S1 2013 Earnings Call

Company Participants

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

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Chris Esson, Analyst
- Farooq Hanif, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst

Presentation

Tidjane Thiam {BIO 7518525 <GO>}

Good morning. Welcome to our full-year 2013 results presentation. Prudential has delivered a strong performance in 2013 with double-digit growth across all our key performance metrics. We are pleased to announce that we have achieved all six of our 2013 growth and cash objectives.

As you know, we've been early in talking about cash, and we have been focusing on that metric since 2008. From a situation of great dependency on the UK in terms of cash and earnings in 2007, we are now in a position where each of our four businesses is materially cash generative.

We have also been able in parallel to generate we believe more growth than any other large cap insurance company. So we have not only talked about growth and cash, we have been able to deliver on that promise; and in the end, it is this delivery only that matters.

People sometimes are kind enough to refer to the quality of our strategy. I actually think that what is really unique about this Company and its team is our focus on execution and our ability to deliver consistently. A few weeks ago at the investor seminar, the motto was more of the same. Well, this remains our motto with a little twist this morning, which is more of the same, just better.

The renewal announced this morning of our strategic bancassurance agreement with Standard Chartered Bank is a good example of that; more of the same, just better. The previous agreement was already a good one, and in the past 15 years, our sales from this partnership have grown by 160 times.

The new agreement is a clear improvement on the previous one. It is longer, it is deeper and it is broader than the previous agreement. It's longer; this new agreement will run for 15 years. Where's Greig? So Greig, we don't have to have this banter about when does it end any more. 15 years. I can finally take that question with a smile. 2029. It's been going on for a long -- and thank you for your patience, Greig. You've been really -- he has been really good.

I'm flanked by some goodwill here. I know time will come. It's very transparent.

So it's a longer agreement. It's broader. It gives us access to 11 markets in Asia, and it secures exclusive rights to discuss bancassurance agreements in seven additional markets in the near future.

It's also deeper, because in a number of markets, we are strengthening our existing relationship as we move to either exclusive or preferred terms. And last but not least, as part of the agreement, we will work with SCB to explore some of the huge opportunities available to us in Africa.

Our teams know and respect each other. They work very well together, as evidenced by the growth of our business over the last 15 years, I've said 160 times. That is why we are confident that this new agreement giving us unfettered access to one of the best banking franchises in Asia, about 800 branches in the new agreement, is a milestone in our development.

With that, I will follow today my usual format. I will start with the highlights of our full-year results and then will comment on a few key aspects of our strategy. So as usual, there will be a focus on Asia, but we'll also cover Jackson and our businesses in the UK; the life business and M&G.

I will then hand over to Nic who will cover our financial performance in more detail. And I will come back at the end to talk about the outlook for the rest of the year and beyond, and we'll then take your questions.

As always, the executive team from across the Group are here, and they will do their best to answer any questions you may have. And I'm sure they'll have opportunities to intervene.

So back to 2013. IFRS operating profit grew 17% to GBP2,954 million. We wanted to reach GBP3 billion, but we stopped a bit short of that; but GBP2,954 million. We have often talked about doubling in four years for Asia where we have actually been able to double the entire Group in four years. We've gone from GBP1.4 billion in 2009 to close to GBP3 billion in 2013.

New business profit grew by 16% to over GBP2.8 billion, and within that, Asia has achieved the last remaining 2013 objective. You've heard me many times saying it was the most challenging. I believe it was. So it's been the last one in time to be achieved. And we're pleased it was achieved with doubling the NBP to GBP1.46 billion in spite of significant FX headwinds, so it's a good performance.

Now importantly, these earnings have been converted into cash, and our key measure of cash generation, free-surplus generation, is up by 18% to almost GBP2.5 billion, with again material contributions from all business units. And I'll come back to that.

Our capital position remains strong, and as we promised, that's another long running debate between us, we have today published for the first time our economic capital ratio, which is 257% for 2013. Nic will give you much more detail on this in his presentation. And our IGD Solvency I surplus capital remains unchanged at GBP5.1 billion.

It is this continuing strong operating and financial performance and robust capital position of the Group that has enabled the Board to rebase our dividend upwards by 15% to 33.57p.

So in a nutshell, these results demonstrate that the Group has been able to deliver on its promise of generating both growth and cash, but re objectives, we have achieved now all six of our objectives. In that process, the financial characteristics of the Group have been transformed, and all businesses are now remitting significant amounts of cash, and PCA Asia delivered over GBP1 billion of IFRS operating profit.

You're all familiar with this slide by now, we've used it many times, but it shows you also the change of scale that has been achieved in that period. Asia has more than doubled at the top there, both NPB and IFRS, in four years; Asia's cash remittance has increased 10 times; Jackson's net remittance has increased more than 7 times; and the UK has continued to generate large amounts of cash in a challenging context.

So we've tried to capture on one page then some of the key developments of 2013. So as always, I shall start by talking about our customers. Our progress in Asia has allowed us to acquire 1.9 million new customers in 2013. And I was in Hong Kong last week with Barry, and we did the calculation in our idle time, and we came down, if you take a 24/7 basis, to one policy every 10 seconds in Asia. You assume we work 24 hours a day, seven days a week. So I've given a new challenge to Barry, which is to beat Usain Bolt and break the 10-second barrier. We need to go to one every 8 seconds, or something like that; even better.

We have extended our distribution reach in Asia with the new agreement with Standard Chartered we have just described. We have conducted the integration of Thanachart in a very fast time, sold our first policy in May the first day after receiving regulatory approval. And our new Thai business, as you'll see later, is already making a material contribution to our profits. Across our bancassurance relationship, to give you a number, NBP in our sweetspot markets grew by 23% in the year, a pleasing result.

We have also achieved the long-running ambition of the Group by domesticating our with-profits business in Hong Kong, separating the UK with-profits fund from the Hong Kong with-profits fund. We have entered new markets in Asia. We have launched in Cambodia in February, or January/February? January 2013. And we've opened now a representative office in Myanmar.

Moving from Asia to the US, we have continued to innovate, as demonstrated by the success of Elite Access which generated GBP4 billion of premiums in 2013, triple the level achieved the year before. The REALIC acquisition we announced in May 2012 has been successfully integrated, and you can see its contribution to its numbers. It's been delivering above the expected benefits and it's contributed to enhancing and diversifying our revenue stream in the US.

In asset management, we've continued to expand M&G's presence in Europe, driving Europe in retail funds under management up 64% to GBP24 billion. And in addition to our well-known portfolio, PCA, Jackson, UK Life, M&G, we have entered Africa for a small acquisition in Ghana.

We also played an integral part in reaching an agreement with regulators and politicians in November last year on Omnibus II, a directive of Solvency II. This agreement provides more clarity we believe to you, our investors, and the capital implications of a new regime, and also ensures that we insurers can continue to play our role in financing the long-term capital needs of the economy.

Now this chart for us is just the translation in financial terms of all these actions we have conducted since 2008, and I think every year has been at least as busy as 2013 when you list everything that's been done.

2013 adds one more year to a track record built now over several years, and the first two bars on the left, we've left them on this chart because they're very interesting; they're empty because we only started measuring our sources of earnings in 2008. And those of you who were in this presentation at the time, so at the half year 2008, these results are being presented for the first time.

And what gets measured gets managed. We all know that. So since then, our focus on driving growth in fee income and insurance margin has delivered growing scale with improved quality, and 31% CAGR for those two categories together over five years. And they've moved from 38% of our earnings from 63% in a total that itself has more than doubled. So it's been really a very important part of our strategy.

In more simplistic terms just looking at cash, it's quite straightforward. From being highly dependent on the UK in 2008, you can see here, and even more in 2009, the UK knew it was contributing 40% of the Group's remittances. We are now a better balanced, well diversified Group, with material contributions from all our four business units, something we told you we wanted to achieve.

It is hard to overstate the importance of this transformation for the Group for the way we are able to run it, for our options in terms of profitable growth; and investments, something like the Standard Chartered deal, based on internal resources; as well as for cash rewards over time for shareholders.

Now achieving the 2013 objective, of course, represents an important milestone for the Company. However, you know us. We never want to be complacent, and it is a luxury, sadly, that we cannot afford. I wish we could. As announced at the investor conference in December, we have set ourselves new and challenging objectives, but underlying the scale of our continued ambition for this Group.

We are essentially looking to double Asia from this already larger and higher base, while also aiming to generate cash equivalent to one-third of the current market capital of the Group.

Now, of course, we have not given you the balance for 2014, 2015, 2016, because we do not want to forecast the shape of our trajectory, but this will be 4 additional years of hard work, and we are confident that we will get there by 2017, above GBP1 billion of free surplus generation in Asia; we've said between GBP900 million and GBP1.1 billion; GBP1.8 billion of IFRS profit; and GBP10 billion of cumulative Group free surplus generation over four years after funding significant growth.

Now, of course, a key consideration when we're looking ahead towards 2017 is the macroeconomic context. We actually believe that the macroeconomic environment today has become more supportive for our Group and actually largely validates our geographic focus. The stream of positive economic news that we have recently received in the US and the UK are good news for our businesses there.

I was reading this morning that the OECD is now at 3.3% for the UK, so it's all positive. And put simply, if you think about financial risk at Prudential, it is mostly sitting in Jackson and in UK, UK Life. And as the US and the UK economies continue to recover, and as long-term interest rates rise, accordingly, there will be a strong beneficial impact on both the profits of our businesses and their capital strength, in the US and in the UK.

Now moving on to Asia, of course, some of the currency weakness that we have seen in a few select Asian countries following the Federal Reserve tapering of quantitative easing will impact our reported financials in 2014, and Nic will provide you a sense of that impact. Looking at 2013 on spot rates will give you a sensitivity.

But the key thing here is I just want to make a very small number of high-level comments which I believe are important. In each country, we must keep in mind that we are fundamentally in local currency, and we have, so to speak, no cross currency exposure in their business model.

When we face the market, we're not a car manufacturer, manufacturing from a high-base country, high-cost country, having to sell into the Indonesian market. We do not import any raw materials. All our inputs and our outputs are local. Our assets and liabilities are matched in local currency. So clearly, there only remains FX exposure, as we all know, is non-economic; it is purely a translation exposure.

So Vietnamese dong plus [ph] rupiahs we're [ph] collecting, they're sitting there in our coffers. The only thing that changes is how many pounds that represents. And what matters in a long-term business like ours is actually the rupiahs and the dongs that we are collecting and the economic fundamentals in those countries, and we believe these are sound in our sweetspot countries, and we have evidence to support that.

In effect, growth has proven resilient in our sweetspot countries, and on the ground, our businesses in all these countries are doing well. As a result, on a local currency basis, we continue to grow strongly, and our view remains that over the medium to long, term currency values are highly correlated with GDP growth. So we are happy to be predominantly in a part of the world that grows faster than the rest of the world. That is a long-term positive of this stock [ph].

Clearly, Asia continues to be the main driver of global growth. There is, of course, the long-running debate around whether China will grow at 6.5%/7%/7.5%, but that margin of difference in China's GDP growth will not matter too much for Prudential and we have much more data to show you why.

And the relatively negative sentiment vis-a-vis Asia that prevails in financial markets today seems to us to be somewhat disconnected from the drivers of the real economies that we see locally via our businesses.

Now within this context, what really matters the most to us and to our story is actually what happens to the Asian middle class, which has been at the heart of our strategy for a few years. One of the most visible manifestations of the economic success of our sweetspot countries, so it's around our sweet spots, it's Hong Kong, Singapore, Malaysia, Indonesia, Thailand, Vietnam, the Philippines, has been the emergence of a vast and growing -- I insist on both -- vast and growth middle class, with high savings, low levels of household indebtedness and significant needs for protection. Frankly, that is an ideal combination for a savings and protection company like Prudential.

So here what we have is a simple way of I believe capturing the scale and sustainability of the opportunity. I have asked our team to track the contribution of the middle class to GDP in our sweetspot markets over a long period of time. We are 32 years here. As you can see, the Asian middle class's contribution has proven not only extremely resilient over this period in the face of several successive periods of quite significant macroeconomic challenges and upheaval, and we have named a few here; the Asian crisis in 1997/1998;

the Lehman collapse. What you see is a flattening, so you lose one or two years, and then it starts and comes back again.

So please keep that mental image in mind because a lot of what I'm going to say further refers to that slide.

Our strategy across Asia is focused on meeting the need for protection of that middle class, that straight line over 32 years. The demand for the insurance coverage that we provide to people, protection against illness and accidents in their lives, is highly correlated to healthcare and medical services spending.

So we've looked at the behavior of that. What you see here is it's a non-discretionary item. That is a good classification from the IMF; you have necessity, semi-necessities and discretionary. Healthcare sits in the non-discretionary and in the semi-necessities. So it's actually quite robust across the economic cycle, and we see that several times this morning.

