key element of your Asian sales. Does that mean that you've had a major up -- in order to count it and hit the targets for the year have had a major uptick recently in the Indonesian agency numbers? To me, that's the other thing that must have moved for you to have confidence.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you for the questions. Nic, do you want to take Eastspring outflow, the EEV?

## A - Nic Nicandrou {BIO 15589153 <GO>}

The outflows that we report in the IMS, Greig, only relate to external third-party business. So they are not indicative of what's happening to flows on the life side. Flows on the life side, by way of an update, we've seen no change to the trends that we've been reporting over the last few years. So there is no new news today in terms of the stickiness of our Asian life business flows, which ultimately is what gets included and incorporated into our EEV assumptions. So for third-party business we don't put them on an EEV basis. So there's no changes.

## Q - Greig Paterson

So shouldn't expect a major (multiple speakers) to year end?

## A - Tidjane Thiam {BIO 7518525 <GO>}

No. The flows are excellent; that's why I didn't understand your comment about outflows. The flows on the life side are excellent, as you would expect with the commercial performance we've had. So those numbers we give are about third-party business, nothing to do with EEV, okay.

So enhanced annuities, Jackie, do you want to say what our thinking is there?

## A - Jackie Hunt {BIO 16204866 <GO>}

Yes.

## Q - Greig Paterson

Just that Jackie mentioned that a new (multiple speakers) half-year?

## A - Tidjane Thiam {BIO 7518525 <GO>}

We're noting the question; we're trying to answer. Jackie, can you?

## A - Jackie Hunt {BIO 16204866 <GO>}

Greig, just by of context we do actually participate in enhanced market, both externally and internally as we stand today. Although we, in practice, tend to more commonly quote for and win business with more serious medical conditions, we tend to be more competitive there. I think my comment. And clearly Tidjane can clarify what his comments were around. But my comment was much more the market is moving increasingly towards individual underwriting in various forms, or individual risk assessments of some form.

So while I wouldn't be saying we would aggressively compete to win business in a very narrow niche space, I think, as the largest annuity writer out there, we do need to have a very clear strategy around how we defend and how we continue to compete in the open market more generally. And clearly, some of the products that we've developed and also the thoughts within the business are focusing into that market change that's underway at the moment.

You asked then, I think, about the --

## Q - Greig Paterson

Jackie, did you say you write more impaired? I thought you were a postcode pricer when I look at your product suite?

## A - Jackie Hunt {BIO 16204866 <GO>}

We do postcode pricing and we do some other enhanced around medical conditions as well. I think something like -- I've seen stats of probably about 8% of enhanced annuities are coming through Prudential in some form is the market level I've been seeing more generally. So it's part of the product suite out there. I think there's potentially more we can do, as much around defensive positioning as well as offensive.

## A - Tidjane Thiam {BIO 7518525 <GO>}

But I think your fundamental point is one Jackie just mentioned, she hit the nail on the head, we're moving towards individual pricing. And you will see us, in our language, get away from all those definitions. At the end of the day, the pricing has to be based on the personal risk assessment. That's what we're working on and refining and aligning our systems to do. That's the direction we're taking.

Sorry, you were asking about the FCA investigation?

## Q - Greig Paterson

You guys are probably the biggest example of success in internal vestings. The FCA is doing a major investigation into why clients are not getting the best terms, i.e., they're not shopping around. Just want to talk about what level[ph] you seem to be most vulnerable. I just wonder if you could give an update.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Jackie go ahead, of course, yes.

## A - Jackie Hunt {BIO 16204866 <GO>}

I think, Greig, both prior to the implementation of the ABI code and now subsequent to further refining our processes around the code, we're very clear that we are encouraging out internal customers to shop around and to make sure they are getting good value for money.

We do see some of our products. And I talked a bit about the income choice annuities actually being market leading. So in some parts, the fact that vesting levels are holding consistent with where they've been previously, to me is not necessarily an indication they aren't shopping around, or they aren't aware of it, it's an indication that we do actually have a very strong product out there that meets the customer need.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Another issue[ph], you probably noticed that the ABI announced today a review. So there is a lot of work with the ABI Board yesterday afternoon, there's a lot of work at the industry level around all that, to make sure that the customer gets the best deal. We are active participants in these reviews; we don't see them as a threat. They're things we absolutely support and want to be involved in. So quite relaxed about it. We have a good dialog with the FCA on all these issues.

As you can imagine, we have a lot of research. The reasons why people stay with us are actually the right ones. They understand that an annuity is not just about price. That it's important when you're 85 that your provider is still there. That it's important that the commitments are kept. So they're actually quite smart. They go differently from the direction the press is pushing them towards, which would be to just be to go for the highest price. They make a considered judgment to stay with a company they believe[ph].

The way we work now, we go out of our way to get them to shop around and look. But when you have a GBP20,000 pot, you just feel it's not worth it. You're very happy where you are. And in spite of all the efforts we make, they stay. There's been no change in our vesting rate.

What you've seen, the decrease in annuities is pure deferring. But there's been no change in the vesting rate, no discernible change. Anyway, it's an interesting area. But sometimes people are quite rational. It is quite rational for people with those types of products to not waste time shopping around and stay with their provider if they're happy.

