Q2 2017 Earnings Call

Company Participants

- Anne Helen Richards, Executive Director & Deputy Chief Executive-M&G Prudential
- Barry Lee Stowe, Chairman and Chief Executive Officer, North American Business Unit
- John William Foley, Executive Director & Chief Executive-M&G Prudential
- Mark FitzPatrick, Chief Financial Officer & Executive Director
- Michael Andrew Wells, Group Chief Executive Officer & Executive Director
- Nicolaos Andreas Nicandrou, Chief Executive & Executive Director
- Paul Chad Myers, Chief Financial Officer & Executive Vice President

Other Participants

- Abid Hussain, Analyst
- Alan Devlin, Analyst
- Andrew Sinclair, Analyst
- Andy Hughes, Analyst
- Arjan van Veen, Analyst
- Greig N. Paterson, Analyst
- Jon M. Hocking, Analyst
- Lance M. Burbidge, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst

MANAGEMENT DISCUSSION SECTION

Michael Andrew Wells {BIO 4211236 <GO>}

Well, good morning, everybody. Thank you for joining us. Appreciate that this time of year that pretty much (00:18). So, I know that there's other place as you could be, probably warmer and drier than we've had this week. So, thank you.

Starting out, introducing folks here, Mark FitzPatrick is joining us now as our Finance Director. And I think a number of you know Mark from his previous career, but we are very pleased to have him. There are some other familiar faces. You'll recognize Nic now as our head of PCA, you'll find a completely different attitude. He has things to say about group home office he never said when he was there. Some very familiar faces in the room and the teams continues to grow I think in capability and talent. And certainly, we see the leverage of working together, working very well and I hope to see that through the results, in the Q&A and some of the presentations today.

I'm going to do a quick overview of some of the strategic issues and highlight. Mark is going to walk through the financials. We'll do the normal Q&A we do where we bring all of the heads of the businesses, CRO and the folks up and let you ask questions directly to other participants. So, the format, I think, is well rehearsed, so I'll get right into it.

So, I think strong, broad numbers hopefully with the effectiveness of our IR team. There is no material surprises in here before you. We think they're good clean numbers. Extremely pleased with how broad the base of the performance is. Pretty much every business we have is doing well right now and through a variety of climates and challenges they're dealing with. So, obviously, very happy with the results. Asia, 8 of the 11 markets up double digits in both IFRS and MVP is a great outcome. And the U.S. and our UK-based businesses as well having a tremendous first half of the year.

I think the quality of the growth is where I'd ask you to consider as we go through the presentation today. We continue to work on this. We think there is - the health and protection focus in Asia, the long-term relationship focus of our clients globally, so that income is compounding and recurring is a key theme for us. The capital strength I think comes through. Even on the Solvency II basis we're north of £200 million and you see the absolute growth of capital and our ability to generate capital organically. I think it's demonstrated in the numbers.

And then the - we hit our 2017 free surplus generation target, we're through it at £11.1 billion. It was £10 billion for those of you haven't paid attention, it was due at the end of the year. So, hit that a little early and we feel like we're doing pretty well towards the others, and I'll come back to that in a second.

Not going to spend a lot of time on our strategy today on a global perspective. You know what our view is. We think we are in markets with multiple growth curves in our favor. Demographics and some of the social issues, wealth, population, GDP, demand, et cetera, I think those are playing through in the results our teams are producing for you across the globe.

In the U.S., the team continues to effectively navigate the regulatory requirement. There was more news again today. I'll let Barry address that in the Q&A. But again, the DOL's changes for us are directionally a headwind and push us into larger asset pools and continue to see Jackson succeed in that space.

And I'll spend a little time today on what we're doing in the UK, it has raised a few questions this morning. So, I'm going to make sure you'll leave today understanding what we're trying to do here. But this is very much about unlocking additional value and increasing the sales of the capital-light products we have in that space and the number of relationships available to us in the market and increasing capabilities of these firms. So, again, I'll come back to that in time.

Let's jump to Asia. I think this epitomizes what we're doing, trying to deliver growth at scale. One of the early questions I got, I went back and looked at some notes from a couple of years into the role now, into some of the early meetings with you all in the room, individually and collectively. And one of the questions at the time, if you remember, was can we continue to grow at this size, right? That was a fair question that came up a number of times, my first months in the role. And I think what you see is we very much can, and that's across the group.

And quite a bit of our growth now is structural. It comes from a number of things, not just the market demographics, but the nature of the relationships we have with clients. So the percentage of recurring relationship with clients is where our focus has been in the last few years. That growth has come – I think the quality, the breadth of it, we're being more selective in the regions, products, channels. We're doing business and yet we're still getting the absolute growth and you see the growth of NBP.

So, very happy, I think, with – Asia hits these numbers and I think demonstrates what we're trying to do very well. The targets are embedded in this, well-rehearsed. Again, I think the – you can see the performance and how we're doing against those objectives. It speaks for itself. But the compounding effect, I think, is a key takeaway to me in the numbers out of Asia.

The other, I think, that just – two years of much more extensive travel plus in the region there is – and I know a number of you have been over multiple times. Some of you are based there now. It's very early days for us for us in the industry in Asia. I mean, I think we're on the front end of the opportunity in most of our markets there.

So, it's still very much about execution, it's about agility, it's about bandwidth. It's attributes of scalability, can we get that next relationship faster, better experience with the consumer, more profitable for our shareholder. Better value to everybody in the stakeholder base, and we continue to focus on that. And you're seeing that and it varies by market what that feels like and we have to have the local teams in market, again, of a size and scale that we can execute to the subtleties in each distinct market there.

So, Asia is not a country, all right? So, there's a couple of times – there are massive distinctions of markets, even inside of the countries we do business in. And I think, again, you're seeing us execute in a variety of spaces in these markets quite effectively and I'm very pleased with the team but the GDP growth numbers is – I think you can look back a few years – aren't the driver of our sales. When you're in the risk-off business, which we are, volatility is a bit of a tailwind. There is a – persistency goes up. Sale processes extend but the overall quality of the business improved because people are concerned.

The concerns we find in the region tend to be very personal. Very much about family changes, very much about political environment, not necessarily if GDP bounced up or down 100 basis points. So, it's critical we have the way to access those clients and that same sort of personal interaction. We're doing that 500,000-plus agents, 10,000-plus branches. We continue to add technology to that to create unique experiences for them and to service the clients the way they want; that can be claims payment on a Chinese account or deposit in a Weibo, WeChat account, to an agent face-to-face and a cash transaction if that's the client wants in another market. So that flexibility, that agility I think is key for us to succeed and to continue to succeed at scale, particularly if we decide not to participate in elements of markets.

So, what's not here? We can back up that same period of time. So we've exited a couple of markets. We've exited a channel. We've exited some products; we're out of the Korean life, Japanese life market. We're out of the broker independent channel in Hong Kong. We're out of universal life for the most part and we're still getting the growth. Still getting the top, still getting competitive market shares, still doing extremely well in the business without following things that we think are not producing as high a value at this point.

So, we like the – we have the scale. We've talked about the portfolio effects for years up here. One of the advantages of it is you can choose which market you participate in, which segments, which channels that you think provide the greatest value at any given point in time.

And we've demonstrated we can go in and out of these channels, we've demonstrated clearly we can go in and of the products. So, I hope it's not viewed as a capability question. It's very much a choice question for us. And we think the best recurring earnings come from the channels and markets we're in; clearly the health and protection focus creates the highest value of recurring earnings which is one of our key ambitions, and we like the growth in those.

Hong Kong again is a good demonstration of this as we backed off the independent agency channel. The team there still produced – our agency team up 31%; banker up 22%; health and protection, great growth across the region; NBP up 22%. We're very happy with how they're doing given what they're asking them not to do, if you think of it in those terms, and we think on a relative basis and absolute basis, it's a great performance.

Long term is the key. So, our ability to build recurring revenue for you to build relationships that have value to the consumer and produce reasonable value to our shareholders is absolutely the key. Asia is on its third set of objectives of demonstrating this. You'll see we're in pretty good shape to get to the 2017 year-end. We're feeling pretty good about those at this point.

And I think, directionally, we are unlikely to give you another set of guidelines for Asia because we think, at this point, there's enough facts and enough transparency. And the IR team, as our institutional investor, right up there as one of the best. The level of transparency, we think we have with you gives you enough metrics where you can see how we're doing here. And the recurring revenue basis alone give you the guidelines on predictable earnings as business units. So, just to manage expectations there, we think their numbers now stand on their own. Proof of concept, I think, has been met.

Switching to the U.S. Interesting market now. So, again, demand still there. Clarity around DOL is still a challenge if you're compliance officer at one of the major broker dealers. That's really where it's probably felt the most. So, again, I'll let Barry elaborate on last night's movements put a delay in implementation to 2019.

We're doing very well in the interim. There's multiple work streams going on here. Jackson captured 100% of the net flows of the industry again in the first half of the year. There is no reduction in demand for a consumer wanting some surety on what the retirements assets will do. If you look at the appreciation of the fund, you can see again that the product is performing well for consumers and that performs well then for our shareholders. And the capabilities of Jackson as we enter the RIA-type platforms, it's early, early days, we're just – it's weeks. They're continuing to add new producers who have never done business with this before. And on one of the early RIA products 25% basically of the producers never wrote a Jackson product before. That goes to wholesaling, that goes to product design, that goes to trust in the brand inside of the industry, and we see the direction here in the market is additive.