Over the 20-year period shown here, 1990 to 2010, it stays stable; 6% to 7%. That's not a huge movement. But the more interesting thing about Asia is always to look at the absolute numbers. That 6% was $28 billion in 1990/2010. It's now $92 billion. It's grown 3.3 times. And that is really for us the central theme of the Asian story.

And looking forward, there are some really solid projections that it's going to go in the next 20 years to $250 billion. So it's going to treble again. So typical of Asia, it would have gone from $28 billion to $250 billion in that space of time.

And you've seen the next chart several times. We've used it. We probably had a 2008 Investor Day, if my memory serves me right, in Hong Kong back then. It will vary, but it shows you the out-of-pocket expenses. We've been using it time and time again but it says an important thing.

There are a large number of customers facing an accident or illness risk for which they may be substantially out of pocket; or in other words, a protection gap. And this is a great opportunity for insurance companies.

It's a great opportunity for an insurance company to come in and offer coverage that will benefit not only those who buy it, but also society at large, whilst generating good returns for shareholders.

To summarize, there is a huge and growing unmet demand for protection in Asia. Penetration remains low in a market that itself is going to continue to grow very strongly. So you're starting from a low base in something that itself grows very strongly.

So this pie will continue to grow faster than our ability to eat it, which is an expression that I borrowed from Barry, but I think it's very accurate in describing what we face. And I think Barry has a project; he's developing a pin, I saw a draft of it, which says I like pie.

So this vast opportunity, of course, has not gone unnoticed. We don't believe that we are the only ones who know this. Anybody who has access to macroeconomic data can run those numbers. And a lot of companies have woken up to the Asian opportunity and are trained to capture it. Indeed, there are more than 200 insurance companies present in Asia today. And the market is constantly seeing a stream of new entrants.

So why do we believe that we will continue to be a winner? If I had to give you a one word answer, I would say distribution. Having quality and scale in distribution is an absolutely necessary condition; not sufficient, but certainly necessary for success in capturing the huge opportunity created by the emergence of this vast middle class.

And our philosophy, when it comes to distribution is pretty straightforward and simple. We actually only have one model. It's face to face. We believe in face to face, needs-based selling, and this can be done through two different channels; by our agents, or by our financial service consultants in partner bank branches. But, fundamentally, it's the same commercial transaction taking place.

So starting with agency. This channel, as you see here, is going from strength to strength. We now have over 280,000 agents in our sweetspot markets. And over a 5-year period from 2008 to 2013, we have tripled the number of agents in these markets while improving their productivity, as measured by sales by agent by 31%. Triple agents; 31% more productivity. This is why we believe that our agency force is a very significant competitive advantage in and by itself for us.

And this is only the beginning. There is significant potential for long-term sustainable growth of agency distribution in Asia. The education systems of the countries where we operate continue to produce vast numbers of motivated young graduates, significantly in excess of our needs. And over the years to come, the multiplier effect of higher headcounts and constantly rising individual productivity will continue to drive higher levels of profitable growth for us, allowing us to strengthen and deepen our competitive advantage and our well established leader position.

Moving away from agency, we remain very optimistic about the growth for our network of bank partners, and partnerships with banks are essential to our strategy, but because of their long-term nature, they are an art, not a science.

So we take a cautious approach. We often get a lot of questions why don't you do more, are there enough partners. Well, we take a cautious approach to choosing our partners because we know what it takes for such partnerships to be actually successful. And we broadly follow three principles.

The first one is that our partners must have a long-term commitment to our markets, and be willing to invest, to grow their franchise through good times and bad times, just as we do, as that is the recipe for long-term success in Asia. We told you a number of times we're meeting with Asian officials, and they tell us, well, of course, you're Prudential, you're different because in 1997/1998 you didn't move; you stayed with us.

That means a lot in the context of how we operate. We do not want to go with people who will be flavor of the month, push emerging markets when you're a number 4 [ph] in Europe [ph]. That doesn't interest us. And that shrinks our universe.

Second, our partners must be focused on building a successful business in the long term. That's really important. There are banks that understand that the value of a partnership is in building a large, growing, successful, profitable business, aimed at revenue stream, but over time, this will generate rather than in trying to extract the largest upfront fee possible.

And this is a really interesting point because we'll have later a discussion on upfront fees. You look at the economics of it, it's a small fraction of the economics of the deal. There are banks that understand that and those that don't. The deal succeeds or not depending on whether you've been able to build actually a proper business. That's where the income and the revenue stream over 15 years -- just think about 15 years comes from. This is an initial payment [ph]. So we are only interested in people who understand that because that's what we want. We want to build a successful and sizeable and material business together.

And we believe that -- I made there an analogy. A partnership is a bit like a marriage and auctions are not a great way to choose a spouse. Our partners are banks that share our focus on performance and on the bottom line. That cultural alignment ensures that they will not ask us to do things that do not make sense, such as selling products that are unprofitable for us.

And, frankly, to be candid, we've had a few of those situations and we try to get out of them. It just doesn't make sense. You are constantly asked to give money away. That's not what our shareholders pay us for.

And we don't like partners who say, oh, it would be great if you provided our customers with a product that has a minus 20% margin. Of course, I'm sure the customers would love it. But that's not what we do as a core business. It's just a very unproductive setup which doesn't work in the long term.

So those are the three principles we look at that, and we apply these consistently and they guide us in selecting our partners.

So you've seen UOB in 2010; Thanachart in 2012. These more recent partnerships are performing well. Sales at UOB have quadrupled, sales in inception in 2010. And when we used to talk to Wee Ee Cheong [ph], the owner and leader of the bank, he would say, well, I obviously like business; I'm convinced there is a huge potential there. I want you Prudential to come in and transform this business. Now that's music to our ears.

He never talked about a check [ph]. He didn't care. He's really happy. I saw him in Singapore two months ago, really happy because the business has quadrupled. Firstly, he makes much money from that than from the initial check. Bank Thanachart I will come back later.

Now our partnership with SCB is, we believe, the best example of why these principles matter. It has delivered significant growth since inception. Over the last decade, APE has grown by 19% CAGR and has been multiplied by 6 times. But the most important fact about SCB is that in spite of all this growth, our penetration of the SCB customer base is 3%. So that is why we are happy to renew our agreement for another 15 years.

The new deal we are announcing today provides huge headroom for growth in a partnership with a proven track record. This not only needs to be proven or started between two new partners, we've been working successfully with them for 15 years, so we know what we're buying. And here again, with 3% penetration, this pie will continue to grow faster than our ability to eat it.

So we said distribution. The strength of our distribution, the product of our quality design allows us to deliver to our customers a product at a very affordable cost. In this slide that you also saw in December, we show you the example of Indonesia to illustrate that we are able to health insurance coverage at an affordable cost, 5% of income a year.

So we've been able to grow strongly over a long period of time. Due to a combination of factors, we have a strong and growing demand for savings and protection products, I covered that just now; the unparalleled distribution power that we have, I've just talked about that; the right products; and a fourth factor, which is our geographic diversification. And the resilience of these sales in 2008 and 2009 when many predicted they would collapse, as well as our growth since then, are visible on this slide.

Before I leave this slide, I'll just leave you with one statistic. You will have seen in Q4 of 2013 we did GBP602 million of APE. In the whole of 2005, we did GBP568 million. So that's not such a long time ago. So we did in Q4 of 2013 more business than in the whole of 2005. So that's the kind of performance we have achieved at a regional level.

Let me now use a few country examples, and I will talk about Indonesia, Hong Kong and Thailand. I know it's a bit unfair to all our other territories where people are doing great things, but I'm sure you intend to have lunch, so I've only taken three countries.

Let's start with Indonesia. Our Indonesian business is in great shape. We have a leading market position with over 197,000 agents. I always feel a bit dizzy after I say that, 197,000 agents in the country; and access to greater -- and I should mention also for those of you who've [ph] been to -- 2008 we went to Jakarta, Rinaldi, we also have [ph] Rinaldi in Indonesia who is absolutely an amazing asset in himself; and access to greater than 700 bank branches.

In 2013, we continued to grow our sales further. We have extended our reach across the country and we've showed you the maps outside Jakarta. We believe we are offering the right products at the right time through the right channels. And at this stage of the development of that economy in that country, demand for savings and protection products is actually very, very strong, and that is why we achieved such high wider attachments to our policies, our savings and investment products.

As I showed you earlier, the product is affordable, costing 5% of a customer's income. So not only are our products good value, we also provide high levels of customer service. Our unique PRU Hospital Friend, concierge service, much appreciated by customers, is now available at 3 times more hospitals than in 2012.

And we do that profitably. In 2013, IFRS profits in Indonesia grew by 23% on a local currency basis, demonstrating the strength of the fundamentals that are driving our business; 23% on a local currency basis.

Now that is all fine, but that is the past, and I know something about you is that you are mostly interested in the future, so just to say a word about that.

By 2030, the middle class in Indonesia, which is now 45 million, of this we have 1.9 million/2 million customers out of 45 million, is expected to grow to 135 million. So we are not at risk of running out of growth any time soon in this market, and we will continue to focus on delivering quality products and service to a rapidly expanding customer base. Here again, the pie will continue to grow faster than our ability to eat it.

But not only are we growing in markets with low insurance penetration, we're also making strong progress in so-called -- and I insist on so-called because that's not how we call them -- mature markets as Hong Kong. Well, over the last four years, in this so-called mature market, we have more than doubled IFRS operating profit in our life business by growing the scale of the business, acquiring new customers, and at the same time retaining existing customers.

In 2013, our APE grew by 23%, again in this so-called mature market, driven by increasing demand for our products, the increasing cases sold by agents, as well as higher case sizes. That's one reason Standard Chartered Bank agreement is so pleasing because it's very strong in Hong Kong, and Hong Kong is a great place to be, quite frankly.

The strength of our product and service proposition in Hong Kong allows us to achieve customer retention rates in the high 90s; that leads directly to profitability. And it's a great place to be where we do very well.

Moving on from Indonesia to Hong Kong to Thailand now, which is the second largest economy in South East Asia after Indonesia by GDP. Indonesia is about 300 [ph], Thailand is about 380 [ph]. I told you in the past that we were frustrated that we didn't have a material business in Thailand and that had been a gap in our original strategy. We're very pleased to say that we are now well on the way to achieving this.

Our strategy in this market has been to improve our historically underweight position by strengthening our presence, and that was deliberate, in the fast-growing bancassurance channel, as we knew that the agency channel was challenged, and the statistics we see every month confirm that.

Our partnership with Thanachart, which launched in May last year, has simply transformed the scale of our business in a very short period. From integration to execution, the local team has delivered the plan flawlessly, and we're very pleased that every single employee of Thanachart decided to join us. It was a great compliment. And the detailed preparations conducted prior to the official close enabled us to sell our first policy on the first day of launch.

As can be seen here, this has transformed the business. We visit all those countries and I guess there always has to be a last one, but visits to Thailand was always a bit challenging because Thailand was simply 11th out of 11 countries, so you go there and try to motivate them. But they've jumped in one go from 11th to 6th. Now it's sixth largest country by profit in Asia in one year, and that is with only eight months of contribution from Thanachart.

So we like to get the businesses to compete one against the others. So we see with Thailand there's now more status in the PCA meetings. And at the rate is going, we're telling the top 4, watch this space. It's a big economy, great distribution with Thanachart. They have the fifth largest branch network in the country and it's a great position to be in.

So we're very optimistic about the longer-term prospects in Thailand, despite -- and this is all despite the political turbulence that you have all seen in other countries in [ph] 2013.

Now I've talked about the commercial success that we are enjoying in each of our countries, but a significant part of our story in Asia is also about the growing profit momentum in Asia and that this growth is increasingly profit and cash-rich. From this slide, you can see two distinct phases. I'm going to talk about the first phase first.

2005-2007. From 2005-2007, we're showing you in gray APE, and black profit. APE grew by a lot, 86%, while unfortunately, IFRS profit over this period grew only by 2%. So there was a lot of growth but without much profit or without much cash. We may [ph] come to this point later. I'm sure we'll talk about the dividend, but it's very relevant.

From 2008-2013, APE sales grew by 81%, and IFRS profits quadrupled. Now this change in the profit signature is the result of all the work being done by Barry, by his teams, in each of our local businesses, and our focus on delivering growth and cash, which did not exist before. And you can see what progress we have made in recent years very clearly on this slide.

In 2007, most of our businesses in the region -- this shows you by profit band [ph] if you watch the countries; below GBP50 million, GBP50 million to GBP200 million, above GBP200 million of contribution in IFRS profit. In 2007, most of our businesses in the region were in the lower divisions. They were not generating materials profits, and only one business, Singapore, generated more than GBP50 million of earnings. That is not a long time ago. That's 2007. That's yesterday.