Indonesia, it's an important question. We do not -- okay, our investment proposition is simple. There is a lot of evidence that FX, over the long term, is highly correlated to GDP growth. We are winning in markets with structurally higher GDP growth than the west. I think the prospects that Europe will start growing faster than Asia are limited.

Our long-term belief is that the Asian currencies will appreciate, compared to the European currencies. That is the strategy. And thank God we don't run the business with an eye to short-term exchange rate. We are a locally based business. We're locally matched in terms of currencies, our assets and liabilities. And we run the business to generate the best result in local currency. We're very confident that, over time, that will translate in a higher result in western currencies because the Asian currencies can only appreciate. We have not turned up the recruiting in Indonesia because of pound/rupiah parity moves; that's not how we run the business. The business is up 22% on a local basis; that's what we maximize.

Within the year, as we've told you in the past, the flows are hedged. Inter-year, they're not hedged at all because we think one of the big attractions of our stock for investors who believe what we believe, is that FX appreciation will flow into our results, over time. So we do not run the Group in function of short-term currency movements. That's really (multiple speakers).

## Q - Greig Paterson

What I was trying to do, Tidjane, is you said you've got confidence in the -- I'm just thinking about the Fourth Quarter number and your share price correlation to the sales. You said you'd got a lot of confidence. And as I was going through all the little product developments and everything you've done. And I came unstuck when I was looking at Indonesia. Once I adjusted for the currency to date, I went, in what light[ph] in the Fourth Quarter. I was just brainstorming and thinking well maybe there's been a surge in agents or something like that to counter it.

## A - Tidjane Thiam {BIO 7518525 <GO>}

I can help you. Take the Fourth Quarter of last year, I know you're very focused on NBP, actually I probably have time to just say a few words about NBP again, because I think I said at the half year I really don't like NBP because I know the community's very focused on it. One it's an EV-based measure metric and I don't like EV; I'm on the record as that. It's very much interest rate-sensitive because of the NPV aspect.

So talking about protection, which is a great business, it's pure cash. It's not interest rate-sensitive. It's made interest rate sensitive by NBP, which is really, really stupid. So NBP tells you about the great growth in[ph] premium you're getting in Indonesia are less valuable when the Indonesian interest rate goes up and we don't believe that. There is some of it but on a cash basis, it's just not true. There is some of it that is misleading.

It depends on a lot of things that we don't control. It moves up and down depending on -- we've been on the record saying that our forward target is the one we like to list. That all being said, take the Q4 NBP and look in 2012 and look at how much it has to grow for us to hit the target in Q4 this year. So you do GBP1,426 million, which is the target, minus GBP990 million, that's GBP536 million[ph] if my math is correct. And you compare that to the Q4 NBP and you'll see what kind of growth we need in Asia to hit the target. That's why we're confident. Having 13 countries and 11 life[ph] business to play on that we can -- and we will hit the target in sales in Indonesia, no question.

## Q - Greig Paterson

Thank you.

## Operator

Fahad Changazi, Nomura.

## Q - Fahad Changazi {BIO 15216120 <GO>}

Question on UK annuities, please. Could you expand upon your comments? You said that you're seeing people defer the decision to annuitize. Are you referring specifically for Q3. And what are you seeing in Q4 in that respect?

Then I had a follow-up on what you said just now on augmenting your IT systems to cater for underwriting medical-enhanced annuities. What exactly are you doing? Thanks.

## A - Tidjane Thiam {BIO 7518525 <GO>}

I'll let Jackie start on that one.

## A - Jackie Hunt {BIO 16204866 <GO>}

Sure. In terms of the deferral behavior, the ABI code was implemented, as most of you would know, around the Third Quarter time, just pre-Third Quarter. The big things that it really drove was previously when packs were sent out to people who were coming to annuitization point, the application form would go along with it.

The process has now changed so it's actually a two-stage process that takes about six months. There are opportunities and further conversations with customers along the way to say, have you done what you need to do around shopping around. Now what we've seen as a consequence of that. And I think it's an industry-wide trend, I certainly saw it in some other announcements that have been made the last few weeks, is that more annuitants are coming to this point of vesting and they are deferring their decision.

I think there's some question as to whether that deferral is because they are waiting for advice or whether it's because they're looking at annuity rates and thinking they might get a better rate as interest rates rise, or whether it's just that they are finding it actually quite confusing. And, as a consequence, not really making a final call.

When it does come to the vesting itself, as Tidjane said earlier, the vesting rates have held steady. So we know we're not losing the business to other providers, in large part. The same percentage roughly that was converting to Prudential contracts prior to this change has continued to convert. We are seeing a large number of customers delaying the decision for whatever the driver might be.

It is early days in the process as the whole code embeds. And clearly, some of the media speculation and focus, I think, is driving into consumer behavior as well. We've seen a similar continuation of that trend into the Fourth Quarter but I would expect that, over time, it would stabilize. But it's still pretty early days. And Tidjane did talk a bit about the ABI announcement that was made earlier.

