Q4 2015 Earnings Call

Company Participants

- Barry Lee Stowe
- Michael Andrew Wells
- Nicolaos Andreas Nicandrou
- Paul Chad Myers
- Tony Wilkey

Other Participants

- Abid Hussain
- Alan G. Devlin
- Andy Hughes
- Ashik Musaddi
- Blair Stewart
- Farooq Hanif
- Gordon Aitken
- Greig N. Paterson
- Jon M. Hocking
- Lance M. Burbidge
- Oliver George Nigel Steel

MANAGEMENT DISCUSSION SECTION

Michael Andrew Wells {BIO 4211236 <GO>}

Good morning, everybody. Thank you for joining us for our 2015 Results. And we're doing a little different format today. I'm going to give you just a couple of quick comments, turning over to Nic to do the financial overview, and then I'm going to come back to give you context and address some key points about various businesses and some of the challenges we have and some indication where we are heading into 2016.

So, with that, we think the performance was strong and broad-based. Obviously, all of the business units contributing effectively. I think that if you look at the balance sheet, I think it's in great shape, defensive, well capitalized. The operating performance, again, underpinning the shareholder dividend. This was something we talked about in January. We're earning it first. We're stressing it. We're paying it. And you see that, as well, the extraordinary dividends. We got asked this morning on the investor call, the first one since 1970. For those of you that are into Prudential history, so if you would like a context for the last extraordinary dividend.

Yes. Execution, the key to what we're doing. The strategy is holding obviously very well. Opportunity is there, and it's our responsibility to turn that opportunity into tangible results for you. So, we'll have that detailed today. And then, again, our relative position to peers in the marketplace, to potential challengers, et cetera, we think is in very, very good shape.

So, I'm going to turn over to Nic now to give you a granular look at the financials. And then I'm going to come back after and put some color and context around where we are as a business unit.

Nic?

Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Okay. Thank you, Mike, and good morning, everyone. In my presentation, I will firstly run through our full year results and highlight the drivers of our performance for 2015. And then, as usual, I will go on to cover the Group's capital position and the balance sheet.

So, starting with our financial headlines, at the time when companies in many sectors are having to choose between growth or cash, Prudential has been able to deliver both in tandem yet again. All of the Group's key profitability and cash generation measures have improved by 15% or more, making 2015 our most successful year ever.

We achieved it by making the most of our structural advantages in the markets that we operate and by executing with discipline and with focus. The 22% increase in our IFRS profit to £4 billion was broad-based, as Mike said, and is underpinned by a large portfolio of in-force business. To this, we continue to add valuable new business flows, up 20% in NBP terms to over £2.6 billion, and this metric is led by Asia.

Our capital discipline ensured that sales translate to profit and then to cash relatively quickly across all our businesses. The success of this approach generated over £3 billion of free surplus, up 15% year-on-year.

Operating profitably is the first and most important source of capital. Our performance in 2015 has increased our Solvency II surplus to £9.7 billion and has added to our EEV shareholders' capital which was up 11% and is equivalent to £12.58 per share.

Our enhanced financial resources, our resource of strength and resilience and provide additional headroom to weather the effects of the market volatility that we have seen in the early part of this year.

They have also allowed us rather to increase the full year ordinary dividend by 5%, £0.3878 per share and declare a special dividend of £0.10 per share.

Turning to the detailed financials and starting with IFRS operating profit, the Group picture reflects our focus on diversified high quality growth that blends both resilience and stability to our financial performance. Also, business has contributed significantly to our profit with Asia, the U.S. and the UK growing at double-digit rate while M&G maintained its profitability despite the adverse impact of the retail flows that we've seen in the year.

Our IFRS profit growth is predominantly led by insurance margin and fee income with low exposure to rates. These two sources now account for 76% of our income, which represents a healthy evolution in the overall shape of our earnings.

And now, I want to take each business in turn, starting with Asia. Our momentum in the region remained strong with all of our key financial metrics growing between 16% and 28%. Our life operations had a strong finish to the year, achieving record sales in the fourth quarter with December being our best ever month. Our focus on quality delivered a 30% increase in regular premium and new business, which represented 93% of APE. This result was underpinned by the strength and diversity of our distribution where agency sales grew by 29% and were complemented by a 16% increase in sales through our regional partnership with SCB.

Our long established and diverse new business franchise in Asia provides a high level of consistency when aggregated to the regional level. This consistency affords us the flexibility to take value-based decisions, which prioritize future performance over near-term sales headlines. In line with this discipline, we took a deliberate decision in Indonesia to limit sales incentives to prioritize quality in the current soft environment.

In Singapore, we withdrew from Universal Life, which provided poor returns in the current low interest environment and redirected our focus towards health and protection. And this will pay dividends as we move forward. Notwithstanding these deliberate actions, our overall sales increased by 26% with seven countries reporting APE growth of more than 15%.

New business profitability increased at a faster rate of 28%, supported by a strong rise from health and protection, which now accounts for 62% of Asia's NBP. Our health and protection regular premium orientation also underpins the growth in both IFRS operating profit and free surplus generation. Eastspring's contribution here is now meaningful after reporting a 26% increase in profit to £115 million on the back of record flows in the year.

I would like to take a few minutes to explain why we're confident about our earning prospects in Asia. As you know, our life book in the region is predominantly regular premium business. The power of this can only be truly appreciated by looking at the impact that this has over a longer time period. Mike first showed you this slide in January which depicts the growth in the premium base of our Asian businesses over the last 10 years. It concerns both the consistency of our execution and the power of compounding with every year's new regular premiums adding to a growing in-force space which now exceeds £7 billion.

The £2.8 billion added by new business in 2015 will further augment this premium base as we move forward. Therefore, when we look at growth, what matters most is the movement in the total premium stock as this is what drives earnings. We said in January that earnings can sustain a double-digit growth even if new business levels are flat. The part of the chart that covers the 2007 to 2010 period is proof of this. What it shows is that despite the flat sales shown in blue in 2007, 2008 and 2009, in-force premium shown in red rose strongly from £2.1 billion in 2007 to £3.6 billion in 2010.

Now, the benefit of the increasing scale of our in-force premium base is evident in the rising levels of earnings. In 2015, our Asia business generated nearly £1.2 billion of profits from in-force, reflecting the compounding effect that I've just referenced, the regular premium sales, and strong customer retention.

Almost 2/3 of these profits come from our health and protection book, a source that is uncorrelated to investment market. Growth here reflects the consistent addition of new business cohorts each year, underpinned by strong and enduring level of consumer demand, high levels of persistency given the limited social welfare provision in the region, and positive claims experience supported by our ability to re-price when necessary.

Therefore, what we have in Asia is a high-quality earnings base, one that is defensive in times of volatility and one that offers a secured platform for future growth. So, our confidence in the future earnings prospect of our Asian business reflect the powerful contribution from our in-force book which in 2015, as you can see, increased by 14%.

The growing contribution from our health and protection business, which was up 17% to £783 million, and the benefit of operating a diverse portfolio across the region where our most developed businesses are pushing forward the structural advantages and where newer businesses are making more sizeable contributions than before and compounding nicely.

Moving to the U.S., Jackson's results reflect its disciplined value-based approach to managing the business, which has driven growth in earnings and cash. New business APE rose by 3% as we continued to manage the volumes and mix of variable annuities to match our annual risk appetite. Sales of VAs with no living benefits was 33% of the total, reflecting the continued success of Elite Access.

Here, sales levels were slightly lower than last year. But we have seen a positive migration towards non-qualified accounts, which represent 69% of the Elite Access total, up from 66% a year ago. The 9% increase in IFRS profit to £1,702 million reflected the growth in fee income on the separate account assets, which more than offset the decline in spread income. As I have previously flagged, yield compression has reduced spread margin on the fixed annuity book to 241 basis points. And I repeat my guidance that this will trend down over the next couple of years to around 200 basis points.

Capital formation remained strong in 2015, reflecting both Jackson's operating performance and its disciplined approach to managing the market risks in the portfolio. This in turn enabled Jackson to make a sizeable remittance to Group for a second year running.

Fee income on variable annuity business, which grew by 11% in 2015, remains the dominant component of Jackson's earnings. The economics of this growth continue to be very favorable. The business earns 192 basis points in fees and is serviced by a highly cost-effective platform. Growth in fee income is, therefore, directly correlated to the growth in the asset base.

As you can see in the chart on the right, the increase in the separate account assets is primarily driven by the additions of new premiums each year. These continue to exceed outflows creating a positive jaws effect, a feature that will endure for some time. While there is clearly a cyclical nature of this income source, market effects are dampened by the lower beta of our separate account assets and the positive expense leverage of our operation.

Our UK life business continues to build on the appeal of its extended retail offering. Retail APE and NBP both increased by over 30%, driven by the popularity of PruFund, which is available through a wider range of drawdown, pensions, bonds and ISA wrappers. IFRS operating profit increased to £1,195 million driven by an improvement in the life results which is analyzed in the table on the right.

The profit from new annuity business of £123 million is lower than last year's £162 million, reflecting a continued decline in retail sales and lower contribution from bulk. As I said in January, the onerous Solvency II capital requirements with effect of 1 January, 2016, have reduced our appetite for annuity and you should expect to see a very modest contribution to our profit from this line going forward.

