Q4 2014 Earnings Call

Company Participants

- Barry Lee Stowe
- Jackie Hunt
- Michael Andrew Wells
- Nicolaos Andreas Nicandrou
- Tidjane Thiam
- Unverified Participant

Other Participants

- Ashik Musaddi
- Blair T. Stewart
- Gordon Aitken
- Greig N. Paterson
- Jon M. Hocking
- Lance M. Burbidge
- Oliver G. Steel

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning, and thank you for coming to our Investor Presentation this morning. You would have seen the announcement we made this morning alongside our annual results for 2014 and the announcement made by Credit Suisse.

Of course, the board is sorry to lose Tidjane as Group CEO, but understands his desire to take on a new challenge, the new environment after seven very successful years at Prudential. He's made an outstanding contribution to the success of this group in recent years and that can be seen in today's results.

We are fortunate to have a strong management team beyond Tidjane. The board also has a rigorous succession planning process and that is now being implemented. We believe we'll be in a position to announce the name of the new CEO very shortly. You will, of course, be aware that appointment is subject to regulatory approval. That's all I'm going to say. I'm going to pass it over to Tidjane. Thank you very much.

Tidjane Thiam {BIO 7518525 <GO>}

Thank you, thank you, thank you. Thank you, Paul (1:09). Good morning to all of you. Thank you for being here. Those of you who know me know that I will not miss an opportunity to point out that I am – today is kind of (1:20) because we're one day after Arsenal beat Man U at Old Trafford, So, that puts me in a – yes, thank you – particularly, good mood. So – it doesn't happen very often.

So, anyway, okay, good morning. We had a broad-based performance in 2014, a really good year. And if you look back to what we said in 2010, growth and cash, I believe it was fifth consecutive year where we have delivered on both commitments. So, what I intend to do is, in my section, is to give you the highlights of our financial performance in 2014.

I will also cover kind of the usual BU by BU overview. Then Nic will take you through the financials and I will come back towards the end for the outlook before we move to Q&A.

So if we begin with 2014 annual performance, you've seen the numbers this morning. We have made good progress across our key metrics and if you start with growth and IFRS profits, IFRS profits are up 14%, and very fundamentally over five years doubled for the group as a whole, but also doubled for each of Asia, M&G and Jackson, which is really underlying this as good performance.

New business profit, which is something we've always looked at more closely (02:50) is up 10% at £2.126 million (sic) [£2.126 billion] (2:53) and we are satisfied with this number, given the low interest rate environment and long-term interest rates going down in 2014, and also, as you know, the fact that in Jackson, we have a sales cap, a self-imposed sales cap. So in that context to grow at 10% is very pleasing.

And the third thing we encourage you to follow and judge us on is really cash through free surplus generation, which is part of our 2017 objectives and which is up 9% at £2.5 billion, it's a number I'll come back to. For me it's fundamental that this group, in the way it operates, generate in excess of £2 billion every year and that is core to our strategy.

And finally, we've been able to increase tangible returns for shareholders, by that I mean the dividend, which is rebate upwards by 10% to be at 36.93 pence. That said, we reiterate that our dividend policy hasn't changed. I'm sure we'll come back to it in Q&A, but it's always the same. And this rebate has only been decided by the board because of the strong operating and financial performance of the group.

And if we move to capital, whether it's on the almost on its last year, the old regime, the IGD regime, we have a cover of 2.4 times at £4.7 billion after a number of, if you wish, IGD costly moves in 2014 that Nic will come back to from the SCB deal to repaying the hybrid debt.

And on an economic basis, on the same basis we presented it last year, we're on 218% solvency from 257%. We believe that these numbers are the translation of our strategy, which has been unchanged. You've heard us say the same things for a number of years, and we believe this strategy is robust, works across the cycle and delivers good result and

2014 is a good illustration of that because if you look at the backdrop of 2014, it hasn't been without its challenges.

Certainly, my years here I don't remember a quiet year. And we can go around the globe from challenges in Asia from the Umbrella Movement, the Hong Kong protest, which worried a lot of you; the coup in Thailand; Indonesia, we were flooding at the beginning of the year, the election that had a huge impact on consumer confidence in Indonesia; you have the FX depreciation across the board in excess of 20%, these are very significant market moves.