In terms of the personal underwriting, again it's something that's probably more suitable for us to come back to in December to talk a bit about. Where we see supplementing our individual risk assessment will be necessary, as we go forward, to remove this very blunt distinction between standard and enhanced business. So I think we can pick it up in a more thoughtful way in December, if that's all right with you, Fahad?



## Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. Thank you.

## Operator

Abid Hussain, Societe Generale.

## Q - Abid Hussain {BIO 17127644 <GO>}

Just a follow-up question from an earlier question. Just on the US, can you give us a sense of how much of the rise in the VA margin was from rising yields. And how much was due to pricing actions? And can you give us an indication of whether you expect to continue to take pricing actions in Q4? Thanks.

## A - Tidjane Thiam {BIO 7518525 <GO>}

All right. Who wants to take that? Maybe Chad or --

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

Sure. In terms of the mix, I'd say it's, roughly speaking, 50/50 between rates and product mix from if you look at the Third Quarter[ph] in 2012.

## A - Mike Wells {BIO 4211236 <GO>}

We haven't filed or are anticipating any pricing action in Q4. Those that require an SEC filing, we've done that.

## A - Tidjane Thiam {BIO 7518525 <GO>}

So it would be too late to do, that's what Mike is saying. So absolutely not, no, is the answer.

## Q - Abid Hussain {BIO 17127644 <GO>}

Great. Thanks.

## Operator

Ashik Musaddi, JPMorgan.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

A couple of questions. First of all, can you give us some color on the Malaysian regulator now looking at the allocation rates? It somewhat differs to your allocation rate. But any color on where we are on that one. And what are your thoughts on that, on the investment-linked solutions?

Secondly is, can you give us some color on hedging costs in the US? It looked to be pretty low at this point, mainly because of low volatility and partly rising rates. So where does it stand versus your average expectations? These two questions. Thank you. In the US, I mean.

## A - Tidjane Thiam {BIO 7518525 <GO>}

I'm afraid on Malaysia we're drawing a blank here. What do you have in mind here?

## Q - Ashik Musaddi {BIO 15847584 <GO>}

Sorry. Basically, there's been recently a consultation being started by the Malaysian regulator on the allocation rates on the investment-linked solutions, i.e., the charge you take up front over next 10 years or something. So there has been a recent consultation on that. So it was regarding that.

## A - Tidjane Thiam {BIO 7518525 <GO>}

We'll come back to you on that. I saw (multiple speakers) the regulator one month ago. And that didn't figure in our conversation. So I don't know; we'll give you more detail when we know.

## A - Nic Nicandrou {BIO 15589153 <GO>}

And the majority of our profits on which regulators are protection. Malaysia, the product is sold as on a protection (multiple speakers)

## A - Tidjane Thiam {BIO 7518525 <GO>}

It's a protection chassis with a saving riders. So basically, you buy your protection and if you want to save also you can. But it's fundamentally a protection product. So we wouldn't be very close to that[ph].

The hedging, Jackson's.

## A - Mike Wells {BIO 4211236 <GO>}

There's nothing newer, therefore, the hedging budget, or strategy. We're continuing to be very defensive at this point in the cycle with the hedging. But there's no material difference in our spend versus the fees we take in specific for hedging at this point.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

So just to follow up on that, are you still spending around $1 billion which, I guess, is what you mentioned is your hedging budget?

## A - Mike Wells {BIO 4211236 <GO>}

Yes. We're spending the majority of it. And as we've talked before, over a cycle we anticipate spending all of it. And if we needed to we would spend more than that. But obviously, at this point of the cycle, we don't need to do that. But yes, that's a good approximation of the budget at this point.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thank you, very clear.

## Operator

As there are no further questions at this point, I'll return the call to you, Tidjane, for closing comments.

## A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Jerry. Thank you, all for your questions; a lot of interesting conversation. The global macro environment is improving, with a recovery in the US, an increasingly positive outlook for the UK. And with the economies in our key Asian markets expected to continue to grow faster than developed economies.

The long-term structural trends we see in Asia, low insurance penetration, positive demographics with a rapidly growing middle class, rising wealth. And a significant protection gap, remain compelling. And are a key driver of our future prospects in this region.

Our multi-product, multichannel platform, our leadership positions across our sweet spot markets, our ability to execute on the substantial opportunity to profitably serve the growing savings and protection needs of our customers. And the quality of our staff, gives us confidence we will continue to deliver long-term shareholder value.

In the US we remain disciplined; our focus in the UK is on delivering good returns; and our asset-management businesses across the world are performing well in meeting the savings' needs of our customers. Our businesses are well positioned; our balance sheet is strong; and we are disciplined in executing all the opportunities available to us in each of our markets.

We remain on track to achieving our 2013 objectives. And we look forward, with confidence, for the rest of 2013. And beyond.

I hope that, although I said there would be no drama, many of you will take the opportunity to join us for our Investor Conference on December 10, in London. I thank you very much for your attention and patience. And wish you a very good day. Thank you.

## Operator

This now concludes our call. Thank you for attending. Participants, you may now disconnect your lines.