Q1 2014 Prudential PLC Interim Management Statement Conference Call

Company Participants

- Barry Stowe, Executive Director Asia
- Jackie Hunt, Director & Chief Executive, UK & Europe
- Mike Wells, Executive Director, Jackson National Life Insurance
- Nic Nicandrou, CFO
- Tidjane Thiam, Group Chief Executive

Other Participants

- Alan Devlin, Analyst
- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Blair Stewart, Analyst
- Farooq Hanif, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst
- Marcus Barnard, Analyst
- Oliver Steel, Analyst

Presentation

Operator

Good morning. Welcome to the Prudential Plc 2014 Q1 IMS analyst and investor conference call. (Operator Instructions) Just to remind you, this conference call is being recorded.

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

Tidjane Thiam {BIO 7518525 <GO>}

Good morning, everyone. I'm joined today by Barry Stowe, Mike Wells, Jackie Hunt. And Nic Nicandrou, our CFO.

Prudential has delivered a strong and broad-based performance in the First Quarter of the year. The Group's new business profits have grown by 29% in the First Quarter, outpacing APE growth of 13%.

The flows that we collect in Asia. And in the US, are received in local currency. Recent months have seen significant fluctuations in the value of a number of currencies in our key markets. So we believe that the best way to look at the underlying performance of our businesses is on a local currency basis, expressed through constant exchange rates. I will, therefore, use that basis throughout for my comments.

On constant exchange rates, the Group's new profits have grown by 44%, while APE grew by 23%.

Let me take you through the highlights for each of our main business units.

In Asia, new business profit, in the first three months of the year, grew by 20% to GBP243 million, while APE grew by 17%, exceeding the GBP0.5 billion level for the first time for the First Quarter, to GBP507 million.

PCA has delivered a strong performance, with many of our local business units, Hong Kong, Singapore, Malaysia, Takaful, Vietnam, Thailand, China and Taiwan achieving double-digit growth, or more. There is a (big) difference of (GDP growth of Thailand).

In the US, we have continued to focus on value over volume. Value, measured by NBP, grew by 67%, as volume, measured by APE, grew by 29% over the First Quarter of 2013.

The continued strong demand for our innovative (annuities) product, the beneficial impact of many pricing and product changes over the years. And of higher interest rates, have all enabled us to write First Quarter VA volumes at margins close to all-time highs.

In the UK, new business profit grew by 90%, reflecting the successful completion of three bulk annuity transactions above our target rate of return.

Our asset management businesses continue to attract positive third-party net flows, with GBP1.4 billion in inflows into M&G. And GBP1.1 billion of inflows into Eastspring.

So the highlights of our First Quarter are; Asia NBP up 20%; US NBP up 67%; UK NBP of 90%; positive M&G net flows of GBP1.4 billion; and positive Eastspring net flows of GBP1.1 billion.

So let us now take a closer look at each of our four businesses. And starting with Asia.

We made a strong start to the year in the region, with our sweet spot markets delivering APE growth of 18%. And NBP growth of 22%. Our leading distribution platform is, as usual, core to this performance and, in the First Quarter, both our agency and bank channels continued to demonstrate strong momentum.

In the agency channel, new business profit in our sweet spot markets grew by 25%. This performance was mainly led by an increase in case sizes, reflecting the rising wealth of middle class in the region. And a higher number of cases for active agents. And a comparatively larger active sales force.

In the banking channel, new business profit from our sweet spot markets grew at a double-digit rate. In that context, the European (Standard Chartered) are delivering strong growth, complementing the well-known strengths of our longstanding relationship with SCB.

Our focus on selling regular premium products, which are an excellent vehicle for long-term savings. And the scale and diversity of our regional platform, have enabled us to deliver a strong performance, in spite of all the well-rehearsed concerns about emerging markets.

First, regular premium sales, the foundation of our growth in the region, grew by 20% in our sweet spot markets. As I have indicated before, these regular premiums, which account for over 90% of our APE sales, are preferred by customers, to access our affordable long-term savings and protection products.

The demand for these products from the Asian middle class has historically proven to be resilient across the market and economic cycles.

Second, our regional sales grew by 17%, with seven of our local business units delivering double-digit volume growth. As you know, Indonesia has endured, in the quarter, a number of natural disasters. First, a volcano eruption which, of course, affected sales in the first two months of the year as our agents simply could not move around, let alone sell insurance.

The strong regional performance in the quarter, where our largest business unit could only operate normally for one-third of the time, for me, illustrates the power and resilience of our diversified platform. It also augers well for the future, as we have already seen Indonesian sales recover in March.

I would like to make a few more specific comments about, in succession, Hong Kong, Singapore, Indonesia, Thailand and China.

The Hong Kong business continues to deliver an outstanding performance, with APE sales up 27%, as it benefits of the growing wealth and prosperity of our customers, particularly from Mainland China. But also elsewhere in the region.

Our agency channel, in particular, is experiencing good momentum, with strong increases in both recruitment and productivity, complementing well our bancassurance distribution.

Moving on to Singapore, our twin-channel approach is delivering strong results, with APE up 18%, with both channels delivering double-digit growth.

Rising productivity in the agency channel, up (23%) in the First Quarter. And a (21%) increase in APE from our rapidly-growing bancassurance relationship with UOB, were significant contributors to our First Quarter performance.

So Hong Kong and Singapore, often, we believe wrongly, described as mature, have together delivered a 23% increase in APE in the First Quarter. We believe in the long-term prospects of these two markets. And for different reasons.

Hong Kong is an attractive destination for the middle class of Mainland China, adding further to momentum of the local market. And Singapore is a fast-growing, particularly well-managed economy, that attracts a significant portion of the high net worth individuals in the region, in addition to its own quite wealthy population.

Our strong positions in both the agency and bank channels remain central to our capturing the growing opportunity in these two markets.

In Indonesia, as we mentioned earlier, we experienced the disruption in the first two months of the year, due to the recurrence of prolonged and severe flooding in Jakarta. And a volcanic eruption in East Java, which hampered our agent ability to move and to sell during this period. As a consequence, APE for the First Quarter is flat over the same period last year.

It is worth noting that, outside Jakarta and the disturbed areas, growth continued to be healthy throughout the period, indicating that the fundamentals of that market are intact. Importantly, our business was already back to normal in March at a country level, with the agency channel delivering growth of 19% year over year.

Our agency recruitment, retention. And activity indicators in Indonesia continue to remain robust. The low insurance penetration levels. And a fast-growing middle class with rising wealth, underpin the potential for long-term potential profitable growth in this market.

Our execution, the quality of our execution, remains second to none, with a world class platform. And one of the most professional and best-trained sales forces in the country. Therefore, we are confident of delivering continued growth from Indonesia in the months and years to come.

Moving into Thailand. First-quarter APE sales from Thailand were up 2.7 times over last year to GBP25 million, mainly led by a strong performance from Thanachart, which contributed 52% of the total APE. This performance very much validates last year's transaction with Thanachart. Our relationship with them is rapidly transforming the scale of the business in the second largest Southeast Asian economy.