We go from a market of a couple trillion of definable assets as we've set you now to 2017, and we think there's tremendous upside as the regulatory clarity lifts. There's no change in demand when you talk to advisors. I was just back in New York and had a chance to see a couple of people there that provide retail advice, and you will not be surprised that consumers are concerned about market volatility and saving for retirement and low interest rates. It's a very well-rehearsed set of retail consumer concerns, and Jackson's products address that extremely well.

So, they're building for the future. Investing along with the partners in what the next iteration of fee-based products will look like. That's key work and I think that is – and that's got a quality lens on it that wasn't historically there, and given the quality of Jackson's product surpasses the balance of the industry, the industry – all of these pressures come towards us and create tailwinds. So, very good time for the U.S. business although a great busy one with no shortage of challenges.

And then on the UK market, so we're combining M&G and our UK business and have got a lot of questions on this already this morning, and let me just give you the industrial rationale why we would do this.

There is a variety of things we see in the marketplace, and you – depending on what companies you own in your portfolios or follow – you're seeing around us. So, there is a consolidation of fund managers. There is a blurring of the roles between the insurers and the asset management industry in the UK-based – again, these are from service clients internationally and not just in the UK, but UK-based providers.

And there's questions about sort of market outlook and we think we have a unique set of skills to unlock even more value in this market. And so, we're going to combine the two firms, be clear on a couple of things. This is a capital-light, fund (14:04) strength-oriented model, where we see growing into a huge market opportunity. And I'm going to jump forward a couple because I think you know M&G well, you know PRU well.

The quick summary on this M&G's performance at £7-plus billion of net inflows, right, £5 billion and change of that, £5.5 billion of that being retail, gives you an idea that – you see from industry data the breadth of the performance and the breadth of the portfolios we can bring to clients. Again, most of these non-correlated with equity markets and that's what the consumer is buying, you've got the proof on product of 29% in the first half of the year.

And let me jump to where I think that's coming from. So, we see two addressable markets here. One we're playing in actively with M&G. The other we're playing in passively. Let's say, by default a bit, with PRU UK and we want to step up our active participation in that.

So, on the left, I'm assuming pretty much everybody in the room is familiar with the size of the UK asset management business and the firm's base here, so I'm not going to spend a lot of time on the scale of the opportunity. But it's the second largest asset management market in the world, right, well-established fact. The products and portfolios we have, again, are in the total return value, high dividend stock, total return bond fund that – more of the non-correlated.

So, I get the question of what's the impact of passives. Our average investor isn't looking for highly correlated market volatility, market returns. There is a place for passives, there have been all along. But we are big believers in active management. And we think the key is delivering risk-adjusted non-correlated returns to consumers and institutions, and we're doing that now and we think we can continue to do that.

So, that is, if you will, the risk-accepting side of this chart where a consumer or an institution has said we like it. And we're not going to do anything to disrupt that. Any client of M&G's that's already doing business with them, no change in fund managers, no change in service personnel. We're simply going to up some of the quality of services and breadth of product that's available to them and be able to customize more for them.

On the right-hand side is where we think the flaw is, if you will, in the market socially, product-wise, industry-wise. The cash element of the ISA market. Three quarters, the ISA fund still going to cash. There is no way a UK saver can retire on the yield on cash, right? State the incredibly obviously. They can't even keep up with inflation.

So, these pools of fund, £255-plus billion, deserves a home. But these clients, and we get them and we get them through the PruFund and other products, are incredibly risk-averse. They're not interested in volatility. And they're looking for ways – they're worried about preservation of capital.

This is the same comment I heard in New York, I've heard for most of my career. I haven't got time to earn it again. And it's a client who is closer to retirement and they're very, very concerned. The shocking number to me, when we were researching this, the bottom figure, that £46 billion is clients chasing basis points. If you want a measurement of do they understand they need to earn more, do they understand the yield they're getting isn't successful, I think, this is a really interesting barometer. This is clients moving from cash to cash, okay.

So, think of the yields available in the market that are literally chasing individual or single-digit basis points. So, the need is there, the consumer knows they have the need. There is a clear opportunity here for us to capture more of this market and I think as an industry to do a better job in this market to get these investors in the capital markets, into real property, into real investments. And we know we're doing that, we're backing into that a bit with the range of products and the success we're having with PruFund

And where we're going with this? PruFund is a good example. It's a collaboration between our two UK businesses. It has industry-leading performance. You have – it has a very, very unique capability to smooth for clients, and it appeals to clients on the right side of that graph.

So, I say we're doing this from a position of strength. Spend just a minute on this one, take a look at the operating performance of these businesses. So, net flows are excellent, performance returns are excellent. We think we have every tool we need to address both those markets effectively. So no M&A on the horizon, nothing we need to buy, nothing we need to do, okay.

We just need to take the investments we're putting in these firms, in technology, in back office, in digital, in service capability and lever it more. So, when we invest over a three- to four-year period of time in what we expect the firm to be able to do. We don't want to invest twice at the intersect between insurance and asset management. We want that back. That gives us a higher return on the invested capital. And, again, back to the pace at which the capitals return to us. All those metrics improve. So this is about efficiency, but it's also about meeting a structural demand. And we think it produces a very capable firm in the process.

How capable? Well, here's the breadth – and again this is – to this audience, this is a – I appreciate – for some audience it would be a complex slide, for this audience it's a very simple slide. But the breadth of what the customers want, we produce that scale, the range of products that manifests itself and we produce, and the channels that are available to the consumer, we have good positions in.

The key here is not to overlap, not to compete with ourselves, not to get in our way. And to think about ways to address each more efficiently, more effectively. And again, we think we can do that, okay? So, we're not solving a weakness here. This is from strength, okay? And we think we can improve the performance of both firms and we think we can get more to retail consumers and institutional consumers in the process.

So, it should produce an at-scale, leading savings and investment provider with quite a broad range of products and capabilities, digitally-enabled, capital-light. To capital-light, a little bit of press about are we going to sell down some of the back book, all of the back book, et cetera. The answer is yes. We're going to look at that, okay? And again, let me put this in context. So, as I've said before, this is a profitable business for us. It is capital-intensive and it is not one that we're currently writing new business in nor having intention to write new business in, okay?

So, we are looking at a couple of different things: how do you de-risk some of the positions. There is internal and external options both on that. There is clearly, from other results presentations, as I understand, a number of players who are interested in participating in some of the financial interest in these relationships. We don't need to create capital, as you see from the amount of capital, 10 points for capital we created just the first half year alone. We don't need to meet any sort of targets domestically. These are highly rated firms.

But if the market pricing produces a total shareholder return that we think is competitive, we are fine with de-risking this portfolio externally or internally, okay? And the long-term direction is this is not a business that we're staying in, so we're going to look at the options there.

The total shareholder lens is important because what I don't - we're not looking - these processes take a little bit of time. Let me go back to some of the realities. These are liability transfers. There's quite a bit a work in them. We will keep you posted as we - in what we see. But at the end of day, these aren't fast and we're not solving for some short term cash solution.

So, I want to just manage that expectation clearly. There is nothing we're doing in either of these two businesses that's going to negatively affect our dividend-paying capability earnings and we're not looking to materially change that. If we have excess capital, we always look at that at dividend time, but the first tiers of this, the early tiers of this actually unwind efficiencies we have.

So, these are liability transfers, non-asset sales, we'll do it at whatever level we think is an appropriate price long term for our shareholders. We're not looking to give anything away, right? And in the meantime, they're profitable, both capital-intensive and the direction of this business is capital-light. I hope that gives enough direction without giving counterparties enough to price from. There is a little bit of balance there.

There's lots of different ways we can structure things. I'm not going to comment on that publicly, because I want to let the teams a chance to look at what the various options are in the marketplace. And again, we'll come back to you with that. But we recognize that the direction for us in the UK is capital-light, and that includes examining how we manage the existing capital of the business and I committed that to you two years ago. And we have the team in place, and we have the resources in place to do that.

Okay. With that, I'm going to hand it over to our Chief Financial Officer, Mark Fitzpatrick. I promised him that you would be incredibly hard at him given it's his first presentation. He's less than four weeks in the role. So, please save very difficult questions for Mark for the end of the presentation. But with that, Mark, welcome and it's yours.

Mark FitzPatrick {BIO 20178326 <GO>}

Thank you, Mike, and good afternoon to you all. It is a great privilege to be standing here presenting to you on Prudential's financial performance within my first month. Timing has never really been my strong point. My job in preparing for this event has been made considerably easier, not only through the strength of the first half performance, which the

CEOs and Nic deserves credit for, but also by the strong reporting processes and the quality of the finance team that Nic has put in place. I look forward to meeting you all over the coming months.

In my presentation today, I will cover four main areas. Firstly, an overview of the key financial highlights. Second, discussing each of our main metrics and the drivers of performance in the first half. Thirdly, I will provide some very early thoughts on my perspectives of Prudential and its financial attributes. And finally, I will provide some financial commentary on M&G Prudential.

So, on to the overview of the key financial highlights. I'm pleased to report that Prudential has made a good start to the year with positive underlying momentum across all of our major metrics and a strong performance from each of our main businesses.

Looking at our key operating metrics, IFRS operating profit increased by 5% to £2.358 billion. New business profit was 20% higher at £1.689 billion and free surplus generation was up 6% to £1.845 billion. Now, we have seen a continuation of positive currency translation effects from sterling weakness, adding roughly 8 points to 14 points of growth together with the benefit of higher asset balances from net in-flows and favorable market movements.

