S1 2015 Earnings Call

Company Participants

- Barry Stowe, Executive Director
- Jackie Hunt, Executive Director
- Michael McLintock, Executive Director
- Mike Wells, Group Chief Executive
- Nic Nicandrou, Chief Financial Officer
- Raghu Hariharan, Investor Relations Director
- Tony Wilkey, Executive Director
- Unidentified Speaker

Other Participants

- Abid Hussain, Analyst
- Andy Hughes, Analyst
- Gordon Aitken, Analyst
- Lance Burbidge, Analyst
- Ming Zhu, Analyst
- Oliver Steel, Analyst
- Unidentified Participant

Presentation

Mike Wells {BIO 4211236 <GO>}

Well, good morning and welcome. I think I know most of you. I'm Mike Wells, the new Group Chief Executive of Prudential. I'm the 21st of the accounting in the 157-year history of the Group, and I'm very pleased to be up here today, present you our first half results. I think you will -- see if you get a chance to take a look at them, they're very broad based with all four of our business units contributing at a very material level. Assuming you've all read this, so I'll move on to the agenda for the day.

We are going to break this into three parts today. I'm going to give you an overview of the business and some of -- just the key highlights, Nic is going to give a very detailed review of the financials, and some topics related to that, and I'm going to come back after and say you, just some general views I have on where we are capability wise, strategy-wise and execution wise in the various markets, some of the issues we're dealing with.

So let's go right to the -- some of the growth metrics. IFRS profit of 17, new business profit of 12, free surplus generation of 12, so all of the operating metrics in double digits and of course supporting the cash metrics, remittance up 10 and interim dividend, which again is technical at this point, compared to the 2014 dividend is up 10 as well, 12.31. Clearly, the performance is -- now, we are generating robust operating income, but we're converting that to cash and net cash is making its way to the center and support the dividend. So very pleased with the shape, the structure and the flows in the first half.

Center two, our delivery is Asia, and the consistent performance of Asia, the first half sales in Asia are up 31%. The Asia average now, their quarterly growth year-on-year is 17% and that is for 23 consecutive quarters. So that is a commendable performance, I think in any industry, by any team and certainly one we appreciate in value.

The other piece, I think it's important to look at here is the relative premium focus on the bottom axis. Again, this is the consistent performance across market cycles. This attaches some of our flows in earnings from some of the short-term disruptions you see. And then the final thing, I would actually consider on this page is the absolute performance is strong and so is the relative performance of an Asian competitors in the market in general.

Looking little closely at the Asian business, the performance has been very broad based, and again this comes from pan Asian model, we've got multiple growth engines, eight of our regions produced double-digit growth. All of our product categories did, the agency distribution force up 32%, bancassurance partners up 16%. Someone asked out front, Standard Chartered inside that APE is up 35%. The productivity, the activity of our agency force is up, the size of our agency force is up, this is an institutional industrial size capability here for us from organic growth. And it's obviously unrivaled in the region and highly, highly scalable, and we are very impressed. We highlighted some of the specific countries and the successes there, I leave back to you to read in detail, but again, there are numerous stories across the region as success for us, and very pleased with their performance.

Eastspring, a unique part of our Asian story relative to peers in the region, the valuable synergies, obviously with a life operation, given the relationship between some of the products and the underlying asset management, and this is a continuing story for us in the development front.

Great third-party flows, strong performance, increased growth and capabilities, our intent here is, this is a relatively young business in maturing market is to continue to reinvest in their capabilities, and grow the breadth and depth of this team and what they can do in region. I think it's critical for where we are going long-term, but I wouldn't confuse the -- our ambitions long term with their short-term success they are -- guys did a great job in the first half of the year, and we'll continue to support that business.

And then in total, the consistency and agents ability to convert what really is scope and scale to the profits and cash, I think its unique. If IFRS profits up 17%, free surplus generation up 16%, you can see the mix there of life and asset management. So again, good mix by source. We're talking about, again I think, panel of regional franchise, it's in the right markets, currently has the right products, great distribution partners, and clearly the right people to execute.

Moving to the US, US business is always been about balancing the stakeholders. And if the, I think the single thing that Jackson historically is got right, the core of Jackson successes is come from having very good product for the consumer, but keeping a discipline on pricing of that product consistent. So we've had this conversation, pre-crisis, post-crisis, where the growth come from, where the demands come from. I don't think there is an external metric that doesn't show Jackson having best product, best service, best wholesaling, you know some of the cost metrics, I guess, those in a second.

So one of the challenges of Jackson has been managing the volumes on the living benefit product. So for the last three years -- as you know, we have actually curtailed sales and tried to manage the impact of that with our distribution partners carefully. So one of the takeaways for Jackson is, not only the number is good for the first half, but there's still again excess demand.

Elite Access continues to be a good demonstration of their ability to innovate and continues to succeed. How does that look in terms of delivering value to shareholders? Couple of key elements of this, well built products appreciate for consumers, and that you see that capital appreciation and the third bar here from the left. The attractiveness of the product again retains clients and attracts new clients. So the cumulative inflows have been excellent, and it produces tremendous results including operating income and cash.

This is a scale operation, it's got very, very strong capability to do a change, and let me get through one of the big questions up front before we started this Department of Labor issue. Lots of reason around this, so there is -- hearing is going on pretty much as we speak in a few hours to continue and you see deal or proposal. This actual projects started six and half years ago. This is not a new idea or new issue that was released similar while ago, eight, five months ago.

The attempt is for the Department of Labor to get a fair balanced advice and products set to clients that have assets in retirement accounts of various types. Worthwhile ago, we've a longstanding, good working relationship with the DOL, it's very capable, well intended people there. I don't personally think that this is the iteration that makes it through next year, the current version and attempt to get a lot of things done has actually had some complexity to investors, advisors, broker-dealers, manufacturers.

But some of the clear themes in it, and they are important and I think appropriate, higher levels of transparency, again that doesn't conflict with anything Jackson does or any other quality provider in the marketplace. There seems to be a preference towards more levelized commission structures, that's new. Again, Jackson is agnostic to the commission structure on the product, let's be clear.

If the product, underlying product has value with the consumer and improves the quality of Life that the advisor provides, the market currently dictates the commission structure. We use multiple commission structures now, and if the appropriate structure under whatever the new deal overall is more levelized, then Jackson will produce products that meet those needs.

The consumer is relatively agnostic to the commission structure, as you can dealt by the current sales in Jackson, and our need to cap the excess demand. Jackson innovates faster and better than any of its peers. The best proof statement I could give you would be Elite Access. It is a number of competitors who have cloned it and said, we're going to produce a product like that, there has no guarantees or provide alternative asset classes to consumers, that allow them diversify away from total return bond funds et cetera. I don't think there's another that has critical mass level on the success in the growth rate.

We've access, its already dealt with broker dealers in last two years, there we have said, without guarantees, we don't want it on a qualified plan platform, and you've seen this growth, two-thirds of which is overall non-call. So again, from a distribution point of view, it's simply a different challenge. I don't think there's anything in the DOL's proposal or direction. It doesn't create a disruption in the market, that doesn't give Jackson, sorry for the compound sense, the ability to demonstrate what is good at.

We as a group and certainly Jackson like minor disruptions in markets. They separate the capabilities of the players, and in this case, if you can produce a viable product, and we do, the clients will pay for it, and they do. And the structure of that depending on the market and regulation in the form of those changes will adapt.

We'll give you one external example to go back and look. The last time the US regulator is the SEC center at the time, had a preference on compensation structure, that's around mutual fund about seven years ago. Go back and take a look at the B shares which are the back-end loaded, the rental charge in the back of the sales -- mutual funds in the US. At the time they were depending on the firm as much as 25% of sales, they are now about 1% of the industry. The regulators that we want to see less of them.

The industry has grown 50% since then. It isn't the compensation structure, its one variable in the value chain. It does not define the value of good products. If a competitor or competitors don't have access demand, and don't have a product that hold up on its own regardless of pricing, that's a different issue for them, that's not our concern.

So I'm not -- my view on this deal overall issue is, we will weather it well, we'll come out on the other side, advantage again, and Jackson has the capabilities, relationships, distribution to build whatever products appropriate under that set and depth faster more effectively than competitors.