The step-up in our UK life results have been driven by a £339 million profit from one-off management actions taken in the second half of 2015 to position our balance sheet more efficiently under Solvency II. These actions included the extension of our longevity reinsurance program, which now covers £8.7 billion of the £31 billion annuity reserves and the impact of various asset switches within the credit portfolio in order to optimize the matching adjustment benefit. I do not anticipate that these actions will recur, although, of course, they remain available.

The core profit from in-force annuities and with-profits business was £644 million and this will be the main driver of the UK life results going forward. These are seasoned portfolios which should sustain a healthy contribution to earnings from the UK for some time supported by the sizeable addition of new with-profits business.

Finally, on a point of detail for your forecasts, the longevity reinsurance that we completed last year will create an annual earnings drag of around £25 million against this core in-force result.

M&G experienced £10.9 billion of outflows from its retail funds in part reflecting a market-wide change in investor sentiment away from fixed income. Retail outflows totaled £3.5 billion in the fourth quarter, a run rate that has continued in the first two months of 2016. These retail outflows have more than offset the positive picture on the institutional side, where we saw net inflows of £3.9 billion, reflecting M&G's success in the specialist fixed income market. The outlook here is positive underpinned by strong pipeline of committed capital.

Despite these outflows, revenues were broadly maintained as the average AUM in 2015 was similar to 2014. By taking action on costs, M&G contained its cost-income ratio at 57% and delivered a broadly unchanged IFRS profit for the year at £442 million. The 18% decline in retail AUM at end 2015 will have a direct impact on retail revenues which account for 60% of the M&G total. While related variable costs will cushion the impact on profit, everything else being equal, you should expect the overall cost-income ratio to drift higher in 2016, towards the 60% level.

Having covered growth, I now want to turn to cash. Free surplus, which is the primary measure of cash generation in our business, increased by 15% to £3,050 million. The improvement is underpinned by the expected returns from life in-force business and continues to be augmented by positive experience, which in 2015, included £2 million to £3 million from the non-recurring actions I described earlier. In the top right, you can see that all three businesses are making significant contributions to the life in-force result reflecting business growth.

We remained discipline in the redeployment of our capital, increasing new business strain to £745 million. The components of this investment are analyzed in the bottom right. In Asia and the UK strain climbed more slowly than sales, reflecting favorable product mix. The increased strain in the U.S. was also impacted by changes in mix and was principally driven by a higher proportion of new VA premiums being directed to the fixed account option. Jackson business remains highly capital efficient, with IRRs well in excess of 20% and short payback period.

This next slide provides the usual chart which shows you how the annual generation of free surplus has impacted stock on the left and central cash on the right. As you can see, our operating performance has driven our free surplus stock higher. This has, in turn, enabled our businesses to increase remittances to over £1.6 billion while retaining sufficient buffers to fund growth and to absorb market shocks.

The Asia remittance includes a £42 million proceeds from the sale of our Japanese life business. We continue to moderate upstreaming from Asia given the current FX rate and the strong levels of central liquidity which, at the end of the year, stood at nearly £2.2 billion.

Before leaving this topic, I want to update you on the evolution of our free cash generation profile from our life in-force business. As normal, we start with the expected profile at the end of 2014 in dark blue which a year later is broadly unchanged, as shown in the light blue, reflecting experience changes to market assumption experience, changes to market assumptions and currency movements.

Adding the free surplus from the 2015 new business in red, produces, as always, an improved profile evidence of the powerful capital dynamics of our book of business. Now, this analysis is prepared on a Solvency I basis. While it remains appropriate for our businesses in Asia and the U.S., the profile of our UK life business will change under Solvency II.

As I indicated in January, we have reworked the UK life in-force profile to allow for Solvency II and updated it for the 2015 year-end position. This slide summarizes the output of this work on the right and compares it to the profile on the Solvency I on the left. The updated analysis confirms the conclusion from our January presentation, but the annual release of higher Solvency II, SCR and risk margin more than offset the effect of the transitional amortization and other impacts to produce a broadly unchanged profile. Incorporating this new UK profile into the overall Group picture now shown in the white bars confirms that Solvency II has not fundamentally altered the overall cash dynamics of our Group.

So, having covered the operating results for the year, I want to reemphasize our commitment to the 2017 financial objectives.

On Asia, we are ahead of the 15% IFRS profit compound growth rate as measured on the original objective definition using December 2013 exchange rates. The Asia free surplus' objective on the same basis is a stretch, which was always the intention. Finally, at Group, we remain on track having delivered £5.6 billion of cumulative free surplus across the Group at the half year point.

On the back of another strong performance, the board has approved a 5% increase in the 2015 full year ordinary dividend to £0.3878 per share in line with our progressive dividend policy. The board also decided to utilize the additional headroom created by management actions toward a special dividend of £0.10 per share. We remain focused on growing the dividend given its importance to our shareholders and in doing so, we aim to strike the right balance between funding our long-term growth, which as you can see is intact, maintaining appropriate buffers for uncertainty and increasing payouts.

Every dividend decision is subjected to severe market stresses to ensure that we can continue to grow it safely even under challenging market conditions. Our conservative approach to dividend is a signal of good capital discipline.

I will now turn to the balance sheet and the capital position. On both reporting basis, we have seen the strong operating performance in the year flow into the closing shareholders' equity position. As a result, the IFRS equity was up 10%, whilst EEV equity increased by 11% to £32.4 billion. We continued to manage our balance sheet conservatively. Our credit portfolio remained defensively positioned and performed well in 2015 with no defaults and minimal impairments. Specifically in Jackson, impairments for the full year were $58 million, $31 million of which was booked in the fourth quarter.

While our balance sheet is sensitive to market, it is more resilient than you might think reflecting our scale, our conservative approach to risk management, our currency mix and the natural offsets that exist within our business portfolios.

The best way to illustrate this is by reference to the position at end February where we estimate that despite the falls in a number of market indicators, indices, IFRS shareholders' equity was up at £14 billion and our EEV equity was just over £34 billion, equivalent to £13.25 per share.

Having provided you with a detailed run-through of Solvency II only a few weeks ago, I will focus my comments on the end 2015 position. Our Solvency II surplus at the end of last year was £9.7 billion, which was up on the half year number.

This is despite the more adverse market conditions in the second half which turned what was a positive £0.5 billion market effect at the half year into the negative £0.6 billion market effect that you see in the chart on the right.

The strength of our operating experience of £2 billion which is roughly equivalent to 20 points on the Solvency and the impact of management actions of £0.4 billion have mitigated the negative £1.6 billion modeled approval effect, bringing the overall surplus back to where we started the year.

The composition of our available resources is dominated by high quality Tier 1 capital, which represents 82% of own funds and is equivalent to 159% of the SCR. Since our current utilization of the capital tiers are well within the prescribed limit, we retain significant headroom to increase the capitals back through the issue of qualifying debt. The updated sensitivities to market shocks are included in your packs and are largely unchanged from those at the half year. Using these sensitivities, we estimate that our Solvency II position on the 1st of March was around £8.6 billion, equivalent to a cover ratio of roughly 180%.

I would remind you that the Solvency II surplus underplayed the true economic capital position of the Group. This is because it excludes around £2 billion of economic diversification benefit between the U.S. and the rest of the Group. It does not recognize £1.4 billion of Asian surplus. It excludes shareholders' share of the estate of £0.7 billion. It does not capture the surplus of the ring-fenced with-profits funds. It excludes the full value of the swaps program in the U.S. of just over £0.2 billion, consistent with the treatment under RBC, and it incorporates no benefit for a volatility adjustment as we have yet to apply for this. In summary, we're comfortable with our overall Solvency II surplus.

The local capital position of our main businesses, which remain the primary binding constraint confirms the overall Group picture. The contribution of our Asian operations under Solvency II has increased to £5.2 billion. However, it is the locally driven free surplus position of £1.5 billion that remains the relevant measure for cash and local capital. The U.S. RBC ratio has increased to 481%, reflecting the strong capital formation that I referenced earlier.

In the UK, the shareholders' Solvency II surplus is broadly unchanged from the half year. The position of the UK with-profits funds is lower despite the higher estate value as we decided to utilize the capital headroom to increase the equity backing ratio of the fund.

In my final slide on the topic of capital, I have summarized the capital generation ability of our business model using three different lenses: IFRS, free surplus and Solvency II. As you can see in the top part of the slide, our annual operating generation is sizeable on all three bases, supported by our large in-force book. We ensure that dividends are well covered with the balance adding to our capital stock as shown in the bottom part of the slide. We look to hold a stock of capital that is sufficiently large to cushion the effect of markets and to absorb the impact of any new capital regulation. It is this discipline that underpins the resilience of our business model and enhances our ability to weather financial storms.

Before I sum up, I wanted to update you on our credit position at the year-end which I know is an area of focus. Shareholders' exposure to credit is concentrated in the UK annuity portfolio and the U.S. general account. These portfolios are actively managed and remain high quality with a defensive stance as evidenced by the fact that 95% is held in investment-grade bonds. Credit exposure is well diversified across 1,800 names and we operate strong risk management controls on concentration risk with strict limits by geography, by sector and individual security.