Three of our established businesses at the time, Hong Kong, Singapore and Malaysia, the old established businesses in the region, back then contributed 97% of PCA's earnings. So really, the rest did not exist in terms of profitability. 97% of profit came from three countries.

We've made some progress since then. Our younger businesses is a completely transformed picture. Indonesia, Thailand, Vietnam and the Philippines have together grown their profits 6 times since 2007. Indonesia, Thailand, Vietnam, Philippines aggregated have grown their profit 6 times since 2007.

In the same period, profits from our more established businesses, the historic three I mentioned earlier, Hong Kong, Malaysia, Singapore, have actually trebled. So really, they haven't done badly at all. They have trebled. However, thanks to the growth of the rest of the portfolio, they now contribute less than half of our earnings.

So when we talk about diversification, that's what we mean. Three businesses that used to constitute 97% of our profits now constitute less than 50% of a much higher total because the total profits have also increased in that period.

So these are fundamental answer to those who sometimes are dismissive of the so-called smaller businesses. We have a proven track record of converting these so-called smaller businesses into material contributors over time.

Now interestingly, four of PCA's local business units, if you take the top four there, Hong Kong, Singapore, Malaysia and Indonesia, if they were listed at UK life insurance key multiples, which may be a bit harsh, would be FTSE 100 contenders. But I believe we have better profitable growth prospects than many life companies in the UK. So just hold on to that thought.

We are encouraged by many of our newer markets. It is again easy to be dismissive of a potential in markets like Myanmar or Cambodia, but we believe that in time they will follow on the same trajectory as the likes of Malaysia and Indonesia. Our tried and tested model is replicable and has been proven to work across Asia, and we've been able to transfer it again and again and again.

Now in the next two slides, what I've used before -- but sorry, the important one, I just want to reuse it; then please bear with us -- they illustrate fundamental point; the resilience of our sales and the importance of our regular premium product through our strategy, which is also directly linked to the quality of our distribution. You can only sell regular premium if you have a good sales force.

First, single premiums. We know they are volatile across the economic cycle. They dominate in Western insurance markets making the sales of Western life companies volatile. And Asia is no exception, and you can see it on this chart, our single premium sales have been volatile.

But the central point we want to make is that the regular premium products have tracked -- in red here, have tracked over two decades since 1995; very much the middle-class aggregator I was showing you earlier, that straight line.

These regular premiums contribute again 90% of our sales. Regular premium contracts are an ideal vehicle for long-term savings, and they remain a product of choice for Asian savers. They address perfectly their growing demand for savings and protection, and help them to make small but regular contributions to protect and save for themselves and their families. And Nic will have a flow chart showing you the flows in business, and you will see the contribution and the strength of that regular premium business to our numbers. And this largely explains why our sales have been resilient across so many economic cycles.

But again, in spite of all this growth, the potential for further growth remains very significant, as the penetration of these products for which demand is strong, is still low. So this pie will continue to grow faster than our ability to eat it.

Now we often talk about our financial numbers and performance and emphasize it, but finances are only a convenient representation of reality of what we do, which is to capture a historic opportunity for disciplined execution.

We believe that the trajectories shown on these charts can continue long into the future. We have the right team to deliver sustainable long-term profitable growth for our shareholders.

Now let me illustrate this point by giving you an insight into how we think internally about our new markets' long-term prospects. Now this slide shows you some of the key outputs of one of our internal business plans for one of our smaller markets, really small. When I say small, you can see here 1,100 agents, 6,000 customers -- sorry for laughing; more than 15,000 policies, an APE of GBP1 million.

Now we believe that over the next 15 years in this market, we will multiply our agency sales force by 100 to 200 -- 150 to 200 times, grow our customer base by 30 to 40 times, and issue more than 150 to 200 times the policies today, in the process, of course, growing this market's APE by 400 to 500 times.

Now it's still early in the morning, but I know many of you at this point are thinking that this looks crazy and that you are looking at a slightly deranged management team here. Well, now here's a fact. I'm afraid I misled you slightly involuntarily. This slide is actually not about the future but about the past. It is not a projection, it's an actual result.

We have delivered this performance, and the market where we have done this, as you know, is Indonesia. Go back 15 years from today, 1998, you realize the amazing transformation that this business has undergone, and this has been repeated by us in other markets in Asia time and time again.

So my apologies for teasing, but really this is making an important point, because we've faced the disbelief, that skepticism, time and time again when we talk about those exponential curves and the power of compounding. All the mathematicians in the room know the power of compounding. But the human mind can't convert a 40% CAGR in 160 times. It's just an operation we don't do very well.

So that's what we want to illustrate here. We believe we have a proven formula for driving profitable growth. We believe we can replicate our historic success in new markets while continuing to drive our existing operations to new heights.

So what we have shown here in this slide is a picture of Indonesia at two points in time, 14 years apart; a central point; 1998 and then 2012. You can see here life insurance premiums have gone up 4 times, GBP2.6 billion to GBP10.2 billion, but the life insurance penetration is still quite low. After this phenomenal growth that I've showed you. And, oh, you're going to run out of room; you're going to slow down, blah, blah, blah, we have a lot more to go for here. Penetration is barely above 1%.

So the pie is growing faster than our ability to eat it. I'll repeat it 10 times today. That's all you need to understand about the Asian business. The pie is growing faster than our ability to eat it.

So stop worrying about how much we're going to eat. Our problem is not to get an indigestion. We have so much pie the really the issue is not is there enough a pie. It's stay disciplined, don't grow too fast. That's my point, ladies and gentlemen over there, because it could go twice faster. It's really about maintaining the quality of the growth and the quality of the distribution so that we build, not on sand but we build on solid foundations, and we have a profitable, sustainable business going into the future.

So the big three examples. We can replicate this. In Thailand, I've showed you, we're nowhere; we're number 9 with a small market share. In the Philippines, we have -- well, the normal chains [ph] are what, I think 8,000 agents now? Yes, Barry? 8,460, something like that. The number changes every day. And in Myonmar, where we don't even have a business, we can replicate this success.

And just note that these three countries, which like I say [ph], where is the potential for growth in Asia, have the same population as Indonesia. All right? So we believe that the long-term potential in these markets in terms of absolute size is often underestimated. Each of these countries, in 10 years from now will be very much a real force, whoever is standing here and giving this presentation. I take [ph] the commitment.

Our 2017 objectives, which we are absolutely focused on delivering, are a milestone on this journey. However, the journey will not end in 2017. We aim to deliver the same profitable growth trajectory for well beyond the period that most observers habitually forecast.

So to summarize and conclude on Asia, there's two messages. One, it's obvious that there are a few short-term challenges for a number of its economies, but we believe that the fundamental drivers we've talked about this morning are intact, and that this pie will continue to grow faster than our ability to eat it, and for a long time.

Two, we are in a unique position to take advantage of this significant opportunity, thanks to the growing scale and quality of our distribution, our main competitive advantage; and thanks to our focus, more importantly, on execution and delivery, and to the quality of our teams.

So so much for Asia. Let me now move to the US.

Jackson continues to be one of the strongest players in the US life insurance industry and has delivered high returns on equity while maintaining a conservative balance sheet.

The success that we have enjoyed in the VA industry results from the discipline with which we have implemented our strategy and from our focus on writing only value-creating business at every point in the cycle. And that has led us over time to very interesting discussions at these presentations; and that's a central point, writing only value-creating business at every point in the cycle.

One way to demonstrate the quality of Jackson's in-force book of policies is to look at the vintages based on the equity market levels, as measured by VA 7,500 [ph] at which our business was written.

As you can see here, over two-thirds of our book was written at levels below 1,400 of S&P so 25% lower than current levels. Importantly, our customers are happy. They have seen their account values grow. In 2013 alone, their average account value grew by 23%. And it is a good rule of thumb in insurance that delivering value to customers avoids adverse policyholder behavior.

Jackson continues to innovate and the growth of Elite Access to over GBP4 billion of premiums in 2014 is [ph] proof of the contribution of non-living benefit VAs, in red here, to over 30% of total VA sales. The combination of the pricing changes we've done almost every quarter, and also in 2013, the rising long-term interest rates at the end of the year, have pushed our new business margins higher. As shown on the slide, overall margins on VAs are at 76%.

However, just keep in mind that these margins from one year to another on this chart are not entirely comparable because the product mix has evolved significantly in the period due to the rapid growth of Elite Access in the last couple of years. Within the 76%, margins on our guaranteed variable annuity products are at all-time high, which is why we are very comfortable writing this business today in volume.

The long-term consistent approach that Jackson has taken to the annuity industry in the US means that it is now generating sustainable and significant cash flow returns [ph] for shareholders, which is our ultimate yardstick across the Group and across the BUs, so undeniably a good performance from Jackson, and thank you, Mike.

So let's now move to the UK, and there -- UK Life and then M&G. As we showed at the investor conference in December -- I'm ,sorry but I'm afraid from now on, I'm going to have to use this chart every time I talk about the UK life sector -- the industry has been generating significant net outflows for the last five years, and Nic will come back to that in his chart regarding our sales -- equivalent to almost 14% of industry's assets under management.

These assets have largely been thrown into the asset management industry, which has provided simple, transparent savings products that meet customer demands. Our strategy therefore in this shrinking market is to focus on a few products, for us with-profits annuities, where we have a clear competitive advantage and can deliver genuine value to customers and shareholders.

As the left-hand side chart on this slide shows, our with-profits product has delivered strong returns over the last 10 years, outperforming its benchmark quite significantly by 49%. This outperformance has translated into good returns for our policyholders, with cumulative bonuses paid over the last 10 years of over GBP22 billion, as you can see here on the right, and the with-profits capital position remains strong. At the end of the year 2013, the inherited estate was GBP8 billion.

Now moving on to retail annuities. Of course, a lot of attention has been devoted to annuities in the run-up to a thematic review published by the FCA's last month. We were, of course, as you would imagine, closely involved with the review work, and we support fully the FCA's efforts to improve the functioning of the annuities market. This is a key and important and core product for our pension system and for our Company, no doubt about it.

Prudential's annuity product proposition actually, we believe, is strong. The chart on this slide shows you some data, the speed of our retail annuity APE in 2013 by type of annuity provided to our customers. And I'd just like to make a few points here.

First, 37% of our annuity APE comes from the external market; in other words, from customers who have shopped around and decided to buy an annuity from Prudential because of the competitiveness of our offering.

Second, our enhanced annuity proposition, and probably we haven't talked about it enough, is doing well, and has grown by 12% in 2013, a good growth. So again, I'm not saying that there is no growth in the UK. There are niches, there are segments; if you want, can grow and profitably.

And third, of the remaining 60%, Asia at 37% and (inaudible). Anyway, the remaining 60%, let's call it 60%, of annuity APE that comes from our existing pension customers, the majority of these, about 60% internally, 80% either have variable guarantees by our market-leading with-profit leading annuities, which have income trace annuity which gives them a choice to either take some cash or take an annuity, qualify for enhanced annuities, or have pension pots less than GBP30,000 where our rates are quite competitive. And we're quite competitive there because these are people we know well and we feel very comfortable pricing their longevity.

When we get outside business, we're always worried about an anti- [ph] selection and we're just more cautious in pricing. And it would be great if we could move the debate, the public debate, away from pricing because there are many, many other criteria in buying an annuity.

And I'm sure we'll talk about it, but the robust [ph] -- the business, run some numbers, if you look at the value of the embedded guarantee, the guarantee annuity options in the old (inaudible) the people go [ph], it's very significant. The examples I've seen, there's value in that option. They are getting 18% to 50% more value than the average external market price. That's the untold story.

So the 60% of people who are investing internally, we can absolutely demonstrate that 80% are getting a better deal internally than they will get from the marketplace. We have all the data; very confident taking that challenge.

So on average, our internal customers, sorry, are not stupid. They shop around, about 80% of them do. They are very aware of the open market option. They make a rational conscious decision which actually we believe is the right decision because we have the data to support it. They take the best deal for them. Those after 20 years with the Pru stay with the Pru. And we actually give our internal customers annuity rates that are higher than those that are available externally. That's the position of this Company.

So we welcome the FCA's thematic review and we're working closely with the regulator and all the stakeholders to deliver a best outcome for customers. Clearly, there are issues there. For instance, the below 10,000 pots, yes, there is something to be done there. Probably Sergio Bardino [ph] made a statement Monday about that. There are things that need to be improved. We're not sitting -- standing here saying everything is perfect, no, but we're just saying, we need to keep the thing [ph] in proportion, and this business has been run very responsibly.

Now like every part of the Group, we remain focused on cash generation, and the UK has done well in that respect in a challenging again environment, continuing to deliver tangible value to shareholders, as you can see here. In 2013, the UK remitted GBP355 million of cash. It's nothing to sneeze at, achieving it objective of delivering GBP350 million by 2013, as we had announced at the investor conference in December.

