NAIC conference, San Diego, 26 Aug 2016

Brexit – A real financial shock?

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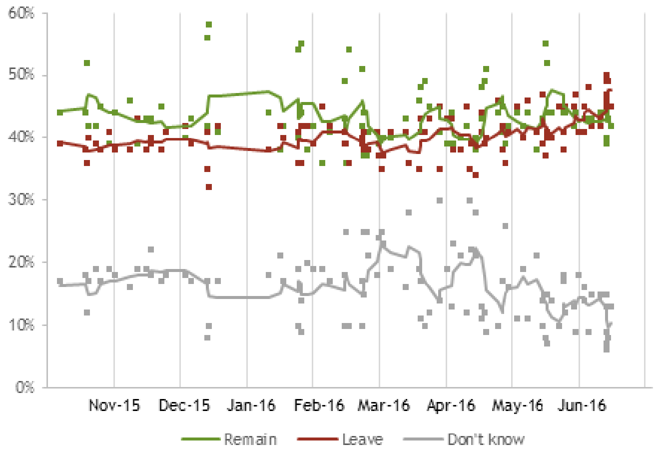
Brexit impacts
The outcome of the referendum was largely unexpected

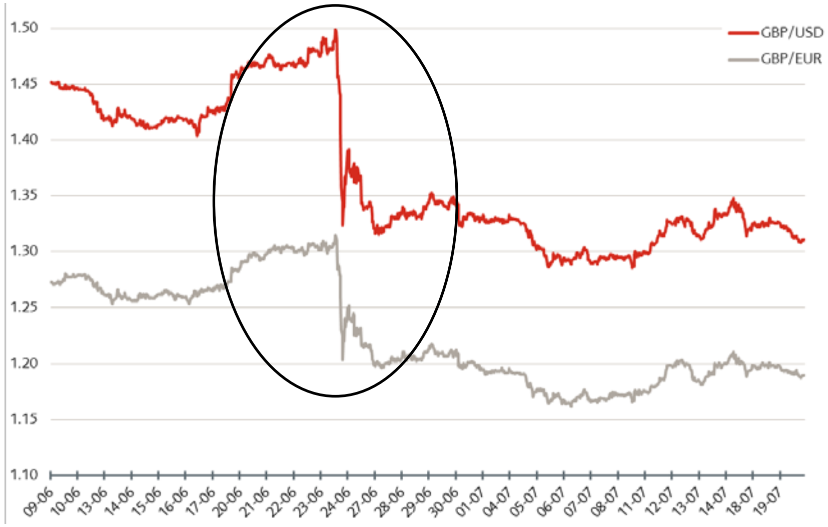
Polling data was too-close-to-call; however, 'remain' was most likely until close to the referendum



Note: the lines show a rolling average of the six most recent polls

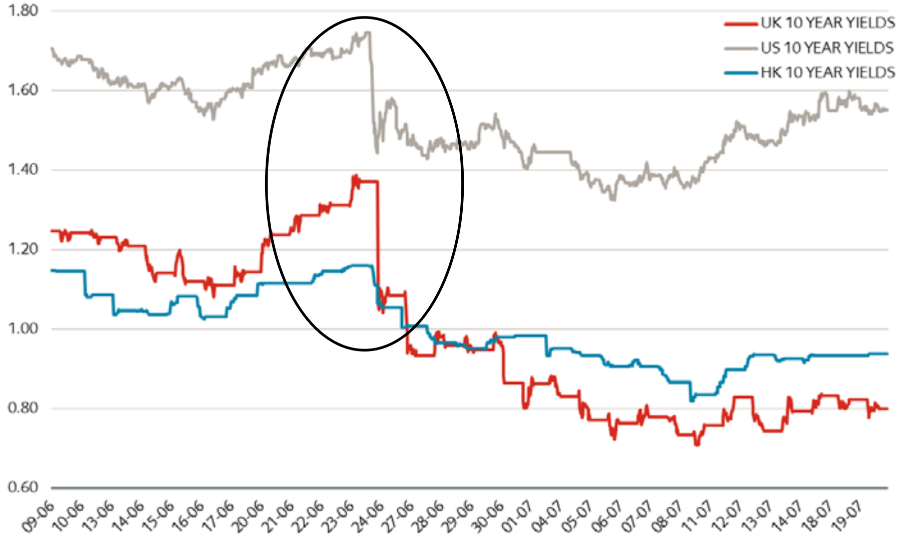
Source: Yougov, IPSOS-Mori, Comres, Survation, ICM, BMG Research