We have updated the disclosures on our exposure to oil and gas, including the additional information on the energy and the mining sector provided by Chad at the January Investor Day and all of these are included in the appendix to your packs. In these two particular sectors, our debt holdings are centered on high quality names and our high yield exposures were small at end 2015. And in fact, they've remained small since then.

To summarize, 2015 was a year when all of our growth and cash metrics improved by 15% or more as we made the most of our structural advantages and executed with discipline. Our strong operating performance and conservative stance on risk has also enhanced our Group capital and Solvency levels, improved our resilience and translated into higher cash returns to our shareholders. Thank you.

I will now hand you back to Mike.

Michael Andrew Wells {BIO 4211236 <GO>}

So, looking at the Group and nine months into the role, I think there's a couple of points I'd like to make today. One is, I think, we are showing that we can compound a business at that scale at rates that you'd see of a much smaller company. And I think one of our goals as a management team is to continue that trend. I think the other couple of points I want to make and delve into a bit is the quality of the delivery. As Nic mentioned, it's extremely consistent across all key metrics and there's a lot of good reasons for that. The resilience of the sales model, I think is misaligned with some perceptions externally and particularly in the fact we're selling low beta product into high beta markets, if you think about it. That misalignment creates tremendous opportunity for us and the macro noise actually creates demand for us in a lot of markets. So I'll come back to that a bit.

And then finally, the dividend reflects a view on discipline that we'll earn it, stress it and pay it in the context of what our various options are as far as growth. We'll balance that growth in income agenda. There's no other message beyond that. There's a lot of comments this morning, if it was too high or too low, is it too confident in our growth opportunities, too low. We have plenty of growth opportunities. We actually have more than we have capital, okay, at attractive returns. No message in that either. It's a great place to be as a business and we're going to execute efficiently with what we have.

So, let me dive a little deeper. Our strategy. This is well rehearsed in this room, and it's no reason to get in too much detail on it. But the idea that it is working effectively I think is well proven in the 2015 results.

Two things going on, but again, the global stress, the global high level metrics are creating demand for us and the risk of transactions at one sense is a good thing, whichever way these trends occur, we have part of our business that benefits. But the idea that there is a growing tension on investment climate actually puts clients more open to some of the propositions we have that de-risk their portfolios, their wealth, their health, et cetera.

And the second trend, it's clearly global as you travel in the markets we do business in is the expectation that consumers are self-reliant. That's true in the West. That's clearly true in our Asian markets. We don't do business anywhere where the consumer doesn't believe they are personally responsible for their future, be it health, wealth, protection or both. So, if the opportunity is there, do we have the franchise and the markets to capitalize?

So, we think we're in the right marketplaces. We've talked a lot over the years of the quality of our businesses. Clearly, our Asian business has no equal. Its capabilities continue to grow. We'll get into some of the details about it, but it clearly has the scale and the footprint in the marketplace is second to none.

The disciplined approach to the U.S., its operational, distribution effectiveness, its capabilities to adjust fast to be an innovator are unique in the marketplace and the broadest definition of financial services, not just in the insurance sector. And then, the brands we have in the UK, M&G, and Pru UK, their strength, the number of solutions, the quality of the products, their capabilities, we can compete with anybody here domestically. As you see from the results side of the UK business, these are trusted brands with long track records of servicing a client effectively.

So, when you look at that in a Group, what conclusion, what summary you get from the three? It's two things, what I mentioned earlier, there's competition for capital. The capital doesn't have citizenry here. We don't allocate it by percentage to market by country. It's most competitive return for shareholders. We look at payback, cash flow, signatures, all those elements, and we have these discussions strategically.

And second, we can be disciplined. And this is not a trivial issue. We have the ability to back off in a market or a product. We're not dependent on making any one part of this work at any point in the cycle. Some of you I've known for most of my 21 years here, and when we backed off in the U.S., we'd lots of discussions in the hallway if we were doing it at the right time or the wrong time. It's the luxury I can tell you having run a business unit and certainly luxury as CEO of Group to not be dependent on any one market, any one product at any one point in time.

You look at what Tony and Lilian's team are doing in Singapore. They're backing off the (32:37) market because we don't like the economics. If that was our only business in Asia, right, that would be a difficult decision because you would be worried about the overall performance of your region. So, again, the breadth of the footprints, the scale of these operations give us optionality that few competitors have.

All right, let's take them region by region. So, again, the footprint in Asia is outstanding. When I look at this, what I'm looking for is how do we look across the spectrum. Because again, you're looking for attributes at scale that we can capitalize, that we can produce higher return fee than the other player. So, that means that we have diversification by country. We have diversification by product, and most importantly, we have diversification by distribution.

Are we in the right channels? Are we in the right markets? Can we capture this Asian opportunity? It's structural, it's measureable, okay, but do we have the breadth and depth to get there? So, I would say on the life side, absolutely. I would say on the asset management side, Guy is here if you want to talk to him about Eastspring, they are there and growing and they are continuing to grow in front of the consumer demand which again will be rapid and is definitely a challenge to stay with the consumer demand for asset management in Asia, but we have all the capability to do that, all right?

If we have the distribution, if we have the reach, do we have what the consumers want? Is the pricing right or with the right point in the cycle. So let me just give you one – let me just pick one market, say, Indonesia. So health and protection product in a market effectively with no government support or services for retirement are health protection and minimal, okay?

So, the product demand is there. Can they afford it? Our base product costs roughly what two cups of coffee a week cost at a major coffee shop. That's about the entry level. So, we can provide the service to consumer, clearly, what insurance does best, right? The large flows of consumers de-risk their individual position by dividing that over a large consumer base, allow them to move from cash into investments or into something else they want to do with the money because they give that risk to a trusted entity service provider, us, okay?

But the transaction size we can do is incredible. I've got a – I was teasing the guy, somebody gave me a penny. This is from when we were founded. In fact, I think is really – you guys know I like history, it's really interesting. And you may not know, this was how Prudential started. It was industrial policies that were actually paid for with a penny, very common way of collecting.

And one other thing is that when I travel, I ask our colleagues and I ask people I interact with, how do you pay for coffee? And obviously, I know how we collect premium. The answer varies, all right? It's mobile pay in some markets. It's Apple Pay in some markets. It's UnionPay in Hong Kong. In China in general, it is cash in some markets, and it's credit cards in some markets. And we talk to bank partners about when they introduce some of these new technologies, what does it do to ATM use and things? The consumers drive that preference, okay? And at our sides, our job is to align with that.

Let me give you an example. We're using mobile pay as collection in Asia. We are paying with phone minutes. We have 1.1 million clients in Africa that pay for their insurance with phone minutes, okay? We collect cash in dozens of currency. I mean, we're capable of being as innovative as any disruptor in the space, and it's a prerequisite for us to succeed. We have to stay with the consumer, and we're fully capable of that and doing it across the pitch.

So, another piece on that, so that if we have a product that client wants, can they afford it, all right? Headline noise would suggest, GDP would suggest some of the clients have been in a rough state. GDP is too high level a metric for our consumers, all right, and it is directionally interesting, and it's important for us to look at, but it's not a predictive indicator for us.

One of the things - meeting with some of you individually at various events last year, we couldn't talk about where we were in the second half of the year, I'm travelling around Asia, these airlines - these airports are packed. These flights are sold out. The hotels are booked, I mean, it didn't feel like what I would read when I was in the U.S. and - or the UK, in particular, on some of the metrics. So, if you take a look at things like what is personal, what is the - I mean, I think I didn't - these were clearly - these markets were chosen on purpose because these are markets we have large exposure in and where there has been a lot of noise. But if you look at China, Malaysia and Indonesia, personal disposable income, okay, the growth rates are not only material, they're consistent. The middle class is faring better than the tails.

Now, again, if you are a politician and responsible for the overall society, there are some challenges embedded in that. For us, they're such a large middle class, and they're doing fine, okay? This measures our opportunity. Do they have money in their pocket? Are they buying things? So, I chose airline just because of my time in airports. It just felt like an appropriate and kind of personal one. But we could've done telecom here. You guys all have the capability to see this. We could've done telecom, we could've done department store sales, grocery store sales, all those metrics look relatively similar in these markets. The consumer, the average consumer is still buying, still has disposable income, and those numbers exceed the GDP numbers you're seeing. Okay. So, they're very resilient.

Now, again, that is that doesn't mean that if we were selling luxury goods in Chengdu that our markets would - isn't changing, or, if we were an oil and gas company in the suburbs of the Philippines, outside of major cities. But that's not our business, okay? And again, our ability to do transactions at varying sizes, right, allows us to reach a very large definition of the emerging middle class.

All right, so, if they have money, the demand's there, what are we doing about it? One of the things that I'd like to do going forward at these events is give you a slide of what you've paid for over the year, some of the tangible deliverables year-over-year from an operational point of view, because we have internal objectives to make the company better every single quarter. And I want to make sure we give you some context for what we're doing with your funds. So, scale of distribution, speed, quality, all are up.