You will remember that Jackie shared with you in December again her early thoughts on the business. She's reporting to the Board in the Second Quarter on the conclusions of her review, and we will share any relevant conclusions with you in due course. But to be clear, what you should expect is evolution not revolution, as Jackie made clear in December in her presentation.

Moving on to M&G, which is where we've seen more growth in the UK. M&G has growth from its roots as a UK-only asset manager to building a large diversified business over the last decade. You can see the results of this strategy on this slide.

M&G has not only continued to grow in its home market with retail from funds under management in the UK more than trebling in the last five years, but it has also been able to diversify successfully into Europe where funds under management have grown by almost 8 times, 7.6 times here.

This has led to total external retail assets under management growing by 3.5 times, with higher-margin external assets currently accounting for more than half of the total funds under management, a rare position for an insurance company.

This geographic diversification has gone hand in hand with diversification both by asset class and by type of client. As you can see here on the right, the external funds under management is roughly split equally between retail, shown at the top, and institutional, shown at the bottom, with good diversification between equities and fixed income and other asset classes.

This lent resilience to the business, and positions M&G well, we believe, to perform across economic and market cycles. Underpinning this success is of course strong investment performance, and yet as of December 2013, 69% of retail funds under management were above medium over 3-year period, which we believe is an appropriate period to judge performance, and 100% of the institutional segregated fixed income funds were above their respective benchmarks.

The successful execution of M&G's strategy has resulted in IFRS profits growing by 1.7 times over the last five years, so here almost doubling over five years. So if I dare say so, Michael and his team have generated Asia-like performance in a European context. In 2013, M&G's IFRS operating profits grew by 23%, driven primarily by a 22% increase in external retail funds under management.

I'll just stop here and say a few words. I know I'm in the UK section, but I just want to say a few words about Eastspring and asset management in Asia. Eastspring is also making good progress. It delivered IFRS profits which are 9% higher in constant currency terms over -- year over year. We are focused on building organically a world-class Pan Asian asset manager, and we remain a leader in our industry in that respect.

Our entry for asset management into newer markets where we already have significant life business expertise, such as Indonesia, augers well for our future growth in asset management across the region.

Let me now turn in the final section to the operating performance of our four business units and how it has translated over time into returns, into growth and cash for shareholders.

Over the last six years, and you're familiar with this slide, free surplus generation, our key measure of cash, as you know, has more than doubled and dividend payments have more than trebled. And today's upward dividend rebase is the direct result of a strong operating and financial performance of the Group.

Now I do not want you, please, to read too much into a sequential upwards rebasis of our dividend over the last two years. This reflects the strong financial performance of the Group in that period.

Our dividend policy remains unchanged. We aim to pay a progressive dividend, and the Board will consider a periodic rebase if, and only if and when we can demonstrate a capital and cash headroom following our internal and stringent stress tests, and those really cover a range of criteria, so we are actually very stringent and do not just look at one metric.

So with that, let me now hand over to Nic, who will take you through our 2013 results in more detail.

Nic Nicandrou {BIO 15589153 <GO>}

Thank you, Tidjane. And good morning, everyone; just about good morning.

In my presentation, I will provide you with a detailed look at the drivers of our performance in 2013, with a particular focus in IFRS profit and free surplus generation, the two measures that underpin our new 2017 financial objectives. I will also give you an update on our balance sheet; then take you through the new economic capital information.

Starting with the financial headlines, we have delivered a strong performance in 2013, building on the positive momentum of 2012, and accelerating through the second half of the year. Our disciplined execution has enabled us to report double-digit increases in all of the profitability metrics shown on the slide.

So as you can see, in 2013 new business profit increased by 16%, IFRS operating profit was up by 17%, with all geographic regions delivering over GBP1 billion for the first time. Embedded value operating profit rose by 29%, and free surplus generation was also higher by 18%.

The growth that we have enjoyed over the last few years in Asia and the US means that the proportion of the 2013 results transacted in sterling ranges between 10% and 40% of each total, depending on the metric.

Sterling appreciated markedly in the second half of 2013, but the use of average exchange rates means that the translational effect on our reported results is relatively muted at between 0% and minus 2%. And I will come back to this shortly.

Working in the other direction though, our operating results have benefited from rises in both equity markets and long-term yields. We saw this effect come through the half-year numbers, and this tailwind persisted through the rest of 2013. Now I will point out the areas where this is most pronounced as I step through the presentation.

Looking at the contribution to each financial metric from our four businesses, you can see that the 2013 improvement has been broad-based. In presenting this slide, I remove the currency distortions in order to give you a clean underlying business performance.

Asia has delivered strong double-digit growth across all measures, highlighting again the benefit of our focus on regular premium business, with a strong bias towards health and protection which is less prone to market movements, and is underpinned by the favorable long-term structural trends that Tidjane has already outlined.

Our US business has delivered another excellent trading performance reflecting the more positive investment markets and economic conditions. These improved results were achieved while managing both the size and the mix of VA new business sales, reflecting our approach to balancing value, volume, risk and capital generation at this point in the economic cycle.

In a year of considerable market disruption, our focus in the UK on value and cash generation over volume has seen us sustain our IFRS profits and grow free surplus generation.

Finally, M&G continues its strong track record of attracting flows, and this has driven increases in funds under management, earnings and cash.

Our overall performance in 2013 demonstrates the quality of our new business franchise, the resilience of our in-force book, and our ability to deliver growth in both earnings and cash.

I want to deal with the currency translation effect early in my presentation, as I know this is front of mind for many of you. I mentioned earlier that we use average exchange rates to translate our local currency results into sterling, and that this convention has only had a muted effect in 2013.

The full impact of the currency falls that we experienced in 2013 will progressively come through the reported 2014 sterling results. It is difficult to predict what the actual impact will be, as we will only know this as we move through 2014.

So what I have illustrated on this slide is the effect that using year-end spot rates would have on our 2013 IFRS and free surplus results, which would have been 6% and 5% respectively.

As the pie charts illustrate, the Group's overall reported results are mostly exposed to US dollar currency movements. This is also true of Asia results, where the largest contribution comes from countries whose currencies are either directly pegged, or managed by reference to US dollars.

Please bear in mind that our exposure to foreign currency is purely translational, reporting the fact that we report our results in sterling. We're appropriately focused on running local currency businesses in each of our markets, and we do not take any transactional cross-currency exposure.

As Tidjane has already said, we believe that in the long term, our exposure to currencies in high-GDP growth countries will be a source of future value for our business.

With that covered, I will now move to our 2013 results, starting with IFRS.

Our IFRS operating profit from Asia has exceeded the GBP1 billion level for the first time. Excluding the one-off gain flagged last year from the sale in our stake in China Life of Taiwan, Asia's reported IFRS life profit was up 17%, or 20% on constant exchange rates. Life profits have benefited from strong contributions by the faster-growing markets in South East Asia.

Taken together, our four largest business in Indonesia, Hong Kong, Malaysia and Singapore, delivered double-digit growth, producing GBP748 million of IFRS profit, exceeding the contribution from our UK life business for the first time.

Our smaller fast-growing businesses in Thailand, the Philippines and Vietnam, have also made encouraging progress during 2013. On a combined basis, they accounted for over half of the increase in Asia's life profits, contributing 12% of the total, up from 6% the previous year.

We continue to grow the scale of our life book in Asia, which we measure by reference to policyholder liabilities, as shown on the chart in the top-right in your books.

During 2013, the addition of another sizeable cohort of regular premium policies, combined with a lower exit rate from in-force, has generated net life inflows of GBP2.3 billion, equivalent to 12% of opening reserves. This is a new high, and it is the first time since the crisis that we have seen net inflows above the GBP2 billion level.

What this shows is that in a year when many commentators have expressed fears about the economic outlook for emerging markets, customer behavior on the ground has not been impacted. If anything, retention improved in 2013, as illustrated in the slides charting the surrender and partial withdrawal rates that are included in the appendix.

Investment market and other movements have been net positive, contributing further to the growth of our book. While in local currency terms the stock of liabilities is not impacted, you can see on the chart the effect of translating this back into sterling.

So the dynamic that I have referred to before of focusing our sales effort on new regular premium business with a sizeable health and protection content, sold to a very sticky customer base, is evident once again.

Turning to the chart in the bottom-right, life income has grown by 14% at constant exchange rates, reflecting both the larger scale and the high-return nature of Asia's business. Costs have also grown, but at a slower rate of 11%.

If we now look at Asia's life business performance in more detail, the sources-of-earnings analysis shown here confirms most of the key messages from my previous slide. Technical and other margins shown in the middle remains a dominant feature of Asia's life income. Within this category, insurance margin grew by 15% to GBP679 million, reflecting strong growth in health and protection business and a contribution of positive claims experience. Margin on revenue is also higher at GBP1,562 million.

I would remind you that deferral and amortization of acquisition costs is not a significant feature of our Asia results, which means that our accounting earnings are very close to cash earnings.

Turning to the US, IFRS operating profit was strongly up at GBP1.3 billion, driven by a 29% increase in the life result. The 2013 results include a full-year contribution from REALIC of GBP128 million, which compares to GBP67 million in the previous year. Excluding REALIC, the improvement in the results is primarily due to higher fee income which has benefited from strong growth in variable annuity account balances.

The growth in the scale of Jackson's business is illustrated again on the chart at the top-right in your books. Policyholders' liabilities have increased to GBP107.4 billion as net life inflows contributed GBP9.6 billion. This is the fifth year in a row that life net inflows, in other words the component that we control, have added more than 10percentage points of growth to the stock of opening reserves. The strong S&P 500 rally in 2013 contributed a further GBP8.2 billion, as was the case for Asia. The currency translation effect is only relevant for sterling reporting purposes.

As well as being best in class from a service perspective, Jackson's operating platform is both scalable and efficient. The benefit of this is evident on the chart in the bottom right where the positive jaws effect is clear, with revenue continuing to grow at a faster rate than expenses.

Turning to the detailed sources of earnings analysis for the US, I would like to draw your attention to three areas; firstly, fee income, which has grown by 34% to GBP1,172 million in line with the 35% growth in average separate account balances. Fees are marginally lower due to the increased proportion of Elite Access, which has a lower M&E fee.

Secondly insurance margin, which has grown to GBP588 million, reflecting the extra contribution from REALIC's term insurance business, which is delivering the objective of both growing and diversifying Jackson's earnings.

Thirdly, spread profits, which are marginally higher at GBP730 million, as we maintained our overall spread margin through crediting rate actions. We continue to anticipate that spreads will tend towards the 200 basis point level in the near term.

We're pleased with the evolution of the shape of Jackson's sources of income, which is delivering improvements in both the quality and the resilience of its earnings.

Moving to the UK, IFRS operating profit was in line with the previous year at GBP735 million. The chart on the left analyzes the results between what I would call the underlying retail life result in red, the contribution from bulks, the general insurance commission, and the one-off profit from the longevity swap we executed earlier in the year.

The overall result continues to be driven by our focus on with-profits and annuities. The main change between the two years is the lower shareholder transfer from with-profits, reflecting the reduction in bonuses.

In 2013, life inflows for our shareholder-backed business remained negative, and have been mitigated by positive investment market movements. The with-profits picture, if I'd put that one up, would be similar. And both are consistent with the trends that we have observed for a number of years in the UK life sector, as Tidjane has already illustrated.

Now despite these trends, as you can see in the bottom-right, we have defended our overall life income levels by focusing on those parts of the market where returns are most attractive, and by being disciplined about our new business economics. Expenses, as you can see, were 4% lower.

As I have said before, genuinely attractive investment opportunities are more limited in the UK life sector relative to other parts of our business, and this will continue to place downward pressure on our earnings prospects. We remain comfortable with this as it does not detract from the important role that the UK plays in our Group.

Turning to M&G, IFRS operating profit was 23% higher at GBP395 million. This strong performance reflects the growth in the scale of the retail business, which is our most profitable segment. For M&G, the key driver of earnings is the growth in external funds under management. As you can see in this chart, external funds under managements are up 13%, reflecting net inflows totaling GBP9.5 billion, and the positive effect of investment market movements, which have added a further GBP4.6 billion.

Total external funds under management of GBP126 billion at the end of 2013 represent a new high, and our testament to M&G's track record of positive net inflows for the 11th year in a row. The growth in funds under management has been achieved principally in the retail segment where fee income is highest. As Tidjane has already explained, retail funds under management were 22% higher in 2013, underpinned by a strong sales performance in Europe.