Sterling fell sharply on the day after the referendum



Despite the initial shock UK large cap equities recovered

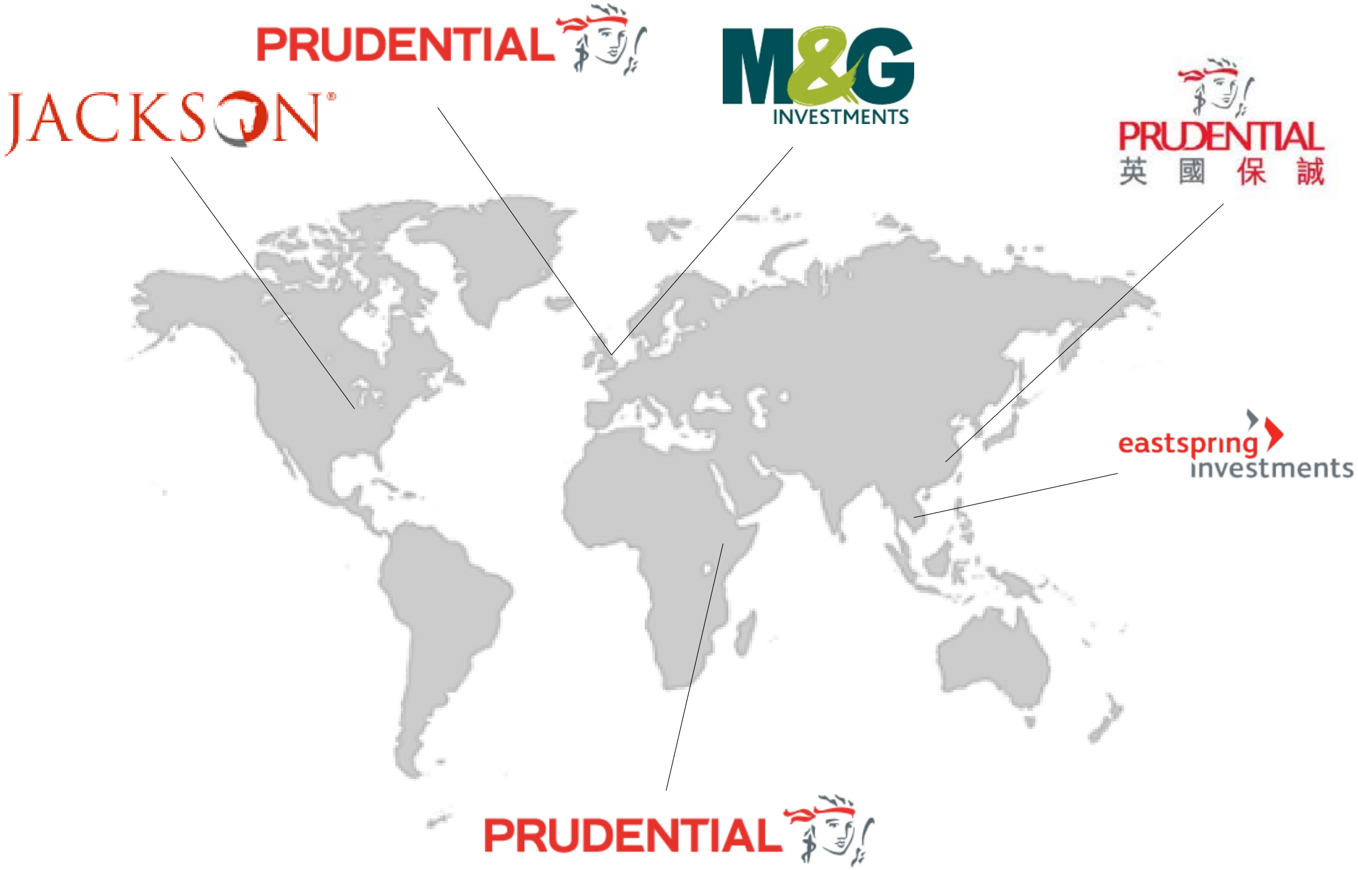
UK 10-yr yields reached an all-time low, other yields also