We would expect the forex benefit to moderate over the rest of 2017, assuming currency rates are unchanged. This performance enabled the businesses to remit £1.23 billion of cash to the centre. It supported an increase in our Group Solvency to £12.9 billion and have resulted in a increase in EEV per share of 8% to £15.67 at the period end. The first interim dividend of £0.145 per share follows our usual practice of paying one-third of the prior-year dividend at the half year and, therefore, reflects the 12% growth in 2016.

So, from looking at our key financial highlights you can see that the ongoing delivery of both growth and cash, together with the robust balance sheet remains a highly distinctive feature of Prudential's results.

As Mike has just mentioned, the results reinforce the structural growth drivers and the choices about where we play. It demonstrates that Asia continues to underpin our growth and shows that through our disciplined execution, the right decisions were taken about how to play, culminating in a strong, yet defensive balance sheet that means we are well-positioned to deliver long-term value.

Moving on to the second area of my presentation and commenting on each of our major metrics now and their drivers, I will start with Group IFRS operating profit. Here, the overall key message is one of continuity and consistency: continuity of the earnings enhancing trends you would have seen over any periods before; and consistency with our strategy, which is well-known to you. Together, this means that we are growing strongly in the year as you'd expect us to.

Asia continues to lead, making the largest contribution to the growth in the period with good progress for both the Life business and our asset manager, Eastspring. And as this performance shows you, Asia remains on track to achieve its IFRS objective by the end of the year.

The U.S., through its fee earnings variable annuity business remains the key underpin of the Group result and continues to drive forward momentum. Although our results benefit from good diversification through a wide range of income sources, our businesses remain focused on improving the quality of growth in their earnings. We continue to do this by targeting income from health and protection in the form of insurance margin and from fees on savings and investment business, all of which have increased by 14%. In contrast, spread income has declined, reflecting our ongoing de-emphasis of new business in the segment and the impact of lower earn spreads, primarily in the U.S., as expected.

I've analyzed out in the chart on the left the benefits in the prior period from interest earned on a HMRC receipt and the increase in interest costs in the first half of this year following two bond issues in June and September last year. The other includes the impact of the reduction in spread margins and the ongoing runoff of the REALIC book in the U.S. Now if you adjust for the interest cost, the tax and the management actions, you'll see that the IFRS growth rate is actually 9%.

At a business unit level, there is clear progress in the underlying drivers of our earnings, building on the momentum in the second half of 2016. In Asia, our life business earnings were up 16%. It continues to benefit from the quality of the in-force portfolio through the compounding effect of successive new cohorts of recurring income on top of a large sticky base and our successful focus on health and protection business.

With an increase of 18% in IFRS earnings from the Asia in-force book and a 24% increase in insurance income, the growth on these key measures remains strong. The performance is broad based, with higher contributions to insurance income from 10 countries, evidencing the earnings power of our portfolio businesses across the region. It is these positive effects reflecting our successful execution that drive earnings progression in Asia today and underpin the outlook for the business over the years to come.

Our asset management business, Eastspring, has had another good half year. Earnings were roughly up 20%, roughly in line with the 21% increase in average AUM, which has benefited from sustained net inflows and positive markets.

Moving to the U.S., Jackson's Life earnings increased by 7%. Profits from variable annuity business remain the key driver of growth, more than offsetting the impact of the expected decline in spread margins. Our view on spread margins remain, and we expect to see a trend towards 150 basis point over the next few years.

Jackson continues to outperform its peers in the VA market while aligning the business for the post-DOY (31:46) world. The business continues to attract positive net inflows, supporting a growing level of fee-based income through higher separate account values. Separate account assets increased a further 9% in the first six months, which provides good support for earning prospects in the second half of the year.

In the UK, M&G has seen a good recovery in profits, consistent with the 10% increase in average AUM compared to half year 2016. As M&G's cost base is typically higher in the second half of the year, we expect the cost/income ratio of 53% at the half year stage to move towards 60% at the full year as we have previously guided.

UK IFRS Life profits were roughly in line with last year with core earnings tracking our previous guidance, including a small reduction due to the impact of the prior year longevity insurance. We continue to benefit from high-quality, dependable income from our in-force annuity book and the consistency of contributions from our With-Profits portfolio.

Our UK management team has taken corrective actions in the first half, mainly relating to capital optimization, although we expect profits from this source to be reduced in the next – in the balance of the year.

Following our withdrawal from selling shareholder-backed annuities, the contribution from new business in the segment is now minimal. So, across each of our businesses, we continue to drive forward the metrics that build the foundations for sustainable, profitable growth.

In the first half, we have delivered a standout new business performance across each of our businesses. Although this is only one period, it demonstrates the combined power of our growth engines when we are all moving together. In recent periods, when rates were declining or at lower levels than they are today, we were able to continue to grow new business, evidencing the many levers of growth the Group has at its disposal. You can now see that when rates are rising, we have retained a significant upside that materializes from these significant movements.

In Asia, we have achieved strong new business across the region with eight countries producing at least double-digit new business profit growth. Our focus on quality remains. Regular premium continues to account for 94% of sales and new business profit from health and protection increased by 19%.

These are characteristics of our growth that you are familiar with, but to achieve this period after period requires strength of execution: making the right decisions on product and channel, for example, when to grow and when to moderate growth. Having the breadth and diversification of the platform we have in Asia allows us the strategic flexibility and makes for a stronger business.

In the U.S., Jackson is growing sales in a market that continues to see significant disruption from regulatory change. First-half variable annuity sales increased to $9 billion from $8.6 billion, partly reflecting the benefit of Jackson sales of the surrender offer made by a competitor in the period.

The strong increase in new business profit, up 23%, reflects improvements in VA mix and also the positive impact of upward movement in interest rates compared to a year ago when 10-year treasury yields were 82 basis points lower. We took advantage of market conditions through our $2.6 billion of institutional business in the first half, but would expect lower levels of sales in this line over the remainder of the year.

The UK Life operations continue to generate high levels of new business growth, driven by its position in the retirement segment and the attraction for customers and advisors to the PruFund's smoothed (35:55) multi-asset terms.

Following another strong period of growth, PruFund assets now stands at £30 billion, up from £16.5 billion just 18 months ago. In asset management, both M&G and Eastspring have seen excellent flows with M&G's Retail business delivering record net inflows for the first half and Institutional also strongly positive. External funds are now at the highest level ever for both M&G and Eastspring, continuing the evolution of these businesses towards higher margin income.

Turning now to free surplus generation which was up 6% to £1.845 billion after investments in new business. This is mainly attributed to growth in expected returns from our Life in-force businesses, which increased 10%, reflecting the increased scale of the portfolios, particularly in Asia and in the U.S. Experience continues to be strongly positive, though it is lower than the prior year, partly as a result of lower levels of favorable spread variance in the U.S. The contribution from management actions in the UK is largely unchanged at £193 million, compared to a £190 million in half-year 2016.

Consistent with the recovery in M&G profits in the half year and the growth in Eastpring earnings, our asset management businesses have also added to growth in this metric, up 12%. Our disciplined approach to capital allocation means that we invest free surplus in new business with strong returns and fast payback periods. I have included in the appendix on slide 37 the historical data that evidences this approach in action where new business profit is three times the free surplus we invested in the period. This is a very powerful dynamic and underlines free surplus generation across the group.

Asia continues to be the primary destination for investment of free surplus in new business growth, reflecting the strength of the opportunities available in the region. To give some context to the scale and relative returns achieved, over the past 5.5 years we have invested £2 billion of free surplus in Asia and in return have secured new business profit, totally of £7.8 billion. In the UK, strain has come down by a quarter, reflecting the lower levels of annuity new business.

Our next slide shows how the flow of free surplus generation has increased the stock of free surplus to just under £7 billion while absorbing currency effects and enabling higher level of remittances to the centre. Total remittances of £1.23 billion are up 10% overall with cash from Asia up strongly, reflecting business growth and positive currency effects. Jackson, which typically pays its full year dividend at the half year stage, remitted cash of $600 million, up 9% on the 2016 total for the full year. M&G in UK have also delivered a higher combined cash remittance, totaling £390 million.

Organic operating earnings continue to drive forward shareholders' funds and absorb volatility from currency and market movements. In the IFRS table, the negative investment variance of £0.3 billion includes mark-to-market effects on Jackson's equity derivative portfolio, which are consistent with the strong gains in U.S. equity markets over the period.

Higher equity markets are positive for the long-term economics of Jackson's VA portfolio, and the business remains committed to hedging on a economic basis, an approach which remains effective. Overall, on a IFRS basis, market effects were broadly neutral and currency impacts relatively modest with operating earnings in the first half covering both these and the second interim dividends from 2016. The movements were similar in relative scale and driver on an EEV basis with operating earnings, again, dominating.

Now, as you know, Solvency II is an imperfect fit for our business, given our footprint is predominantly outside the EU. Despite this, our Solvency II capital position has improved. The Group shareholder surplus increased to £12.9 billion from £12.5 billion at the start of this year, equivalent to a cover ratio of 202%.

As I described on the shareholders' funds slide, the generation of capital from organic operating experience is the dominant factor in the movement over the period and it's consistent with our previous guidance of around 20 points of underlying capital generation per annum. This more than offsets negative currency effects in the first six months of the year and the payment of the 2016 second interim dividend.

In the context of operating capital generation, the addition of £0.2 billion from management actions is relatively small. Non-operating and market effects were neutral overall in the first half of 2017 as the benefit of strong equity market growth was offset by the impact of falling yields in Asia and the U.S. and negative marks on equity derivatives held by Jackson to protect against downside shocks. Our Solvency II position remains resilient to adverse market effects, which you can see from our published (41:54) sensitivities.