Let's stay on Asia for a minute. So, you're well north of 500,000 agents. These are managed very effectively. So, this is growth in quality, not just growth in quantity. You're seeing innovation. 25% of the sales have come from products that we didn't have 24 months ago. So, again, we're innovating. We'd keep coming out with new things that are good for the consumer and good for you as shareholders, okay? And we're getting better at the boring but absolutely critical operational IT, touch points with the clients; 5 million-plus interactions with clients in Asia last year. If we're going to grow at these rates, we have to have scalable, high quality platforms to keep those recurring earnings. Those recurring earnings are people. They're people who care about their relationship with us, about how they're treated, about how well the products work, about how good our service is. So, you'll see us continually to improve that side of our back book, because it's critical, again, to our recurring earnings.

Relative scale to peers, all right? We are competing with AIA, Mark Tucker, our old colleagues and his crew and we're competing with local national champions. The balance of the players, as you can see, sell in a year what we sell in a quarter in a good year, all right? That is not where our challenge is coming from. So, where we're looking at the marketplace, we're looking at typically what in market major competitors' doing. We keep an eye on AIA. We look at disruptors or innovators and see if there's anything interesting, right? But we're not looking to the right side of the scale. We have a scale advantage. And in a business based on the law of large numbers, this is not a trivial issue, okay? We have proper exposure to markets. We can afford to make proper investments in markets, be that technology, risk, people, all right? All of these elements require an element of scale. And so, we have that scale advantage relative to our peers. And again, it allows discipline.

Correlation of markets. Are they - are our returns - we've shown you this slide before, but I think given last year's performance in market share, the equity is down 8% to 12%. You had recurring premium up 30%, all right? Nic walked through it. This is disconnected by nature of the transaction with the client, by the client demand. And, again, it's been counter-correlated to headline news, all right?

We have a material disconnect between our opportunity and the equity markets in the region. That obviously should translate if you have premium growth in the earnings in cash. And, again, today, you've seen that disproportionate amount that comes from taking care of and doing the right thing for existing clients, all right, and then adding additional cohort after additional cohort. Vintages as we call them in the States, of clients on top of that, all right, and that part of our model is succeeding, and we're very, very pleased with the performance there and, again, highly predictable.

So, fair question. So, you're the market leader, you've done well, good growth rates, et cetera. Is there any room left, all right? A couple of things, our penetration level in our most established markets, so, Singapore, Malaysia, Indonesia, Hong Kong is still low. We have great market share in each of these markets, but there's still a very large unserviced population there for us. And, again, this is without even expanding our product portfolio.

But our other markets, our nascent markets are growing exceptionally well. We've shown you a couple of times on slides that where they were relative to some of our large markets 10 years ago, but the reality is they're growing at very high rates, very high quality. And what you're seeing the team do when you're down on the ground is you're seeing them take the lessons from previous markets, previous experiences and Lilian and Tony and the team dropping those into these newer markets, all right? And we don't use all of them, okay? We may skip a generation of tools if we think the markets move past that. But at the end of the day, we can deploy people who've done it before for us in a market. They've done a start-up. I was in Cambodia with our team in Phnom Penh. We're a new player. We're one of two major new players there. We have the bank distribution relationship, so exceptionally well done by the team there.

But what you're seeing is what we know in region applied in a new market. And there are new challenges and those come with the local granular on the ground things and you see that same thing in Africa. And you see the same thing in a rural part of the Philippines. But we take what we know. We take people that are a part of our culture, know our tools and we drop them in and you get a similar result to what we had in other markets faster, okay? There's less of a learning curve. And that's a critical element. And again, it comes back to our scale and our footprint.

So, there's a tremendous amount of upside in these markets for us and I would argue with you that the bulk of our growth in Asia is ahead of us, okay? There is no less demand in some of these other markets than we see in Hong Kong or Singapore. Our penetration in China, the China team has done a great job. We got a very good partner there, up 28% year-over-year. But we're a fraction of that market and it's a market where the country has targets on insurance penetration. We're a trusted brand. The concept with British rule of law is a very trusted cultural element of who we are. And we can do a lot more. So, again, our growth is ahead of us in this marketplace.

All right, on to the U.S., I think we spent a lot of time in the U.S. in January, so I don't want to spend too much time here. But I think the key argument I'd make is this is a unique business in its space. It is a fraction of the cost of the competitors. It has better technology, better operations, better distribution. There's a track record of innovation, and there's a track record of bringing products to market faster and more effectively than peers. You want a simple measurement at that, look at the Elite Access launch relative to the 12 or so clones of that. The sales of that product still exceed the cumulative sales of the rest of the industry attempting to copy it even at lower prices, even with more incentives, even with guarantees on products that probably shouldn't have a guarantee on to begin with, okay?

This is a Group with the ability to execute at a very, very high level. So, the other piece as we go into the changes in the U.S., and really the DOL being the key, is the structural demand in the U.S. hasn't changed, okay? If the Department of Labor in some way with their new regs changes access to advice, cost of advice, or access to the products or the configuration of the products, the consumer still wants some level of protection on their retirement assets. The consumer still wants good balance portfolios and again, this is no different than we see in the UK, all right?

So, the question becomes the attributes of the competitors. As I said in January, I think a major disruption, I think first off to be clear, I think our major disruption is arguably bad for the consumer, okay? But that doesn't necessarily mean it's bad for us and those both can be true at once, okay?

We can build whatever product the rules and regulations allow to get the most benefit the consumer at the highest returns for the shareholder, we can balance those stakeholders. We can do it faster than peers or quite a ways into our contingency planning for this, right? So, we sort of plan for the worst, know what we'll do if that's the case, all right? And then we'll see when this gets dropped on us, what the period is, when it's effective, what the grandfather period is if there is, what's the transition in sales. All those dynamics will navigate as well as anybody, and I think arguably better than most in that space. And it does, if it's at the extreme end of the DOL proposal, it does reshuffle the position of providers of financial services and providers of advice. And when that happens, there'll be winners and losers. And I would argue with you, Jackson has the attributes to be one of the winners.

And market where we could prove that to be true would be the UK. So our UK business had a record year. This includes pre-RDR, this includes the changes to annuities. It seems doing a great job. Why? Again, trusted brand, good product, product innovation, all the things, getting the right things for the consumer at a pricing and level that gets the shareholders a good return.

M&G then gives us the capability on the asset management side combined with our UK business to compete with anybody in the space domestically, all right? You will see more changes. That's the nature of our market. It's the nature of all of our markets. Regulatory changes are a part of the business.

We look at changes in a little broader context. We'd used this slide with you. We've always had something going on. In 21 years here as you guys know, I don't ever remember a year, when we sat around in December, I went, well, that was an easy one. There was nothing to work on, right?

There's always something and this firm's resilience is measurable. And I think there is an element of our history as a part of our DNA and the culture of the firm. And again, we're ready for more. But I think the UK business is a good example of a disruption in a marketplace on advice and product creates opportunity. And I think that's similar to what you'll see in the U.S.

All right. Let's get to shareholder-centric metrics for a second. So the earnings are high quality, measured how. Well, by source, by currency and mix of the customer base they come from. So again, not a single dimensional look, all right? Whatever stress you want to throw at this, different ways to look at it. So, what if U.S. dollar policy is, rate policy changes the value of the dollar, well we have a lot of earnings in dollars. Okay. Rates go up, we could benefit from that. I mean, again, most financial metrics moving, we have benefit on both sides and risk manages on both sides. So, I think, we're very well-positioned with the shape of our earnings, the source, and the relationships at the consumer level by then to be predictable and strong.

All right, so this all sums up on one of my favorite slides. Two things I'd ask you to take away from this. These should grow in tandem. If you're squeezing a business, there'll be a misalignment of these metrics. So, if you're looking at us versus competitors in this slide, side-by-side, there should be a similar nature. It doesn't have to be a perfect correlation. But, these should grow in a similar fashion with businesses.

Okay. It tells you that you're consistently adding profitable business, managing capital correctly, et cetera. And there's one other takeaway I'd like you to look at, is, okay. Look at where we were pre-crisis, in terms of operating income, new business profits, free surplus generation. Look at the change in order of magnitude to where we are now. We had a good crisis. Okay. We were fine last time. We are materially, we are 3x times stronger and more capable and have more recurring earnings and have more client relationships than we had last crisis.

Okay. Again, that's not a forecast of a bad market crisis. But, I heard this morning we're at the seven-year anniversary of this market going up. We're well-positioned for market changes and we're well-positioned for resilience across a variety of climates. And again, that translates into cash for our shareholders. I said this earlier, it's a discipline dividend policy, earn it first, stress it second, pay it. Okay. If we had extraordinary capital of pull forward earnings, it's yours. You see the special dividend today reflecting our view on that. So, there's no other message in that. It's not a lack of confidence in our growth. We have plenty of capital to grow in 2016 and beyond. It's not a reflection in the market climate. But we are a bigger company. We have grown in size and scale. And again, with that, we should have the reserves and the opportunity to be countercyclical that goes with that.