Another example of adapting to changing regulation would be our UK business. Again, dealing with changes in the Groups DNA, and I think that's an important take away from today. Last April, material change for the retirement market in the UK, the effect of Jackie's team, retail sales up 25%, strong demand for existing product, again led by a quality, high performing with profits chassis. The quality of the underlying product creates optionality in times of change. That's a key take away from this. Strong demand for existing product, excellent execution of new products from flex drawdowns to the ISA products, again staying selective on bulks, and we're very well positioned to capture whatever the changes.

Now, also in this market and the UK, we have announced new look at advice, again to expand the range and availability of advice, a bit of the opposite work stream we're seeing on the DOL piece, these are variables and look at pensions again. These regulatory and policy changes are a part of what we do. And I'm encouraged by the direction on the advice piece and I think the pension piece will probably come out with broader fairness and all those things are good for us. Again, allow us opportunities to participate in some or more of those markets.

Jumping to M&G; an exceptional historic performance. We have seen and Michael said numerous times from this very stage to be cautious about the retail bond flows, the recylical, some of the money coming out of Europe et cetera, was you all know the political and rate related movements of those.

So we've seen some outflows of retail bond funds. This is a well-diversified institutional and retail money manager with outstanding capabilities. What is a very unique and appropriate culture for a proper asset manager to continue on a global scale and they're seeing -- again, at this size and scale, some elements of the market will participate in up and down, but the key is the core offering. How good are they at managing money for institutional and retail clients across the risk spectrum and they are very good at that.

Combined for a moment, I mean, some of my meetings in the city, it's been interesting, the questions about -- should we have a UK Asset Management business in the UK Life company or when are we going to do that et cetera. We have the asset management capability, that's competitive, I think with the best firms in London and globally and M&G. And if you combine that with our UK business, which again can compete with any life company here in the UK or Europe.

The combined results, our IFRS profit is up 16%, which again competes with any firm or firms combined into that space. So our capabilities in this market rival anyone's, and again that matters, if the landscape changes or as the opportunities emerge, we've got the tools we need, capture those.

Sources of earnings; and source is more importantly our group capital. Our discussion lately on capital, Solvency II et cetera. Let me start out by just reminding a source of the capital for the group. So an amusing in-force, free surplus generation for this. So 81% of the Group's free surplus generation comes from outside of the UK Life business. So we think about Solvency II. The binding constraint for dividend, and capital movement within the Group is local regulation in those markets. And the case of assets, the asset management piece, Michael's team that, that's relevant obviously.

But if you're trying to back into what the impacts of Solvency II on the movement of cash flow toward the Group, we still need to look for local regulations. Next I'm going to do a deep dive in the Solvency II, this presentations, I want to leave some of the content, hang on the details around this. But for us, it adds another risk and regulatory screen to our metrics we use already in the management team. We are going to maintain the Group's management and allocation to capital on a multi-year recap model. We are not moving the Solvency II as a single metric.

And where it is for us in the UK business and it is with our primary regulator, a regulatory capital model that will respect and manage to interact closely. We submitted earlier this summer our IMPA. We work very closely with the regulator, lots of detailed work on that. I think one of the things I've learned in the last 90 days or so in London is, just how much work they have to do between now and December. You've heard Sam Wood's comments about both the release of all of the UK company advance in December, keep in mind that's almost 300 firms are reviewing between now and then.

So I think there is a tremendous network we done there, we're doing everything we can to assist them with ours. We have a lot of dialogs prior to our submission and make sure we incorporated the comments and concerns. And again, Nic will give you a little more color on this in a minute.

But, I don't want you to confuse our previous and current conservative comments about disclosure on this, but any sort of capital weakness. And we just certainly think it's a good policy not to comment too much on regulation and process and our submission is being reviewed now and there is a finite amount of information we want to comment on that given where we are in process.

Turning to 2017 objectives, obviously, a very strong first half moving along. And given the numeric nature of them, the underlying agent, free surplus, the Asia IFRS operating profit and the cumulative underlying free surplus, the answers here are mostly numeric, and going further gets in the forward-looking statements. So again, great progress, good percentage gains, good absolute gains against the target.

And then my last slide in this section. I think it's important to put the first half results in context of the group's track record. Power, we growing relative to ourselves, so that's -- and I think that's over the benchmark. I think the numbers again are compelling, I think, they show the consistency of the group's capabilities or ability to create earnings, create future value and convert those to cash. Obviously, very pleased with the historic trend as well and I think they set -- set well for lower going second half of the year and beyond.

I'm going to turn it over to Nic now and I'll come back at the end of some comments on strategy and some of our opportunities. Nic?

Nic Nicandrou {BIO 15589153 <GO>}

Nice to see that this particular ritual hasn't changed, the lowering of the year, of the --. Thank you, Mike. Good morning, everyone. In my presentation, I will firstly run through our half year results, highlighting the drivers of our performance in the period, before I briefly cover the balance sheet and update you on Solvency II.

So starting with the financial headlines. The group has delivered a strong set of results in the period with all of our growth in cash metrics up by more than 10%. The improvement in our overall performance was broad-based with also businesses growing in the respective contribution. By targeting and attracting higher levels of profitable new business flows across the group, we are increasing both the scale and the quality of our business, which in turn drives the growth in the profit and cash measures that are shown on this slide.

Gift is what ultimately underpins the strong performance so far in 2015, with IFRS operating profit increasing by quarter on a reported basis to 1,881 million. Currency effects were positive in the first half and this has added between 4 and 7 percentage points of growth to our underlying performance, of course, depending on the metric. However, in my commentary, I will focus on profitability trends excluding these currency tailwinds, as this is a fair way of looking at our performance for the reasons that we have previously outlined.

So other notable headlines; new business profit was up 12% at 1,190 million, benefiting from a strong profitable sales growth in the second quarter. Free surplus generation was also up 12% to 1,418 million, reflecting efficient capital deployment and a growing contribution from the back book. And cash remittances were 10% higher at 1,068 million, with sizable contributions from all our businesses.

Short-term investment variances were modest in the first half, reflecting big -- as the movements in equity markets and interest rates were muted. Our post-tax operating result therefore dropped straight through into our shareholders' equity and solvency metrics which have also risen strongly.

This next slide analyzes the contribution to our IFRS operating profit by business and by source. The table on the left demonstrates the breadth of the 17% improvement on this metric to 1,881 million. Our businesses in Asia, the US and the UK, each delivered double-digit growth in the period, collectively contributing over 2 billion at the half-year stage for the first time.

I will cover the reasons behind the improvement in performance for each business later, but in other view, for Asia, it represents the outcome of consistent additions of high quality new regular premium business, and an increased contribution for (inaudible). For the US, it reflects increased fee income on higher separate account assets, administered on a low-cost platform. For the UK, it is driven by the dependable level of earnings from our sizable back book, as well as the season transfers from the profits. And for M&G, it represents both in fee revenues and close control of costs.

We continue to make improvements in the composition of this profit, shown in the chart on the right. Our objective here is to make our earnings less dependent on the interest rate cycle, and to grow the contribution from the more capital efficient sources. We're therefore pleased with the 20% increase in the insurance result, the source that is not sensitive to investment markets.

Fee income from life and asset management also increased by 15% and 8% respectively, while spread income was lower. The fact that insurance and fees together contribute over three-fourth of our income is an important feature of these results and is consistent with our strategy of targeting resilient and high-quality earnings.

As we increase the scale and profitability of our business, we're also improving the ability to generate capital. In the first half of the year, free surplus generation was up 12% to 1,418 million. The improvement in this metric is underpinned by the increasing scale of our life in-force book, our efficient use of capital and a growing contribution from our capital life asset management operations.

The key driver remains the life expected returns, which rose by 15% to 1,366 million, reflecting once again the powerful dynamic of adding another cohort of high return fast payback, new business to an already sizable back book. The continuation of positive experience of 153 million has augmented our cash generation further.

In the top right, you can see that all three businesses are making significant contributions to this life in-force result. Asia, where the high return fast payback dynamic is most evident, is contributing over half of the period-on-period increase. This capital dynamic is also present in the US, but its impacted most by the reduced contribution from positive spread experience. The higher UK results reflects business growth, enhanced by a 52 million contribution from a longevity reinsurance transaction completed during the period.

We remain disciplined in the redeployment of our capital, increasing new business strain by 8% to 434 million. This is analyzed further in the breakout box in the bottom right. The efficiency of this investment has improved in both Asia and the US, principally due to the changes in sales mix. The investment in the UK remains more modest and is highly capital efficient.