In less than a year, Thanachart has become our fourth largest bancassurance partner in Asia. Our strategy of targeting bancassurance in this market. And establishing an exclusive strategic long-term relationship with the right local partner, is starting to deliver positive returns for shareholders.

Lastly, in China, we continue to see rapid growth, with APE volumes up 46%, led by continued growth across all channels.

So in summary, in Asia our businesses have delivered strong performance on a local currency basis, which is a correct metric to measure their long-term value creation potential.

Our scale positions in our chosen sweet spot markets, the growing demand for savings and protection products from rapidly growing and wealthier. But mostly uninsured middle class. And our ability to execute and adequately fulfill these needs, positions us well to deliver sustainable long-term profitable growth from the region.

Moving on to US. New business profits in the US grew by 67%, well ahead of the 29% growth in sales volume, reflecting our value over volume focus.

Overall VA sales were ($6.4 billion), 40% higher year over year, including Elite Access premiums of ($1.1 billion), which were 36% higher than the prior period. The continued success of Elite Access has helped us diversify further our product mix, with non-guaranteed VA sales now accounting for 30% of our total VA sales, 2percentage points higher than last year when it was 28%.

As we flagged at the full-year results presentation, we are experiencing very favorable conditions to write variable annuity business as a result of one, the positive impact of pricing and product initiatives taken in 2013 and before; and two, the tailwind from higher long-term interest rates.

And secondly, the current (amount of) variable annuity with guarantees is one of the most profitable we have ever written, with new business margins on these products being close to all-time highs.

That said, our philosophy vis-a-vis VA sales remains unchanged. We set our annual (target) taking into account the need to balance our book across vintages, current economic and market conditions, as well as the behavior of our competitors. Therefore, we do not expect to continue to write guaranteed VAs at the current run rate for the whole of this year.

New business is important. But so is the in-force, as always. Our in-force book continues to perform well, with more than 99% of our VA book having been issued below current S&P levels. We remain well hedged into (retail). And policyholder behavior is tracking in line with our expectations.

Our capital position in Jackson remains strong. And we continue to focus on delivering earnings and cash by maintaining a disciplined approach to new business. And rigorous management of our in-force book.

So let's move now to the UK. In our UK life business, new business profit in the First Quarter grew by 90% to GBP91 million, with APE sales up 28% over the same period.

In the First Quarter, we successfully completed three bulk annuity transactions, which contributed GBP70 million (sic; see press release, "GBP73 million") of APE. And GBP50 million of new business profit. We continue to be disciplined in this market. And we will only write this business if it meets our strict internal capital return parameters.

In our retail business, new business profit fell by (15%), mainly reflecting lower annuity and corporate pension sales, which was only partially offset by growth in bond volumes.

Retail annuity sales specifically fell 35% year over year, reflecting general market conditions. And customers choosing to defer retirement.

The UK Government announced, as you all know, significant changes to pensions and investments in the annual budget last month. Amongst these changes, removal of compulsory annuitisation by 2015 in particular, could lead to a significant reduction in consumer demand for annuities, going forward.

We expect the impact of this change to be entirely and completely manageable for the Group, as annuity new business contributed only between 3% and 4% of our Group IFRS operating profits. However, these changes have also made ISAs and drawdown products more attractive for consumers, providing them with an alternative option to an annuity.

We are, therefore, strengthening our product propositions; we are expanding our drawdown product range; and we are extending our with-profits (product) proposition by offering these products under an ISA wrapper. And we are improving accessibility to our popular on and offshore bonds by launching these products on third-party platforms.

Over the last five years, our focused approach has seen capital allocated to new business in the UK fall to one-10th of that spent in 2008. In 2013, we stood at GBP29 million, 5% of the Group's total new business spend, writing new business in the UK, compared to GBP293 million in 2008, equivalent then to 37% of total Group new business spend in that year. A little indication of the rigor and rationality of our capital allocation process.

We will remain focused in the UK, like in all our markets, on writing profitable and capital additions. We are committed to working with all stakeholders to ensure a better outcome for our customers. And to deliver stable earnings and cash to our shareholders.

So moving now finally to asset management. M&G had a solid quarter, with net retail inflows of GBP1.3 billion (sic; see press release, "GBP1.4 billion"), led by GBP1.6 billion inflows from Continental Europe, offsetting outflows in the UK. The success of M&G's diversification strategy has led to funds from Continental European clients growing by 35% year over year, to GBP25.2 billion. And accounting now for 37% of our overall retail funds under management.

Overall strong net inflows. And also favorable market movements, have increased M&G's external funds under management to a record GBP129 billion representing 52% of the total funds under management at the end of the First Quarter.

Eastspring, our rebranded Asian asset management business, has had a promising start to the year. In the First Quarter, third-party inflows were up 21% on a local currency basis, to GBP1.1 billion on the back of key institutional equity mandate wins. As a result, third-party funds under management, at the end of the First Quarter, are up 10% year over year.

Moving on now to the balance sheet; we remain defensively positioned on the asset side of our balance sheet. At the end of March, our IGD surplus was robust at GBP4.1 billion, which is stated after deducting the 2013 interim dividend. And the initial consideration for the new 15-year distribution agreement with Standard Chartered Bank. After all the items, this is equivalent to a cover of 240%, which we consider entirely adequate.

So let me now give you our outlook for the remainder of the year. We have made a positive start to 2014, delivering a strong and broad-based underlying performance across our businesses. The global macroeconomic environment is the most supportive it has been for us over the last four or five years, providing a positive backdrop to our businesses in Asia, the US and the UK.

In Asia, we continue to see good momentum in our sweet spot markets. And this is well supported by the long-term structural fundamentals of a rapidly growing. And wealthier, middle class, who have a growing need to protect and save for themselves and their families.

At the ground level, our businesses are focused on delivering a strong operational performance. We continue to invest in product innovation and in growing a skilled, highly trained. And effective sales force, a key comparative advantage.

We are executing on our plans with financial discipline in order to create value for both our customers and our shareholders. We are well positioned to profitably capture the long-term structural opportunity in this region for many decades to come.

In the US, we are benefiting from our reputation as a company that is able to service the needs of our customers across market cycles. Our disciplined and attractive cycle management approach to new business. And conservative management of the in-force, are delivering both cash and earnings to our shareholders.

In the UK, our focused approach has proven valuable to the Group with the impact of recent changes being entirely manageable, in a Group context. Our team is working hard to deliver products that adequately meet the needs of our customers in a changing landscape, while also producing stable and strong returns for our shareholders.

Our asset management businesses continues to perform well and are attracting robust third-party inflows by delivering strong investment performance to our customers. Our strategy of allocating capital to pursuing our three key opportunities; one, for protection (products) in Asia; two, the traditional US baby-boomers into retirement; and three, the saving retirement needs of the ageing UK population, will continue to deliver long-term sustainable shareholder value.

We look forward to the rest of the year with confidence. And with this, we can now move to the Q&A.