The success in retail has driven an 18% increase in underlying fee revenues, which you can see on the chart in the bottom-right. As I indicated this time last year, we're making additional investments in 2013 and 2014 in scaling up the infrastructure of M&G's business. Reflecting this investment M&G's total costs are higher, but the effect has been absorbed by the increase in revenue, leaving the total cost-to-income ratio unchanged at 59% year on year.

I will now move to free surplus, the measure that we use to track cash generation in our business. Starting with the table on the left, our life in-force profit and asset management businesses have generated GBP3,099 million of free surplus in 2013, representing a 15% increase over 2012. Now this figure was around GBP1 billion in 2005. It reached GBP2 billion in 2009, and has now exceeded GBP3 billion. In other words, we have added GBP1 billion sterling every four years.

It is our ability to grow free surplus through writing high-return, fast-payback new business that distinguishes Prudential's business model from that of others. We continue to take actions to optimize capital consumption, and have invested GBP637 million in 2013 to write new business. This is 3% higher than 2012, reflecting the combination of pricing actions, changes in business mix, and the favorable impact of the rising yields through the year.

On the right, we analyze the contribution of each business. And as you can see, all four businesses are making significant and growing contributions to the total.

My next slide shows how this cash generation has impacted the stock of free surplus and central cash. Starting on the left, the net free surplus generated in 2013 helps absorb the negative GBP807 million impact of market movements, including a negative GBP200 million currency effect; and funded cash remittances to Group totaling GBP1,341 million, representing an increase of 12%. This leaves some GBP4 billion of free surplus stock, which we can either deploy to finance future growth, or can act as a buffer against future economic shocks.

As we said in December, over the last few years, we have managed our internal remittance ratio within a corridor, but we believe that it is appropriate to retain the flexibility that a range affords, leaving scope to manage the Group for fluctuations in the economic cycle, and to pursue business opportunities.

You can see how these remittances have impacted central cash on the right, which after deducting central costs and external dividends and adding the net proceeds from hybrid insurances, meant that we closed 2013 at GBP2.2 billion, which is a healthy position.

Before leaving this topic, I wanted to reemphasize the reliability of future free surplus generation by updating you on the undiscounted VIF monetization profiles of our life operations. By now, you will be familiar with these charts. The dark blue bars in the top chart represent the end-2012 life in-force monetization profile, as we reported one year ago. The light blue bars represent the updated profile of the end-2012 block of business one year later.

These bars are now higher than before, reflecting the positive impact of rises in yields between the two periods, which have compensated for the negative currency translation effect. Now when we add the cash flows from the 2013 new business cohort shown in red, we have an overall profile that is higher than the one we started with, evidence of the powerful capital dynamics of our business model.

I will now cover briefly the EEV basis results before turning to capital. On this basis, life operating profit was up 27% to GBP5,639 million. As you can see in the chart on the left, the improvement is broad based, and is equivalent to a return on opening embedded value of 19%. We estimate that the rise in long-term yields experienced in 2013 has contributed some GBP450 million to this total.

The chart on the right summarizes the contribution from new and in-force business. New business profit was up 16%, and I will come back to this shortly. In-force profit was 42% higher at nearly GBP2.8 billion. As shown in the breakout box, the increase reflects a combination of growth in the book, favorable variances, and the beneficial effect of higher long-term interest rates.

The latter point is evident in the numbers labeled unwind. Approximately GBP250 million of the increase in 2013 relates to the positive gearing from the rise in long-term yields.

In 2011 and 2012 when interest rates were falling, I flagged that the unwind had been negatively impacted by GBP200 million and GBP83 million respectively. Therefore, while interest rates are not yet back to 2010 levels, we have recouped most of the drag that we experienced in the unwind on the way down.

The drivers of the positive experience variances and assumption changes are summarized on this slide. In Asia, all factors including persistency, mortality, morbidity, have remained in positive territory in line with recent trends. This provides yet more evidence that customer behavior has not been impacted by the macroeconomic concerns.

In the US, we have seen a continuation of the positive contribution from spread, reflecting the success of the actions taken by management to mitigate the low interest rate risk.

Other items include favorable persistency of GBP134 million, which reinforces our prudent approach to assumption setting and to pricing.

In the UK, both years benefited from the effect of reductions in UK corporation tax rates. The contribution from other is distorted by one-off items, but the underlying position is positive in both years.

Positive experience has been a regular feature of our results since the crisis, a period characterized by significant global macroeconomic uncertainty and market volatility. Our strong performance here confirms both the quality and the resilience of our franchise.

New business profit, shown on this next slide, grew by 16% to GBP2,843 million. The table on the right analyzes the drivers of this growth, with volume, pricing and mix contributing 9percentage points of the increase, and higher long-term yields, a further 8 points. All three regions continued to write new business at internal rates of return of more than 20% with short payback periods.

In Asia, new business profit was 15% higher at GBP1,460 million. At constant exchange rates, the increase was 19%, with both agency and bank channels growing NBP at similar pace. The improved profitability reflects the growth in our seven sweetspot markets, where NBP was 21% higher, driven by health and protection.

The rise in yields had a small positive overall effect on NBP, reflect -- benefiting Hong Kong due to its bias towards savings products, and dampening Indonesia due to its focus on protection, which attracts a lower EEV valuation and higher interest rates, even though the profit signature is unaffected.

In the US, NBP increased by 24% to GBP1,086 million. Within this number, the contribution from variable annuities increased from GBP809 million to GBP1,023 million. This is despite the 7% decline in sales of VAs with guarantees, the negative effect of which was countered by the positive effect of product and pricing actions, the contribution from Elite Access, and the beneficial impact of the 130 basis point increase in treasury yields which added GBP150 million to the US NBP.

UK retail NBP was 3% lower. This is despite the 12% reduction in retail sales, the effect of which was mostly compensated by pricing and product actions and improvements in mix. The economics of the business sold in the UK are extremely attractive when you consider that this NBP was delivered by investing GBP29 million of capital.

Moving now to the rest of the profit and loss account for both IFRS and EEV. In my interim results presentation, I walked you through the mechanics of the IFRS accounting mismatch that is generated from Jackson's hedges when equity markets rise. I will not repeat the explanation beyond reminding you that this arises because hedges are fully mark to market and liabilities are mostly a mark to cost.

Equity markets rallied further since June, so the negative effect of the accounting mismatch recurred in the second half of the year, although the impact was more subdued. We remain committed to our approach of hedging on an economic basis and are happy to accept the volatility in the accounting results that ensues.

In addition, the further rises in interest rates in the second half generated some more negative value movements on our holdings of fixed income securities. Under IFRS, these come through investment variances and unrealized losses on AFS securities, and as you can see, the impact compared to the first half was also much reduced. The more significant effect in the second half was the negative GBP0.4 billion arising from translating our US and Asia IFRS net assets at the year-end exchange rates.

Overall, the strength of our operating performance in the second half has been sufficient to absorb all these factors, so after deducting the interim dividend, our IFRS shareholders' equity is slightly higher at GBP9.7 billion compared to June 2013.

On EEV, investment variances are positive in both halves, reflecting our ability to recognize on this basis the full economic benefit of the improved market returns. Profits for the period therefore accelerated in the second half, and were only partially offset by the negative currency translation effect of GBP1.8 billion. Nonetheless, the strength of our operating performance was such that retained earnings boosted our shareholders' funds by 93p over the course of 2013 to 971p per share.

I have provided you on this slide the usual update on the balance sheet. In short, the overall picture hasn't changed. We remain well capitalized and defensively positioned. All of our key underlying solvency metrics have improved. The with-profits estate stood at GBP8 billion at the end of 2013. At the start of 2014, following the completion of our domestication product, some GBP1.2 billion of the estate was transferred to the newly created Hong Kong life entity, leaving both funds well capitalized.

The US RBC ratio has improved to 450%, which attests to Jackson's disciplined approach to managing its capital base. Our stance on hedging, our US variable annuity exposures is unchanged, and the $1.3 billion fees that we will levy for providing guarantees in 2014 provides an ample budget to hedge. We have updated the information relating to Jackson's capital formation, capital sensitivities to shocks and customer behavior, and I have included these in the appendix to your slides.

In my remaining slides, I set out a summary of the Group's economic capital position based on our current Solvency II internal model. We are still two years away from having to adopt Solvency II, and notwithstanding the Omnibus II breakthrough, further clarity is needed in a number of areas, which will be provided when the level II and level III guidance is finalized. Furthermore, the PRA has not reviewed and approved our internal model, and this is a further source of uncertainty.

All this to say that these results should be viewed as highly indicative and subject to change, but provide you with a first view of Prudential's solvency position on a risk-sensitive basis.

The key assumptions underpinning the calculations are shown on this slide and are set out in more detail in a new section that we've created in your packs. The results assume US equivalent, incorporating Jackson's surplus over the 250% RBC level, consistent with our approach to free surplus reporting. The 250% level is informed by the results of our internal multi-year economic capital model, which we believe provides a good proxy for the risk capital that we need to carry in this business.

Furthermore, the results do not reflect the matching adjustment concept for UK annuities, pending further development of the calibration at European level, and a decision on whether certain types of securities will be excluded.

As you can see, the economic capital surplus at the end of 2013 is GBP11.3 billion, equivalent to a cover of 257%. The level of required capital of GBP7.2 billion shown in blue represents the risk capital needed to withstand a 1-in-200-year event over a 1-year time horizon. Available capital of GBP18.5 billion shown in red represents a more economic view of our Group's resources, removing unnecessary prudence from our Solvency I basis technical provisions and disapplying asset valuation restrictions.

The top chart on this next slide provides you with analysis of the risk profile of our business under this new basis. Around half of the Group's undiversified risk capital requirement relates to market risk shown in the red segment in the pie, and the other half to non-market risks shown in the blue and green segments. The Group's most material market risk exposures are to credit risk, principally from the UK and Jackson fixed annuity portfolios, and to equity markets mainly from with-profits shareholder transfers in the UK, and the fund related charges in Asia.

The Group's most material non-market risk exposure is to lapsed mortality and mobility risk in Asia, and to longevity risk on UK annuities. As you can see, our overall profile is not highly concentrated to any particular risk type. Our modeling shows that some 54% of risks diversify away, and in line with the Solvency II guidance on US equivalent, no credit has been taken for the diversification of benefits between our US business and the rest of the Group.

The chart at the bottom of the slide shows the sensitivity to the end 2013 economic capital position to variety of market shocks. The key message here is that the balance of our risks is such that the impact of these shocks is manageable. So the resilience of a business model, something that we have commented on in the past by reference to other metrics, is also evident through this risk-sensitive measure.

My final slide on the topic analyzes the movement in the estimated surplus during 2013. I will let you study this analysis at your leisure, but the key takeaways are, one, that the Group's operations generated 31percentage points of solvency cover in 2013. The higher equity markets and rises in long-term yields have contributed a further 12 points of cover, and that all of the other effects have broadly netted out. That fact that an operating level flow is positive should not be a surprise to you.

We write low strain, high return, fast payback business, so the capital generation dynamics should be positive, irrespective of the accounting or solvency lens that you may choose to use to assess this. The fact that the (inaudible) is high should also not be a surprise, as a large component of our book in Asia is health and protection, which is Solvency II friendly.

An addition, the stock includes the shareholders' interest in future with-profits transfers, which is sizeable, reflecting the scale of the business. I want to emphasize that economic capital is one of a number of financial metrics that we use to run our business, and that it is no more or no less important than other metrics.

While this information is new for the market, it is not new for us, and we have been using aspects of economic capital alongside other financial measures to inform our day-to-day decisions. Therefore, what you should take from this is the fact that it reaffirms what we have always said about the positive cash and capital dynamics of our business.

So by way of concluding remarks, I would like to reiterate, one, that the strength of our overall performance in 2013 -- to highlight the strength of our overall performance which demonstrates the quality of the new business franchise and the resilience of our in-force book, and also our ability to continue to deliver growth both in earnings and cash; and, two, the improvement in our capital buffers reflecting both the strong operational performance and the investment market tailwinds.

With that, I will now hand you back to Tidjane.

Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Nic. So to summarize on 2013. The Group has delivered a strong performance with double-digit increases in all our key metrics, as Nic just showed you. And has been able to achieve all our 2013 growth and cash objectives.

Our performance during 2008-2013 period which culminated in the delivery of 2013 objectives has allowed us to transform the financial characteristics of the Group, which has now a high quality and growing earnings base, with all four business units contributing materially to cash.

This newly acquired diversity of cash and earnings is a key source of strength for the Group. This is what has allowed the Board, led by the Chairman here this morning, to declare a 15% upwards rebase of our 2013 full-year dividend. Our dividend policy remains unchanged and we aim to provide a growing dividend to shareholders in a sustainable and prudent manner.

Asia remains core to the Group's future prospects. The tailwinds of favorable long-term structural trends, a leading business platform, and best-in-class execution position us well to deliver enduring value for both customers and shareholders.