My next slide shows how the free surplus flow in the first six months has impacted free surplus stock on the left, and central cash on the right. Stock has increased overall, driven by our operating performance and the relatively modest market effects. This has in turn allowed us to increase remittances to over 1 billion, retaining 5.3 billion of free surplus in our various life and asset management businesses. Once again, all of our businesses have remitted substantial amounts to group.

Jackson has made a sizable remittance for a second year in a row, reflecting continued positive capital formation at this point in the cycle. The increase from M&G was in line with earnings growth. The Asia remittance includes the one-off benefit of the proceeds from the sale of Japan of 42 million, and reflects -- it also reflects our decision to moderate up streaming, given current foreign exchange levels and the strong overall central cash position. UK remittance was lower due to the investment we're making in response to the 2014 budget changes, which we flagged last year.

Turning now to our results on embedded value basis, our operating profit here was 11% higher at 2,278 million, equivalent to an annualized return of 16%. Lower long-term yields compared to a year ago generated a 50 million drag on the overall EEV results, but this has not detracted from the strong performance of the business on this metric.

Asia's contribution grew at the fastest rate, exceeding the 1 billion mark for the first time at the half-year stage, demonstrating the rapid progress we're making in capturing the once in a lifetime opportunity in the region. Total new business profit shown in the top right was 12% higher at 1,190 million, broadly in line with the overall growth in sales of 13%, with a difference attributed to the small negative impact of lower yields. All three regions continue to drive the business at attractive internal rates of return of more than 20%, with fast payback periods.

Total in-force profit shown in the bottom right benefited from growth in business scale with expected returns 15% higher at 892 million. Experience profit added 212 million to the in-force result, with a small reduction attributed to a moderation and spread related profits in Jackson. The fact that experience remains favorable overall reflects the ongoing focus of managing our back book for value and the conservatives embedded in our assumptions.

I will now cover the key performance highlights for each business in more detail starting with Asia. The momentum of our business in the region has accelerated in the first half of 2015, with both life and asset management reporting strong improvements across all of our financial measures. Total new business production in the first half was exceptionally strong, with sales up 31% and new business profit up 30%. There is the usual variability in the individual countries' growth trends that we have come to expect in both our ultimately emerging markets. But the overall result and the fact that eight countries delivered double-digit sales growth reinforces the importance and the strength of our region-wide platform.

The fact that sales in our Southeast Asian sweet spot, sales through agency, sales of regular premium business, all grew by over 30%, underpins the quality of this performance. The 27% increase in the contribution to NBP from health and protection underscores this further. The improvement in Asia IFRS operating profit is principally driven by the Life result, which was 15% higher reflecting the growth in the scale of our business. We measure scale by reference to policyholder liabilities, which grew by 17% year-on-year, following the addition of another profitable cohort of protection oriented regular premium new business to a highly sticky -- highly sticky existing book.

This dynamic together with positive claims experience has pushed our regional insurance margin forward by 20%, and has led to an increase in Indonesia's profit by 21%. The recent H&P sales success enjoyed by Hong Kong has driven a 23% increase in the IFRS profit from this territory. The combined profit from Vietnam, Thailand and Philippines was up 26%, also reflecting the increased share of Health and Protection sales, which rose to 20% of total sales on a combined basis in these countries. Eastspring have continued to show strong momentum with new heights of net inflows -- for net inflows up 79% to 4.6 billion; funds under management up 28% to 85.3 billion, and IFRS operating profit up 35% to 58 million.

Moving for the US. Jackson's first half performance reflects its discipline value-based approach to managing the business. New business production was down 10% as we continue to manage sales volume with living benefits to maintain an appropriate balance of our revenue streams and match our annual risk appetite. In line with this approach, we have seen an increase in the proportion of variable annuity sales with no living benefits 34%, reflecting robust sales of Elite Access.

Jackson's new business profit has moved in line with sales as the negative effect of lower rate was offset by ongoing pricing in product action. As I showed you earlier, new business strain here declined by 13%, reflecting favorable changes in business mix, commission actions taken last year, and other product initiatives. The economics of all of our VA products remained very attractive and are close to all-time highs.

The fact that IFRS profit rose by 13% demonstrates the point made -- Mike made earlier, that Jackson has not relied on top line growth to generate higher earnings. What drives Jackson earnings is the overall size of the separate account assets, which are grown year-on-year primarily due to positive business flows.

Fee income earned on these assets increased by 15%, broadly in line with the 16% growth in average assets managed between the two periods. Spread income has decreased by 6%, as the prolonged low interest rate environment compressed margins up by 14 points to 244 basis points. I will repeat my previous guidance that we expect this margin to trend to 200 basis points over the next two to three years.

Finally, we announced the closure of Curian in late July, and we expect to incur a closure cost of around 30 million over the next six to nine months. Our approach to hedging remains unchanged, in that we continue to utilize the fees that we charged for the guarantees offered to hedge well into the tail. Finally, policyholder behavior is tracking in line with what we expect to see.

In the UK, our Life business has responded well to the changes brought about by the government's pension reforms. Although, there was a 56% reduction in sales of individual annuities, overall retail sales were 25% higher with our various product initiatives gaining traction. These center on our established market leadership in risk managed savings and investment products spearheaded by proof on, which is now available through a wider range of tax losses, following the launch of flex go down last December and proof on ISA in February.

The attractiveness of our proposition has seen bond sales grow by 20%, individual pension sales more than doubled, income drawdown sales more than treble, and ISA's attract funds over a quarter of a billion. As a result, proof on -- total proof on assets under management increased by over a third to 13.7 billion. These higher sales volumes have driven a 14% increase in retail, new business profit to 80 million. Our selective approach to bulk has seen us write two deals in the second quarter on compelling economics, contributing 75 million of NBP.

Despite the more modest contribution from new -- new annuity business, total IFRS operating profit increased by 20%, reflecting the resilient performance of a large in-force book. The result includes the impact of actions taken to unlock value, including 61 million from re-insuring the longevity risk of a small proportion of bulk business written pre-2014. Reinsurance is a tool that we have used over the last three years to manage our overall balance of risks, release capital and improve returns. The 231 million remittance continues to be underpinned by seasoned and stable with profit transfer, which remains both an important and a durable source of cash and capital.

In M&G, total IFRS profit grew by 11% to 251 million, reflecting higher revenues on an unchanged cost base. Fee income increased by 6% in line with the growth in average AUM between the two periods. This AUM growth was the result of strength -- strong net inflows and positive market movements throughout 2014 and the early part of 2015. The 4 billion retail net outflows that M&G saw in the second quarter has meant that both third-party and total AUM are on the just ahead of the mid 2015 levels and are in fact 3% lower than the equivalent levels against 2014.

This development will moderate fee income progression in the second half of the year. Costs were unchanged due to proactive actions taken by management on recruitment and other discretionary spend. The resulting three point improvement in the cost-income ratio to 51% while pleasing is unlikely to be sustained at this level. As you know M&G's cost base has a second half bias, which typically drives the ratio up by around 5 points between the mid and end of year points. Furthermore, the investment in infrastructure that I have previously flagged will continue, as this is a necessary underpin term in these client offering and its ability to maintain operational efficiency going forward.

As regards trading, the second quarter net outflows reflect sentiment driven moves by European retail investors out of fixed income, which have continued in July. M&Gs other retail offerings such as multi-assets and property are attracting good net inflows, but not at a level to offset the outflows from optimal income. Institutional net flows were over 1 billion in the first half, and there is a healthy pipeline of capital committed by third parties, which has not yet funded pending M&G securing the appropriate investments.

Now since the last financial crisis, M&G has become a material contributor to the group's overall results, more than doubling its profits in that period. It now has the scale and are thus offering to weather the current retail flow softness, and remain a significant contributor to the Group.

I will now briefly cover the balance sheet and capital position. The key message here is that our operating earnings have driven increases in our shareholders' equity, and our Group's solvency capital. Under IFRS, we have seen small positive short-term investment fluctuations in the period.

This comprised unrealized losses on fixed income securities, which will more than offset by positive variances in Jackson, attributed to the net favorable movement of accounting reserves relative to the hedging instruments, following the rise in interest rates over the last six months. After the final dividend, shareholders' funds from 1st June were up 12.1 billion. Investment variances were also relatively modest on an EEV basis, which after dividends and foreign exchange, so shareholders' equity raised to over 30 billion for the first time.