Turning to the balance sheet. We remain well capitalized at both the local level in each of our businesses, and at the Group, as defined by Solvency II. We derive strength in sources of liquidity with central cash holdings of £2.7 billion and readily available access to further external sources of credit.

Our assets continue to be conservatively managed with a focus on quality. This is reflected in the 97% weighting of sovereign and investment grade credit with zero defaults and minimum levels of impairment in the period.

The overall scale and quality of our balance sheet continues to underpin our strategy, providing financial security and flexibility through the cycle.

So in summarizing the first half performance, we have continued to grow the business on all metrics while driving improvements in the earnings profile of the Group. Asia remains central to our growth prospects, and we're seeing progress across all our main businesses. On all bases, operating capital generation is the fundamental source of our balance strength and resilience. Taken together, this underpins the positive financial prospects of the Group.

Now, for the third part of my presentation, I wanted to share some of my very early thoughts - bearing in mind, less than a month - about Prudential and some of its financial attributes. And in considering the role in coming in, I looked at what I'd really like to see in a company that would give me confidence and optimism in its financial outlook. And to me, this can be distilled into three main areas: it's around scale; it's around growth; and it's around resilience. But none of these is sufficient when considered in isolation. It is a combination of these that creates a powerful dynamic and optionality. So there's no point in having scale if you're not going to use it to good effect, and scale should provide opportunities for investment and growth.

Similarly, top-line growth in insurance is easily achieved. To drive growth in areas that improve the quality and resilience of earnings through a capital-light platform requires discipline, a conservative balance sheet and broad diversification. And this doesn't happen by chance. I'm able to see now first-hand that these attributes are the outcome of having made the right strategic decisions, many years of execution, and ultimately driving superior outcomes for our customers. And we see the benefits of these continuing to play out in today's results.

So, to finish my presentation, I want to add some financial commentary around today's announcements that we are going to combine M&G and our UK Insurance business. As Mike has already covered, we'll discuss this in more detail in November. The integration of these operations and investments we are making will lead to new revenue opportunities and a leaner, more financially flexible organization with an improved ability to respond to evolving customer needs. It will also accelerate our shift towards a higher quality earnings stream focused on growth from income, from fee-earning assets and With-Profits business.

While these are attributes we expect to emerge and sustain more fully in the combined entity, it is not to say that they do not already exist to a significant degree in the businesses as they operate today. We will leverage those existing strengths and capabilities, but we'll also invest to position the business for the future, the cost of which will be shared between the With-Profits fund and the shareholders.

In addition to anticipated revenue synergies, we expect to deliver shareholder cost savings of £145 million per annum pre-tax by 2022, mainly as a result of simplification in legacy infrastructure, systems rationalization and some reduction in overlap of shared resources. The related shareholder-backed investment cost of £250 million are being funded internally. This will not affect remittances, as the minimal impact of up-front costs is easily absorbed, but will create long-term value, both from savings we have quantified today and from the revenue potential we expect to emerge.

M&G Prudential begins life from a position of individual strength with both businesses well established, high-quality, and performing well. In combination, we believe the solo entity will be even stronger.

I'll now hand you back to Mike.

Michael Andrew Wells {BIO 4211236 <GO>}

Thanks, Mark. So, again, I'll finish with my favorite slide. I think we added yet another bar to what is, I think, a highly competitive set of results historically and, again, the relationship of these I think is one of the key measurements. You do see the increase in the new business profit in that – as we focus on that, as Mark alluded to, the capital efficiency, the recurring nature of the profits, quality of what we're distributing and that comes through, that should be a good indicator of future earnings in the Group.

The other thing I want to mention here is, what I hope is also obvious is the management bandwidth and its ability – its increasing ability to do all of these things concurrently. We have some very interesting and exciting things going on in Asia. We have some very interesting and exciting things going on in the U.S. We have some very interesting and exciting things going on in our UK-based businesses.

And as the Group has grown, so has its capability as a management team to not only develop internal talent, but to attract external talent to the task at hand. So, I have never, in my 21 years seen more horsepower in the firm, and I think we are more than capable of managing the challenges that are in front of us and unlocking even more value for you.

So, with that, what I'd like to do is I'd ask my colleagues to join us up on the stage – or at least some of them, and we'll take your specific questions about each business unit or whatever you'd like to get into until they are finished.

Mark, you want to do the honors?

Q&A

A - Mark FitzPatrick {BIO 20178326 <GO>}

All right. So, we'll do the Q&A as usual. So, there's a couple of roving mics. So, when the mic gets to you, please do state your name and your firm's name and then fire away your questions. Do you want to start with Jon?

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

Good afternoon, everybody. It's Jon Hocking from Morgan Stanley. I've got three questions, please. Starting with the UK business, I can see that both businesses have got some fantastic investment solutions. Being critical, I'd argue that if you look at the sort of mousetrap (49:17) the Group has got in terms of the distribution piece, both in terms of direct intermediary platforms and Group that has been the long-term underinvestment batch, should we expect the Group to start investing in that distribution capability?

And you mentioned – made an interesting comment about not investing twice the interception of insurance asset management and there's a lot of commonality there. So I wonder whether there's actually (49:42) extra CapEx in the UK business? That's the first question.

Secondly, on the U.S., I'm just interested to get an update from Barry of what happened overnight with the DOL changes and also what the early traction you're seeing on the fee-based VA product is?

And then just finally, in Asia, specifically looking at the Hong Kong market, there seem to be a lot of moving parts in the Hong Kong market in terms of the sort of mainland capital transfer, product changes, what's going on in broker channel versus agency, et cetera. I just wonder if you could give an update on what's happening there and how PRU is sort of competing in that space. Thank you.

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

Okay. Thanks, Jon. Good questions. So, John Foley, Anne, do you want to talk about UK distribution?

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

Yeah. So, in the £250 million that we've identified, that includes quite a lot of work on improving the capabilities of our distribution teams and networks. So, it's not reengineering any of that stuff: it's about making sure that our colleagues in those activities have the right tools to provide the – to service the customers in the way that customers want to be serviced, so whether that's digital face-to-face, over the telephone. This is a changing environment and we need to step-up quite frankly. So, that's part of where the investment is going.

And I think the other opportunity is clearly cross-selling between the two distribution networks. So there will be some investment there in terms of cross-training and identifying the opportunities for selling the traditionally UK products into Europe and vice versa.

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

Barry, on the U.S. DOL, update, and then feedback on the early days of the fee-based product, please.

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

Yeah. Jon, so what happened yesterday was, the Department of Labor filed with the Office of Management and Budget its intent to delay the full applicability of the fiduciary rule which was meant to come in on July 1, 2018 and their intent is apparently to delay it until July 1, 2019, so an 18-month delay. Candidly, a longer delay than we had anticipated, which I think is cause for encouragement, and here's why.

If you listen to the commentary that we've heard recently from both the Secretary of Labor, Acosta, as well as the new Chairman of the SEC, Jay Clayton, both have indicated a desire to harmonize the definition of a fiduciary, what that means for investors, ensure that the investors with both qualified and non-qualified assets are getting the same sort of advice from advisors who are performing to the same standard regardless of the type of asset.

I think one of the problems with the outcome we had with the Obama rule as conceived was that it lacked that harmonization that the SEC, who plays an extremely important role in this space, was, to a degree, kind of locked out of the deliberations around that rule change. And so, you ended up with a very unharmonious rule. What this will allow is for us to get to the best possible endgame really, which is to have a unified approach, unified rule, and correct some of the issues which resulted from the lack of the SEC's involvement in the previous rule, principally around enforcement.

The Department of Labor went with the trial bars (53:31), the enforcement mechanism, because they lack, within the Department of Labor, any enforcement capability. SEC obviously has well-established, highly effective, and productive enforcement capability. So if you can join the two together, ideally, in our view, have the SEC act as the enforcement mechanism. That ends up being a very positive outcome for the industry, but more importantly, a very positive outcome for consumers as well.

With respect to the fee-based business, actually in a market – and Mike would know this better than I – in a market where change is adopted very slowly, it's actually getting real traction. And these products are very new. And so the numbers, as we sit here today aren't yet meaningful, but the trajectory of those numbers looks like a moon shot and that's incredibly encouraging.

And as Mike pointed out on his slides, and I think this is something that I'll hope you'll ponder, we've talked about the fee-based opportunity not just being sort of a better, more transparent consumer approach, but also being an opportunity for us and for the industry to present these products – or to have these products sold by a whole new universe of advisors that – who operate exclusively on a fee basis and therefore had been unwilling to sell guarantee products.

The fact that 25% of the people, in our case, that are selling these products are completely new to us, come from these RIA or Wirehouse fee-based platforms. I think is proof of our concept about where these products will go, and is a very encouraging development for us.

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

Okay. And Nic, Asia, Hong Kong, please, update on the markets there.

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

You're right. There are a number of moving parts. I mean, I guess the focus in Hong Kong is no different to the approach that we adopt across the region. But really, we're focused on generational value, not the top-line growth. Generational value measured by reference to NBP and that to some of the other metrics now.

On a headline level, top-line level, yes, our sales were down in Hong Kong, 7%. That was largely driven by the – our conscious decision to de-emphasize broker. Broker contributed around 20% of sales last year. In Hong Kong, it was down to just over 3% this time round. A number of reasons why we did that; not least, brokers tend to sell predominantly savings-based products, PAR type products and predominantly to Mainland Chinese customers. Strategically, we want Hong Kong to do more in the health and protection space and therefore, de-emphasizing that was consistent with our approach.