This is all good news, but I want to reiterate that we are not complacent. Actually, paranoia and competitiveness are very well shared features in this Group and I don't think Jackie has changed that profile, who just joined us.

So we have embarked on a new set of objectives after delivering the equally challenging 2013 objectives. The Group has tremendous growth opportunities. We have the platform, the ability and the discipline to deliver on these opportunities, and to create value for both our customers and our shareholders.

We are in the right markets, so in the right place at the right time. If you allow me a bad joke here, a lot of people talk about being in the right place at the right time. A lot of people will be in Brazil this summer so they'll be in the right place at the right time. It doesn't mean they'll win the World Cup.

So you can only do that if you have the right people, which is where I will finish. We're in the right place, at the right time, but we also have the right people, and that's the whole difference.

So I am confident that we will continue to deliver a unique combination of growth and cash over the long term.

I thank you. And we are ready to take your questions. So for the first time I can say lady and gentlemen, if you can join us on the podium, we'll start the Q&A session.

Questions And Answers

A - Unidentified Speaker

So for your question, please, raise your hand, state your name and your firm's name, and then we'll take your question. So we'll just let everyone settle. Why don't we start with Andrew?

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Can I ask three questions, actually? Firstly, on your cash target of GBP10 billion over the next four years, you're already at run rate. In 2013, you did GBP2.5 billion. You're projecting that the Asian business will go up by GBP400 million. So I suppose the question is, is other parts likely to go down, or is the GBP10 billion too conservative?

Secondly, thank you for the economic capital coverage. It's gone up considerably. How should we judge when you get into a situation of having excess capital which may not be able to be reinvested and should be returned?

Then thirdly, now that you've bedded the REALIC acquisition down, do you have a further appetite for acquisitions in the States?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Andrew. On the target, I'll let Nic answer. I'll come back on the economic capital coverage, and Mike will take REALIC. So Nic, do you want to say the GBP10 billion was too conservative, or not?

A - Nic Nicandrou {BIO 15589153 <GO>}

I don't think the GBP10 billion is too conservative. The two things I would say, of course, that GBP10 billion is after recycling, is after the investment that we have to make. And you've seen in the presentation today an analysis, indeed quite a lot of detail on the opportunities that exist. So it is after effectively the drag of four years' worth of growth across all of our markets.

As for the 2013 result, it is flatted to a degree by positive experience variances. We work hard to deliver them, Andrew. The team is committed to doing that. But we don't take that for granted; we don't necessarily plan for those. There's been in the course of 2013 a number of items that are one-off in nature and are flat at that particular contribution.

If you go back over five years, we've typically been running experience variances of around GBP200 million, and that's at a more realistic level as we move forward.

So in short, don't extrapolate from 2013 because of these effects. And also, please bear in mind that the GBP10 billion is after deducting considerable investment in new business.

A - Tidjane Thiam {BIO 7518525 <GO>}

That is a really, really important point. It's a change in the way the Group functions. A few years back, there used to be a lot of variance embedded in the plan. It's only when we started looking at things closely -- so people would assume in the plan that interest rates would go this way or that way. So one very big change has been to say, look, spot is the best predictor of the future. Good planning, financial planning discipline is you just take the spot but you don't build into your plan any headwind or tailwind, period.

So that GBP10 billion is a clean number. It's proper operational performance. There is no --

So when we get a tailwind that we had this year, well, it's a plus and that's very nice, but there is nothing in these numbers that assumes any type of help from the market. So these are very clean targets. As Nic said, it's after funding a lot of growth.

Economic coverage, yes, it has gone up for me, and I'll let Nic because he's done really all the heavy lifting on this, but I'll just give you maybe a high-level concept while he's preparing his answer.

My first [ph] of the Group is it's actually in a very strong position, and I like it when a measure is consistent with my intuition of a business. How do I think about the Group? The with-profits fund was GBP8 billion at the end of 2013.

You heard us during the crisis say constantly there's no way we can burn through that. You can build any financial scenario, you just can't. And that's why in the UK we take equity risk. So we're protected in that respect [ph].

The other big risk we carry is the annuity book. We built the credit reserve, which we've discussed many times in the past. It's a complete buffer against credit risk so we're in a pretty strong position.

In Asia, we had a bit of equity risk [ph] where we sold it in 2009. There's basically no financial risk. The sovereign is domestic debt, labeled [ph] in domestic currency. And another bad joke, but that's how the printing machine works, you'll be able to service your domestic debt. This is not foreign debt. So we don't feel that we have a big exposure there.

If we move on to the US, M&G. Sorry, Michael, but with respect, not worth mentioning in terms of capital. It's a capital-efficient, capital-light model. There's no big issues there.

(inaudible) Jackson. Jackson, we believe that we're well hedged.

So that was the intuitive view of the Group. So I'm not disturbed if the answer after we run the economic capital model comes back as well. We're in a strong position. In itself, it doesn't feel odd to me, but do you want to --?

A - Nic Nicandrou {BIO 15589153 <GO>}

I guess in response to your question, Andrew, I would probably reiterate two points that I made in the presentation.

One, it's early days. Before we can embed this in a very formal way, we need the dust to settle. There is still some way to go, as I said earlier; a lot of work that needs to be done; a lot more guidance that needs to be provided. And, ultimately, while this is our judgment, it ultimately needs to accord with the judgment of our lead regulator.

So let's wait until the dust settles, until we're working with firmer numbers, and at that point, yes, then we will come up with a range that we want to operate it within.

But the second point I would make, again reiterate from my presentation, is the fact that it is no more or no less important than any other metric. We run our business -- actually, one of the key aspects of our success is that we haven't run our business on one metric. We use a balanced set of metrics.

And what you find when you're making decisions under different scenarios, something different bites every time. So it's like trying to assess something -- it's like a Rubik cube, trying to look at different lenses and dimensions; whether it's rating capital; whether -- at the moment, we have the IGD framework. That is still relevant over the next two years; whether it's free surplus; who knows? Whether it's pure cash.

And it's managing that matrix, and different things will bite depending on the decision. So we are -- and that's what we do day in day out as we come to each decision.

So I don't think this will be the determinant, if you like, the bright light when it comes to informing decision A or B. 2016 or beyond when it comes in, we'll continue to run the business by reference to a balanced set of metrics because we think that is the sensible and the disciplined thing to do.

A - Tidjane Thiam {BIO 7518525 <GO>}

That's the best advice we can give to anybody running an insurance company; don't run it on one metric. It's just such a funny complex animal that you can really always do really, really stupid things. Going after maximization or optimization of one of those, you'll get yourself in a lot of trouble. So it's almost a religious belief that we always look at every possible lens; IFRS, EEV, cash, rating agencies, economic capital.

I was very wary of people who say, well, we now have the metric by which we need to run the group. That's a recipe for trouble.

REALIC, further appetite [ph], yes, the answer is, yes. We like the deal very much. We've talked about both investing [ph] the earnings and diversifying them. We always have an eye to a balance between fee income, which is really driven by VA growth, the spread income from the FAs, which are at a historic low within the cycle, and the technical income from risk business. But it's Mike who's at the front of that. So do you want to update a little bit on --?

A - Mike Wells {BIO 4211236 <GO>}

The market has changed a bit on the buy side, and you've have seen some very clever private equity one-transaction particular plays that have a lot of synergies. And I think the regulators have shut that door for what I would say non-natural owners in the space.

The reasons to sell are very similar to what we've always seen. Sometimes they're technical. The IT doesn't support the back book at a strong competitor and they want to get rid of it, that sort of thing.

I'd say, Andrew, the biggest challenge now in those discussions is when you look at the available spread and the rates we have to use on the assumptions, what that does to the pricing discussion early is challenging because we're going to do these the way we've done all of them. We've known each other, I think, and we've been two life companies, two broker dealers and a bank, and I think we've done well for shareholders on all of them.

But I think we have to do them when they're available at a price we like, not on a schedule. For example, we don't put them in our business plans. We just assume they're opportunistic and that doesn't mean we don't have a lot of resources pursuing them.

Q - Jon Hocking {BIO 2163183 <GO>}

Jon Hocking, Morgan Stanley. I've got three questions, please, firstly on the US. Without seeming churlish on the operating leverage, the expenses grew 18%, but on the life slide, I think it was 57 where you break down the drivers, the life expenses are down 5%. I wondered if you could square that circle, please, and just give us a view how quickly you'd expect the expense post to grow relative to revenues going forward.

That's the first question.

Second question, SCB in terms of the penetration. Your 3% sounds quite low. Do you have pockets in that deal where the penetration rate is much higher? So can you give us some idea of the distribution of penetration rates, either by branch or by territory?

And the third question on the economic capital, just a few assumptions questions. You say you're not using diversification for the US position, but are you assuming the surplus over 250% RBC can be used as capital elsewhere in the Group?

Secondly on that, I think in November at the Investor Day when you gave the basis to the calculation, you said you were going to use QIS5 for the UK annuity fund. It looks like you've used something different.

Then finally, using 10 basis points for the credit risk adjustment. I think there's still 35 in the jar for all [ph]. So I wondered if you could just run through those things.

Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Jon. Operating leverage in the US, that's between Nic and Mike. But Mike, do you want to go to --?

A - Mike Wells {BIO 4211236 <GO>}

Yes. You've seen some technical moves, Jon, on some of the guarantees we've pulled down, and I think you'll see there -- but as far as the actual acquisition cost, cost of administering a policy, normal operations, everything's within pricing; everything continues to come down. We're by far the lowest in the industry.

So yes, there isn't a halving from here or something, but we have a number of initiatives that are guiding down costs from here, that are continuing to work; and we have some things that are a little further out that I think are a bit more creative as well.

But as far as the year-over-year numbers, you're seeing a reduction in expenses per policy on admin, you're seeing a reduction in acquisition costs, all within pricing; none of it materially different than our pricing.

Q - Jon Hocking {BIO 2163183 <GO>}

I'm not sure --

A - Nic Nicandrou {BIO 15589153 <GO>}

Sorry, let me just try and answer that. The 5% that you show, you need to go back in the detail in the packs which then breaks that out between acquisition and administration. We just haven't done it because there's a lot of data on the slide, but the information is in the pack. What you then do once you have the two components separated out, you will see that acquisition costs are flat to negative.

Now why is that? Two reasons. One is we're seeing more and more distributors opting for trail commission rather than the upfront commission where you're rewarding them, and that's been an effect that's been coming through for a number of years but is continuing.

And the other thing goes down to what Mike was just saying. When you're taking product actions and when you're making decisions about which products to pull, stop or promote/not promote, we tend to go after the ones that are the highest strain, lowest profitability. And inevitably, high acquisition costs also have higher strain.

So those are the dynamics that you see coming through the acquisition cost line. If you take the maintenance or the recurring cost line, that has grown much more in line with the growth of the business, but there are still some jaws coming through that, as you'd expect to see. And I hope that answers your question.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Nic. Barry, do you want --? The way we run the relationship, we have a steering committee on which Barry sits and they meet very regularly and go over the business. Do you want to give some color on the penetration?

A - Barry Stowe {BIO 15021253 <GO>}

Sure. So this has been a long relationship, 15 years. The first half of that relationship, even though it technically included other markets, it was in reality mostly a Hong Kong business. And so Hong Kong has always been the main driver and is where we enjoy the highest level of penetration.

Taiwan is very strong as well. Singapore was a late starter. It actually kicked in with much more efficiency and better results when we renewed it last time back in about 2008. So Singapore has come on quite strongly as well. And Malaysia is doing much better. We've made progress there in Thailand. Even though the Bank is small, less than 30 branches, we've actually made a lot of progress there over the last five years. So Thailand's pretty good as well.

But under the new scenario, obviously, the opportunity to do a lot better where we already are, plus tack on some things like India, like China --

A - Tidjane Thiam {BIO 7518525 <GO>}

India, China, Philippines, Indonesia.

A - Barry Stowe {BIO 15021253 <GO>}

Philippines. Bank is very small, but you've got to start somewhere.

A - Tidjane Thiam {BIO 7518525 <GO>}

I think we had four questions on the economic capital. Diversification; will you take diversification? 250% RBC; do we take credit for elsewhere for what's above that? Would you use QIS5? And 10 basis points, is that enough for credit? Or should we be --?

Nic that's yours.

A - Nic Nicandrou {BIO 15589153 <GO>}

No, we haven't brought in diversification for the US business, even though we do believe economically it exists, because the rules just say you can't do that. If you're going to use deduction and aggregation, in other words bring in the US using a different basis, then you can't take credit for the diversification [ph] and that's not included.

Why 250%? We used it because that is the output. We have a lot of models we run the business off. We include in those one-off models past experience about credit default losses as opposed to -- based on experience. We factor into those models information around realized equity volatility, and when we run that off it comes out at 250%.