Turning to capital, the estimated IGD solvency has increased to 5.2 billion, and represents a cover of 2.5 times. The value of our UK state is also higher at 7.4 billion. Our fixed income portfolio remains conservatively positioned with minimal impairments and no defaults losses in the period.

I would now like to provide you with an update on Solvency II. Mike has already commented on our internal model application process and the timeline for approval. We will share the outcome of this process once we hear back from the regulator later this year. For this reason, and in line with the approach we adopted last year, we have not provided you with an update on the economic capital position at 30 June. I can however confirm that the strong capital generation we have seen on other metrics has also come through on the Solvency II basis.

I want to take this opportunity to recap on how Solvency II will impact the various parts of our group using the pie chart that Mike showed you earlier on the sources of the capital generation as a guide. So working from left to right, and starting with M&G and other asset management, this segment is unaffected by Solvency II. Here, the current capital rules are retained and cash generation will continue to be driven by earnings.

Turning to our UK Life business, which accounts for 19% of free surplus generation today, here, the requirement to hold the risk margin is new and at today's interest rates, it represents a significant add-on. However, it will be offset by transitionals and the two were broadly around us in sync. The clarification provided by the PRA on transitionals means that capital releases from the existing book will continue to be available to pay. Dividends will be recycled to the financing business.

As transitionals will not apply to new business going forward, this will mean that the capital intensity of new retail and bulk annuity business will be higher. For Prudential, the former is now modest generating less than 1% of the group's profits, while our approach to bulks has always been selective with reinsurance offering a mechanism to secure or rather to reduce the new solvency to strain provided of course it is available at a reasonable price.

In the US, the RBC regime will be considered equivalent, therefore given that this regime currently determines our capital generation and remittances, Solvency II will not impact Jackson. The fact that on the D&A, we cannot take credit for diversification between risks in Jackson and elsewhere in the group, will however mean that Solvency II underplay in that capital strength as this benefit is real.

In Asia, our business has a very significant health and protection bias, a product that is Solvency II friendly, and this produces an overall capital outcome for PCA, which is greater than the 1.4 billion of free surplus level -- the 1.4 billion we recognize as free surplus in the region. The whole debate here is how much of the additional, how much of the 10 billion Asia Life [ph], can be efficiently captured on the Solvency II. This will need to be calculated using the prescribed Solvency II methodologies and be subjected to 1-in-200 shock. This calculation involve significant judgment as the Solvency II methodology was designed with European business in line and does not travel well.

Understandably, given the amounts involved, this has been a key area of discussion with the PRA but the mood and music has been more positive since our March update and the gap between our respective positions has narrowed. Let me be clear, this debate is not about producing an outcome, which constrains capital flows from out of Asia. From the regulator's perspective, it is about not coming up with an answer which is so positive that depends us somehow for some reason to other distributors. Either way, as this is about what additional credit we can take on the Solvency to our group, the local Solvency regimes will remain the biting constraint and our free surplus approach, which in Asia is based on the local regimes will continue to determine both capital generation and remittances to Group.

Therefore, to conclude, for 81% of our business, there will be no change to our current approach. In relation to the UK, transitionals will effectively mean that capital generation on the existing business will continue to operate on a broadly similar basis to the one we have today.

Capital consumption for annuity business will be greater, but as you have seen earlier, its contribution to our result is not significant, and it can be managed through reinsurance. We are therefore confident that Solvency II will confirm the highly cash and capital generative nature of our business.

We believe that the most reliable source of capital is the sustainable delivery of a growing level of high-quality earnings. Our performance in the first six months over the year demonstrates exactly this. By operating in markets where consumer demand for our products is both strong and enduring, and by executing our strategy with discipline, we have grown NBP, the key lead indicator of future earnings by 18% year-on-year.

The capital velocity of the highly profitable business witnessed in recent years combined with our value-based approach to managing the back book has enabled us to deliver a quarter more profit than a year ago and a year ago and improve its quality. This operating profit has driven a 27% increase in both the three capital held in our businesses and in our group's IGD surplus after financing the business and paying dividends. All this reinforces our confidence in the future prospects of our business.

And with this, I will hand you back to Mike.

Mike Wells {BIO 4211236 <GO>}

Thank you, Nic. So this is a familiar slide to most of you. And there is a good reason for it, it's the strategy we've been executing on for a number of years now, and obviously from today's numbers we think it's working exceptionally well. There's some underlying themes to it, again our, I think a lower host in the setting, so I'll keep them to a minimum, but we're not in need of a new strategy. That isn't -- my objective it isn't, the management team's assessment, we think we have one that's working very well and the focus is going to be at a higher more detailed execution, increase the breadth and depth of our capabilities, so let me walk you through a little bit of that.

We should, at this point, I think improve development, enjoy more of the benefits of scope and scale than our competitors. In each of the markets as we've discussed, we have incredible capabilities, we have everything we need to address what is now expected to be a more self-reliant middle class and that's a trend across every market we do business in. That can be in terms of outer protection in Asia saving globally, there is an assumption here that middle class households will be responsible for more of the financial well-being and again, we're perfectly positioned in our markets to provide the services we need to do that.

So how do we enhance that capability? In Asia, we continue to scale the agency force and improve the quality, the tools they have and the breadth of product. 560,000 now, I'm not sure how many we need. It's an interesting question, I got asked that in China a few weeks ago. There are lots of metrics that you could say correlations to agency growth, but what we will grow as fast as we can at the quality level we're willing to grow at. There is no -- we're not looking, there isn't a bulk target here, but there is capacity in the market for materially larger advice providers including our agency force. Again, this is a market that's underpenetrated, more demand than you do supply that includes the advisor side.

Same is true on bancassurance partnerships. Our penetration of these partnerships is still relatively low. The exceptions here entire relatively young partnerships and meeting with some of these folks, they want more product from us, they want tighter relationships and the theme here is, they want us to stay with our client as they change in their financial life styles and where they are on that savings and development curve as a household.

We're incredibly well positioned to do that responsibility and those relationships to provide them the tools and services to maintain those relationships. And no part of the financial service industry understand household relationships better than banks. I don't know a bank CEO and I can't tell you the number of product contact points they have with a household and again it's our responsibility to help them maintain that.

In the asset management space, you've seen how well Eastspring is doing. It is the leading franchise in the region and it's an young franchise, and it's a relatively young region in terms of asset management opportunities. We have to continue invest in the technology, the people, the processes, the culture to make sure that we have the place, where our top managers want to work, where the top talent wants to go and run the business and where we can deploy into new region and markets, people understand our expectations on the quality and quantity of asset management advice, and we're very capable of doing that again as a group.

On the US side, we have the market-leading franchise. So the question is, best ways to lever that. Clearly, you start with a back book, it's extremely profitable. The sales level, the absolute sales levels Jackson is capable of continue to grow, the breadth of product it can offer again will depend on the opportunities in the market, but you get likely to be broader and more. This is a -- if those, you are going to spend time with the team in Jackson, it's a very capable group. We have a very good cost advantage, I'll get to those in a second. We have technology advantages and again we have distribution advantages. So there is a market-leading position with all the elements of scale to be levered, that includes bolt-ons. The reason for us to do bolt-ons in the US, they are well rehearsed on these discussions, because we can service the clients better, and create more value for shareholders from the same block of business that most competitors can.

There, we have capacity in the franchise, there we have the expertise to do the acquisitions, and do the integration. Those combined, create value for shareholders and a better service experience for clients. So that combination is a reason. Yes, it also diversify the earnings streams and there is residual benefits that are good for us, but the core reason is, we own capacity of shareholders in Jackson that can be utilized in cost and technology levels that competitors can. So we'll continue to look at the M&A landscape there actively.

And then again, Jackson's role will be to adapt to the changes, lift the matter with the marketplace and it's a good track record of that.

Same with the UK, well, the Asset Managements and the Life Company. We need to adapt to the market we're in, you're seeing them doing that now, that will continue, part of that is, we need to build out the UK's digital capability. This is not a strategic initiative, this is a prerequisite, and we got service clients, the way clients want to be serviced.

We got access clients the way clients want be accessed. So a little bit of catch up on some of the back book technology, if they could be fair to say exactly that we want to make sure that, again this goes to service relationships and those consumers being happy and staying with us longer, which goes to recurring profitability of the book, the shareholders, but also goes to how consumers want to find information about their retirement savings in the products, we are going to deliver that.