Questions And Answers

Operator

(Operator Instructions) Farooq Hanif, Citigroup.

Q - Farooq Hanif {BIO 4780978 <GO>}

Just two questions, actually. Firstly, given the budget changes, have you developed now further your thinking about some kind of Elite Access or VA proposition in the UK? That's question one.

Question two is, you mentioned the agent productivity, agent growth. And case size as being key drivers of that 20% growth, or double-digit growth. Could you somehow quantify what the contribution of those forces were? Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you for two important points. On the UK budget changes, I think there is a consensus of what's needed is some kind of product that allows people to draw down. And in other countries, it's called the GMWB, minimum withdrawal basis. And to keep so much product to the market over the long term and to be able to pass on their savings to their heirs. So that's the profile of what we need. Whether people call that the VA or something else I think that's a market need. Jackie has been working on all that. So I'll let her elaborate.

A - Jackie Hunt {BIO 16204866 <GO>}

So you're absolutely right. If you look at what's on the product development runway at the moment, it is, in the first instance, ensuring that we have a flexible drawdown product. As you know, we have a capped drawdown product currently available. But we'll expand that into flexible drawdown. We do think that's going to be important as customers come to April next year.

In terms of the more medium term, there is an opportunity, I think, to look at the variable annuity products that we write in Jackson. We obviously have strong skills and competence there. Tidjane's absolutely right that the components that we'd be looking for is both an opportunity for people to underwrite, in part, some of their longevity risk. But also to put a space in the upside as investment markets improve.

Now existing ICA annuity does that. It's less competitive against the flexible drawdown, given some of the GAD changes. But we will look at all of those as potential options around replacing the annuities, individual annuity markets.

A - Tidjane Thiam {BIO 7518525 <GO>}

For your third question, I'll turn to Barry on agent productivity. Actually, I doubt if he'll quantify it for you. But he can give you a sense of what's going on there in terms of productivity growth. Barry?

A - Barry Stowe {BIO 15021253 <GO>}

Well your instincts are correct. We don't publish the very specific statistics on agency productivity by market. We do talk a fair amount about scale. But let me give you some color. And I'll try to answer your question as best I can.

In Hong Kong, as an example, which is market where normally you don't see large increases in scale of an agency force, we've taken the agency force from 5,000 to over 7,000 agents in the course of a couple of years. And we've been doing that during a period when we've also seen increasing active (writing), increasing productivity, on a unit basis per agent, larger case sizes. Some of that is attributable to the Mainland business. But some of that is attributable to, what you would call, indigenous business as well.

In the Philippines, where we have historically been between 1,500 and 2,000 agents over the last couple of years, we've moved through 7,000 agents as well, in spite of the fact that we're growing the scale very rapidly. And during a period like that you would normally not see productivity increases, we have continued to see productivity improvement there as well.

Indonesia, of course, you're probably familiar with, we've continued to grow the scale there. Notwithstanding the complexity that Tidjane described around the natural disasters of biblical proportions in the First Quarter, we did continue with recruitment apace. So we continued to add the number the agents monthly that we've budgeted to add.

Singapore, we saw actually a little bit of increase in scale there. But, more importantly again, productivity improvement. So you look at all of this, look at the 17% growth rate across the region. And you can attribute not half of the growth rate. But a material proportion of the growth rate, actually to productivity improvement, as opposed to just absolute increases in sales.

A - Tidjane Thiam {BIO 7518525 <GO>}

If I might just add a few points to that. What make it very complex and why we are reluctant to give it, as such at the regional level, it stops being meaningful. Because you're mixing some really small sales force highly productive in Singapore, as Barry has described, with very nascent markets where you have a high turnover and low individual productivity. When you aggregate that at the Asia level it's just numbers and it doesn't really mean anything.

And the other complexity, as Barry described, that you have a virtuous circle here. The more people you recruit. So everything contributes, the more you recruit, the more people you'll be able to recruit in the future, if you know what I mean. Because the faster you get experienced agents. And the more sales agents you have, the more people you can recruit and supervise and train.

So the model that Barry and his team run is a mix of all that. Because you recruit more; they become senior faster. You can then recruit even more, then the opportunity per person goes up even more. So when you're trying to unpick all that it's a bit artificial. The reality is, it's what Barry said, you need quality recruitment and you need to recruit a lot of people. And you need to train them well. And after that, the rest will follow.

They'll sell more and more cases. They'll sell higher and higher case sizes. And you'll have more and more higher earner proportion of active agents. But trying to micromanage that numbers it won't help you.

Q - Farooq Hanif {BIO 4780978 <GO>}

That's a very full answer. Thanks very much.

Operator

Blair Stewart, Bank of America.

Q - Blair Stewart {BIO 4191309 <GO>}

I've got three questions; the first one for Mike. We've seen from some of the US companies some adverse mortality trends. I just wondered if Jackson's seen that as well and, if so, what impact, if any, has it had on your business? I know your business mix at Jackson is different from some of the US companies that have had these mortality adverse experiences. But I'd be interested to see if you've seen that as well.

Secondly, coming back to the UK, the UK market does seem to be moving to more of an asset management type model if the annuity market is going to be affected. I just wonder, without your own platform, how do you steer customer assets onto M&G funds? And you seem to be suggesting that you're limiting yourself to a with-profit strategy on third-party platforms; I'm just interested in further comment around that.

And thirdly just for Barry, what's driving the Mainland effect in Hong Kong? What proportion of your business is that now? And if possible, you talked about the March pickup in Indonesia; I just wondered how April's gone in Indonesia. Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Blair. And thanks for spreading your questions around. We'll start with Mike.

A - Mike Wells {BIO 4211236 <GO>}

Yes, Blair. Good morning. No. There's nothing particularly interesting in our mortality trends. Again, I didn't listen to all the investor calls of our competitors. But there's nothing that we're concerned about.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Then we'll go to Barry and come back to the platform question. So Barry, do you want to talk about the Mainland effect in Hong Kong and why it's so strong, etc.?

A - Barry Stowe {BIO 15021253 <GO>}

Yes, sure. I'll take your questions in reverse order. You asked about April in Indonesia and I think you're probably not surprised at all; I can tell you the weather is better than it was in the First Quarter. But in terms of giving you any guidance on business, obviously those numbers aren't public. But things are going fine.

In terms of the Mainland effect, a lot of it is just increasingly wealthy, middle class, upper middle class and, obviously, affluent Mainland Chinese who come to Hong Kong or to buy a variety products and services. They have a legitimate standing here. Most of them have investments here; the wealthier ones sometimes own property as well. They come to do retail shopping and they are diversifying their financial holdings by buying insurance products here. Most of it comes through agency. But we see some through bank as well; in fact, an increasing proportion through bank.

They buy lots of power products because it's -- to the extent they want to invest in equity markets. They tend to do that domestically in the Mainland; they come here to diversify, buy something that they perceive as being stable and sure. So a lot of it is power products. For a percentage of it, about one-third of our agency business comes from Mainland customers.