And finally, we're a growth stock as well. So, you've seen increase in value. I think the metric that has to jump off this pace is a 30% growth in revenue in Q4. Think of the noise around Q4. I just don't believe that that's what people thought was going on. It was very frustrating to see this on our business units and just, by law, we can't share that with you in the quarter when we're talking. But the strength of this business, right, and again, the attributes of how it relates to clients does very well in rough markets. But the value creation and the investment at returns that are competitive, I think with any industry, are key to our growth story. And we think the opportunity is there.

And lastly, on 2016, so it feels roughly like 2015. We see double-digit increases year-to-date in the life business. Same net outflow challenges on the retail side at M&G. Same success on the institutional side. And Asia, again, having a very, very good start to the year.

So, that's where I think we are. I think it was strong performance. I think the franchises we have are best in class, I think they're measureable in how they can and did execute and what their capabilities are. I think we're innovating at levels, again, of a – that will keep us competitive with natural competitors and disruptors. And I think our superior long-term position gives our recurring value to this – a predictability to this that's unique given our size and scope. And we hope to keep demonstrating the benefit of that to you.

So with that, what I'd like to do is ask the team to come on up and join me and we'll go to Q&A.

Q&A

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

Okay. Do you want to lead the festivities?

Just raise your hand and once the mic finds its way to you, please do state your name, your firm's name and then ask a question. Give us a second. All right. Do we go to Blair right here?

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much. Good morning, just...

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

Good morning.

Q - Blair Stewart {BIO 4191309 <GO>}

It's Blair Stewart from BofA Merrill. Two questions, please. On the dividends, Nic, you talked earlier this year about performing a 1 in 25 year stress on profits and looking at how the cover looks. I wonder if you could provide a little bit more detail around that. Everything about the company is growing at double-digit, yet there's a 5% base growth in the dividend and you talked about two things cover. So, there's maybe some mixed message around the dividend. So, just any color you can give on a stress aspect of that would be really helpful.

And secondly, I guess also for you, Nic, can you give us an indication of what you think the organic Solvency II available capital generation is for the business. So, that's everything including in-force creation, et cetera. What's the organic Solvency II available capital generation of the business? Thank you.

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

Okay. What the dividend cover is, once you take the special dividend into consideration, is around 2.5 times. That's where we've ended the year. And as you say, and I've said this before, that there are number of things that we take into consideration is what happens in a stress. And also, what are the prospects going forward in terms of how much capital we're going to need? We think 5% is a very good rate to continue to compound. I've said before that that is – we're looking to grow it at 5% no matter what. And that's really important because even in a downturn or even if something doesn't go quite to plan, then we look to our shareholders to feel confident that we can sustain that level.

On the organic generation, the £2 billion that I have referenced, unless I've misunderstood your question, is what the company was able to throw out in this year. That's roughly £2.4 billion on own funds, and negative £0.4 billion on the SCR. I'm not sure if that is addressing your question. Clearly, that £2.4 billion on own funds, it comprises a big block that is related to the in-force. Why? Because we bring everything effectively in on an MCV basis and then margins unwind, and of course, we deliver the equity and the risk premium that is available there. And a good chunk of it also comes from new business, which we also generate organically. So, the entire £2 billion or £2.4 billion in the numerator is organic unless I misunderstood the question.

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

Jon?

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

Morning. Jon Hocking from Morgan Stanley. I've got three questions, please. Just to come back on the dividend, I know it seems a little bit churlish given the special, but what should we be looking for in terms of the triggers to understand when that cover starts coming in because the stress element, I guess, is related more to what you've earned in the year relative to the prospective use. Is it actually just the outlook in terms of visibility that we need to see clear before cover starts coming in because you've been talking about this, I guess, for two years or three years now in terms of the cover?

Second point, on DOL, can you talk a little bit about where we are on the politics? Is there anything that could happen to especially derail the overall change? And if you could give us some color on where your base case is for the change, that'd be helpful.

And then just finally, there's a couple of minor regulatory issues. I think one with the PRA on the back books and secondly the CIRC in China. I just wonder if you could comment on those, please? Thank you.

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

So, I'll start with the cover. When I covered this in January, I said that whilst our dividend policy is anchored on IFRS cover, we use a number of other metrics to assess that, and then if you're a growing company and the assets and liabilities that you like grow as well, you need to put risk counsel aside. And IFRS is imperfect in terms of capturing that, which is why we use free surplus as well, which is something else that we assess cover against. And it's something else that we stress, and of course, now we do have the Solvency II and a number of other metric, capital ratings, capital, for example.

So, we take the full suite of capital metrics. I wish it was as simple as managing this business by reference to one metric. It would make my job a lot easier. Unfortunately, it's not. We have to balance all these things. And interestingly, the slide I put up that said the operating formation of capital is different numbers under different bases. There's different mechanics under each. We just have to take all of that into consideration.

Most of these KPIs, we are covered strongly, but, of course, stress will come off a little (59:31). The way we make a decision is that in a stress, we can sustain the growth of the dividend at 5%. And that's what we judge alongside the growth prospect. And as you've heard today, those are intact, and particularly in Asia, we're seeing sort of the growth. We're seeing great opportunities for growth, but ultimately needs financing as well.

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

DOL. Barry, you want to give us some color on...

You're closest to politics.

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

Yes. With respect to the politics, I mean, in some respect, the politics of it is kind of scaling back, and it's more focused on implementation, which doesn't mean to say that there's not still some politics at play. So, right now the rule's sitting with the Office of Management and Budget. They are tasked with trying to measure the cost, the economic impact of the implementation of the rule change.

Now, there is the prospect that OMB would come back to Department of Labor, and say, you massively underestimated the cost of doing this, and the economic disruption will be created by this, the odds of that happening are approximately zero. I mean, they'll – it's run by political appointees, and so they're going to come back and say the rule is fine.

So, they're going to publish, I would guess, within the next 30 days at the outside, probably less than that, whatever they're going to publish. And we try from every source to get a sneak preview of where it's landed, it's very difficult to do. The ranking minority member, the ranking democrat on House Labor Committee demanded basically from Secretary Perez, that he be allowed to see the rule change before it was issued. They refused to share that with him. Their alternative was to go to Capitol Hill and brief the opposing democrats, so it was about 100 democrats on Capitol Hill that are opposed to the change or at least have some level of concern about the change.

The briefing, as far as we can tell, consisted of don't worry, this is going to be very consumer-centric. It's going to ensure that people get better advice than they've been getting in the past so you should be for this. And some democrats have come back concerned that they didn't really get any meat, if you will, in that briefing. And others have said, well, they satisfied me. So if they said it's going to be good, so it must be good.

We will see what it looks like when we get it. If they land in a sensible place, the prospect is that companies will try to adapt to it as Mike has said and I would reiterate. We are prepared for this from both a product perspective and a process perspective. So don't be concerned about that. We do have a track record in the Group and within Jackson specifically of using disruption of this sort to our commercial advantage.

So without disclosing things we can't talk about around product changes and so forth. I'd say everything I can possibly say to allay your concerns that we'll be able to deal with this. If it goes too far, if they do things like not grandfathering, then the politics again becomes very real.

And my suggestion to you would be that if they went as far as that and say you've got to repay for the whole industry, you would probably get a stay of implementation in the courts. You will have lawsuits anyway. There's a number of trade-oriented groups as well as some – the potential for other regulators to come in and go to the federal courts and immediately ask for a stay of implementation while they work out the legal matters and so forth.

So, it's still a very messy process to pin and it really just all depends on what the rule says and we're not going to know for a few weeks. I wish I could tell you more about that. But I would, again, close by emphasizing that we are prepared for any contingency.

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

There was two other questions on the – both regulatory. Tony, do you want to comment on the – I assume, talk about CIRC.

A - Tony Wilkey {BIO 19184129 <GO>}

CIRC is about the UnionPay.

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

What's in action? Are you looking at admin issues or something?

A - Tony Wilkey {BIO 19184129 <GO>}

Yes.

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

Yes. No. Understood. We'll come back to the...

A - Tony Wilkey {BIO 19184129 <GO>}

CIRC. Yes. Okay. So, I think maybe this is what you're referring to. CIRC conducts a review or inspection of the life companies operating in China every five years. Recently went through that, not only for us, for the entire sector. And the results of that get published. That's a good thing, I think. Broadly, the results or findings, nothing, no material issues, just some tightening up of certain controls within the company, ties in nicely though with all the work being done and the implementation effective January 1 of China Solvency II , C-ROSS.

So it's kind of like a bit of the ties into the operational side of that. Worth noting, we were in Beijing last month, I think, with the Chairman of CIRC. and having dealt with these folks for many, many years now, they consistently hold it out as the gold standard of operating environment and controls within the China insurance sector. So, yes, no major concerns now.

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

And, Jon, do you want to – I mean, there's very little to be said about the PRA.

Yes.

I'm sorry, not the PRA. FDA.

Yes. I assume you're talking about the FDA recent press release on the review into longstanding customers. I mean there's not much we can say. We are obviously working very closely within. We take it very seriously. But (65:29) enforcement, so, they're using their enforcement powers to conduct further review. This has been going on for nearly two years now. So, it will go on for a while longer. I think in their press release, they have said that they will make no further comments and they expect us to make no further comment either because it's gone through the enforcement group. So, there's nothing more we can say.

Greig?