I guess the decision also had something to do where they had a risk-control angle given the very safe capital control measures, and candidly we – rather, we prefer to redirect and direct our resources to the distribution channels that we control – that we control more closely. So ex-broker, Hong Kong, was up 12%. Positive contribution both from agency and from bancassurance, both of them grew and in fact the number of cases that we wrote in Hong Kong was much bigger than the 12% uplift, high-teens.

So, that was one of the reasons. The other thing that's happening, as I said a second ago, that more focus on health and protection. You see the health and protection content of our sales in Hong Kong increasing. This time last year, it was 19%. In the first half of 2017, it was up to 23%. In fact, in the second quarter, it rose to 24%, and that was part of the reason why you see a very healthy increase in the margin coming from our Hong Kong business from 62% a year ago to 77% this year. In fact, in Q2, it was in the 80s.

So, strong health and protection content which is why the new business profit from agency and bancassurance is rising in the way that was illustrated in the slide earlier. So, lots of moving parts, but kind of net-net, you have Hong Kong rising – increasing its contribution in terms of increasing the new business profit, up by 15%, retaining a lot of the business that was written in the past, which is why the IFRS profitability, which is again driven by health and protection, increasing by 44%

In terms of the various developments over the years, really, they have muted but not eliminated the demand that Mainland Chinese customers have in Hong Kong, for all the reasons that we've rehearsed previously. In terms of the restrictions on how they pay for these premiums, all that's happened is that those have migrated into other channels. And therefore, that's not really – the restrictions that have been imposed are not having an impact on the way people pay. We've said that before. 80% of our customers have local bank accounts. In fact, 70% of our Mainland Chinese customers also have locally-issued credit cards. So, you can see that they've been able to accommodate that change relatively seamlessly.

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

Thanks, Nic.

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

Let's go to Oliver here, please.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Another couple of questions for Nic. So, the – if I look at sales in Asia, I think actually health and protection sales are up 19%, and I think you said unit-linked were up 18%. So, actually, there have – there doesn't seem to have been that much of a shift in terms of the focus from unit-linked to health and protection. And then, when I look at the net flows, unit-linked net flows have almost dropped to zero. That's not quite at 1%. Net inflows for health and protection has improved. So I'm just wondering, particularly on the unit-linked side sort of how happy you are that those flows should be sort of dropping to such low levels. Is that something you're looking to increase again, or is that just a function of the changing focus in Hong Kong?

Second question on Asia. Outside Hong Kong, I mean, great sales and new business profit increase, but the margin seems to have dropped ex-China. So, what's happening there?

And then finally, a little question for Barry. The sales progression you've seen this year in VA - I mean, given that you've now got a delay, a further delay in the DOL implementation, is - should we just sort of assume that this sort of directional - the current trends we're seeing in the first half can continue over the second half over the next 12 months?

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

So, Nic, can you go first?

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Okay. So, in terms of the product shift - or mixing that we've seen, you're right, most of what's happened is we've seen business move out of PAR and, to a degree, some into unit-linked, although a lot of that is India-driven and a lot going into H&P. I think, really, what's happening there, an element is more emphasis on H&P across the piece. And on our part, this is a conscious strategic pivot. But the rest is really to do with preferences. Yes, I'd like to do kind of more unit-linked business where we can, but at the end of the day you have to sell what the consumer wants to buy.

In relation to - on flows, typically, what you - we've had a very strong increase in equity markets across Asia. We saw that at the back end of 2016, you also - that continued into 2017. Typically, what you find when equity markets are performing well is there's an element of profit-taking by unit-linked customers. That tends to take the form of partial withdrawals. So, we've seen an increase in those pretty much as we saw back in 2014.

Outside that, flows remain strong. And particularly, on the health and protection, we are holding on to the business that we're writing. Generally, retention is strong across the portfolio and it will vary country by country. But the annualized retention rate is in the mid-90s. So, that's what caused that particular effect.

As for kind of the margin composition, look, we, at the half year - I mean, you can ultimately segment this in however many ways you want. It is a function of geography. It is a function of distribution channels. It is a function of what products we're selling. You've seen a big uptick in the amount of sales that are coming through bank channels. I think that is a positive. Clearly, the economics there are slightly different and (1:03:05) coming through agency and that is what is distorting the outside China, outside Hong Kong position.

But the very interesting thing on the banca is that a lot of our big businesses that are writing a lot of bancassurance type sales, a lot of that business is moving to regular premium business. And that's kind of a positive effect. So you get some downward drift, because it's banca, but then some upward drifts within banca because a lot of it is moving to regular premium. So, there's a number of moving parts. But at 56%, really, the margin is – across the portfolio, is the best that we posted at a half year stage.

When you take the NBP and you express the strain as a percentage of NBP, again, you see that that ratio of 25-and-change percent is one of the best that we've delivered, which is really testament to, A) Being focused in the right products and having a lot of capital discipline to back that.

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

And Barry, the sales projection given you have an extension on the country (1:04:08).

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

Yeah. So, for all the reasons I've said earlier on (1:04:12), I mean this is – it's an encouraging sign around this rule, but it is still a delay and we're now – actually almost two years from now, we will find out exactly what the final rule is and how it will be implemented. So, there is still some uncertainty and that – so that's unhelpful. But I do think that the distributors of these products will take encouragement from the length of the delay, from the rhetoric coming from both SEC and Department of Labor. So, we're hopeful that things will start freeing up. We are hopeful though – I think some of the potential for improvement in sales results over the next couple of years will come from the, hopefully, rapid adoption of the fee-based product, which I also alluded to earlier.

You have some major distributors, Merrill Lynch as an example, who, with the partial applicability that came in on June 9, they ended all commission sales and focused entirely on fee. That's incredibly disruptive to their platform, but ultimately will be a positive thing. So, I wouldn't expect some big spring-back. I think the trends that you saw in the first half of the year will broadly continue, but hopefully with some improvement coming in subsequent quarters.

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

Oliver, I think the other dynamic is, if you're running distribution or compliance at one of the major firms, this is a longer period for you not to have an answer for your advisors. So I think you'll see more developed interim positions emerge – and they were thinking it's a few months left. But, again, it's early days. And we're together in November. We'll give you direct feedback on what we're hearing from all of our key accounts.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Let's go, Greig, please.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Good morning, everyone. Greig Paterson, KBW. Three quick questions. One is, I was wondering why we haven't any – some more movement on the CMI tables, moving those and increasing the longevity reinsurance. Is there some kind of restriction there or something that's preventing you doing more movement within that regard?

The second thing is – I know you're talking generically health and protection – I was wondering, I mean, what percent are you probably in, some in your – at least what percentage of your target sales now from health and protection, I was wondering what you can move – how far you can move the dial there? I mean, can we take another 10 points on that or was that unrealistic or are we in some kind of threshold?

And the third question – and this is just on the back of – there's been a fair bit of press speculation around breaking up the Group. You could comment on that, but I'd also be interested in your thoughts. Are there any structural reasons, maybe the UK or for the States or Solvency in Asia or whatever that would prevent, in your mind, a break-up of the Group?

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

CMI tables, John?

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

So, we're still using 14 (1:07:12) as you know. There's sort of no issue. There's no underlying reason why we are not changing to the updated tables, Greig. We take a long hard look at this – I mean, we've talked about it on and off over the years. We have a lot of detail that we review. In part, we use the tables, but we also do a lot of our own analysis. We don't want that to be going up and down. This may be a trend that's here to stay. We'll see and we'll be cautious, and we will remain cautious on it.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Longevity in terms of (1:07:55)...

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

Much the same, really. It's just the same – it's the same with a flip (1:08:01).

Q - Greig N. Paterson {BIO 6587493 <GO>}

Health and protection?

A - Mark FitzPatrick {BIO 20178326 <GO>}

So, as a proportion of our sales, it's around 27%. There's a slide somewhere in the appendix that covers that, Greig. I think there's a lot of more we can do. We've been pretty much across the piece. In some markets, kind of Indonesia, the health and protection component of what we sell is around 74% and in other markets is less than 10%. There is a huge protection gap across Asia, and there's a lot of initiatives to effectively get – working with regulators, if you like, and finance ministries to find ways of closing that including the way we distribute the product, how we effectively tackle those that are outside the banking-type network.

There's a massive morbidity-type gap as well, and part of what I want to do as we move forward is how we grow - broaden our participation into the wider health space and a lot of initiatives that are happening there within the business. And there's a lot of ancillary services that we can provide around just purely a critical illness or sort of medical payments.

As to expressing that as a percentage on the total, candidly, it will depend by how fast the rest grows. But in absolute terms, the potential is significant and that's an area that we put even more emphasis as we go forward.

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

And then switching to the - your structural question, Greig, and sort of (1:09:45) two, the - there are no - there are absolutely synergies within the Group, let's be clear, and they make us efficient and effective.

That said, we have always said that optionality is something we can manage, and we do. I think the biggest source of it is excellent performance, and there's an element of the - we could stand up here today and show you each of these companies providing industry-leading returns in their segment and things that gives us the best possible options. The combination clearly has produced a good outcome. The currency diversification clearly has produced a good outcome. And we report to you primarily in constant exchange rates, but it's - we're not trying to take credit for FX, but you see, we pay dividend in Pounds and the FX is real.

And so, there's clearly a value to our geographic footprint and diversification risk and political risk and a variety of other things that come from it. But structurally, to directly answer your question, the interlinkages are valuable, but as we get bigger, manageable.