As you know, Blair, we've talked about this before, there's particular procedures you have to follow to ensure that these are compliant sales and we go above and beyond. And the regulator here often points to us as the gold standard of compliance on those Mainland sales. I would expect the trend to continue, even with talk about macro disruptions in China and things slowing down and so forth. There doesn't seem to be any end in sight to this flow of Mainland business.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, Blair. And I think your last question was on platforms and the UK. M&G already does a lot of (third-party) platforms. But I think Jackie was making a slightly different point about the with-profit. Jackie?

A - Jackie Hunt {BIO 16204866 <GO>}

I think that's absolutely right, Tidjane. So I think the point that's being made is really that we've got an incredibly well-regarded proportion in terms of PruFund. At the moment, in terms of distribution the only way you can really access PruFund is, frankly, through the intermediary channel. We see intermediaries moving increasingly on to third-party platforms to make their models more efficient.

And so the point is not restraining access to that. But saying this is an opportunity for us to actually make an existing well-performing product that customers really like and intermediaries like to recommend, more widely available and should be seen as that, not a statement of any other intent.

It's worth highlighting as well, that M&G does all of the asset management, or M&G Eastspring. And there are some allocations to the US business as well for the life company. So these are assets that are going into the asset management cost business.

We do run some open architecture out of Dublin. It's relatively small and our focus is really in the short term around this particular aspect.

A - Tidjane Thiam {BIO 7518525 <GO>}

Because when we see in the market that there is a demand for products, all our research confirms that. And the sales will probably confirm that. So there's no reason why that shouldn't be available on the platforms.

Q - Blair Stewart {BIO 4191309 <GO>}

Very good. Thank you.

Operator

Andrew Crean, Autonomous.

Q - Andrew Crean {BIO 16513202 <GO>}

I also had three questions. Firstly, going back on to the drawdown product, I just wanted to understand, most people are talking about a simple drawdown product. You're suggesting introducing a drawdown product with guarantees. I wanted to see whether that's clear.

Secondly, also in the UK, I wonder whether you could talk about your BPA pipeline because your sales, compared with others, have been quite lumpy.

Then third question, your UK VIF, I think, is about GBP5.1 billion. What proportion of that is relevant pre-2000 business? I think Aviva quoted a number of GBP200 million of its in-force was exposed to this potential FCA review.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Andrew. So we'll let Jackie -- most of it is for you. The drawdown?

A - Jackie Hunt {BIO 16204866 <GO>}

Sure, yes. Andrew, in terms of the drawdown products, at the moment we have a capped drawdown and, in the first instance, we will look to make available a relatively simple drawdown product. I think, in the fullness of time. And by that I mean two, three years out, I can see more complex forms of that in the form of guaranteed-type drawdown, income guarantees associated with those, maybe akin to the Elite Access coming on to the market. Now I think that is really medium term. Short term for us as well, it will be more to the simple end of the product side.

If you step back and say, what is it customers are looking for? I think they are looking for an element of guarantee and I think, if you look at the minimum end, we see the success of the with-profits fund being around the fact that they get smooth returns. You can absolutely see that that will develop into some form of guaranteed return over time. But that's not to say that we need a simple flexible drawdown as well.

BPA pipeline, we've continued to be very disciplined about how we allocate capital. We're not moving at all the return hurdles and, in terms of the pipeline itself, it remains strong. So you look at what we transacted the last quarter of last year, First Quarter of this year, it should be seen in light of what see as an attractive and strong pipeline at our financial hurdle rates.

So for us, this is not a replacement product of any form. We will participate in the market, if it meets our financial criteria and our risk criteria. And we see the outlook as positive. It will be lumpy by its nature, because we see this as a financial transaction in large part.

If the deals are there that are acceptable, from our return perspectives, then we'll do it. I don't want to be driven into writing volume for volume's sake. I think that's the wrong mindset. So you should expect to see it's, hopefully, positive over the course of the year but lumpy again.

Q - Andrew Crean {BIO 16513202 <GO>}

But there's no sense that you've reached your appetite for the year?

A - Tidjane Thiam {BIO 7518525 <GO>}

No.

A - Jackie Hunt {BIO 16204866 <GO>}

No. So as long as it meets both our risk criteria in terms of the nature (originally past) the market, we don't participate in. But if it meets that and it meets our financial returns, we're not capped out in any way.

And on the VIF side, it's still not clear to us what the FCA legacy review, what the scope is going to be. We've had no further contact from the FCA on this particular point. So I think we're trying to second guess what the nature of that review might be. There was more clarity through the form of the business plan. Obviously, a lot more generic in its statements and the way it's been positioned and some of the media speculation. So I think this is something we're just going to have to see how it develops.

We actually think we're very well positioned. So if you look at the majority of our business it's with-profits and annuities. On the with-profit side, there are a lot of existing government structures, as you'd be well aware. but the committee is making sure that there isn't cross-subsidization in terms of that. So I think we are --

A - Tidjane Thiam {BIO 7518525 <GO>}

And that applies to legacy. We apply that to the legacy.

A - Jackie Hunt {BIO 16204866 <GO>}

That's right.

Q - Andrew Crean {BIO 16513202 <GO>}

I suppose the question was more, what proportion of the VIF is on pre-2000 business which doesn't require you to define anything? Just a sense as to how much of your VIF actually comes in that area? I thought maybe GBP1 million or something?

A - Jackie Hunt {BIO 16204866 <GO>}

I wouldn't know offhand, Andrew. We can have a look at it and come to you. But I'm not sure that --

A - Tidjane Thiam {BIO 7518525 <GO>}

We can come back to you offline. But anyway, it's not going to be a huge number but we can give you a precise number offline.

Q - Andrew Crean {BIO 16513202 <GO>}

That would be kind. Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

And if I may, just as a comment on product and product mix, it's really important. The way we run the Group. And I've got all my CEOs with me. So I can say this is under their control, it's a very (fair) process. The hurdle for (bulk) is actually quite high. We put the hurdle almost at the level where we are in default. We're happy to write any product if you wish. So Jackie has to make a very high hurdle and, frankly, if we meet that (I feel we've) got capital almost in infinite quantity. So we're very happy.

So the business you see us write, we are very happy with. That means it meets our hurdle comfortably and is very attractive, as you saw in the NBP, with these three deals this quarter. But deals like that are very hard to predict. They come and go and, as Jackie said, they will be lumpy. We very lucky in the First Quarter, we had three. The pipeline is good. But we cannot predict the outcome of negotiations.

Operator

Oliver Steel, Deutsche Bank.

Q - Oliver Steel {BIO 6068696 <GO>}

I've got three questions. The first is back to Indonesia. You said outside Jakarta you had seen growth; by implication you saw a fall in Jakarta. You also talked about a 19% increase in agency sales in March but, presumably, that includes a bit of a catchup. So I'm just wondering if you can give us a bit more of a guide as to what you think the true effect of the natural disasters were, to give us some sort of guidance as to what we should be thinking about over the rest of the year?