To give you some sensitivity, ultimately for every 50 points of RBC, we could have -- and it's even come down to a discussion ultimately what -- should you bring it in at 250%? Or should you use 150%? Should you use 300%? But every 50 points cost around 10 points on the cover. So every 50 RBC points is 10 points on the cover.

On credit allowance, yes, we are basing it on QIS5, but we've used a variety of parameters to inform that position. QIS5 is one, we've used our own assessment in terms of what we're including for pillar 1 and pillar 2 in the existing ICA, and we've modeled -- we've created our own model on our view as spreads widen how much of that we should bring in as liquidity as opposed to credit.

So we've modeled that and we've brought that in. The outcome is included in your pack. So in the base position, we've taken effectively a liquidity premium equivalent to 46% of the spread at the end of 2013, and we've increased that to 51% in a 1 in 200 scenario. So you can get a sense of how much is brought in.

In relation to the 10 basis points, what is this? Just for the benefit of others who may not be close to the debate, this is effectively an allowance for the credit risk on the risk free rate. The regulators are saying the risk free rate is not credit free and you need to make an allowance.

10 basis points is what was used for QIS5. You're absolutely right, there is debate on that. There are different -- we don't believe it's necessary. We just don't believe it's necessary. We think it is inappropriate to calibrate actively using short-term instruments what this should be when you have a business that will run off for the next 30/40 years. And we just think philosophically that is flawed in this context and we will continue to make those -- the case as we move on to level 2 and level 3. But it is another source of uncertainty.

A - Tidjane Thiam {BIO 7518525 <GO>}

You probably saw Sergio Bardino's letter page [ph] yesterday mentioning that, and we're now on the page [ph] and will continue to lobby. Not everything is resolved. That's why we caveat this communication. It gives you our view. We're not saying this is going to be the outcome. It's one of the areas where we may give (inaudible).

Q - Greig Paterson

Greig Paterson, KBW I just wanted to concentrate on the (inaudible) deal. Wonder if you could give us a cost. We can obviously work it out end of year when you look at the other intangibles. I wonder if you could give us the cost.

The treatment of the upfront costs on Standard Chartered in terms of IGD and eco-capital, do you raise an intangible then? Can you take credit for it?

And just in terms of financing that, I wonder if you could give us an idea. Are you going to raise some debt, or to what extent can the Hong Kong estate finance a portion of the costs?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. On the financing, for instance, we -- it's funded with our own resources and there's no really direct contribution from the Hong Kong with-profit funds. It's quite different from the previous deal. But we're in a much different and much stronger position for the over loan [ph]. We have GBP2.2 billion of cash centrally so we're very comfortable.

On the cost, look, to be completely transparent, you know how those situations are. We were all negotiating very late. You saw that the RNS came out after our results so that should give an indication of the discussions that have been going on. Of course, in due course, you'll see in our disclosures some of those numbers come through and you can then make up your mind.

But the big point I'll make about that is one I made during my main presentation that really, please, please consider that the upfront payment is fraction of our financial flows on a deal like this, really a fraction; not even a material fraction. All of the value is in the subsequent payments, which frankly, they only pay by result [ph], on commissions. So actually, it's quite a bit of de-risking in there and there's big incentive for them to perform, so we get our money with every sale. It's constructed like that.

So that's what we have say on the cost. Impact on IDG going to come through, Nic, do you want to --?

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes. We will follow the same treatment as we have done for UOB, Thanachart. The distribution fee will not be capitalized in either IGD or in the economic capital monies [ph].

Q - Greig Paterson

Just to follow up. In terms of the Philippines, we've been thinking for a while that's a big market. You never really talk about it. One of your competitors makes a lot of money out of there. Just wondering what you're plans are re to try and turbo-charge the Philippines.

A - Tidjane Thiam {BIO 7518525 <GO>}

Barry and I are going to fight to jump and answer first. If you remember, in December, I actually talked about it. I had a slide on it that showed that profits had been multiplied by 5. We've been growing the agency very, very strongly. I'm saying that because we're both a strong believer in the country. It's one of the few countries on the planet that has been upgraded. The sovereign head of the Philippines has been upgraded; better and better managed. 95 million people. And actually, Barry's too modest to say that we are number 1 in new business in the Philippines and we don't talk about it enough. So it's not a market we neglect, and we are building there exactly the identical business to Indonesia. We follow the some general agency model.

So Barry, can you --?

A - Barry Stowe {BIO 15021253 <GO>}

I only disagree really with one thing that Tidjane said, which is that I'm too modest to say we're number 1. Quite happy to shout from the rooftops that we're number 1 there. It's the result of a lot of hard work from Junding [ph] and the team there.

Tidjane's point about the country's balance sheet, a family balance sheet is really important. This is increasingly looking like Indonesia some years ago. And geographically, when you think about the logistics of trying to build out a business in the Philippines, again, it's thousands of islands. It's an archipelago just like Indonesia is, so there's complexity in that.

So that's why we have lifted many of the ideas that have proven to be so successful in Indonesia, dropped them into the Philippines, localized obviously as you always have to do. But many of these same principles are now being executed against very well by the team there in the Philippines.

And so we've gone from -- we've never had more than about 1,500 agents historically. We're over 8,000 now and moving fast. So a lot of the things that you saw in Indonesia several years ago you're starting to see in the Philippines, so I would suggest you should be very optimistic about it.

A - Tidjane Thiam {BIO 7518525 <GO>}

Back to my (inaudible) and energy, and we also have a great CEO. He's really, really, really a star; absolute star.

Q - Chris Esson {BIO 6194371 <GO>}

Chris Esson, Credit Suisse. Just two quick questions, please, firstly on Thailand. My impression from Thailand is that unit-linked is a product that doesn't have a huge amount of support, and yet it looks like your IFRS payback is very fast. And certainly, the result from Thailand was surprisingly strong. I just wondered if you could provide an explanation for that.

And secondly, a market that we haven't really heard about for some time, India, remains a bit of a sleeping giant; and I just wonder if you could provide an update on that and what potentially could happen that would make it a sweetspot market in the future.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Chris. Thailand, just a word about Thanachart. They are, I think, number 1 in auto credit in Thailand. So when you see Barry nodding, so that's what we're selling. We're selling insurance, and that's credit [ph]; it's very profitable. Good IFRS; good (inaudible).

A - Mike Wells {BIO 4211236 <GO>}

Yes, that's exactly it. They are by far the number 1 auto finance business in the market who operates not just in Bangkok, but all through up country as well. So it's a very strong part of their franchise. We have very high penetration rates attaching the product to that. So that's why you're seeing the economics you're seeing.

A - Tidjane Thiam {BIO 7518525 <GO>}

And that's a start [ph]. That's (multiple speakers) --?

A - Mike Wells {BIO 4211236 <GO>}

Yes, absolutely.

A - Tidjane Thiam {BIO 7518525 <GO>}

So we're doing the rest [ph].

A - Mike Wells {BIO 4211236 <GO>}

Tidjane alluded to the fast start we've got in auto, but I think it bears dwelling on a little bit because when we were getting ready to launch this deal, our partners candidly said, well, you've changed some products on us and so forth, so you need to expect that the sales levels will come down a little bit. But give us six months and the team will rally round and then it will start moving back up and we'll get back to where we were; and then we'll go forward.

And it will be a really good deal but you have to patient. It will take time. And what in fact happened was, as Tidjane said, we started selling the first day. We were almost immediately selling in almost 100% of the branches, and the trajectory has not dipped and then gone like this. It's actually just gone like this. So even the partner candidly is surprised at how much efficiency we've been able to bring to that deal. It's a very good outcome.

A - Tidjane Thiam {BIO 7518525 <GO>}

It's another great CEO and a great team.

A - Mike Wells {BIO 4211236 <GO>}

Another great CEO.

A - Tidjane Thiam {BIO 7518525 <GO>}

He's done a phenomenal job.

A - Mike Wells {BIO 4211236 <GO>}

He's a terrific guy.

A - Tidjane Thiam {BIO 7518525 <GO>}

Really remarkable.

A - Mike Wells {BIO 4211236 <GO>}

Yes.

A - Tidjane Thiam {BIO 7518525 <GO>}

Integration everything. We've been there many times together and it's just a successful case [ph].

A - Mike Wells {BIO 4211236 <GO>}

It's a great team.

A - Tidjane Thiam {BIO 7518525 <GO>}

India, do you want to say a few words? India?

A - Mike Wells {BIO 4211236 <GO>}

Oh, about --?

A - Tidjane Thiam {BIO 7518525 <GO>}

Prospects?

A - Barry Stowe {BIO 15021253 <GO>}

Yes, well, it's a complicated environment. There's not much we can do about the environment. We can only respond to the environment. So we've seen some political volatility, if you will; effectively translates into the difficulty in terms of getting some fundamental changes made.

We've seen regulatory volatility. You'll recall a few years ago some talk about some significant tax changes that would have been really punitive. So there's always drama, but again, we can't control drama; we can only control how we respond to it, and I think we've responded to it brilliantly.

The team there -- again, we keep talking about the teams, but our two raw materials in this business are capital and people and we've got plenty of capital and we've got absolutely the best-in-class people. So Tom D. Boxshi [ph] who runs that business came out of ICICI. He was running their retail bank before he came to work with us. He's just been a steady hand, done a great job. And what you've as a result seen from that business is gains in market share in a very volatile environment.

So while most of the foreign sector, if you will, has been very disrupted, we've continued to just inch our way up the league tables and gain share. Profit from this business is now very good. May I remind you that we were the first business to generate a profit? We were the first business to pay a dividend as well. We've been taking dividends out of this business for over two years, about 2.5 years now. And this year, we actually got a special dividend out because of the strong financial performance of the business. So these guys are just doing a great job.

If the environment improves, does that improve -- then you'd get more investor confidence in the market? Obviously, there'd be a lot of positive effects of that. I'm not in a position to promise that. What I am in a position to promise is that whatever the environment is, we'll run a best-in-class business.

A - Tidjane Thiam {BIO 7518525 <GO>}

This is actually really an important point about how we run the portfolio. You've got the ideal position. That's the sweet spot, the famous sweet spot. For various reasons, we're in a really good position with right [ph] business and growth. Hong Kong, Singapore, Indonesia, Malaysia, Thailand, Philippines, Vietnam, those are the no-brainers, it just happens.

Then you've got the slightly more complicated places, and when it's a difficult environment, what we will not do for our shareholders is allow people to destroy value. So somewhere like India, it used to be significantly negative, IFRS negative. We've turned into a positive; another story that Barry is telling. So it pays a dividend.

The same is true of Korea, a very difficult market, but we have really shrunk the business and got it into a place where it does not really actually destroy the value.

A - Mike Wells {BIO 4211236 <GO>}

No, it makes money.

A - Tidjane Thiam {BIO 7518525 <GO>}

It makes money. Then you get the long-term options like China. Actually, we haven't talked about it, but China is at 41% in 2013. Then back to my compounding argument, 21% on top of 30%, on top of 40%, and it's becoming material. It's moving up the ranks every year (inaudible), but it's actually doing well.

A - Mike Wells {BIO 4211236 <GO>}

Yes. If you think about it in the context of the market, if we're honest, none of the foreign companies are competing with the (inaudible) or the China Lifes. But remember, the numbers that you see for our business are half the business. So you double those numbers and then look at that against the rest of our businesses in PCA and you realize this is actually getting to be a pretty big business. So this is another one where you should watch this space.

Q - Farooq Hanif {BIO 4780978 <GO>}

Farooq Hanif, Citi. I've got three questions on the US business, actually. I want to go back to your guidance on remittance. I know you've got this range, but it just seems to me when you look at the US business, your statutory profits are up, the book is de-risking, your RBC ratio is upper end. What's stopping you from raising your remittance ratio? That's question 1.

Question 2 related to that is you had a cash flow operating variance which is positive, which is ALM related, spread related. Can you just talk about how the GBP200 million/GBP300 million, how that could develop going forward?

And the last point is going back to John's question on the jaws. Is the trend in trail commissions net expense positive? So do we see that actually contributing to the jaws coming forward?

Thanks.

A - Tidjane Thiam {BIO 7518525 <GO>}

Well, we're really happy to get three questions on the US that don't mention hedging. Really pleased. Look, anyway. Really, yes, net profit going up, de-risking, RBC ratio good. This is all actually nice problems to have. So Mike, do you want to talk about --?

A - Mike Wells {BIO 4211236 <GO>}

Well, remittance ratio, so we showed you in December our percentage of remittance versus percentage of book, including comparing that to US companies and share buybacks, and I think we're at the high end of anybody's ratios there. With my Prudential Board hat on, the general view is there's not a need to put excess capital in the center beyond the levels we need. There is some friction in moving it there.