A - Mark FitzPatrick {BIO 20178326 <GO>}

We go to Arjan then. Thanks.

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

Thank you. Arjan van Veen, UBS. Two questions if I may. Firstly, on M&G, you've had on the Institutional side the first three quarters of last year very good outflows, inflows in the fourth quarter, and then continue as strongly this year, and then record Retail inflows. Can you give a bit more color as to where it's coming from? Also within Retail, where there's a margin differential, what's coming in? I think (1:11:31) performance is good as well.

Second question for Nic on Asia. China, again, performing strongly. I think it was up at 58%. The second half last year, we saw a doubling of the margin from 20% to the 40s and that's sustained in this half. So, just bit of an update in terms of where it's tracking in terms of agents, cities you are going into, and the trajectory there? Thank you.

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

Anne, the first question.

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

I'll kick off on M&G. I think the – starting perhaps with the Institutional side, Institutional assets by their nature tend to be quite lumpy in terms if when they come in and go out. And when you roll back 12 months ago, we lost one particularly quite large lump of asset. But actually the underlying trend in Institutional has been quite steadily positive for some time. And you can see that over the longer-term numbers, which I think is really encouraging.

I think what I would also say on the Institutional side is our pipeline of awarded or committed but not yet invested remains really robust, which is again quite encouraging even to cater on that. So, on that side of things, a mixture, largely real estate infrastructure and fixed income of different varieties, but quite a nice spread on that.

On the Retail side, we think of the wholesale side, and what's been really encouraging, the biggest driver of that has been the Continental European flows. We've seen a steadying of the UK, which has been a tougher market in the open-ended fund business, but that has steadied now over the last couple of quarters: very, very strongly positive flows from the European side.

And what's really encouraging with that is it's across a range of strategies. So, our traditional homeland of, I think like optional income on this fixed-income strategies, but also really encouraging, we've had some fantastic results with just some of the multi-asset – range of multi-asset products as well. So, it's a nice spread. Floating rate product as well has been doing really, really well, again, (1:13:35) more uncertainty in the home (1:13:37) market. So, I think net-net, it's been the breadth which has been the most encouraging for us as a business overall.

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

Asia, Nic – and China?

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Well, on China, I mean – thank you for the question. I mean, I think China is a great story for us. And it's really a story of expanding our footprint and improving the quality of what we are doing. So let me say a little about both.

So, in China, we are now in 15 provinces out of the 31 provinces in the country and 72 cities. That actually gives us access to around 76% of the GDP of the country and around 940 million of population. So, a very, very big footprint.

We've been growing at a rate of around six Tier 1/Tier 2 cities a year since 2005. We've commenced trading in Anhui province in 2016 and we've received approval earlier in this year to go in – to open a branch in Sichuan. With 82 million people, it's the fourth-largest province in terms of population.

So, today, we're present in all 10 of – the top 10 provinces that have the highest premium income ranking in China. And we have a very well-balanced business. Unlike a number of our competitors, Agency is about 55% of our distribution, Bank, 35%, and then other, means the balance, and well-balanced in terms of product set. So, health and protection is around 35% of the mix. Power is around 49%, and then with kind of unit-linked, and non-power for the rest.

More importantly, when we're talking about quality, it's the rate at which we're growing the regular premium business, which is up 57% and it's 93% of the APE mix, which is considerably higher than what we're seeing on average in that market, which is in the low-50s. We're growing our Agency force at pace (1:15:42). Recruitment has been stepped up, 43%, so we are hiring 2,500 agents per month. The Agency force is just over 34,000. It's up nearly a third compared to this time last year. And the total APE that is coming through agencies is rising at 65% with a very, very strong health and protection content.

Bancassurance is also growing the discipline. Again, there is a very high content of regular premium business in bancassurance running at around 83%. It's growing even faster than Agency in the first half as we increase, if you like, the number of active outlets that we're using in the country.

So, it's great progress and we have kind of great prospects, not least when you consider that the CIRC has set the target for the industry, penetration target of 4% by 2020. Penetration target today is 2.3%. Now, were we to achieve that alongside – were the sector to achieve that by 2020, this would create a size of a life and savings industry in China that is equivalent to the one that you have in the U.S. today.

So, the prospects are significant, but we need to continue to grow with discipline, with quality. And, really, the interesting discovery for me in the last three weeks was actually how modern this business is. It has one of the most efficient ecosystems across our portfolio of businesses: 100% of the business that is written today goes – is effectively auto-processed. It takes 30 minutes to issue a policy in China, which is much faster than in many of our other operations. 69% is auto-underwritten. 50% of our claims are paid on WeChat and 50% of agency queries are dealt with a chat box. So, a lot of innovation taking place in that particular market alongside what's happening elsewhere in our businesses.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Let's go Andy here.

Q - Andy Hughes {BIO 15036395 <GO>}

Thanks very much. Andy Hughes, Macquarie. Do you know, after your comment, Mike, about II (1:18:00) and targets, (1:18:02) for the Investor Relations team anymore.

So, quick question on the UK. So, PruFund is now £30 billion. Can you split that between accrued bonuses at the year-end and now and just tell us how much is in the earnings from PruFund? And also, on the UK, I can see there's a UDX (1:18:20) of £12 billion now. So, I was just wondering whether your from the state is (1:18:24) or the actual state level. Presumably it's grown quite a lot.

And maybe make a request on the UK as well. So, PruFund's $30 billion is bigger than the annuity (1:18:33) business, almost as big as unit-linked, but yet it's mixed in with the With-Profit business. So, it'd be quite good to see that separated out in the future.

And then, on the merger between M&G and UK, I think, quite culturally, they're different businesses. So again, much of your people at M&G probably get paid more money than those in the Pru UK and do very different jobs. So, the rationale for that you say is from a cultural standpoint. Is that going to work? And the second point is, are you saying that you can use the M&G brand to sell insurance around Europe? Is that one of the ideas that you came up with? Thanks.

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

Well, a host of questions there. Thanks for that, Andy. So, taking the first ones first. I don't have that breakdown and I don't think – I'm looking at my colleagues in the room. We'll have to come back to you on those stats and the breakout of PruFund.

I guess the question around the merger, M&G, culture, on all of that good stuff and relative remuneration structures and so on is something that we will – apart from the remuneration structures, probably talk about in more detail when we do the investor presentations in November. I think both Mike and Mark made the point that we intend to come back to everybody when we do the investor show in November with more detail around what the objectives are, how we intend to do it, who's going to do it, and what some of the digital enablers will be and that sort of stuff. So, if you don't mind, I'll just reserve it for them rather than doing any sneak preview.

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

Okay. I think it's fair, Andy, to say that we are very clear we do not want to disrupt any relationships that Institutional/Retail clients have with the current people are doing business with, people that run the funds, people that research. This is not a combination of two fund management companies where you have two of everything. So, we don't have some of the structural challenges. Are there different cultures? Of course. Part of the success at M&G is respecting the independence of the fund managers and everyone. John has been Group Chief Investment Director, he's worked at M&G, has been on the board. Anne's clearly maintaining her current role, and then some.

So, we're very aware of protecting what got us here with the team we have and making sure (01:21:10) last night after the close of the market. And I think they – no one wants change, all right, let's start with that. But they understand the upside, the access to more assets, better service, better technology, they see the overlap. I mean, these are all fund professionals like you, so they know what's going on in the marketplace.

So, I think, we – it would be our – it would be an own goal if we messed that up. We don't – there is no intend to do that, there is no intend to disrupt any client relationships.

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

And Mike, if I may, can I just add...

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

Please, Anne.

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

...one very small thing to that, which is if the guys and the girls (01:21:43) have been working together for 18, 19 years.

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

Yeah.

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

So it's not that is a bunch of strangers. I mean, we've been working on the PruFund as a classic example all this time. So, I think it's not the same as two external businesses; it's really not.

Q - Andy Hughes {BIO 15036395 <GO>}

(01:21:59) get roughly where this base is currently, just to come back on that bit?

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

Yeah, in terms of the state, £8.6 billion in terms of the 30th of June, and that's a slight increase of the year-end position of £8.4 billion.

Q - Andy Hughes {BIO 15036395 <GO>}

Any idea what's too big?

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

Not today.

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

At this stage, no.

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Can I go – Andy at the back, Andy two?

Q - Andrew Sinclair {BIO 17749036 <GO>}

Hi. This is Andy Sinclair from BofA Merrill Lynch. Three questions as usual. Firstly on the de-risking of the annuities business. I just wonder if you could give us an update on both the ability and desire of the with-profits fund maybe to take a portion of that annuities business?

Secondly on Indonesia, just wondered, Nic, if you could give us a quick update on how things are looking there, a fraction of (01:23:00) for the second half and beyond. And, finally, apologies if I missed this earlier again on Asia, on Hong Kong, just wondered if you could give us a split on Mainland China versus domestic Hong Kong business? Thanks.

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

Okay. So, John, you want to comment on using with-profits to de-risk the back book?

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

Yeah. So, there are obviously a range of internal options that we're looking at with regards to the annuity book. One of them is clearly the with-profit fund. There are, as you would imagine, a number of governance issues around that, so it's something that we are in the process of but there's nothing to report. But is it an option? It could be. I think that's all I'd say on the with-profits, Mike.

Q - Andrew Sinclair {BIO 17749036 <GO>}

And then, Nic, if you would, please, on Indonesia and Hong Kong?

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Let me just do the Hong Kong one kind of first. So, in terms of the half year-on-half year, the local business was up 13% and the Mainland China business was down 16%. But clearly, that's the – the broker channel was a big contributor of that. If you exclude broker and you take agency and bancassurance together, the local business was up 22% and the Mainland China business was up 7%.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks.