Secondly, a question for Michael, which is very rare, I know. But M&G European retail inflows continue to come in and just wanted to know where you were in your rollout of the European distribution? And what we should be looking for in terms of further rollout of that over the rest of the year or two years, looking forwards?

Then finally, do you happen to have the tax rates you're using for the new business profits?

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Oliver. On Indonesia, Barry, do you want to give more color?

A - Barry Stowe {BIO 15021253 <GO>}

Sure, much of the disruption is due to natural disasters such as flooding. And we continue to see growth outside of Jakarta, where about half of our business comes. But the other half comes in Jakarta and the flooding was quite severe.

To give you a sense of how complicated it was, we had -- every agency in the country does a Monday morning meeting where, essentially, every agent shows up and gets their marching orders for the week. And we had weeks in Jakarta where we were getting 20% of normal turnout. This was quite a severe situation; agents just simply could not move. So that gives you a sense of what was happening.

But as I said, the weather's better, the floods are over and we did have a good March. You're probably right that there was some pent-up demand that came through in March. But in terms of giving you a steer on the future, from the (bearer) side, what I would tell you is that there is a little bit of macro headwind. It's no surprise that the environment has been complicated for the last year with to the volatility in the markets and so forth. We wouldn't pretend that that had no effect on the business.

The presidential election coming up in July, there's a little uncertainty around that. The precursor to that was last month's parliamentary elections, where the candidate that's favored to win the presidential election, his party won but won by a slightly smaller margin than people anticipated. That created a little uncertainty as to what the outcome in the presidential election might be and how definitive that victory might be. So these are all factors that can have an impact on consumer sentiment.

Having said all of that, the great thing about our model, not just in Indonesia but really throughout Asia, is when you have the scale and quality of distribution that we have in the markets, you have a significant ability to power through the turbulence, if you will, that's created by some of this noise in the system.

You see the same thing, candidly, in Thailand, where this week we've seen an increase in the political drama there, with what happened to the prime minister. And nine other ministers being asked to step down. Again, we have elections there in July. And yet the business continues to power on.

So while all this disruption, be it natural or be it political, is real and it can have an impact, we shouldn't ignore that. When you have large-scale, high-quality distribution it gives you an enormous advantage that some competitors just don't have.

A - Tidjane Thiam {BIO 7518525 <GO>}

I think that's a really vital point. I cannot say I'm pleased about the Indonesian floods. But in a way I am, because it illustrates a point we've made many, many times. We are not just operating in Indonesia. Our strategy is much more than that. And you see us growing at 20% NBP with Indonesia floods.

There was a perception developing that it was all about in Indonesia, well, it's not. We have enough headroom, we have enough levers, Barry and his team, that we can absorb those issues.

You've seen in India in 2010; you've seen Korea; you've seen Japan. You've seen country after country; you've seen Malaysia. Country after country have had difficulties. And that's normal. But what you see is that the regional platform's performance remains good.

Question on tax for Nic.

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes, Oliver, the tax rates we've applied are 21% in the UK, 35% in the US, which are standard. And beyond that, Asia averages, it will change quarter by quarter, it averages around 22%/23%. But we've been helpful this time, on page 19 of the announcement, we've broken out the tax rates for the four largest businesses, Hong Kong, Indonesia, Malaysia and Singapore, which is the vast majority of the NBP.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. And you had a question for Michael. Unfortunately, he's not on the call. So I'm going to do Michael. M&G Europe, Oliver, Europe has been very successful. I was in Paris two or three weeks ago. M&G France had an Investor Day and I was there presenting in front of 600 people, (family offices), people like that.

M&G France has gone from (GBP50 million) of AUM to more than (GBP5 billion). It's a great success story and it illustrates what we're doing in Europe. It's really penetrating the market, working with specific segments, we have a lot of private banks and family offices and people like that and generating good fruits.

You know asset management probably better than I do. It's not a business where you want to predict flows. Anything can happen, going forward. So we're very pleased with the success we've had but I don't think, if Michael was on this call, he would give you any sense of expected volumes.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you.

Operator

Greig Paterson, KBW.

Q - Greig Paterson

Final question, actually, on the Standard Chartered deal. I see that, from the IGD, one could sort of work out the upfront costs. I assume you're pre-funded for all three payments; I work it out to be about GBP800 million.

What I was thinking about is, you had (Thanachart), I think your upfront cost was (GBP400 million). Standard Chartered is GBP800 million but Standard Chartered is a much bigger deal. I assume Standard Chartered got better terms under the new deal.

Does that mean that the margins you'll disclose in terms of EV margins on the new Standard Chartered deal, i.e., that there's been more variable costs, given that costs have been shifted to the variable side will be lower than the old Standard Chartered deal or any of the other bancassurance deals? I'm interested in that. That's my first question.

The second one is just on bulk annuities. I was just trying to understand the free surplus generation and IFRS generation, how that might change as your mix shifts from individual to bulk annuities.

Then just as a third question, you've mentioned that your bulk annuities, you're writing them ahead of very attractive hurdle rates. I assume they're above your hurdle rates, because the EV margins have come down under the new deals. I was wondering if there's further margin pressure going to come as you move, say, nearer the hurdle rates, as competition increases. I don't know if you want -- just your thoughts on that.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, Greig, thank you; a lot of questions there. On SCB, you know that we have not disclosed the amount and we said there was no obligation to disclose it. We should give comfort that it was affordable. The central point for us is that it's affordable. We have increased the dividend by 15% and taken into account the totality of the upfront payment, which was spread over three years in the IGD. And the IGD remains extremely strong. That's the point for us.

The other question you have is something we've answered. The terms of SCB have not changed. We made an upfront payment; all of the other commercial terms remain the same. So I see in your paper, you talk about higher commissions and it's not the case. The terms of the deal are identical to the previous deal. I think that's (prudent). So --

A - Nic Nicandrou {BIO 15589153 <GO>}

Well on Thanachart, of course, we bought a back book. So as part of the consideration for the Thanachart deal was the book that we were buying from.

A - Tidjane Thiam {BIO 7518525 <GO>}

And that book is contributing to our IFRS profit in Thailand, from day one. So it's not comparable.

Q - Greig Paterson

Just to confirm that, I can just assume the same sort of EV margins?

A - Tidjane Thiam {BIO 7518525 <GO>}

We told you that the terms were the same on the new SCB deal.

Bulks, FSG, free surplus generation, IFRS, Nic, do you want to take that?

A - Nic Nicandrou {BIO 15589153 <GO>}

Well the only thing I would say to that is -- and you only have to go back to the disclosures we provide at the yearend, on the monetization of the VIF. We have the tables in the release. And we also have a chart in the appendix to the slides. And what you will see is that in excess of mid-90% -- around 95% of all the free surplus that gets generated in the UK is from the in-force book. And that new business, by comparison, has a very small slither.

So the point really I would make there is that we make more money each year, in terms of free surplus. And potentially on IFRS as well, just by focusing on the back book and managing it within assumptions, than we do through all the hard work that the team does, in terms of adding another small (course) of business.