On the M&G side, the key here for us is to maintain the culture and quality and capabilities, thus franchise across cycles, that can be across short-term interest rate cycles, that can be across protocol cycles, this is a very unique firm, highly capable, great people, highly scalable, and we intend to keep its capabilities, where they should be and to grow across the cycle as well.

The disruptions I think we'll see in the market, we have the capabilities across our key regions to lever them, to get more out of the main competitors. I will talk about challenges, sort of thematic today. We have seen a few, I think, it's fair to say that somewhere in the next 20 years, I think in the next 20 years somewhere over the cycle, you will see interest rate changes, policy changes, equity volatility, rules change, broader, narrower and advice taxes change on products, it's all in here, it's all been a part of the history of the Group and through each iteration [ph] of this, the capabilities of this group grow. We get better addict, we've seen it before and we've dealt with it, sometimes successfully, sometimes not, but that is (inaudible) is here and our capabilities to do a challenge is I think liable or better than anyones in the industry.

So let's talk about resilience for a second. Where do I get confidence in our -- let's assume for a second, this is going to be a challenging climate and yeah, where do the resilience come from. One is that, the market leading franchises. Asia has first mover advantages and this is a textbook example of having got there first, done it right, the people, the products, the relationships, the development of new products, the asset management capability, again scope and scale executing in a very high level, now recurring cash flow as well as the growth in the front end.

US, same thing, market leading franchise, highly talented team, high quality model, cost to manage. Go back to the DOL for a second. Let's say, there is a -- there is a -- but let's say there's a price element in it. Certainly, that little chart matters a lot. So again Jackson options to deal with change, a broader and better, and its counterparts in the marketplace, and we can bring those capabilities to bear on whatever product or service we need to get to consumers.

And the last one that I would point out is, if you take a look at the productivity of Jackson's wholesalers relative to its peers, their ability to deliver complex products and those we have been, there I know we have grown the number of wholesalers, now, we've grown the productivity. The other way to get this number up is reduce the number of wholesalers on the same sales base. We've gone the other way. This is a growing team, growing in efficiency. Same trend, if seeing Asia, where agency businesses, this is again how the group executes.

The UK, three months plus here. Everyone has an opinion about Prudential. Every taxi driver has an opinion about Prudential, as I tell them where they work. The resilience of the demand from PRU and the relationship in the families, their stories or analysts, some fascinating, but it is -- as M&G as an incredibly trusted brand in the marketplace. But you don't get the -- my statement was a long story, as you get how important it was to their parents or what product they have of our, so it's a -- this is one of the most resilient well established brands I have ever seen in financial services. M&G reputation institutionally and retail wise directionally the same. High quality, long-term focused, all of the elements you want for attracting long term savers.

The next, the middle chart, this I included, this again comes back to the quality product issue. I've met a number of investors and it's certainly clear from -- if we look at the advice providers we have. With profits fund structure and the success of that relative to peers and again, we've shown you that in previous meetings on an absolute basis. It gives you a franchise to do other things, getting the product right for consumers. There is a big part of the business reputation versus brand argument.

If you're doing a good job, people actually say nice things about you and you don't need to pay for that. And the UK, some of the products they delivered, particularly that were profits franchise, you get some amazingly favorable comments from people. They recognize what it's done, and it's the same sort of argument as you see in the US. The de-risking that consumers retirement savings or taking them often there further out of the respect and then, they may have chosen to be in your creating an alternative that smoothes that out and gives them institutional asset management capability. And then let's then go back about whatever it is they want to do and again, building up a great pride.

M&G's diversification by sources of funds and capabilities, I think it's important to highlight. Both from an internal point of view, retail point of view, institutional point of view, the M&G, the scale and scope again any global asset manager. From a cost point of view, from a hiring point of view, talent point of view, all those elements. I think the surprise if you spend time in M&G, is the culture still feels like a small boutique asset manager. The awareness where other people are doing in the building, the attention of the tail, the focus on the sense of ownership is unique and totally appropriate for an asset management shop.

Resilience of earnings, switching now to IFRS income by source. So Nic highlighted this. Across the cycle, how resilient are our earnings. Well, one, you can measure by source and I think they are well-diversified; two, you can measure by currency. If there is a global crisis, unimaginable scale, what are the go-to currencies.

Well, they would be dollar and the pound, right and you'd see a link, the dollar linked products we have accordingly. Again, I think this is -- in the IFR [ph] currencies markets have done exceptionally well. I don't think they're all correlated. I don't think you're going to get every market that we have out of the US and including Africa behaving the same way, at the same time, but that said, if that's your starting pieces, that's the resilience of the earnings in currency point of view.

And then last and most importantly is, what percentage of our earnings are recurring -- versus coming from new sales. So what happens if you just run the business, sell nothing, that sort of level. And for us that's a dramatic level that creates creation of capital, to reinvest in the business, to pay dividends, to look at new opportunities, often at a time -- if you're thinking of a very cyclical market when competitors may not have access to that capital. Again, it gives us optionality, a key element of our business plan and our capabilities.

So the basic summary, I think we have leading franchises in all the markets, obviously a very strong management team, strongly capitalized and cash generative businesses, and I think we're well positioned to take on whatever challenges are coming. And again thematically, I think the major challenge that we're dealing with is getting two investors and two middle class households, the solutions they need, as they are handed more of that responsibility. And again, that's a global trend for us.

There is far more demand in that space that we can provide supply, but we will scale that up, focus on the execution and get more of it. There's plenty of room for us to lever our capabilities internally as a group, from technology, from people, from capital management, tools, we're using in one area that we haven't exported and others, you will see all of that, but it's all again at the execution level, the strategy we have is the correct one.

And I want to finish with a slide that we used earlier, and I apologize for bringing it back up, but it -- I think it makes another point. We're talking last slide about this. So when I got here, new business profits was 80 million at the half year, 20 years ago. 50 of it will be somewhere over here, I'm not pointing to this. That chart, if we brought that line down somewhere around here, 80 million, 50 of it from the UK. There was no M&G. The US business had been bought because there was a very attractive product called single-pay whole life, which was a tax-free annuity at the time, which by the way, the federal government in the US changed in one day. The tax status of that product eliminated it.

Asia was where we sent people to retire. That was a nice way of saying you had two years left, then, you're going to go to one of our outposts, where the folks from the UK were retired, military were based whatever it was. It was not the cutting edge of our growth as a entity. This is a -- there is a couple things you should take away from that. The people that created this are here. They are a disproportionate amount of the performance on those charts comes from people that are rather in this room, this team or in the various buildings and fields, offices, we have, right today, while we're sitting here.

We have built this collectively, it's a very unique firm with very unique capabilities and generally it's why I took this role. So I think we've got a lot ahead of us, and I don't see anything in front of us disruption-wise or competition-wise, our challenge here will be to compete with ourselves and our track record.

Stop there and take questions. I've asked my colleagues if you would to join me up on the stage. Raghu, I ask you to host this, if you would.

Raghu Hariharan {BIO 20434535 <GO>}

Alright, just wait for the mic to come to you before you ask a question, and then please state your name and your firm's name.

Questions And Answers

Q - Oliver Steel {BIO 6068696 <GO>}

Yeah, it's Oliver Steel at Deutsche Bank. Two questions, both around the DOL proposals. You said a few months ago, actually I think it might have been Tijane, who said a few months ago, that you thought an industry worst case would be down 15% to 20% in terms of sales. How are you feeling about that now? I appreciate it's still uncertain.

A - Unidentified Speaker

Yeah.

Q - Oliver Steel {BIO 6068696 <GO>}

And then secondly, it doesn't sound as if you're expecting a huge sales fall in your own situation, but if there was a sales pull-back, for yourself, how would you be considering what you would do with the capital thus released from the US?

A - Unidentified Speaker

Well, I think, Oliver, there is a couple of -- I'll put this to Barry in a second. But let me -- just give my time, the DOL and the US. Let me take a shot at this first. From a -- we now know what the details of the proposal are and again, I don't think the proposal, it's unlikely -- in predicting politics, it's not something that, I'm there to do or anything -- anybody is good out right now in the US. But I think the DOL's intentions are good and clear. I'm not sure that this current proposal gets them there, and I think that's been the universal feedback they have got from both sides of the IR regulators on the marketplace.

So yeah, and they tend to adapt well to new information, so I think we'll get something different. But if you said globalized commissions that affect -- that's one element, transparency is not material. We have broker dealers now, they have full disclosure of all commissions paid on variable notaries [ph] and products and again, that doesn't change the market price, I think it's good practice.