So the idea is really the business units for resilience for M&A and things like that, there is -- the last two years we've been above -- actually, three years, we've gotten approval from the regulator for a special dividend, that being in excess of the policy rules. And they're pretty reasonable people when the businesses are doing well and they're growing the way we are and the earnings closer to their hedges and other dynamics.

So it's a discussion we have every year. I wouldn't want to give you any guidance on that number going up or down. But we have -- the capital is more fungible than a pure regulatory measurement, but then there's also tactical issues at the Group level to consider on top of that.

Q - Farooq Hanif {BIO 4780978 <GO>}

And just to be clear. You're paying below potential regulatory policy level?

A - Mike Wells {BIO 4211236 <GO>}

Above.

Q - Farooq Hanif {BIO 4780978 <GO>}

You're paying --?

A - Mike Wells {BIO 4211236 <GO>}

Above.

A - Tidjane Thiam {BIO 7518525 <GO>}

Above.

Q - Farooq Hanif {BIO 4780978 <GO>}

Above?

A - Mike Wells {BIO 4211236 <GO>}

Yes.

A - Tidjane Thiam {BIO 7518525 <GO>}

That's why he said three years. We've got 3 times permission to go above. That's what he just said.

A - Mike Wells {BIO 4211236 <GO>}

And, again, that's just strength of the business, growth of capital, growth of cash flow. If you look at last year, funding the sales, funding the dividend, closing REALIC and still growing that capital, that's a strong discussion with the regulator on the health of the business.

A - Tidjane Thiam {BIO 7518525 <GO>}

So thanks for allowing us to make that point because really that's the sensitivity Mike is alluding to. In the post-crisis world, we really have quite advanced discussions with regulators around dividend, and rightly so. Absolutely, I've no issue with that. But because we tend to be above that threshold, we're not going to start giving you numbers or times [ph] that implicitly force the hand of the regulator. We have to be very mindful of the relationship there.

Yes, so think about what we tell you as something that takes into account that trend [ph] because we've been lately above that.

A - Nic Nicandrou {BIO 15589153 <GO>}

Can I just make one point; just reiterate something that I said in December? When it comes to Jackson, using the pure operational free surplus isn't the right reference point. You need to factor below the line there. And I illustrated back in December that that is a very good proxy of mimicking what's happening in the underlying total adjusted capital development in the local RBC.

And generally, we've paid around the mid 60s, which is not a bad ratio for a business that is growing so phenomenally, has spent the last few years trying to repair the balance sheet the debrief [ph] from the earlier [ph] crisis and of course absorb the acquisition of REALIC. So all that is working well.

Q - Farooq Hanif {BIO 4780978 <GO>}

And the below the line is the hedging question which I didn't ask basically.

A - Nic Nicandrou {BIO 15589153 <GO>}

Correct. That has, certainly on the stat [ph] basis, the hedges will also come through. But the reserves, given the cleanliness, if you like, or the clean position of the book, the reserves are flawed, so you're getting a mismatch come through that particular ratio, which will sort itself out because the higher fee base will give you more operating performance going forward.

A - Mike Wells {BIO 4211236 <GO>}

And page one and 2 in the supplement has the normal realignment to economic capital which we didn't show a [ph] consistent in the presentation.

You asked a question on the impact of the allocation of trail commissions versus the final [ph] commissions. It's coming from a couple of different things. It's coming from distributors. Different firms have different structures, and so as the business is a little less independent channel, so you get more firms that prefer and push towards, not necessarily a levelized [ph] commission, but at least they'll be in some of the C share products. There is -- so that's just a mix of who we're selling through. That's in our pricing so I wouldn't look for that to be an event either way.

The other element you get with that is point in the cycle and so you tend to have -- with age of advisors and how well the market's doing and how well they're doing, they tend to -- if the business is going well for retail advisors, they tend to be thinking about deferring revenue and growing the value of their book. If it's a difficult time, you tend to see more A share in a smaller practice. So those are both factors in that, but again, it's in our pricing.

You had a third question. I'm sorry. I missed (multiple speakers).

A - Nic Nicandrou {BIO 15589153 <GO>}

You're right. So we have some additional experience contribution to free surplus this year compared to last. In part, that's coming through spread profits. The same effect that you're seeing on our IFRS and on EEV is coming through that one.

The second one is to do with one-off type tax credits that we've received over and above what we were accounting and expecting at this point in the cycle. So that's what's driving, if you like, the slight blip, and this is why when I was answering Andrew's question earlier, I said there are some elements in there that are one-off in nature in that result across our businesses, not just the US.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much.

A - Tidjane Thiam {BIO 7518525 <GO>}

We'll take two more because we're well into the lunch hour now and you know where to find us anyway.

Q - Andy Hughes {BIO 15036395 <GO>}

Three questions, if I could. The first one is on the US spread profits. I think you're still making well over 220 basis points profit on the spread book, and you said [ph] that's going to come down to 200 basis points in the short term. Where is the crediting rate now and where is the reinvestment rate on the US spread book? Just to tell me how far that's going to come down. Presumably, that doesn't stabilize at 200 basis points.

Second question was about the movement in tangible NAV of the Group. Obviously, you reported GBP1.3 billion of net profit, but if you look at page 57 of the DAC and goodwill segment, that increased by GBP1 billion. So should we ignore tangible metrics on the balance sheet?

The third question was about the SCB transaction. Obviously, could you give us some sort of cash flow payback period on that, even if you're not prepared to disclose your IRR? That would be very helpful.

Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you. Another three good questions. We have that, the numbers on the crediting and the --?

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes. Crediting rates are running around the 320 basis points level. We are -- I don't have the figure in terms of the reinvestment yield that we're getting on maturing bonds. It will be 4.25%/4.5%, something like that. So that's part of the pressure that we see bringing the number down.

Q - Andy Hughes {BIO 15036395 <GO>}

So it should drop to 1% over time, that spread margin?

A - Nic Nicandrou {BIO 15589153 <GO>}

Well, it depends on mix. Remember, if you make the assumption that we've got our estimates of how long people will keep their money with us wrong, then it should do that. But remember, people are saving for a purpose. They're saving because they're in their 60s and there comes a point where they want to de-accumulate. So I don't the scenario will arise. That's the first point.

The second point is that all the new monies coming in is coming in at either 1.5% on the fixed annuity, or at 1% if you go fixed annuity option on VAs. So all of these things are working in a way that will -- and we've done a detailed complex calculation for you and we've translated into a very simple guidance of 200 basis points.

A - Tidjane Thiam {BIO 7518525 <GO>}

Mike, do you want to come in?

A - Mike Wells {BIO 4211236 <GO>}

The key point; the products being sold at this point in the cycle have a 1% floor. So you're at a very different guarantee than you saw pre-crisis. You still have 23 basis points/25 basis points between our current crediting rates and the floor is on the entire book, so there's still plenty of room to move. And as we've told you, we're high in quality, low in duration of the portfolio. Our ability to reinvest or just hold the duration on those positions I think is about as good as any in the industry and in a scenario where the compressing -- if spreads never widen, our new sales would affect the equation you're throwing out there as well because you'd have different math on those.

A - Tidjane Thiam {BIO 7518525 <GO>}

All right, and there was then tangible net asset value, debt goodwill --

A - Nic Nicandrou {BIO 15589153 <GO>}

We've rehearsed these many, many times. The reality is there are aspects of value which generate profits, IFRS profits that not captured by shareholders' equity. We gave the example earlier on of the with-profit transfers. That's not -- accounting convention today prevents us from recognizing that aspect in our results.

A lot of what we write in Asia is health and protection. That's like writing GI business. You don't need a lot of tangible net assets to deliver a high return on a GI business. So I think -- so those are some of the dynamics that are coming through, which is why you end up with an IFRS basis, equity basis, which is not representative of the income generation power of this organization.

A - Tidjane Thiam {BIO 7518525 <GO>}

On CB [ph], this is actually an interesting point because there used to be a strategy discussion in the Group. The old view in Asia was that bancassurance was less profitable than agency, the margins were lower and that actually it wasn't a very desirable business.

In the way we look at finance, good business is business that is reached above its cost of capital. We don't run the Group on margin. And actually, a lot of companies with high margins cannot grow because they fall into that trap of saying, well, if I do this it's going to dilute my margin and this is something I fight with a passion because it's just wrong thinking. We are in the business of creating a maximum amount of value for our shareholders. And sometimes that involves going into a business with optically lower margins.

But you've seen that we've actually de-emphasized margins in all our communication to root out that mentality. If we write business above the cost of capital, we should absolutely do it. That creates value for our shareholders. So that's really how we approach it.

What I can tell you about that contract, that's been in all the [ph] negotiations, we are very confident that the return on capital will be comfortably -- and we give a broad risk [ph] comfort, and seen by everybody and advisor [ph], will be comfortably above the cost of capital. So it's going to be significantly value enhancing for shareholders.

But frankly, there is no mileage -- again, thinking about shareholder value, not management comfort, in opening the hood on that. Given what's going on in that region and the commercial dynamics, absolutely no upside.

So it's not -- I hope that we have been very transparent as a management team. Just look at the thickness of the pack over the years. Even more and more we open the -- we want you to understand how the Group works and how we make money, but from time to time, some of that disclosure can be completely counterproductive.

So in the current environment, you will be able to track our progress. You will see some of that flowing through the IGD as in all the disclosures that are coming later in the year. But we just, we think we really have a -- how can I say? A competitive advantage there in our understanding of those transactions, in structuring the payments.

And I'm not sure if we'd like to answer all your questions. We don't make to make that available to the competition. I spend enough time myself reading all the presentations of all the peers, so they will do the same thing and you can easily slip a lot of very valuable commercial information doing that. So that's the limit to the transparency. We're not being difficult. It's just we don't want to discuss things that are going to be played back against us later.

One last question?

Well, you've got three. You go by sets of three, so it's another three questions; proper arithmetic. Okay, Gordon, go ahead.

Q - Gordon Aitken {BIO 3846728 <GO>}

Just two, Tidjane. Gordon Aitken, RBC. So first question is on the holding company cash. It's gone up to GBP2.2 billion. It's a big jump from GBP1.4 billion. As you raised the GBP700 million of hybrid debt in December, you've shown today that you don't need the cash to grow. The balance sheet is strong. Just wondering what that cash will be used for.

And the second question on the UK. This week you've announced the GBP100 million buy-in with the Church of England scheme. The bulk market is very good demand; there's a real lack of supply. You presumably expect margins to remain very positive in that market. Just what sort of appetite do you have in the bulk market going forward?

A - Tidjane Thiam {BIO 7518525 <GO>}

All right. Thank you, Gordon, for only two questions. Do you want to say a word about the cash balance at the center?

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes, we touched on that in December. Candidly, the one good thing about a low interest rate environment is you can raise very high quality debt, and we've been able to raise very long debt at very attractive prices. So we took that opportunity. That opportunity is not going to be available forever. We've locked that in and that gives us, I guess, all sorts of flexibility as we move forward to either repay some of the debt that we carry or to deploy it in other areas.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes, and just transactions like SCB, which I know you have a lot of interest in the cash payment, but we want to have flexibility. But believe me, it's comfortable to be able to go into those types of conversations with no real cash constraint. That's very comfortable.

Jackie, you want to talk about the bulks and the recent buying?

A - Jackie Hunt {BIO 16204866 <GO>}

Gordon, you're absolutely right. I think a recent deal has been publicly announced by a counterparty.

In terms of the market itself, I would see it very similarly to how you set it out. I think there's a great deal of demand, or opportunity. I think supply has become relatively constrained and so we do see some interesting deals come into the market back end of last year and certainly in the First Quarter of this year.

I talked in December about the opportunity we had to participate more fully. We've got some key competencies. We've got a great brand that's really important to our counterparties. They deal with a business that has a good reputation. We tend to deal at the top end, so above GBP100 million; that sort of range in a large part. These are more complex deals, and we have the capabilities to participate in deals that some others may not.

So we see it as an attractive opportunity. We are very disciplined about how we actually use our capacity. Obviously, these do bring with them longevity risk and other types of risk that we do want to make sure we get a proper return against.

So you should expect to see us participating more aggressively but within the constraints of very strict capital return hurdles. We certainly won't let go of that particular discipline.

A - Tidjane Thiam {BIO 7518525 <GO>}

Jackie has a very balanced portfolio because she's also in charge of Africa. She's got two very different jobs.

So thank you. Thank you very much for your patience. in this team, many of us have seen GBP2. I remember seeing GBP1.95. So to close above GBP14 is a good day. But please keep in mind, as we hope we've showed you with plenty of potential and upside here.

So I leave you with that thought and thank you very much. Thank you.

Operator

This concludes the Prudential 2013 full-year results call. If you'd like to hear any part of this conference again, a recording will be made available shortly. Thank you for joining. You may now disconnect your lines.