And it's sustainable. Again, we analyze it out for the next 30 years, you'll see that the back book can sustain the free surplus generation of this business at broadly the kind of levels that you've seen us report over the last few years, for a long, long time.

Q - Greig Paterson

How does that -- and on IFRS, what's the new business release on an IFRS basis, (or will that) change?

A - Nic Nicandrou {BIO 15589153 <GO>}

We said that the annuities, the individual annuities. And, of course, this is on the conventional side, that we wrote last year contributed just over GBP100 million of IFRS profit. So it's GBP100 million out of the GBP700-odd-million that you've seen in the UK, which is literally, as Tidjane said earlier, 3% of the Group's total.

Q - Greig Paterson

And does bulks have the same sort of characteristics as individuals?

A - Nic Nicandrou {BIO 15589153 <GO>}

Well we've given the -- by the way, these are pretax numbers, the GBP100 million on IFRS. Every time we do a bulk deal, because we recognize that they're lumpy. And we will only do them on good (returns), we give you the contribution to IFRS. And we give you the contribution to new business profit. So that it helps you with your modeling. And so on and so forth. And your understanding of the sources of earnings. Now, generally, the IFRS profile is not that dissimilar.

A - Tidjane Thiam {BIO 7518525 <GO>}

I wasn't sure what your question on margin was.

Q - Greig Paterson

As I say, if I look at the bulk deals you did, the previous two years they had a higher EV margin than this one. So I just assume both were written above the hurdle rate. But the latter one -- the former one's written higher. I was wondering, as everyone jumps into the bulk market, whether we're going to see margin compression, as you move down, let's say, to the hurdle rate, as opposed to being above it.

A - Nic Nicandrou {BIO 15589153 <GO>}

Greig, margin isn't the way we think about it when we write business; whether it's in bulks, individual, annuities, US, it's return on capital. So when we talk about hurdles that we have in place for return on capital, they are hurdles based on an ICA return on capital. And ICA will then bring in the specific risks that you're taking on a particular deal, be it the assets that you're backing the deal with, or, indeed, the aspects of longevity that you're bringing in.

So each deal is different; sometimes it's backed by different types of assets. And certainly, the longevity that we underwrite through some of these deals, because they're not buyouts, a number of them are buy-ins, in a way. So the risk sharing characteristics are slightly different.

So all that is factored in the denominator, which is based on Pillar 2. And we look to beat the hurdle above our capital requirement. So margin is false, in the sense that it doesn't really capture the riskiness of each deal that you're taking on board.

A - Tidjane Thiam {BIO 7518525 <GO>}

This is central to the way we manage the Group. We completely ignore margins; it's just completely irrelevant in all our internal conversations, because it just doesn't matter. Because between a deal that has a 17-year payback and a margin of X. And a deal that has a five-year payback and a margin of Y, that just gets completely lost.

We look at return on capital and payback, actually. That's also a very important consideration. So the new bulk deals we've signed tend to have a short payback because, I'm going to quote Barry here, you have to eat what you bake. The problem with very long paybacks is that the generation of management that enters in those deals is not there when they materialize. We like to keep people accountable. And that's why we like short paybacks.

So really, bulk deals are written on the basis of return on capital and payback. And we just don't -- the margin quality is (immaterial).

Q - Greig Paterson

Given that the VNB is the center of today's press release, I was just wondering if there's -- I'm just trying to figure out if there's a risk of margin compression, as more people go into bulks, or what you think about that?

A - Tidjane Thiam {BIO 7518525 <GO>}

To us, it doesn't matter, first of all. Again, annuities are 3% of our profit. We are not doing bulks to make up for the loss of annuity profit. We write business when the return on capital is above the cost of capital. And that's that. And when there is bulk, (having that total) we write it. When there is none, we don't. You've seen us, some quarters, writing no bulks.

So in the future, there's absolutely no change in our stance. We will write bulks when they're attractive and generate value. Whether there is compression in the market or not, frankly, to us, it's not very relevant. We look at the bulks individually. Where we can negotiate good terms, we will. And where we cannot, we won't write them.

And actually, it's very important to our ability to negotiate good terms, that we are not on the hook on volume. Because I don't know how you negotiate with a counterparty if they know that you have to do X in bulks in this quarter. (We would be) very happy to have zero.

That's the only way we extract value from those deals, because we can always walk away. There is no pressure on the team to write. And I've paid the team a bonus some years when they wrote zero volume, because I said you've done a good job; okay, your job is to write value creating deal and walk away from value destroying deals. And if that means there's a zero deal, we're very happy to bear the cost of the team. And pay you a bonus. And when there are good deals, write them. So we think that's a healthy way to approach the business.

Q - Greig Paterson

Excellent. Thank you very much.

Operator

Marcus Barnard, Oriel Securities.

Q - Marcus Barnard {BIO 2103471 <GO>}

Firstly, I note you've got about GBP3 billion of capital in your UK books, most of which is backing your annuity business. Presumably, if your annuity sales start to decline in the way I think most people expect, we should expect to see some of that capital being released, over time.

And I realize it's quite -- I don't suggest you quantify that. But I just wondered, do you envisage that you'll leave it there to meet some sort of future drawdown type, guarantee type business, or do you think it will be available to Group?

And I suppose the linked question on this is, given the fantastic conditions you seem to be seeing in the moment, in the US, with your returns on capital and opportunities, is there scope for the Group to allocate more capital to the US. And take advantage of its Group structure?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Marcus. On the reserve, I think, frankly, it's too early to tell. But at this stage, I would say it's mostly about the in-force, the reserve we have on the book, on the (GBP27 billion), the GBP1.9 billion. So I don't see a drastic change there, even given the new announcement, etc. (Some day we may raise) it in the future. But at this stage, that would be my answer.

And annuities were never very capital consumptive the new business. You'll remember that, some years, this trend was even negative. So anyway, we'll revisit (multiple speakers). Sorry?

Q - Marcus Barnard {BIO 2103471 <GO>}

I was thinking more the stock of capital, rather than the commitment of new capital.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. I think the in-force has been (multiple speakers).

A - Nic Nicandrou {BIO 15589153 <GO>}

There is a risk capital that we hold in relation to the annuities business. It will be a different amount, depending on the basis that you look at. The reality is, the average liability duration of this book is, even in discounted terms, near or above 20 years. So I think, yes --

A - Tidjane Thiam {BIO 7518525 <GO>}

In the short term (multiple speakers).

A - Nic Nicandrou {BIO 15589153 <GO>}

In the short term, there is nothing that will be transformational in terms of capital generation from that.

A - Tidjane Thiam {BIO 7518525 <GO>}

On the US, a fair point; the way we do this is if there is a capital constraint it's not linked to returns. It's more -- there's no actual constraint; we're trying to re-diversify by vintage, as we've always explained. There are two caps, or if you wish, daily pressures on the volume of VAs going to write. One is really this will of being diversified by vintage. When you look at this disclosure where we show you how much volume we're written at different levels of S&P, it's a very nice balance across that. And the other one is (readjust) the balance sheet of the Group.