Background
The structure of Prudential

Well-diversified business

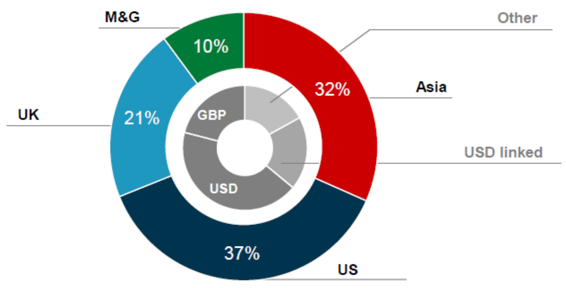
- US: Jackson National
- UK: Prudential UK and M&G
- Asia: Prudential Corporation Asia (PCA) and Eastspring Investments
- Africa: Prudential Africa



Strong half year 2016 results

- IFRS operating profit: **£2,059m** (+6%)[1]
- Solvency II surplus: **£9.1bn** (175%)
- Free surplus generation[2]: **£1,609m** (+10%)[1]

IFRS profit by business & currency[3]



1 – Growth rates based on CER
2 – Underlying free surplus generation
3 – Source: HY16 results presentation. Based on HY16. Business breakdown: total operating profit excluding other income and expenditure. Currency: includes long-term, asset management business and other business. USD linked: includes Hong Kong, Vietnam, Malaysia and Singapore. For operating profit UK sterling includes amounts in respect of central operations as well as UK insurance operations and M&G.

The Group and UK domiciled businesses prepared for a 'leave' vote

- Although the vote outcome was uncertain the Group and UK domiciled operations began planning for a leave vote.
- Consequently, the business took a number of mitigation actions prior to the referendum:

PRUDENTIAL GROUP

- Coordinated Brexit dialogues with key senior Risk personnel in Group and business units and produced relevant briefings. Worked with regulators, trade associations and business groups preparing for both scenarios
- Ensured that sufficient collateral was available to manage hedges and liquidity under stress scenarios.

PRUDENTIAL UK

- UK Brexit incident group convened.
- Brexit related analyses conducted, including scenario testing.
- Monitoring of operational indicators (e.g. resource implications).
- Active management of hedges to extend contracts post referendum.
- Plan for communication with key stakeholders (customers, advisers and partners).

M&G INVESTMENTS

- Brexit incident group established.
- Stress testing of funds and follow-up discussions about potential mitigating actions..
- Contingency plans prepared.

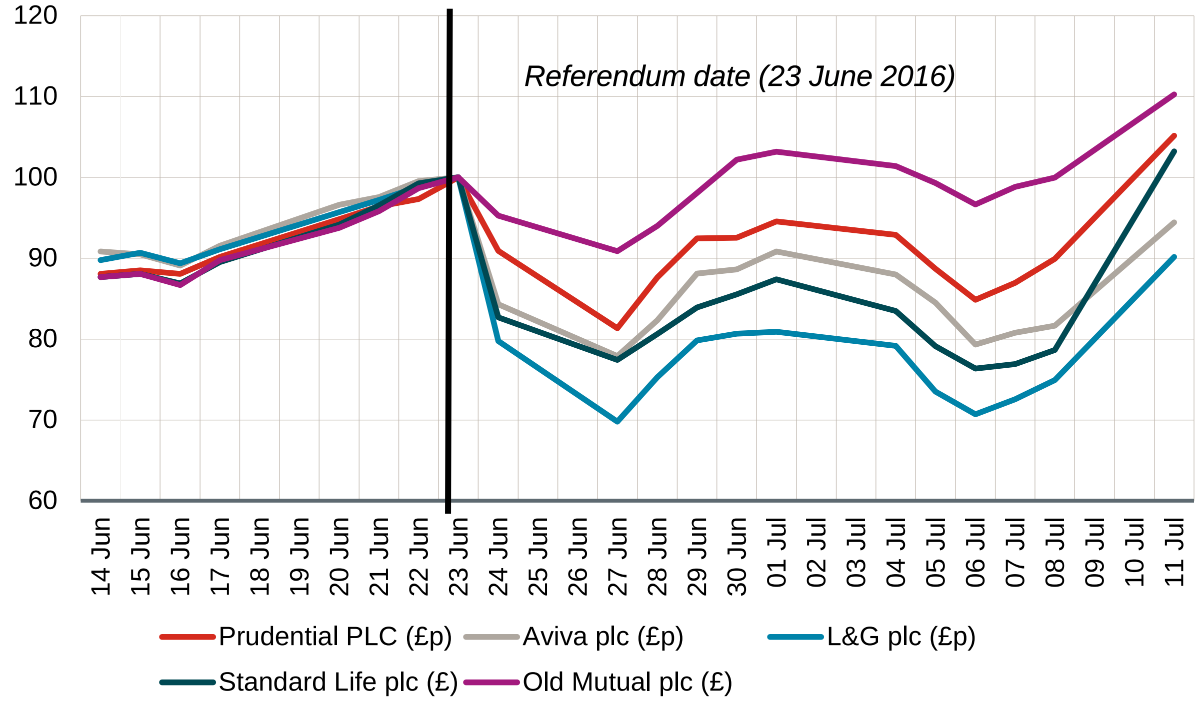
Market shocks were generally less than stress scenarios; however, some parameters were close (e.g. FX movements).