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Okay? So, again, there's a number of distortions that are coming through given how significant, if you like, the broker component was. Now, so in Indonesia, just to give you an update, really, so, we continue to focus on quality, kind of building out our distribution reach and maintaining agency discipline, expanding kind of the product proposition, and increasing the automation into the business. So, just a few points on each.

So, on the distribution side, we continue to recruit at pace%. We've recruited, on average, around 6,000 agents every month. This year, the size of the agency force is now 270,000, up 14%. So, we are broadening it, and the productivity of the active agencies is increasing as well. So, that's positive.

In terms of product development, we've launched a kind of a new product in the market at the beginning of the year. It's an as-charged product. It effectively covers a broader – the coverage is broader, and it allows access to the hospitalization outside Indonesia.

But what it does do, as people claim against that, then we're able to tweak the premium almost real-time. So, that's an interesting innovation, and that's getting quite a lot of traction. That's around 14% of our sales in the first half of the year.

In terms of automation, a bit like I was explaining elsewhere in our businesses, we've accelerated the rate at which we onboard agents. It used to take us 50-odd days, that's now down to 5, so there's a 90% improvement in the turnaround time. We are improving the speed with which we have to underwrite. That's up to 53% in June this year compared in the 40s last year. And positive delivery, it's not quite at Chinese levels of 30 minutes, but it's down from 17 days to 5 days. So, there is a lot of, if you like, improvement under the bonnet.

Now, sales momentum, which I think was your question, you're right, our sales were up 1% at the half year. They were 3% up in 2Q. And June was a record June, which was encouraging to see not least because Ramadan fell in June this year compared to in June this year.

Looked at sequentially, the sales in the second quarter were up 15% on the sales in the first quarter. And when you drill down and we look at some of the production as we do of the individual GA offices, the really interesting thing is 156 of those are growing in the first half of this year. That's about – they produce around 55% of the APE. In full year 2016, only 39 were growing, and that produced 10% of the APE.

So, some of the things are working. Banker is getting traction, up 20% with a double-digit growth in both our main relationships. And Syariah, which is the (01:27:50) business, which is a story that is developing interestingly in Indonesia in the same way it's developing in Malaysia, that's up 10%.

So, there are – in terms of outlook, we said before, we're not managing the business for the short term. Our view on the attractiveness of this market has not changed when you consider that there's only £18 million in-force policies in Indonesia out of population of 260 million, really the opportunity is still there. And we have a first-class team and a very first-class CEO in Jens Reisch and a business footprint that has 339 sales office in 169 cities. So, I think we are extremely well-positioned for when the uptick comes, and it will.

A - Mark FitzPatrick {BIO 20178326 <GO>}

We'll go with Nick, please, there (01:28:44).

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes with Soc Gén. A couple of questions on the U.S., if I may. The first, looking at the longer-term strategic direction of your business, clearly, very conspicuous is the wave of IPOs that we have at the moment. Now, I just wondered if you could say anything about whether there might be circumstances in the future that would encourage you to follow suit and refocus the group away from the U.S.?

The second is a little bit easier to answer, perhaps, which is on the products that you're selling in the U.S. at the moment. I wondered if you could explain, I didn't quite understand your wish to get away from spread products, but you are selling more wholesale, unless I'm missing something. I think the wholesale is a spread product.

And the second question, Barry, is the guarantees on the variable annuities. What sort of guarantee does the market require at the moment in order to get the very good sales that you're getting? Thank you.

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

So, I'll discuss the IPO first, if you don't mind, and then flip to Barry. So, you've seen – if you go back to Voya, Nick, we've seen three firms basically trying to get rid of GMIV books through structural changes. So, you've got Voya which is ING Met's book and now Axis book (1:30:28) coming to market. And standing up here a lot of years and we have debated from our podium to theirs the benefits to consumers and the benefits to shareholders of GMIV versus the guarantee of overall benefit. I think when you look at the cash that come out of those businesses and the cash that's come out of Jackson's earnings, the – I think that we've won that argument candidly.

They're an interesting spot now. I mean, (01:30:55). I think the – given the relative performance of the funds, given the in-the-moneyness and given the guarantees they've written, which are income annuity-based, right, not withdrawal-based, they're effectively now interest rate plays, not equity plays. So, they have switched the level of risk from they had previously to a different dynamic. Now, that may or may not be within the risk appetite. That may be why they're spinning or not spinning. That's for their podium, right, not this one. But we have a very profitable business, very well-hedged, producing a lot of cash flow that fits the group's risk parameters.

I think our biggest challenge in the U.S. long-term is with any moderate success in this fee-based business, measured in basis points, how do we diversify some of that risk away at some point? What is our own risk appetite, forgetting regulatory or otherwise? And is there ever a friction point where you need a certain amount of general accounts to offset your VA guarantees, the liquidity we need, et cetera, for counterparty work? Those are real issues, but they're quite a ways down on the horizon, and there are quite a few parties interested in sharing in that problem if we have that.

I think one of the most interesting things is firms that want to do that aren't interested in hedging it. So, there is a variety of structures you get to, but there is quite a few people who would like the fee stream we have off of the consumers we have and their asset allocations. But, again, we think it's priced correctly. We think it's hedged heavily. And we don't think that's something we'd be willing to give away. That doesn't mean we wouldn't entertain a conversation with someone about future relationships if the business got bigger than our risk appetite.

And on the – do you want to mention on the bulk -excuse me, on the fixed side?

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

You're doing great, no.

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

Sorry. Old habits die hard, guys.

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

I'll come back when you're done, and then...

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

No. You go ahead, please. It's like talking about one of my kids. Please.

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

So, it's not that we don't want to write fixed; it is that in this interest rate environment, I mean, one of the reasons we're so successful is because of the consumer centricity of our products. And we are obviously and should be extremely uncomfortable putting product on the street that we don't really think does a job for consumers. I mean, Mike alluded to how consumers are struggling trying to invest in cash or any interest-sensitive product right now and get a decent return.

We're not manufacturing today a particularly competitive product because we can't see a way to do it that's good for both shareholders and consumers. We'd be very happy to build the general account as Mike said. We can do that in different ways. It would be nice to be growing it a little more organically perhaps. You he referred to the gigs that we've done earlier this year, those are opportunistic. It's tactical. It's not really strategic. When we see an opportunity to do that and we're fortunate we've got a couple of good opportunities this year, we did a reasonable amount of that last year as well. We'll continue to do that, but that's what we would like to see is an environment where we could manufacture more general account business and grow it organically. That would be great.

The question on what guarantee is required in the marketplace in order to drive these great sales organic, it's not really any different in terms of the nature of the guarantee or the pricing of the guarantee. In fact, if you looked at the risk intensity, if you will, the guarantee we're selling today and the price at which we're selling it, it's probably some of the least risky business we've ever written. We're getting a good price for a reasonable guarantee.

What differentiates us massively is the performance of the product from a consumer perspective and that's driven by investment freedom. In terms of full investment freedom, we're really the only major competitor in the marketplace today that offers approaching 150 different fund solutions for a consumer, we'll ask them to choose from many of the those funds and wrap the guarantee around it.

Most of our competitors are still saying, hey, we got 150 funds on the platform, but if you want the guarantee, we're going to narrow you down to a dozen (01:35:25) funds which by definition are going to underperform the market.

So, if you look at the consumer outcome we've been able to produce, we've got 15, 16 funds on the platform – I think that's about the right number – that over the last three years have produced 7% returns each year for consumers. And those are obviously our most popular funds.

Our competitors, I think we have one competitor that has one such fund, no one else has any. That's a massive differentiator. And the advisors, they get that, so they get the consumer centricity of the product.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Okay. Can you go, Abid?

Q - Abid Hussain {BIO 20229932 <GO>}

Hi. It's Abid Hussain from Credit Suisse. Three questions if I can. Firstly on the UK annuity disposals, what criteria would you use in thinking about (01:36:15) disposal? Could you dispose the entire annuity book there, and if so, what would you use the proceeds for?

And secondly, on the merger, could you just provide some more color on the main sources of cost savings and the timeline to deliver that? And separately, are there any capital synergies from the merger result?

And finally, on Malaysia, could you just comment on the foreign ownership limit there and the plans there?

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

Okay. John, do you want to...

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

Yeah.

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

...tell them what price you'll accept for a sale...

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

I knew this would happen. Look, as Mike has explained, we are going through a process of price discovery I suppose you'd call it in terms of the back book. On a spectrum how much, people have asked, will be all of it? Will it be $5 billion, $10 billion and so on? We're in price discovery and when you are doing that and you're selling a liability block, you need to be careful about disclosing what your options are.

And we have internal options and we think we have external options and we're going through a price discovery mechanism right now. Now, if that ends up in us doing a transaction, then it would be in a – first of all, that takes a while. This isn't a five-minute job. You'll have to go through quite a long process and a legal process.

And it will be done I suppose, given all the questions we've had on the subject, in quite a glare, but it's an economic transaction which means that ideally for – as shareholders, we won't be disclosing a lot of our tactics and what we're trying to do, what the competitive environment would be, what we have set the price against, so what's the internal versus external? I'm sure everybody would love to know the answers to those questions, and we won't be giving them because it just gives us competitive disadvantage quite clearly. So, if I can leave that question.

In terms of what we will do with the proceeds, I'll be giving it to Mike.