So it's not that we don't have enough capital to write VA, it's that we have to be conscious of the total shape of the balance sheet of the Group and where the risks lie. And that puts another cap on the volume of VAs we're going to write. So if I can give any indication, my view is you're likely to have more volume in H1 than in H2. Maybe a bit of a prediction but really, if you look at the current returns, how much we have already returned, it's very, very attractive.

But Mike has already put a number of changes through end of April, which will have, over the quarters, a moderating impact on sales. And maybe, Mike, you can talk about that.

A - Mike Wells {BIO 4211236 <GO>}

We did a commission reduction in April of 50 basis points and we reduced or suspended some of the more popular death benefits that affect to about 30% of our sales; it doesn't necessarily eliminate it obviously. But it certainly has some impact.

But I think the other thing that -- there's quite a few things driving a successful first half. 2013, in talking to advisors in the last couple of months, really demonstrated how the various product structures with Jackson and its competitors have worked. If you think if you were a consumer and you saw a 32% to 33% equity market and basically flat return on bond funds. And so the conversation with advisors in these meetings now is, our product did what they expected it to do, the equity fund did what they were supposed to do, the bond funds were flat to slightly negative.

And some of these vol controlled funds, some of these other forced allocations to bond things that competitors did over this last part of the cycle, really dampened some of the return for the consumers. And so what you're getting is a bifurcation and did you buy this for accumulation, like a defined contribution plan, or did you buy this for a guaranteed payout, like a defined benefit plan. And you're seeing a real split there in the new product offerings. And from the historic performance, in the way that advisors view the back book.

On the volume control, Tidjane, I guess the key thing is we always like to get the volume before we control it at these margins. So I think a strong first half, due to level of changes we did we had some regulatory filings, we anticipated that the quarter sales. And I think Tidjane's comments are accurate, we'll deal with the -- these changes will have some impact and, as you've seen in the last few years, we have levers to pull to get the sales in at the level we would like as a Group.

A - Tidjane Thiam {BIO 7518525 <GO>}

But again, we love that business; we think it's good returns, short payback, capital efficient, very cash generative. So we're pleased that this is being validated now.

Q - Marcus Barnard {BIO 2103471 <GO>}

Okay. Thank you.

Operator

Alan Devlin, Barclays.

Q - Alan Devlin {BIO 5936254 <GO>}

Actually, just a quick follow-up from the comments Mike made in the last question. You've obviously took advantage of the good margins this quarter, you had a lot of volume in the US. Should we think that margins now maybe have peaked at these levels or, given the changes you've just talked about putting through on commission levels, etc., you could actually see margins improve in the second half. But the volume would be the thing which is dampened?

Then second of all on the Elite Access sales, 30% of your total sales, is that the more natural level now of the non-guaranteed sales we'd think of, or can that still increase? Thanks.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Mike, do you want to take this; can your margins go any higher?

A - Mike Wells {BIO 4211236 <GO>}

Margins are good. These aren't massive changes in margin that we're putting through. But they're not hurting margins, let's put it that way. The EA market is expanding in terms of competitor products. So I don't -- we get this question a lot and I'm not trying to be evasive. What's the absolute level of scale, I had to laugh, an industry consultant got the category, the IOVA, the investment only variable annuities. Okay, I'm pretty sure everyone refers to them as EA clones if you talk to advisors or our competitors.

I think there's two things going on this space; the product did extremely well last year, again, on performance. The ALTs did what they were supposed to do, low correlation equities, low correlation interest rates, good total returns; that's very helpful with our new product concept. As we've told you before, over one-third of the producers Jackson has in that product have never written a VA before. So you're getting into new relationships inside the firms. I think the broker dealers genuinely appreciate that. Certainly, I wouldn't underestimate the dialog right now with US consumers on their income tax rates, federal state in some cases, city or local.

So saving for retirement now in a tax efficient manner is good. The things that concern me, competitors are trying to push this from a very good -- some competitors, not all of them. But from a very good investment proposition. It's a great savings vehicle for retirement, towards some form of guarantees, higher commission, again back to the traditional VA space.

It's too early to tell if those sorts of moves have any impact on the overall market. But I think, if you look at the mutual fund business, the asset management business in the space retail, most of the fund company CEOs I talk to think ALTs are a material part of their business plan, going forward. I would agree with that. And the last ICI research put us, Blackrock and Fidelity as the three top ALT brands in the asset management space. But I think we've got a good spot in that and we intend to defend it.

Q - Alan Devlin {BIO 5936254 <GO>}

Thanks for the answer.

Operator

Andy Hughes, Exane BNP Paribas.

Q - Andy Hughes {BIO 15036395 <GO>}

A couple of questions, if I could do? The first one on VAs as we're talking about that at the moment. Are people still allocating money to the segregated accounts on the VA and, if so, why, given the credit rate is basically the same as the charges that you put through?

And the second question is on Hong Kong; obviously, if I look at the Asian sales ex-Hong Kong. And actually Thailand, it wouldn't look that great. But obviously there's a 35% jump in constant currency sales year on year in Hong Kong. Now when I look at Hong Kong, it looks like it's selling mainly with-profit and protection business and hardly any unit-linked.

So coming back to the domestication and the capital budget you have in Hong Kong, perhaps you could comment on whether you have capacity to continue to grow at this rate within Hong Kong on the power side? And maybe you could update on the mix across Asia of unit-linked protection and with-profit, which you usually update on and I couldn't find it in the press release? Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, no problem. Thank you, Andy. Mike, VA?

A - Mike Wells {BIO 4211236 <GO>}

You're not seeing a materially different allocation in the First Quarter than we showed you at yearend. You're seeing about 70% of funds that are less than that going to equities; the balance going to total return bond funds, also a little bit to the fixed accounts.

I'm not sure your point on the fees; we had our average clients total performance on that portfolio last year was well north of 20%. So I think, relative to the fees that were paid, they saw a lot of value and I think, relative to our competitors, it was materially better performance on the total allocated fund they had with us, regardless of the risk level they took. So I'm extremely pleased with the quality of product to the fees charged. So I hope that answers your question.

Q - Andy Hughes {BIO 15036395 <GO>}

I guess I was trying to make the point that they should be allocating more to equities if they (buy the product).

A - Mike Wells {BIO 4211236 <GO>}

I totally agree. As you know, we've got that product priced at 82% allocation. I wish they'd have done more, as retirees. We have the benefit, corporately of -- we don't have the -- as you know 99% of the book is at equity levels that the guarantees aren't in the money. But from a retiree point of view, they need the performance. And the performance was there for them if they -- the more they would have allocated to equities the more they would have enjoyed last year. And we certainly would have liked to have seen that benefit to everybody, yourself included, assuming you own a share. .

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. On Hong Kong, just a quick comment because you say that without Hong Kong and Thailand numbers wouldn't be great. If you exclude, at any point in time, the fastest growing part of a portfolio I will agree with you that numbers wouldn't be great. But that has been different countries at different point in times. So I really don't think it's fair to say that.