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

Morning, gentlemen. Greig Paterson, KBW. Three questions. One is, just in terms of Indonesia, in January you spoke about consumer confidence as a leading indicator. I mean this is an oil and energy poor country. You must be benefiting from the low oil price, et cetera. I just wanted you to give us some kind of feel for the outlook for Indonesia.

In terms of the U.S., you mentioned impairments. But I'm saying what were the costs of downgrades in terms of 2015, so we can get a feel for the total cost of the wider spreads in a downgrade theme? And then, Nic, just in terms of this 180% coverage you mentioned, I think you said on the 6th of March. I wondered if you can give us a bit of waterfall. Is that ex the dividend, have you just mark-to-market that's including operating elements, et cetera? Just investors want to know why there's been a reduction.

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

So, Tony, do you want to start with Indonesia and maybe absolute level of sales and earnings?

A - Tony Wilkey {BIO 19184129 <GO>}

Sure. While the business did grow slightly in 2015, it was still a very good year for the new business generating essentially 1/3 of £1 billion of new APE sales at about 70% margin IFRS around 1/3 of £1 billion as well. So, highlights were good. There have been a lot of economic headwinds there. But notwithstanding that, we have been pushing forward with expansion of the business. We opened 25 new branches. We call them GAs. We recruited right around 10,000 new agents every month. We on-boarded 410,000 new customers in the year. That's 1,100 customers per day. So, pretty vibrant growth in the business.

Where we are today? I mean, it does look like there might be some signs of economic turnaround there. The JCI is up, I think about 4%, 5% year-to-date. The Group seems to be (68:00) rather seems to be stabilizing. We are pushing forward with all our activities. One example is last month, we were in 30 cities in 30 days in front of 50,000 of our top agents and let me just say, morale is quite good and yes, still pretty good. Okay, so...

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

Downgrade? Okay. Just to give you some stats for 2015. In the UK, the annuity book we had £2.4 billion of various securities being downgraded and we have £0.9 billion being upgraded. In the U.S., we had, across our portfolio, $4.7 billion downgraded and $3 billion upgraded. So those are the numbers that have flown through our accounts today. Now clearly, the impact that that has on the capital and earnings has been captured in the ratios that we've put out today.

So the 481% for RBC clearly hopefully factors the impact in that. And the £3.3 billion on the shareholder account in the UK on the Solvency II also captures the effects of those. I was asked in January what is the sensitivity for the downgrades on the UK ratio. So we've added some additional sensitivity in the appendices so you now have that. So hopefully that answers that question.

On the 180%, what's driven that predominantly is the drop in deals and to a certain extent the drop in the equity markets. That does impact, if you like, the transfers that come out from the profit because kind of bonuses are going to be linked to that. So that's had an impact on that and of course it had an impact in one or two other places where we have interest rate risk.

Offsetting that was a positive FX effect. So the 180% or the £8.6 billion reflects that. It is before the dividend, because the dividend will come through the numbers at the point of which it's effectively declared. And the impact of that is £900 million-odd. So, seven points on the final and another couple of points on the special.

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

(70:36)

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

It's not one quarter. It includes two months.

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

Yes.

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

Thanks. It's Lance Burbidge from Autonomous. I have a couple of questions. Firstly on Asia, Hong Kong is obviously a crucial part of the business. I just wondered if you'd seen any impact in terms of capital flights from China coming through in terms of explaining why the sales are so strong. And then on China, your new business margin is actually pretty low compared to some of your peers. I wonder if you might talk about that.

And then I'm afraid I'm going to get back to the dividend again. You do talk obviously about moving towards that 2 times cover on 2015 taking out the special, taking out your one-offs, 3 times covered on the ordinary dividend then you're certainly 3 times current, I think, in underlying free surplus generation. And you talked about obviously, through your presentation how defensive your earnings are, and I guess even the fee income on Jackson, a lot of it is based on guarantee account value, not on the account value. So, what is the actual stress that can come through in terms of getting you to the point where you feel uncomfortable with that 5% growth?

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

So, first one, Asia, Hong Kong and China. Tony, you want to grab those two?

A - Tony Wilkey {BIO 19184129 <GO>}

Sure. I think as you'll note from the results, Hong Kong had a fairly respectable year in terms of new business. About 50% of the new business is coming from Mainland Chinese, who buy in Hong Kong. I think we mentioned before, this is in no way a new phenomenon. We started selling to Mainland Chinese and Hong Kong over a decade ago and had built infrastructure, Mandarin-speaking capabilities, simplified Chinese, et cetera, to deal with these customers. And I think we have a bit of a first-mover advantage there. A lot of the growth in that business can actually be fairly well correlated with the growth in the agency force.

The agency force, I think in the last - I'm looking at Lilian, I think in the last three years or four years has almost doubled. We're now at about close to 14,000 agents in Hong Kong, and continue to that. We continue to recruit and license new agents. And we continue to onboard new customers, both domestically and from the Mainland. It's worth noting that the business in 2015 from, let's call it domestic with Hong Kong people buying in Hong Kong, also grew by about - I called them Honkie, sorry, grew by - it's a local term, grew by...

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

It's not the same everywhere though.

A - Tony Wilkey {BIO 19184129 <GO>}

...grew by about 35% to 40%. So, domestic growth and also and coming through with the Mainland fees. And, again, business continues to do well in that regard.

In China, I mean, I think we had a fairly respectable year. The business grew by about 28% in terms of top line APE. The NBP grew slightly higher. Not as significantly as maybe some of our competitors. And the growth in that margin came from two things; a shift in distribution, and within the shift in distribution, a shift in product. We have deliberately grown our agency force. I think we have pretty good intellectual property when it comes to building agency force. And our CEO in China, Mr. (74:24), has spent a lot of time in other countries studying the Prudential agency model. Has taken that back to China, and we think building out the agency force very strongly. We're now at record levels, I think, we're over 20,000 in terms of China agencies, small by China terms, so there's a lot of headroom. And the agency force has been selling more health and protection and that has increased the margin. We're very happy with the quality directional growth of that business.

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

And dividend, I'm not sure if there's more to say. I think there's (75:00).

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

Maybe, maybe just to – you're right that we are – the potential for earnings growth in Asia is robust. I would agree with that. Your point on the U.S., just to correct, maybe one statement that you made. You're right, the fees, some of the fees are linked to the guaranteed asset base, but that's a component of the fees that pays for the guarantee. So the 192 basis points doesn't include any of that. That's utilized, if you like, to hedge and it's reported with the hedge results.

And in the UK and M&G, so I guided you down. I mean, I don't know how else to answer the question. It's a reflection of discipline; it's a reflection of the opportunities that we have elsewhere to direct the money. In the end, the payment that we made is a 40% payout. Yes, we haven't used the special dividend mechanic before, but it's a tool that we've decided to use this time and we may well use, going forward.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions, the first is, I was a bit surprised to see that health and protection new business profits in Asia were up only, I say, only 20% against the 28% increase across the whole of Asia. So what was growing by more than that?

And I supposed linked to that question is, if it's the par with-profit, if it's the with-profit, new business profits. How does that link through then to IFRS? Because, historically, the with-profits funds in Asia have not actually driven much in the way of IFRS earnings? So that's sort of question one and a half.

Second question is, if you do see a slowdown in new business or even a fall in new business sales in the states, over the next year or so, what are you going to do? I mean, the free capital generation of that business is then going to look pretty impressive over the next year or two. What are you going to do with that free cash that develops?

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

So, the (77:25-77:27).

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

A 20% is a pretty good number for the health and protection growth when I look at how hard the team has to work to deliver that. There is – I mean, we've cautioned you a little about the susceptibility of the NBP of health and protection to interest rates. I know it's a discussion that Adrian and I have constantly if only we were on stable assumptions, like some of our competitors, you'd be able to see the underlying growth without, if you like, the noise that comes through from that. We are on active. If you want us to change the pathway, we're happy to do that.

But, what's held it – working against that H&P total was a near 100 basis point increase in interest rate in Indonesia and a lot of H&P comes from there. It's 60-odd percent of the sales. There was also an increase in interest rates between start and end of the year in Singapore of 32 basis points, again, with the reorientation of the focus of our Singapore sales force into H&P. Kind of that, the economics worked against that underlying growth. And of course, in Malaysia is the third place. We sell a lot of H&P and interest rates were up there as well by 10 basis points.

So, that's what's held it back and it's only 20%, some of it is optical because of that particular mechanics. Now, a free surplus generation, yeah, that's a nice problem to have. If and when we – if it turns out as you predict, yeah, and then we'll decide how we use it at that point.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Cool.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Thanks so much. Andy Hughes, from Macquarie. Three questions, if I could. The first one is on the UK. Obviously, you've got a £170 million benefit from longevity reinsurance and £8 billion of liabilities, but you still have £22 billion of liabilities which is still on CMI 2014. If you move to CMI 2015 at the end of the year which is quite a lot lower in terms of improvements, presumably you'll get a big IFRS benefit then as well. So, how should we think about that?

Second, I've just got a follow-up question on the FCA investigation and work you're doing there. If there was any compensation to be paid, would a large proportion of that come out of the estates? Could you just confirm that?