You've heard in Europe, closer to us here, everybody has kind of forgotten it but the Scottish independence vote and the uncertainty induced by that. You've had the budget reform and the disruption to the annuity market. And you have more global trends or phenomena such as the commodity price fall or the oil price fall which has an impact in the markets we operate. In the question of the normalization of the U.S. monetary policy with the end of QE3 or in Europe, in the Eurozone, a new QE and lower interest rate in their fight against deflation, or the threat of deflation, and as Mr. Draghi would say to avoid an embedding in the expectations of deflation.

So it was not an easy year. And this makes us really happy with the numbers we have been able to deliver. Our job as management is to try and deliver for our shareholders good results, even against headwinds. And if you look at the progression by BU in 2014, you see that Asia IFRS is up 17%, and 8 of the 11 business units in Asia had double digit growth in IFRS profits.

If you look at the U.S., so again, a really bright spot with a record remittance, $680 million or £415 million to put this in context in 2006, the total remittances from all of the businesses in the U.K. – sorry, to Prudential into the U.K. into the center were £99 million. So that gives you a sense of the scale of the transformation and the performance of Jackson there. So 2014 was 40% up on 2013, and 2013 was 17.5% up on 2012. So it's been really over the three years a very, very strong progression. And you know that we believe that the proof of the pudding is in the eating and cash is the ultimate measure of everything we do, and by that metric we've done very well.

If you look closer to home here in the U.K., PruFund, which is really our with-profit product, very strong progression in 2014, plus 27% in funds under management to reach almost £12 billion, £11.6 billion for a single fund in the retail U.K. market. That's an amazing performance.

And M&G up 13% in profits at £446 million for M&G. Again, if you look back a few years ago you'd see that the entire Prudential used to make £600 million or £700 million in whole. So M&G has become almost as big as Pru used to be. So this validates, we believe our strategy and I think it's the illustration that the strategy we put in place works.

One thing we've talked to you about for many, many years, I remember when we started doing this it was just one bar in 2008, the first time we did this disclosure, which is the sources of earnings. And we've told you that we would work hard to correlate to the extent possible our earnings from interest rates and that's what we've done. With the emphasis on fee income, the emphasis on insurance income, the sum of the two have gone from about 50% of the initial 2008 total to 74% today. And the total bar has more than doubled in the process, so kind of 19% over eight years for the two together is very, very significant. And it has really transformed the nature of our earnings.

We don't really like spread income because we think that it is risky, often underlying that our product and interest rate guarantees and guaranteed returns, it's capital intensive, and it's very exposed to economic cycle and the interest rate cycle, and we de-emphasized it. And actually when we write that whole business, as you know, we tend to believe in the with-profit fund or we have a comfortable capital buffer.

So this is really underlying, if you have a valuation multiple, spread income is on the relatively low multiple and a lot of the re-rating of the stock has been in the ability to deliver this profile and this change in profile which makes us believe we're quite different from most companies in this sector, which have anywhere from 50% to 80% of their earnings from spread income.

And the lucky part is that we've done that at a time when interest rates went to one of the lowest points ever. So it certainly has increased the distance between us and others. But it's really this consistency in the direction of the journey and in performance that supports our confidence that we are going to achieve our 2017 objectives. Think about it as a 10 half-year period, we've done four half-year period. So we're not even half way but we think that we are tracking well and it's encouraging.

So moving on to something, I know which is on your mind, which is really capital and solvency. But first I got to have to say is that the first source of capital in business is to operate profitably and in a cash annuity manner. All our efforts in terms of running the company with strategy of a business model is to make sure that we deliver every year positive cash generation, it's at £2.5 billion in 2014.

We actually believe that that will allow us to grow our way out of any capital challenge because when you're progressing at that pace – and again, Nic will give you more color on that – you can't really get in solvency trouble. And we believe that whatever lens you adopt for solvency, that strength will come through.

Cash is cash is cash is capital and that's a fact. So we have designed the model. And that's why we're so relaxed about it and quite confident because we know we can operate at that level and think that there's plenty of upside there. This is with interest rates, long-term interest rate at very, very low level. We can generate £2.5 billion of cash.

So Solvency II is an interesting lever. You know that we have had reservations about it. We have always been very clear about what they are. Essentially two, one is around market consistency as a way to assess assets and liabilities across the economic cycle. We do not think it works. I think we were vindicated in 2008, 2009. We don't think it works at all times in the cycle. There are moments where it's fine, but there are moments where it's not. And the other one is really when you're value at risk, which we believe is incorrect because insurance companies are resolved as the liabilities come due, and that's at one year. And the one year mix, which is of the banking origin, is inappropriate and inadequate in the case of long-term liabilities like we have in the life sector.