The question becomes, I think two things out of the current proposal. If it's passed in kind with the level, there will be a preference to level commissions. No question that's the only product that would work in the structure. So there is an element of what is your current qualified sales and that's a different question for Jackson versus peers because we have excess demand for that product, than we are willing to fulfill on the marketplace. So you have to add that excess demand back on and then say, well, how much of that would have been qualified and then say how much of that would you lose, it's a little more complex, well more convoluted really. Some competitors have a different play, so I'll let them answer, before you -- I think one of the key things, and it is, does your product stand-alone ex-commission, and that's a harsh bright light on some variable annuities, I think ours does well, and I think those will be attractive, if we buy their firms in the US and some of those stores now, it is generally is the best plan proposition in the marketplace, and I think that's, again, we'll deal with the pricing issues on structural commissions.

So the second part, how does it affect sales? It does affect sales. I think it affects the timing of sales in Jackson. So you have a -- you released some of the levers you pulled to control volume. Depending on how much notice you get on what the structure of the product is, and we're generally pretty good about that. The regulators in the US give you some indication of where they're going to go, but how fast we react.

Now, we know how fast we can get product to market, we know it's faster than competitors. And if it's a simple change, we know we can do it very quickly. And if it's a material new product that may take better part of the year. But I think the more important issue always that changes the shape in a year of the sales. So we may have a bigger first half and flat or lower second half, while we re-tool, I kind of think. We're dealing with that now, the US franchise. There is no question as we turn on and off the core product, you've seen each year, it changes quarter-to-quarter the shape, and that's when -- years ago, first one of these, it was 15 years ago, we talked about the fact we would do most of our sales in the first five months.

And part of that was because competitors weren't tuned up in January and February, we always had a really good start and we're smaller than them on the -- the first part of the year, we always tried to take an edge of that. Well, that change as we've controlled volumes, because we have to rebuild those volumes as we turned off product at year-end. So that was a very long intro to what Barry wanted to say and my apologies, Barry.

A - Barry Stowe {BIO 15021253 <GO>}

I agree with everything he said

A - Unidentified Speaker

I mean, seriously, Mike covered the landscape pretty well and I -- so I think I can understand what some competitors would be very concerned about this. We are less concerned and that has -- as Mike said, several times through the presentation. That has to do with the quality of our team and the platform that they have built, the infrastructure that they have built, we operate -- we do a better job at lower cost and we have a track record. You have seen it, time and again that with the Elite Access being one of the most recent examples of this organization striving on disruption, and actually turning into commercial advantage.

It is the characteristic you see throughout the group. We've done it in Asia, we've done it in the UK, we certainly do it in the United States. It would be -- it wouldn't be right to say, we're not worried about this, but we think we have it fully in hand. I am encouraged that the -- about the outcome of the hearings, which began this week, and continue. I think a lot of people including the White House, and the Department of Labor had been surprised at the level of concern that have been expressed about this, and the bipartisan nature of that concern, it's been expressed.

It's actually, it doesn't happen very often in Washington right now. And to Mike's point about it being difficult to predict politics, I don't think even two weeks ago, anyone would have predicted that we now have 13 democratic senators, who have come out and made some pretty harsh comments about this.

So I absolutely believe that there is scope to change the shape of this. We are working hard to -- we are involved in that shaped changing exercise, we are spending time in Washington, we're making the case about how hostile this is to particularly to middle-class Americans, which is exactly -- this is another one of these perverse things, where the government comes up with a well intended proposal to put focus on and protect the middle class, and the outcome of what they designed would have the exact opposite effect.

Because as Mike alluded to, what would happen is, advisors would won from qualified money. If that could be one of the impact, as you say, I am not going to bother with it, I'm going to the high net worth customers, we have lots of unqualified money and I can advise them on that, and that's what I'll do.

If you look at middle-class Americans, they are overwhelmingly in qualified money. Most of these people, they don't have lots of assets outside of the 401k, or their IRA or something like that. That's what the preponderance of the cash here, and they're going to have increasing levels of difficulty getting advice on that. So again, fingers crossed, lot of work to be done, but I think this is more than survivable -- more than survivable.

Q - Unidentified Participant

Thank you very much. (inaudible). Three questions please. The first is on Asia, perhaps an update on the Indonesian business, which is where sales are quite flat. Just an quick statement there would be great, helpful. And then on Hong Kong, where the opposite is happening and the sales are going through the rift. And the impact from Mainland China and the destruction there, I guess could be argued in two ways, either negatively affects the business or you see even more Mainland business trying to diversify out of the country and the currency. So the Hong Kong update would be very useful too.

And on economic capital, Nic, could you call that, could you comment qualitatively on what's happened to their current capital in the first half of the year, given the earnings and the interest rate moves? It would seem that that figure should have gone up, although, I appreciate you don't want to put a number on it.

And finally, I think on some of the headlines on the screen, Mike, you comment about the group moving towards two times dividend cover over time. And that -- could you perhaps clarify that comment, please? Thank you.

A - Unidentified Speaker

Okay. I think on the dividend cover, that's one of the easier ones. The statement sort of stands itself. I think we should maintain two plus times dividend cover and even -- depending on where we are in the cycle, will allow us to go a bit higher than that. I think the -- one of my bigger surprises candidly, and the newer always looking at dividend cover and some of the stocks in the FTSE. I think a growing dividend is a key discipline (Technical Difficulty) that any good management team, but I also think a proper level of conservatism in our industry is appropriate from a cash and resource point of view.

So our role is to balance those two all the time and I certainly think our dividend cover and the targets are appropriate for that. On Asia, that's -- Tony, I'll go ahead and put the -- first, the Indonesia question and the Hong Kong to you.

A - Tony Wilkey {BIO 19184129 <GO>}

Sure. On Indonesia, we are experiencing economic headwinds. GDP is only around 4.7%, which is the lowest rate it's running in about four years and a lot of President Jokowi's initiatives have really not getting as much traction as quickly as was anticipated. So there are some headwinds and that's flowing through to consumer sentiment, consumer confidence as measured, I think in Q1 was at the lowest rate in two years.

What does this mean to the business. It means that, and we never got a feel for little bit like 2009. What we see on the coalface is, we continue to build out the business by growing agency. In the first half of the year, we hired an additional 74,000 new agents, but key metric to look at is cases per active. This is the measure of productivity and cases per active for the agency force has come down.

What this translates into at point of sale, Asians having the tougher time closing and all consumers are deferring decisions, and this is reflected in the flat numbers at the half year. I think the macros remain incredibly compelling. I mean its 250 million people, it's a trillion dollar economy and the penetration rate is still less than 2%. Again, we saw the change in cases proactive in 2009, which had an impact. And as the economy rebounded and consumer confidence with that, we've moved back into a very solid growth profile.

And then Hong Kong, okay. So Hong Kong. First, I think you need to look at Hong Kong in -- the Hong Kong business, Prudential Hong Kong life, you need to look at in a couple of segments. The domestic business, this is where we are telling to local Hong Kong people, this business add the first half with up 48%. Then, Standard Chartered Bank, as Mike mentioned, we met with Bill Winters, last week, the new Group Chief Executive, who is very appreciative, respectful of the relationship, and very bullish on doing more with us. So that segment is also growing well.

The Mainland business is growing at a faster rate within that. It's important to note that we're not new to the Mainland business. We started this initiative over 10 years ago when we had less than 3,000 agents. We now have in Hong Kong over 10,000 agents and (inaudible) it's the most productive agency force in Hong Kong. The Mainlanders who come and typically buy our products, these are not day trippers, these are people who on average come six or seven times a year, they look and sound a lot like Hong Kong people. In fact the majority of them come from the neighboring province of Guangdong. And to put that in context, Guangdong is about the size of the United Kingdom geographically, but it had 120 million people.

So in terms of demand, I think we have quite a significant amount of headroom. We have not seen anything to indicate any slowdown in -- well its looking at leading indicators, and we've not seen anything to indicate a slowdown in the Mainland business at all.

And Nic, could you want --

A - Nic Nicandrou {BIO 15589153 <GO>}

On economic capital, qualitatively we continue to produce a strong operating performance. We've seen that it comes through other metrics. You see the contribution on IGD, but typically we will produce somewhere between 16 and 20 points each year. So I'll let you -- I'll let you prorate that.