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

So, I think if there are any proceeds, if that's in fact – keeping the ifs in front of all this, we'd look at it in the context of other capital we create. I think Mark highlighted again that just this year level of capital generation the group has now with this level of capital velocity, is a key dynamic in that. And you know our view on dividends, it's based on earnings and the earnings are growing. And we'll earn it, stress it, and pay it. And if we have excess capital and we can't find something that produces the kind of returns they're getting for you, then we have no issue on distributing it.

Okay. But this is not – what I want to make clear – and the earlier points is firms have done this to create cash to pay dividend. We don't need to do this to pay cash to pay dividend, and we're not doing it with that goal in mind. It's more of a cost of capital, make the business more capital light if, in fact, we like the transaction. So, it's a very clear trade-off of do you like the earnings or do you like the price, and we're not there yet even to comment. But as far as proceeds, we'd roll it up into our other capital and look at it in the same context we would any other source.

Malaysia; Nic?

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

On share ownership, I mean, can't really provide an update at this time. Share ownership is a fact of life in a number of the countries in which we operate in, in Asia, Malaysia specifically. Yeah. We have a very successful business, long-established business, and our priorities as we move forward from here are unchanged in the sense of focusing on capturing the great growth that is available to us in the market and creating value for shareholders. But kind of beyond that, really there's nothing to say at this stage.

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

And you asked actually two questions we didn't get to. So on a merger, the cost synergies are over a three- or four-year period of time. And again, this is much more about revenue synergies and more efficient investment, I think of it in those terms. The cost synergies, we try to get as soon as we can. But at the end of the day, they're probably in the first three years, the majority. I think that's the same statement every CEO that's ever talked about cost synergies has ever said.

But that – there is an element of we want these numbers to be grounded and good execution with good buy-in and not disrupt any business or any relationship we have. So, we're not in a hurry to do this. As you've seen, these businesses are both succeeding right now. So, we're not looking to disrupt that, but this isn't a race in a way.

And as far as the capital synergies, modest. The local rules about insurers and asset managers and ownership, you won't see a reduction in regulated entities. There is – we've got to follow the local rules to the letter. And so, there M&G generously pays out its earnings, and we expect that behavior to continue. And so there isn't a material capital synergy as much as there is capability synergies.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Lance?

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

Thanks. It's Lance Burbidge from Autonomous; couple of questions. Firstly on – this for Barry on Jackson, the dividend was pretty high, obviously it must have pleased Mike. Is there anything you can say on the NAIC? And I guess this is an indication that you're not in the slightest bit worried about it.

And I think you've kind of answered this already in terms of the competition on the VA space. Are you seeing anyone warming up to actually coming back in to the market other than I suppose Lincoln who have already made some moves? And then a very quick one on Korea, given what's going on, could you update on the sale process?

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

On – yeah, the dividend was large, wasn't it?

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

I didn't think it was particularly large but...

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

That's meant to be the full-year dividend, so I think it's...

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

We'll talk.

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

Yeah. I'll just move on to the next question, how about that? Yeah, let me take Korea, that's easy. Now, the NAIC, I wouldn't say that we're absolutely not worried about in the slightest. But because we're staying very closely in touch with the leadership in NAIC, with whom we have very good relationships, and we're monitoring the situation.

I'm not sure the story has changed a lot since last time we discussed this, Lance. It's still - all of the work is being done (01:43:28) very low-level, committees. A lot of the actual commissioners don't get have a lot of line of sight because it's just kind of grunt work right now.

We remain hopeful based upon the conversations we're having at a senior level that this will end up in the right place. Chad is the one that's kind of front and center monitoring this. I don't know if you want to any color to it, Chad?

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

Sure. I mean, as Barry said, we still have a long ways to go on this. It does look like timelines are extending at the moment. I think everyone has got a lot of work they still need to get through. So, I mean, the earliest date I've heard, whatever comes out of it is likely to be 2019 or later, and that's assuming it's sales right through, that it's a reasonable outcome and there is no back and forth once we get out of the junior committees. So, it's progressing. But, yeah, again, not a lot of clarity yet in terms of - they're still doing a lot of testing under various pieces (01:44:36) until we know.

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

So, Lance, we're not concerned about - the work so far has pluses and minuses. Clearly, we'd like to influence it to be something that's just more pluses for the industry. It'd still be interesting to see if they can get any elements of market consistency into a U.S. regulatory framework. I would say I'm skeptical on that.

Still not sure I understand the 98 divided by - minus 70 divided by 4 logic. There's pieces of this that the industry can do a better job, there's no question, but it feels like there is a lot of input and a lot of work. And we're participating in it at a very senior level. Korea.

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Well, Korea, completed on the 17th of May. So, this is the sale of the life business in Korea. Yeah. It was in our first quarter trading statement and the proceeds are safely sitting in an account in Hong Kong.

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

Do you want me – let me – he had one other question that we missed. One other dimension on, is anyone – are new competitors emerging in the VA space? Lots of fee-based product been introduced, almost everybody. All the usual suspects have introduced fee-based products so everybody is sort of making the same bet that that's the direction of the market. No one – no hypercompetitive behavior, like we've seen in the past with someone, increasing the more lucrative terms around the guarantees and lowering the prices.

AIG is very much in the marketplace, Lincoln, Transamerica, PAC, all of the usual suspects. No one though becoming particularly vocal about wanting to write tons and tons. So, we're all kind of moving in tandem. Sorry.

A - Mark FitzPatrick {BIO 20178326 <GO>}

We'll do one more. Alan?

Q - Alan Devlin {BIO 5936254 <GO>}

Thank you. Alan Devlin from Barclays. Just a couple of questions. Back in your Capital Markets Day in November, you mentioned India was (01:46:43) just to operate. One of your peers recently has changed his view on India and getting more optimistic. I wonder what your view in the Indian market is?

And then just more generally, obviously Asia has been a stellar performer for Prudential, but wonder if, Nic, any comments on any different strategies or emphasis on new geographies or distribution of products in Asia? Thanks.

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

Yeah, to be clear, we are very pleased with what we have in India. It's very difficult to go to (01:47:15) the market leader in India just given the national champion competitive element there. It's one of our most advanced businesses technology-wise. We have a great partner and their executions have been outstanding.

It is a higher volume, lower margin business was our only, I think, public criticism of it, and I think a degree of that's still true, you are seeing some material changes on product mix. You want to comment on what's...

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Yeah. I mean, I think, clearly, the valuation that the JV is trading at is quite an impressive one, with nearly 3.7 times EEV, which kind of values our stake at around £1.9 billion. So, we're pleased with that. I mean, it's – look, the – our ICICI and the Pru JV is doing phenomenally well. Again, in the savings space, there are – I mean, clearly, a balanced distribution, which is good to see in terms of agency and bancassurance. They're looking to broaden that, I haven't got a lot of details on that. And the other thing is they are some tentative moves in terms of trying to make some difference in the health space, with some interesting products that have just been launched.

So, there, we're competing against P&C that have both – that have structural advantages, both in terms of the tax breaks that they get and the ability to get some (01:48:47) P&C-type products. So in the market, the business is doing well, but it remains in the context of PCA, one of the lower margin businesses compared to – because of the low H&P content.

Q - Alan Devlin {BIO 5936254 <GO>}

In Asia, what's your – you want to go to...

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

I mean, look, in terms of (01:49:10), it's clearly a tough act to follow, yes, definitely. I'm standing really on the shoulders of John and Barry. So look, I've spent the last three weeks, but even before that, traveling around the region, it's early days of being in Singapore three times, the Hong Kong business twice, China, twice. I've been to Malaysia, I've been to the Philippines, Vietnam, Indonesia and the rest to come. Met the four major regulators, our two major partners and spent five days with the top 160 agents across our business footprint.

Everything that I have seen really reinforces what I've believed and the positive view that I've had both on the opportunity, and we talked a little about that earlier, but also our ability to capture it. And that ability to capture it is driven by the capability set that we have across the region. Strong, very strong performance, culture, and a healthy bias towards growth, absolute focus on product innovation and on increasing the productivity of our distribution and, really, multiple programs to digitize the front-end of our business and ultimately the back-end. And we can talk more about that in November.

The priorities really are not new. I work with Mike and the rest of the GEC to establish their priorities in the role that I had previously, which including supporting Mike in strategy formulation. And really, the areas of focus are what Mike talked about back in March. It's about how do we enhance our core operations, be it in terms of product and distribution and segmentation of that, be it in terms of owning additional services that we surround those products with, and how do we demonstrate the benefit of scale in country and across the region on the operations and the IT side.

It's about broadening the participation in health and protection, not only in the protection, but the medical end. It's about building out Eastspring. We haven't talked a lot about that, but there are huge opportunities on the asset management side and a lot more we can do, and it's about accelerating China.

So, all of that ultimately enabled – I want to make sure that it's enabled by an appropriate IT, appropriate technology, appropriate capabilities. I think we have a lot of good capabilities, but we can build those out further. And an operating model that is fit for purpose as we kind of move forward in ways of working. So, that's the initial assessment but the – really impressed by the focus on value delivery, which is underpinned by very robust in-force book on the one end and new business coming in has been complementing that.

Growth levers. So, many growth levers and really whether it's products, country, asset management and life, and lot of headroom to move forward from here. And I guess we'll get an opportunity to give you even more glimpses of that in November.

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

So, with that, thank you very much for your time today. Hopefully, you've got your questions answered. If not, we'll be around for a few minutes after and I appreciate the time and support. Thank you.

Operator

Ladies and gentlemen, that does conclude today's call. Thank you for joining and enjoy the rest of your day.