And a general question on Asia. I guess the commentary you're giving us on Asia now is that it's had a very strong start to the year. December was the strongest period you've had for a long time. It all seems very positive. Are there any numbers you can put around this, or is that just as far as you can go in terms of how Asia is performing in the current market?

And final question on M&G. Obviously, you were talking about institutional pipeline of inflows. Is that not enough to offset the continuing outflows from the optimal income? And on the cost-income ratio, you're kind of guided up. Are the cost savings embedded in that, or is that something you'll consider? Thank you.

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

So, Andy, on the Asia, that was my decision. No, that's about as much detail as we can get. And it's a similar answer on the FCA. There is zero upside, and that's commenting about a regulatory process, we have an ex-regulator in the front row nodding his head, going, yes, Mike, stop talking now.

There's a - we take it very seriously. We interact with the regulators in all our markets frequently. This was an industry-wide look. The underlying product has done extremely well for the client 1, 3, 5, 10. So we will do everything we need to do to work with the regulator to get this through. But publicly commenting on the process is something they asked us not to do. So that's as far as we can go. Okay. You asked about - there was one other I missed there, CMI and change of assumptions too.

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

Okay. CMI 2014, CMI 2015. There are many in the industry that believe that CMI 2014 and CMI 2015 are aberrations and do not reflect a true underlying trend.

Q - Andy Hughes {BIO 15036395 <GO>}

These changes on longevity...

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

Improvements in the - or rather, reductions in the rate of improvement which longevity is increasing. So there are many in the industry that believe CMI 2014 and CMI 2015 are aberrations as opposed to a signaling, if you like, a true change in the life expectancy or the improvement in the life expectancy of people.

Our reserving last year was on CMI 2012. We looked at CMI 2014. We will move, we have moved to CMI 2014, but we did it in a, if I could describe a CMI 2014 minus-minus basis. Because in line with that conservatism, and the caution that you would have heard from us throughout the whole presentation, we want more data before we can declare victory on that particular point. So there is a small benefit coming through the numbers, but it's not significant. We'll see. If there are more studies and they confirm the trend, then we will move our assumptions. But we've haven't moved them, we've moved them modestly at the moment.

As regards extrapolating from the £8.7 billion of reinsurance that we've done to the £31 billion of liabilities. Look, it's not - there were very specific circumstances kind of why we did this in the course of 2015. Clearly, you only do transactions where they add value, and that's a prerequisite. We won't do something that is bad for value. But the circumstances were that we had the uncertainty surrounding Solvency II. We were only going to know for sure in December. Candidly, if at that point we had a negative surprise, then there would have been no time to react. So, you do the responsible thing on behalf of your shareholders, which talks to discipline, to try and pull those levers, to try and optimize the position, in the event that you have to rely on that.

As it happened, the outcome was fine. So, I wish I could turn back the clock and unwind those, but it's not possible. So, we did it. There were a good value. We have no plans to repeat that, of course, other than to say, if we ever needed to, we would if the market is there. And of course, we do, there is a tradeoff ultimately by how much you can bring upfront versus this is ultimately what you lose in profits, going forward.

Those were the circumstances. They were unique, i.e. – as I said, there's no plan necessarily to repeat that, which is why I guided you to look at the core line in the UK results and project from there. Oh, cost income ratio.

Q - Andy Hughes {BIO 15036395 <GO>}

Cost income?

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

Cost income ratio, no, I was very specific in my words. I've said everything else being equal. So, to the degree that there are further cost actions we can take, or management actions we can take on the cost basis, those are not captured.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thank you. Farooq from Citigroup. Can you just give a little bit more guidance on what you mean by the contingency plans of Department of Labor?

You talked a little bit about products? And I know you don't want to share your full economics and planned strategy, but just to give us a bit more comfort. And secondly, if in the U.S. we move to kind of a lower churn type of model in the VA market, so we have kind of more stable AUM. And in the UK, it looks like we're going to have potentially net outflows unless you really ramp up in the bulk market. So, are we ever going to move to situation where you see better remittance ratios in both of those two markets. So it's a way of growing remittance above surplus capital generation. And lastly, very quiet quickly, I mean do you have an updated view on the forthcoming RBC changes for credit risk in the U.S. Thanks.

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

Well, on the U.S. regulation, it's a bit of the same answer on some other questions. So, we can't discuss product filings, for both approval reasons and competitive reasons. We're not looking to coach competitors on direction they should go at this point. But I think it's – from the worst case DoL proposal, we backed into what would be effective strategies and how do you get those to market. I think the piece that's key in this, when you think of our U.S. platform, is one of the absolute critical elements will be who is going to help – the most heavily and in a worst case, as written DoL implementation, right? No, softening whatsoever.

Broker dealers really get hit hardest, right? Their business models take the biggest hit, and they bear a disproportionate amount of the IT and the biggest change in their role and position with the consumer.

So, there would be a need for someone to get those advisors in those firms technically up to speed and have systems and products that are compliant, et cetera. That's something we're very good at, all right? So, the planning is operational, as well as product, as well as training. It's multidimensional, but, again, no desire to give competitors a view candidly on where that's going. That's - and then - and regulators don't allow us to comment on filings in the U.S., as they wouldn't here either.

So the comment on churn, I'm not sure where you're going there. So, the VA products in the United States, Jackson is the net sales, to be very clear. If you look at net sales tables, it's us. All right? So, we don't have a retention of consumer issue with Jackson. I think that goes to quality of product, it goes to who you do business with, okay? It goes to the returns, the policyholders have been able to receive by not capping the structure of the product with an unnecessary volatility adjustment, or a fee structure that the portfolio can't support.

So, the quality of the underlying product, this is true in the UK, this is true in Asia, gets you better retention. There is no way we win in this room of shareholders, if the client doesn't win. So, the U.S. product is very good. It is, by far, immeasurably the best in the industry, okay? So, we don't have a hype - we're not trying to chase our own outflows in the book. We used to hear, well, that's because you're a new entrant and all that. We've led the net sales league tables since we started. It's not just that. We now have a book at scale, we now have distribution at scale, we have all the elements that any of our peers do and we still have positive net inflows. And that's how you're getting earnings growth with us managing the total risk exposure to absolute sales.

Now, we're looking at that again. Taking a little more sophisticated look at our risk appetite in the U.S. and we'll keep you informed on that, but not all sales have the same risk, all right? So, one has a 3% guarantee, and one has a 5% that's two different risks to us and shareholders. So, again, we'll look at that but we don't - I'm not sure I understand the nuance of the churn?

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

I think the point that Farooq was making, if there are less moving parts, will there be more stability in free surplus of profit, and therefore can there be higher remittance ratio that was the question. Well, I kind of admire your optimism, I hope you're right.

Yes, there may be less moving parts, but there's still a lot moving parts, which is why in the past we've resisted from giving you targets, financial objectives for any parts of our UK business, because there we're selective, or any parts of our U.S. business, because it's cyclical. And so, that's - all we promise is that to do the best in the circumstances as we find them. And as I said a minute ago, there are still many moving parts that could influence those KPIs.

Now, as it relates to the remittance ratios, they're not the top numbers that they can be. We never said that that's the case. We have them in a place where it's comfortable in order to leave enough capital behind to buffer any market events. And they're also informed by what we actually need at the center. So, it's not, if you like, they're not indicative of the best percentage that at any given point in time we can deliver.

They've gone up and down, they've been higher, actually, at a time of crisis, which is exactly what you want, you want that flexibility at that point.

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

And just, Farooq...

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

On RBC, Chad, I don't know if you have...

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

The changes on RBC?

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

Yes. The changes on RBC, they're still not defined at this point. So, NAIC is kind of a slow-moving entity. So, I think we don't know yet exactly what they're going to do. It's going to take typically a few years to implement. And generally speaking, the direction they're heading would tend to, across the industry, move RBC a little bit lower, really depends on how they shake out. There's some differences between what's in the investment grade, non-investment grade world too, so they're just making it more granular.

I think wherever it shakes out, it's going to be similar to what we've seen in the past, which is, if RBC becomes – if the charges become more onerous and RBC drops, the industry will adjust and I think the rating agencies will adjust to the new normal there. It shouldn't really change anything in the long run.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. This is Gordon Aitken from RBC. Just on the reinsuring of annuities. You've reinsured some in-force annuities there. I just wonder what the difference is with reinsuring new business because obviously, you said you stepped away from that.

And the second question is on just, if I can understand the thought process behind the special because it's quite unusual for you to do this. I mean, if it's a one-off gain and then, yeah, pay a special, but this is a little bit different in the sense you've given some profit away to the reinsurers and it's a change in shape of the cash flow, so it's more upfront. And you mentioned a £25 million drag. So, is it to do with this or is it just a signal that our balance sheet is strong enough?

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

Let me address the one-off and then cover reinsurance in-force. I think the discussion on the boardroom is, as Nic said, we - the reinsurance was precautionary going into Solvency II. I mean, this was a work-in-progress until approval. And so, that being the motivation for this piece that effectively, to your point, pulled forward earnings, earnings belong to the shareholder, if you look to adjust for tax and they've been paid out. Okay?