Successful pro-active risk management
The Group remained resilient in a stressed environment

Competitive edge	• The Group's diversified structure helped Prudential to remain resilient during and after the market shocks.
Capital	• Following our successful preparation the Group remained within appetite despite increased market volatility and falling interest rates.
Liquidity	• Group liquidity remains strong. • In line with peers, redemptions from the M&G Property Portfolio fund, invested primarily in UK commercial property, were temporarily suspended.
Management actions	• M&G contingency planning relating to the expansion of EU domiciled offices. • Management actions in Prudential UK implemented to mitigate the impacts of market volatility on the business.
Follow-up analyses	• Discussion forums continued and joint post-referendum analyses were produced by Group functions.

Competitive advantage
Share price volatility post-referendum

Prudential's share price movements reflect the Group's resilience



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At the Group level, the immediate impact of Brexit will not be material.

Mike Wells, CEO, Prudential plc

We're not short of opportunities.

Nigel Wilson, CEO, Legal & General

... people still need to retire, to protect their homes, protect their loved ones.

Andy Briggs, CEO, Aviva UK Life

- Prudential has limited continental European business and its share price was less impacted on referendum results day compared to UK peers.
- UK insurers generally recovered post-Brexit, many of the H1 2016 results beat expectations and most peers increased their dividends.
- No big Solvency II shocks, Prudential's Solvency II coverage ratio is among the strongest in UK at H1 2016.

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Political uncertainty
The uncertainty is expected to persist over the short term

23 June 2016: the day of the referendum
- The 'leave' vote wins by a 52% - 48% margin.

Results are released the day following the referendum (24 June 2016)
- David Cameron resigns and the search for a new PM begins.

Theresa May becomes PM, a Brexit government is in place (13 July 2016)
- "Brexit means Brexit": although significant uncertainty remains regarding the timing and the potential outcome of the exit negotiations, the new UK government led by Theresa May is committed to exit the EU.
- However, Scottish voters predominantly voted to remain and Scotland may initiate a new independence referendum.

Article 50 and the negotiation process (unknown)
- Triggering Article 50 to launch the two year negotiation, may not happen imminently to allow time for the new government to work out its negotiating position – while EU leaders expressed their preference for an early exit. The presidential election in France and the federal election in Germany next year may also influence the negotiation process.
- Once Article 50 is triggered a two-year negotiation will start. Until the formal point of exit the UK is expected to lose influence. The EU27 are expected to not want the exit process to be easy for the UK to avoid increasing Euroscepticism in the continent.

Going forward...

The medium to long term impacts of Brexit on the UK and Prudential are unknown

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Brexit Scenarios

A range of potential Brexit scenarios could materialise

The actual outcome is likely going to be somewhere between the 'Little change' and 'Heavy disruption' scenarios.

	No change	Little change	Heavy disruption
How	• Further referendum called before or after the two year negotiation which results in the UK remaining in the EU.	• Negotiations resulting in market for services and labour remaining open (EEA-type membership). • Some political concessions around immigration.	• Negotiations fail, and UK gets hit hard by Germany and France. • No free movement of goods, services and labour.
Probability	Highly unlikely	Unknown	Unknown
Implications	• The UK's position in the EU may change slightly but the general business and regulatory environment remains similar.	• UK / EU passport remains. • UK still compliant with Solvency II and CRD, etc. – however, less influence on future negotiations and the UK is unlikely to get concessions on negotiations. • PRA have some scope to deviate from SII etc., but in practice will not use it due to concerns on 'equivalence'. • Deviations are more likely to come from the banking side where the political and economic pressure is the greatest.	• No UK/EU passport – potential implications on UK domiciled businesses. • Global banks redomiciling. • UK free to leave the SII regime, but in practice would seek 'equivalence' and hence substantially keep the regime. • Regimes likely to diverge over time, though some convergence is possible through the participation in FSB and Basel. • UK government may move to low tax, light regulation model to attract business instead. • The UK may have to negotiate bilateral trade deals – which will have implications on the country's economic success. • Scotland more likely to leave.

Thank You