Market effects were positive, albeit a little negative on the FX, which is currencies closed a little lower or starting a little stronger than the point at the beginning of the year. We raised some debt, of course we pay to fund a dividend, but we feel good about the formation of Solvency II capital in the first half.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken from RBC. Just a question, Mike, you said there's no need for a change in strategy, I just wondering the velocity in some areas, some products, geographies, distribution channels, which you may -- we're looking out over a number of years, now looking at now and say, I think we are just little bit more emphasis on that one, a little bit less emphasis on that, so you can talk about that. And just in the UK, I think you have a panel of reinsurers that you would use and are they all based in US?

A - Mike Wells {BIO 4211236 <GO>}

On the reinsurance question, well, there is multiple reinsurers we use and they are based globally, they are not based -- they are not all based in the US, a variety of players. And reinsurance is not a new tool for us in the UK or even in the US, its historic -- it's opportunistic sometimes and its strategic investments and others, so it continues to be available -- the box that the UK business attracts.

If you think of that market, that tends to cut into different pieces, some one side, someone one on credit, and we tend to be the desired home for the larger or credit sensitive, bring sensitive book, so that continues, fair executed, there is not a -- so again, we're not seeing any unusual there, so reinsurance is available to us, we use that as you've seen, there is not -- not any difference, they are already concentration when they getting counterparty in it.

On strategy, I probably neglect that the African team that will continue to expand there. I think it is the next generation of what we run, and I think that's, I'd say, from an earnings point of view, it's not material to this meeting, but it is a chance for us to take a new market with emerging middle class, and digital, emerging bank trends and doing there, what's everything we've done in Asia and other markets to produce good solutions for clients, and build something that we know is scalable. So there is an appetite to artificially accelerate that, but we're looking at lot there.

From a product point of view globally, it depends on the partner, I referenced this earlier, I think what -- we have to be careful that the well on relationships we have with distributors and with clients, but we don't want, let somebody else come in and take as they mature in assets and demand. So we don't intend to let that happen. So part of that, some big data work where we take a look at our clients, some of our relationship clients and make sure we have the right product set in front of them to keep those relationships.

I don't -- that's through agency, that's through a bank, that's through in the US that, you use the term of share wallet, but it was also household share wallet, if we have made a selection of trust us on something very emotional like protection, and we have asset management capability where we have some protection product that they're not buying. We are the logical place for that advice provided to go again. So I want to make sure we recover that, so I don't want to get into specifics, but I want to brief competitors and this as well. But you'll see a small decline, I think it's a fair -- expansion of the strategy, and again, part of that is by channel and part of that is, how you do technology wise as a lot of elements that will keep you abreast of what we're doing there as we do it.

Q - Abid Hussain {BIO 17127644 <GO>}

Thanks. Just one question, please. Abid Hussain from Societe Generale. Just going back to the Department of Labor, what are your options instead Department of Labor, just like to polish out the -- polish out payment of upfront, especially given that ways to push product.

A - Unidentified Speaker

So they are a -- so these are mutual funds or push product. I think if you ask the broker dealers at the time, and I think again, the one of the things that defines on advisory is our alternatives. So, if there aren't -- and I think one of the pieces that advise such a deal out there, like I was -- similar regulator was -- let's come up with the set of standards that apply qualified and non-qualified, so which is -- which shouldn't have better advice for qualifying many, then we allow as it -- socially is rolled out. So the interesting discussion there is, the similar letters fascinating to them.

But if the commissions are levelized, the question is, does the consumer see value what we are offering. We have advisors now that are effectively on a trail. Some of our other share -- our share products and things they could clearly pull out that assets out and ultimately and final commission product. It's not good business, but if that was their character, they could do that and to a competitor, they can do with us.

But there is a -- you're not seeing that behavior. I think the product has tremendous value. And if the advisor gets paid differently on it, and that's the only option in the market for qualified plans, and that's what will happen. Will there be a change? Yes. Will that require good wholesaling? Yes. We're mostly on process. This is a fairly material -- these changes have infrastructure implications. So of those you have done -- the US store, those borrowing stores of the data center the IT people talking about having one product, and that's a lot easier to address if you need to do a pricing change, then if you've got dozens, just the reality of technology.

So who get there, who can relay the product correctly, who can get a back end of the advisor's business. Barry's team is already working with all of our key distributors on plans, I mean, if you look at --

Absolutely, I mean you adapt, I mean, in a work, what you do is you adapt, and we've gone -- as Mike said, we've gone through changes in the past that have the potential is being more disruptive than this does, so you've got a lot of VA product that moves the United States already from various providers through fee-only. 25% of the market or something is fee only already.

So we survive, we lead to role, and as Mike said, process of retooling for us is, it was complicated with this public before any of our competitors. We are just -- we've got a higher quality platform, and we're more nimble. But the real concern is that, again from substantive perspective, satisfactory commercial impact, its bad for consumers. These products exist as they are important, they have a light to exist.

Living benefits with guarantees -- the living benefit guarantee that we put on these products are extremely important, and the further you go down, the social economic food chain, the more important those guarantees are. These products will exist, and I'm convinced again back to the political point that, this is -- what's going to happen is not going to be extreme. I think there is too much bipartisan acknowledgement that this is -- the way it is initial draft, its been pulled together, there is little over each year and it has unintended consequences.

Q - Ming Zhu {BIO 17001429 <GO>}

Ming Zhu, Canaccord. Two questions, please. First one is on the UK. You had very strong retail and business -- our new business growth and some of that, because of the delaying decisions from the retirees, I just would like to have to picture in terms of going forward, was that sustainable growth you think you have achieved, and how much growth you think unique in order for that new business profit to be sufficient to offset the one off and back book, please?

And my second question is on M&G. And with the outflow you've experienced in your own optimal income fund, and you've guided further outflow in H2, what give -- some thoughts and sort of deal in terms of when do you think the outflow will normalize? And what actions are you taking in terms of -- are you launching new funds for the growth -- focused market in Europe?

A - Mike Wells {BIO 4211236 <GO>}

So Jackie, you want to take the first province question, and then Michael the general outlook.

A - Jackie Hunt {BIO 16204866 <GO>}

Sure. So you asked, we have had very strong retail growth on the net basis, that's up EUR0.25 half year-on-half year. Actually if you break it down under the new product, and the savings and investment process that we had in Fujian are generating about 40% odd growth, being offset by the 56% reduction in retail annuities.

In terms of the outlook for the business, we did see some pent-up demand in 2014, as you say, some customers to delay their decisions more generally, and most of those customers, my view, and it will take a while for the trends to stabilize, so most of those customers will be individuals looking for cash. So lot much of the industry, we saw a quick uptick in the sort of cash on cash in the first few months, and that's starting to slow down quite considerably.

Actually, if you look at 2014 and then early 2015, we've seen such low levels of people actually existing products across the industry, but I think some of that pent-up demand is really just 2014 demand working its way through the market as a whole.

In terms of the outlook, if you then look at, in terms of our own positioning against pension freedom, I think my colleagues who talked about making an opportunity out of change and that's what we've done. We've already said, changes coming, how do we impact to this, fair to go with fabulous franchise, great retail brand, very good investment proposition, huge loans [ph], interesting customers and external customers. So how do we best position ourselves for that.

And so we focused on a range of savings and investment type product, and we're having considerable success in those, you would have seen income draw-down both in the longer and near time, tend to going from income draw-down products. We issued a flexible version of that draw-down product at the end of last year. It is advised only at the moment there is a plan to move onto non-advise version late in this year and our sales are up about 328% against that product. We are attracting new customers, new advisors and new intermediates.

Equally, you look at the existing bonds products 20% growth, individual pensions, I think about EUR0.125. So a very broad based a traction around the existing savings investments products, as people change the way in which they look at retirements. They no longer look at that points in time, but a transitional period.

The other thing that I would point to is, alongside there has been a lot of focus on pension freedom and what it meant for annuities and the reduced needs to annuities. Lets focus on the asset allowance, and those were obviously raised very significantly. We talked about pre-fund ISA, so we wrapped in a different savings form, licensing pre-fund product, and not have an incredibly fast launch, the 260 million on assets under management after we launched in February.

That's not just new savings into as ISA form, a lot of that is actually transfer business, and that's attracting a majority actually, money that's currently in cash assets. So actually if you step back from all of that and say, what is the outlook? I mean I'm very bullish actually about the amounts momentum in the business. I think it's the comparison of stock pulling back with retail annuities full of -- the first quarter obviously still have the pre-budget changes in it. You will see that growth rates continuing to escalate.