It also goes to the general view though if we have excess capital. We've earned it, okay? We're open to paying it out. But again, it's earning it first. It's having it in-house first and then paying it. I've not seen a piece on risk-adjusted dividends. I think it would be an interesting, somebody's bored on a Sunday, it would be an interesting work stream on - but I think as long as we make our earnings from - our earnings driving dividend, and again, cash is driving dividend, we have a highly sustainable dividend relative to peers and we're doing that while we're growing the company at the numbers we've seen. That balance is critical.

But the first piece, I've been here when we had an unsustainable dividend, okay? So, part of that is personal experience. You should - we want you to be able to count on that. So, there's an element of - keep hearing this conservative coming up. Conservatism, it's real but we also understand at a point it's unnecessary. So, there's a balance in here and we'll keep working to that. But if we have excess earnings, we'll pay them out. And I don't think - there's multiple mechanisms we could have used, the U.S. there would have been a share buyback, that drives other metrics that may or may not be things you want to move. Cash is a simple, clear message. As your earnings, the pull forward, there you go.

And then on the reinsurance structures...

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

On the reinsurance there'll be - post 1 January, given that we cannot use - we don't have the benefit of a transitional. The capital that has to be priced into - actually utilized and then priced into an annuity contract going forward is very, very onerous. Where the interest rates were at the end of last year it would've been somewhere between 20% and 25% of premium. Where interest rates are today it's greater than that.

Now, in order to get the thing to work, even if you wanted to deploy the capital, you're reliant on huge increases in price. And you're reliant on quite a lot of engineering both in terms of removing part of the risk margin through longevity reinsurance, or asset side engineering as well. Candidly, I think there are easier ways for us to deploy our capital than to enter into that particular race. And that's why we haven't done it.

On the back book, candidly, it was to increase - clearly if you pass all the - I mean there are many factors, the fees were attractive, the tradeoff between the fee that we ended up paying to the reinsurer, and if you like, the pads that were released under the various capital bases were sufficiently attractive. At the same time, it increased our resilience.

Part of the reason that the sensitivity when interest rates are a lot lower in the UK, the sensitivity is unchanged in the UK is because having pulled the levers, we've muted that sensitivity to the impacts of the market effects. And that's part of the reason why at the end of February, we were only down about £1 billion.

So, you take all of that into consideration, we think it was the right thing to do for the back book. But for the front book, there are easier ways of using our capital than generating returns. And that's what underpins our stance in that particular space.

Q - Abid Hussain {BIO 17127644 <GO>}

It's Abid Hussain from SocGen. Two questions, if I can. Firstly, on China and Hong Kong, is there a risk the Hong Kong business is cannibalizing the JV in China, especially if I can just jump on a plane and go across the border and the trust in the rule of law is higher across the border. That's the first question.

And then, secondly, on the U.S., what is the minimum crediting rate on the fixed annuity back book? Or put another way, where would U.S. long-term rates need to be before you start making a loss in that book?

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

China, Hong Kong, Tony.

A - Tony Wilkey {BIO 19184129 <GO>}

Yeah. Is there a risk that Hong Kong's cannibalizing China with 1.3 billion people there, I'm not sure there is at this stage. I think it's probably worth noting that the Mainland Chinese consumers who are purchasing products in Hong Kong are slightly different. The lion's share of them come from Guangdong province, which is the neighboring province, formerly Canton, where the JV most of the business is actually coming from the Eastern seaboard, Shanghai, Beijing. We just opened a new branch in Hunan. And so, it's actually, it's a different geography. And it's actually – it's also a slightly different socio-economic. So, don't see any cannibalization at this stage.

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

Okay. On crediting rates. Two or three things to say on that. Firstly, in relation to the proportion of the VA premium that goes into the fixed account option, that goes in at a 1% guarantee, okay. So, the guarantee level is modest there. And we're able to effectively back it with assets that yield comfortably in excess of that.

In relation to the in-force book, and again, it's difficult to generalize, but on average, the guarantee is at around the 3% level. The assets backing, there is around – the crediting rates, on average, have about 20 basis points to 25 basis points headroom against that guarantee level. And they're backed by assets that deliver 240-odd basis points on top of that which is ultimately what drives after an RMR deduction.

It would only be an issue, and of course, they're backed by securities that are way you do, that produce that. And there is a good level of cash flow matching their own duration. The only issue would be is that if, for whatever reason, all these holders decided to extend well beyond the point at which we hold the assets. There are trades that we do to lengthen, if you like, the duration of that. And we've done that in the past where we needed to. So, no, we're a long way away from that being a problem. I don't know if, Chad, if there's anything you want to add to that?

Actually, people save for a reason. They don't save and they can't extend ultimately forever.

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

All right. We'll take the last two and we'll...

Yeah. Last two, Alan.

Q - Alan G. Devlin {BIO 5936254 <GO>}

Thanks. Alan Devlin of Barclays. Just one question on the Department of Labor. I know nobody knows what's going to happen to (99:10). But do you have any concerns on the in-force? You mentioned grandfathering because that would materially impact an earnings? Thanks.

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

Alan, there's no clarity on it. But, if you think about, earlier in our previous slide, it's actually around retirement services for one of the brokerage firms, Smith Barney, when it bought Shearson. You had art, antique cars, people's mortgages, oil and gas, limited partnerships, REITs, all these products have been allowed over the years in retirement accounts. It is unimaginable. It's possible, but when Barry talked about a political reaction, if you said that all of these clients by year-end, whatever the timeframe is, this all has to be put into a fee-based asset management relationship.

The political reaction to that, (100:01) would be severe. And I don't think the White House is looking for even the most extreme advocates or anti-advice, anti-active managements would see that as a good thing. But that would be the implication. Okay. So, that's the question on grandfathering. What is – and it's clearly an issue in the market. People are very concerned about it. The single best thing with DoL now is get it out. We can deal with whatever changes they make. I hope they're more consumer-centric than the first draft. But we'll – it'd be nice to know the rules and we'll go from there.

It's not helpful for the industry to be in limbo. And it's certainly not helpful politically for House Ways and Means, Senate Finance, Labor, these key committees to be in limbo. That's not an efficient process. So it's clearly coming to an end. But the grandfathering element would be, I think you'd see the other bill, probably (100:51).

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

Well, what you'd end up with – and this piece of legislation that's introduced in December with a broad democratic support called Roskam-Neal. If that legislation were passed then survived the Presidential veto, which would be almost certain, it will completely undo the rule change.

But again, the key there is that it's difficult even with Republican majorities, it's difficult to override a Presidential veto. If you had grandfathering, you would probably – speculation is you would see Roskam-Neal attached as an amendment to the Puerto Rican financial bailout, which the President cannot veto.

And so basically, it'd be okay if we're going to play nuclear options here. Here is the nuclear option from the other side. I don't think it'll go there. That's a very inelegant last 12 – think the half and the last 12 months of any Presidency. And I'd be surprised if they went there.

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

And if you think about, Alan, some of the securities that can be legally owned, it's forcing a client to sell at this point in the cycle. And some will, effectively would be forcing them to realize losses for no reason other than an arbitrary policy change. So it's possible. But again, I think it's fairly remote. We'll see. But the best thing for us, we're ready, let's get it out there, let's react. Let's get back to business, see what opportunities it creates, go from there.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning. Ashik Musaddi from JPMorgan. Just a couple of questions. One on UK. Can you give us some thoughts about where your UK capital ratios are at the moment? I mean you gave the Group number, 180%, but where would the UK number be? Would it still be above your comfortable level, which I think is around 130%? I think that's what you said at the Investor Day. That's number one.

Secondly, what is the fundamental spread on the UK Annuities book that is currently baked in in these Solvency II, and how does that compare to Solvency I? Just wanted to get a bit of sense about what the numbers are.

And thirdly is, can you give us some thoughts on where the variable annuity hedging costs are at the moment? It looks like there has been a recent spike because of lower rates and high vols. So, how does that compare with the guarantee fees that you are collecting? Thank you.

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

Okay. On the UK, it's in our range, it's in the range of that I highlighted in January. On the percentage of spread, it's 45%, that's what's coming through in the surplus. I mean, it's 58 basis points in the base. It's 172 basis points in the SCR, in the stress. And when you translate that into percentages, it's around 45% in the SCR.

What was the other question? On the hedging cost.

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

The hedging cost. Chad, you want to give us a...

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

Well, as you would expect, the hedging cost has gone up a little bit for certain transactions. Nothing so significant that it's impaired our ability to put the hedges in place that we think need to be in place and the program still performs well. I mean, in terms of the scale of the increase, I don't know if it's that easy to quantify actually, but...

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

I guess two things there. On rates because we're tending to be and have been for years, on a shorter end, call it, two years minimum on most of the hedges we're buying. In fact the long rates have come down. It's really not affected anything. Actually, two-year rate's actually higher than it's been for a while.

So, the rates side of it's been somewhat helpful. Volatility has actually been a fair bit lower than we saw last year. So, it's manageable from a short-term spike, and we adapt, I'd say, a very minimal impact.

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

Okay. So, with that, I want to thank, everybody, for your time today, your questions and appreciate your support. And we'll see you in six months. Thank you.

Operator

Thank you for joining today's call. Ladies and gentlemen, the call is now finished. Have a nice day.