That said, you saw in the domestication that we allocated a proportion of capital to writing new business. You remember, at the time, interest rates were like 0.6% in Hong Kong. So you can image that today that volume of capital allows us to write much more business. That's the first comment.

The second one is that actually the mix changes and (therefore) you're looking at the past returns and you don't have the current mix. Barry can give you more color on that. And we've been making a big push on protection also, Hong Kong, which may not be visible to you.

Barry, do you want to take that?

A - Barry Stowe {BIO 15021253 <GO>}

Sure, that's right, your last comment. We have been making a push for protection in Hong Kong and it's been very successful. The percentage of sales in Hong Kong that are derived from (link) has gone (bad) and there's a couple of factors there. I mentioned earlier, Andy, that the Mainland Chinese customers overwhelmingly prefer power and why they do that is diversification and stability play, versus investments they have in the Mainland. So that drives part of it. And it's not just that, if you look at the whole market link is down.

The other thing that drove that is the requirement that came in last year to disclose commissions on link sales through the bank channel. And in fact, there's no reason why that should actually suppress link sales, because we've been disclosing commission in other markets like Singapore on link sales for a decade and we continue to sell off of link.

But the reaction of some of the multinational banks who have had compliance drama in the last 12 to 18 months and so forth, when they see a regulation like that come in, their instant response is, oh, well, there's a new regulatory requirement around that product, let's stop selling it and let's sell power instead. So you've seen a shift in the bank channel for power as well.

I would expect that, in Hong Kong specifically, to right itself. Then if you look across the region, we continue to sell a lot of link in other markets. Indonesia continues to be virtually 100% linked. In Singapore, we continue to be the leading writer of link and we gained share specifically with respect to link. So I'm still very confident in the future of link as a product; it's just we're getting a little short-term movement in the mix.

Q - Andy Hughes {BIO 15036395 <GO>}

And that will probably a knock-on effect on IFRS profits?

A - Barry Stowe {BIO 15021253 <GO>}

Not necessarily. The upsurge in protection that you're seeing in Hong Kong has a positive impact so no, it doesn't necessarily mean that you have a knock-on effect in profits. No.

A - Tidjane Thiam {BIO 7518525 <GO>}

And this is (popular topic); Barry and I have been talking about this for many years. How can we increase -- his protection sales here has been very successful in the agency channel. And it's not a secret that there is for us an upside in the bank channel. And we've been, for a long time, discussing how we can sell more protection in the bank channel. And he has targeted Hong Kong to do that this year and I think you are doing it very successfully. Part of our thinking behind it is IFRS profit because, if you look at our signature in Hong Kong, it's clear that we could do more in the IFRS profit in Hong Kong. That's one of the things he's been tackling. But I think for IFRS we're on track.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thanks very much.

Operator

Jon Hocking, Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

I've got two questions, please. First one for Jackie. And maybe for Tidjane with your ABI hat on.

I wonder whether you've got any thoughts about where we're going to end up with the at-retirement guidance process in the UK? That's the first question.

Then the second, just on Standard Chartered. I wondered, since you've re-signed the deal, the extent to which you've got new initiatives in markets that maybe you've previously underpenetrated with Standard Chartered and how you're planning on rolling out these initiatives over the coming months when we might start seeing it in sales? Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Jon. I'll let Jackie (answer your question) on guidance and where we're headed.

A - Jackie Hunt {BIO 16204866 <GO>}

Hi, Jon. In terms of the process itself, I think it's becoming increasingly clear the difference between guidance, as it was presented at the budget time, versus advice. It's clearly not going to be full-scale advice that's being discussed. I think it's about the option of a conversation; it's not even face-to-face any more. I did joint a dinner, actually, with many of the UK life CFOs and the FCA last night where we talked a lot about how do we drive this forward. How do we get to a position where people reach the right sort of guidance. And what is the fundamental difference between the guidance that this process is going to give and individually constructed advice process.

I think it's early to say. It can range anywhere from basic financial education. I actually think a lot of the financial education tools are out there to say, these are the factors; you need to consider your tax position, your need for income, your need for capital growth, all those sorts of things, through to something that's a little bit -- that financial education plus.

But I think it remains actually for the industry, alongside the regulators, to help define the way forward, is my sense of where the conversation's at. Tidjane, I don't think if you have anything more from your ABI?

A - Tidjane Thiam {BIO 7518525 <GO>}

No. I agree completely. We already consider that people can get to the right decision, provided they're given advice and people talk about Vas; VAs are very advice-intensive. It's not a secret, in the market people will pay something like 7% commissions because it's a hard sale; it's a complex sale, complex (when you have to) explain a lot of things to people.

So the conundrum here is really how do you, one, make it happen. And how do you fund it? (A kind of RDR) context. So I don't think anybody has answered that yet. I think it's certainly a vital question. At the end of the day, we want people to make the right decisions. There are millions of people here who are making one of the most important financial decisions in their life. So it's difficult. But there is a good dialog going on, on that. So I hope that we will get to a sensible answer.

New initiatives; discussing that with Barry recently. On SCB, do you want to give an update on what are sort of the new things you can do there?

A - Barry Stowe {BIO 15021253 <GO>}

Absolutely. I actually met with senior people, the (CEO, the city crew together) in Hong Kong and we talked about some of this.

There are new initiatives underway to launch new products where -- to the previous question as well from Andy, we're launching new (lift) products in Hong Kong. We got initiatives going on in Singapore around new products as well. You'll recall that the relationship is also, in addition to extending some of the longstanding successful relationships like Hong Kong and Singapore, we're extending into places where we historically did not have an exclusive relationship like Indonesia.

We're weeks or months away from the launch of some new activities in places like Indonesia, in India, where we historically have not had a relationship at all. And teams are working aggressively to get that up and running in the next couple of months. So there's actually quite a lot going on. And I think you'll see measurable impact during the course of 2014.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you.

Operator

We have no further questions at this time. So if I could return the call to you, Mr. Thiam.

A - Tidjane Thiam {BIO 7518525 <GO>}

Right, fantastic. Thank you, Jerry. So thank you all for your patience, your attendance, your questions; it was a real good discussion.

We believe our strategy is clear; it's unchanged and it's working well. As we said, more of the same. In Asia, our leading product and distribution platform leaves us well positioned to capitalize on the long-term structural trends which will drive profitable growth in the region for many years to come. The diversity, scale and resilience of our platform is core to our ability to deliver a consistent and reliable financial performance.

In the US and in the UK, we are focusing on generating cash and earnings for our shareholders. And our asset management businesses are focused on delivering good performance and good returns for our customers.

So we're making good progress towards our 2017 objectives. And we will continue to update you on the same during our half-year results presentation in the summer, hopefully.

The diversity of our Group is a source of strength and enables us to deliver a resilient and sustainable performance, creating long-term shareholder value.

The developments of this First Quarter are good evidence of that strength. Our businesses are in good shape, we have a strong balance sheet and we are executing with discipline, focused on the three clear opportunities we have in Asia, in the US and in the UK, across the three regions.

So thank you for your attention again. And have a good day.

Operator

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