A - Mike Wells {BIO 4211236 <GO>}

Michael, on the fund.

A - Michael McLintock {BIO 1524907 <GO>}

Yes, on the full income, particularly. I mean the bond, like Tidjane Thiam and his team, and we are not alone, you will see other large players in the market have been significant, net redemptions from this asset class. It's very difficult to say when this is going to stop. At some extent, Mike, let me ask the question back to you, which is -- what do you think is going to happen with long-term interest rates and fixed income markets generally, because of course they started to use negative return. And you can construct range of scenarios from market, stay roughly where they are, to actually having a fully have the base, and yields backing up quite significantly, and submit perceptions, and value remerging, and it's very difficult to know what is going to come to past.

At the moment, I have to say, we don't see any change in the trends in relation to optimal income. But of course it's a game, that haven't -- not only of -- well, what happen to funds, where the half has been experienced, but one of the things will happens with lot of funds, which again well, for example, are multi-asset range of funds performing extremely well. Property fund is losing lot of interest. Frankly, equity fund range is performing disappointingly on the whole with some bright spots at the moment.

And that's another question which I have to ask, because of course, we are living in market where equities that deliver received safe, growing income streams, hoping to stop to do that's, it's been driven to very high value levels, which is actually not where we are playing, and that's why we're getting some poor performance in some of our funds. Again, we'd expect that to change at some point, but I can't say when.

So I'm afraid it's not a certain picture, we are seeing some good areas of interest away from the optimal income fund. But I can't actually give you any precise prediction on time and when this will come back into balance.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, Andy Hughes from Macquarie. Couple of questions if I could. The first one is on the deal as to do with more intense of the product. I'm not sure I completely understand what you are saying, because certainly the product is, it's kind of reliant on, in the events on maturities. And so it distinguish a little maturity structure, its much lower lapse rates across the industry, presumably you have to drop for you -- for the consumer dramatically into the current product.

Second question is on Asia, and the direct capital. In terms that what I mean, is that the reason behind the three times coverage IFRS? Whether it's the intensity surplus coming out in Asia in H1? And what options you have to access to this retain surplus in Asia, maybe you can use for M&A, where there is any other options to fund free the surplus? Thank you.

A - Mike Wells {BIO 4211236 <GO>}

On the -- I will take that deal or you may want to take the -- net of financials engineering question. I think, partially we've addressed that, the dividend piece as well. So there are any -- there are now registered advisory base with living benefit products in the US, one of the larger distributors, and that's called private ledger asked five companies -- five or six company to build them one. It hasn't had material traction yet, it requires different pricing, different option strategies, which again are not outside of our core capabilities.

But there are other structures that -- let's get the rule and then we can tell you what structure is working. But based on a levelized product, you have a couple of new variables, but they are not difficult to -- think about it as a product with its rental charge expire. Similar characteristics oversimplify it, is that -- Chad as we, I think that's the simplest way to think about what it gives us from a labor point. So again, it's not something we haven't seen before, and can't do it.

Is it the optimal structure for value for the consumer? No. In any products, fixed and extended annuities, the longer the client gives up liquidity that what we can provide in the terms of value, and again that's a discussion, that's part of the case of the deal that's over, we'll see that turns out. And dividend coverage not related to Asia, it was pre-Solvency II, so it's not a -- do you want to address the IFRS content.

A - Nic Nicandrou {BIO 15589153 <GO>}

I mean, just to be clear, there is -- subject to a small caveat, which I'll come back to in a moment. There is no tough capital in Asia. If you only need -- if you look at our free surplus disclosures, you will see that we have in our Life businesses 2.6 billion of net worth, packing our own levels of required capital of 1.2 billion. The local, the accumulation of local regulatory is under 1 billion. We can't use a high measure.

So all of that 1.4 billion is available. Why do we keep it there? We keep it there to fund business. We keep it there because we like nicely capitalized businesses, and I have said before, if you want regulators to allow you to move capital freely, then you have to be responsible when times are good, you don't take everything out, so that when times are less good, they allow you to take out that. That's the responsible behavior.

The only caveat is that, there are small number of businesses, and we're talking about couple of hundred million of that 1.4 billion, where the accounting results are negative, because they are growing. So in the start of phase, it will incur losses, eventually profits will come through and remove those losses, and therefore you have distributable reserves on that basis. But given the very strong growth that we are seeing in IFRS within 18 months or so, we will grow ourselves out of that little constraint. If we need attract to that, very quickly we could restructure the capital. So there are no constraints capital can flow freely.

Q - Lance Burbidge {BIO 3978332 <GO>}

Thanks. Its Lance Burbidge from Autonomous. I am afraid I've got some questions on DOL as well. This is relatively simple one. You talk, Mike, about releasing the leases, where you said, let us, to control sales --

A - Mike Wells {BIO 4211236 <GO>}

I know, (inaudible)

Q - Lance Burbidge {BIO 3978332 <GO>}

I just wanted, presumably the state levels are increasing price, so reducing the price presumably would you show profitability in your business. I just wondered, so with a follow-on to that, if the price comes down in a market, that market, what threat is that your in-force book, which is obviously the big driver for this currently?

And the second one is, Tony, on Hong Kong. What is the major driver of Mainland Chinese actually buying a product in Hong Kong. Is it price -- is it product that's better than in China or little diversification from currency perspective?

A - Mike Wells {BIO 4211236 <GO>}

Okay. So I'll answer on the DOL. Some of the in-force levers, as you remember, as we pulled down available guarantees, so there are actually increases with the profitability of the product. If we were to go back to that direction and again, that trying to deal primary to look competitors should do in this climate. But if you think about some of these ago last three years, if we reverse some of those that actually improves the margin on the product, so it's counterintuitive. It's going to depend on what makes sense for the consumer and the structure we have, but I think that's directionally the way to think of it.

On the in-force, there has not been, in my 31st year career, a retroactive tof policy. And so, again, that's an interesting question of what the deal will do that for the first time; possible, highly disruptive. If you can think of -- if I had a real estate partnership in my retirement account, I can't meet some of the requirements in this for liquidity, dealing, advice, et cetera, so am I supposed to sell an liquid asset, pay the tax rate, I can't -- it's hard to imagine that, that will be the intent or the outcome, its possible. Again the sales, but I don't think it's the realistic outcome we'll get.

So this comes back to -- why does the quality of product matter? Why does I service the client matter? Why does they had any advisor still like you, protect the reputation, we have a very happy back book. These clients have made a lot of money with us, and done far better than they were any place itself, and the value of variable annuity has been demonstrated. So we don't have a tension for the clients, whether they are looking for layout or as we've told you, we want them out or don't give any relationship as particularly possible, our measurement that would be our openness to additional premium in the various vintages.

So it is a little more payback for having done the right thing for the consumers across the cycle. I give this options that again I think some folks may be a little bit more challenged with, but I don't think you're going to see the -- I don't think you see retroactive legislation, it's very, very rare. Its happen one time and again in the fund space, and it was on share class application and it wasn't -- it was just enforcement ahead of policy, just go back and give a client whatever you should have, sort of things, once. And it was a very odd, very political heated climate and who is proper regulator and we all comply. But that's the only one I've seen in my career. So I don't -- I'm not anticipating this structure for our back book.

On Hong Kong, they are just general -- that Tony, the vast majority of our premium there is recurring, we are talking about 8,000 to 9,000 average transactions, you want to -- evolve over the film, the process is well established, both from a consumer and our side, but can give a little color on that.

A - Tony Wilkey {BIO 19184129 <GO>}

Yeah, I think you might have answered your own question. Why are they buying? The diversifying a way from other assets that they may hold in the Mainland. They are buying other assets as well, its not just insurance that they are buying in Hong Kong, they are buying real estate and so on and so forth. Do not underestimate the power of a trusted brand to the Mainland Chinese. Our name in Chinese is Jingle Bells [ph], which is UK Prudential, and that is a very important component of our value prop to these people and they've been that. So diversification is a trusted brand.

A - Mike Wells {BIO 4211236 <GO>}

Okay, great. Well thank you very much for your time and your attention, and appreciate the questions. We'll see you January 19th, we are going to host an Investor Day. I hope that you'll be able to join us. We are going to be here in London, give a little more depth into the strategy and sort of elements to the business where I will give you details of Solvency II at that point. So again, thank you for your time and attention.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for joining. You may disconnect your lines.