So, those are the structural deficiencies of the framework and you see that a lot of the discussion and lobbying has been actually on mitigating, either through countercyclical buffers or (12:29). It is to mitigate at the extreme of the cycle, the impact of that approach. So, accepting that, we're also very pragmatic even if we were not convinced that it's the right way to look at it. It is going to be implemented on January 1, 2016. So, we do not have a choice, but we believe even taking into account that, there's still some areas under discussion with the regulator. And I have to stress it's a positive and a constructive dialog. We're very happy with the engagement we have with the regulation on that, and there are mainly two issues there.

One is around the recognition of the Asian surpluses. We are a very Asian company. We produce very significant material surpluses in Asia, and the regulator must make a determination on how much of the surpluses he's going to recognize. Our view on that, again, from an economic value perspective is that those surpluses exist, okay, in absolute terms, and they belong 100% to the shareholder. But the debate on how much of it is recognized here in London is not economic, and it won't change the economic reality.

So, we have said that there is a discussion on that, but we're saying it doesn't affect the underlying economies. Those surpluses are sitting where they're sitting, and they are accruing to the shareholder through a share price. You can see it in the share price. You can see it in the valuation of our Asian business, those surpluses are real. And we have discussion on the calibration of things like credit and longevity and they're ongoing. But the message, the key takeaway on that is we're running a highly capital-generative strategy and business model. And we think that the result will be manageable. That's the word we want to put to you: manageable, i.e. without major consequences on the way we run the group, our strategy or our ability to reward our shareholders.

And Nic will come back to that and give you the sensitivities with more numbers. So, that's what you see at the group level. So if we move to the business units, it's another chart that you've seen over the years. It is a quarter-by-quarter sales in Asia. Again, when we started it, there aren't many bars and now quite a few. We've had 20 quarters of growth above 16% in Asia, that's five years.

And for us, that's really the power of the story, and it demonstrates very much the power of a platform and the diversification we have in Asia because if we wanted to make a very busy chart, we could've put all the challenges we've had over the years from the Indian market in 2010, from trends in Korea, from Indonesia this year. I don't remember in my time in the company a quiet year in Asia. And Barry and his team have been able to deliver for a straight line through that. And the investors' diversification and the quality of the platform and the quality of the distribution force, which has allowed us if you look at the numbers to double basically the sales between 2009 and 2014, and the profit in the center, have effectively more than doubled.

What we're seeing on Q4, you can see the size of that bar, it's in a very strong rebound in our numbers in Q4 in Asia. And I think that came through in the results you saw this morning. And I'd like to give you a bit of color on how it happened, looking at some of our key markets starting with Hong Kong. Remember, many discussions about Hong Kong being a mature market, well, it was up 39% for us this year, year-on-year, and more pleasing inside that is that H&P has taken off, or Health & Protection. It's something we've always wanted to do. You know that our profile in Hong Kong is very affected by the fact that we have a with-profit fund, profit emergence is slow and we've always had as an ambition to inject more Health & Protection in there.

Barry has launched two products; it's PRUmyhealth crisis multi-care and PRUmyhealth crisis lifelong care which have been very successful. And actually H&P sales were up 56% year-on-year in Hong Kong. When you see the size of Hong Kong, that's our largest business, to grow your largest business by 39% and 56% is quite an achievement.

Singapore, we have a very large business in Asia, did well. Agency APE is up 16%. You know that actually the market grew less than that, so we've gained market share in Singapore. And within that, SCB had a very good year also up 12%. So we're again pleased with the performance in Singapore. She's growing very nicely, double digit and very profitable.

And Indonesia, always a lot of focus on that country; we've told you things as they were as the year unfolded Q1, Q2, Q3. Q4 was very strong. Q4 was up 53% on Q3, and we see absolutely Indonesia returning to growth. And I'm sure we'll have a chance to talk about it at Q1 in May, but we're confident.

So those are the three biggest units, but we also have a range of smaller units that are coming up. China, China has made it on those charts because growing at 30% per annum for a number of years will take you to a good place. IFRS was up 30%, APE was up 35%. And again here, the H&P, Health & Protection theme is there with Health & Protection very helpful for bottom line, up 43% in China. The interesting thing about China is we disclosed only 49%.

Moving, if you put China on 100% basis, it's my pleasure to tell you that China is our fourth largest business in Asia, so it's taken over Malaysia, a major development for us and is continuing to grow very, very strongly. So the patience I think we have displayed there by not selling down and continuing is starting to pay off and to have a material presence on our scale in China and that's going to continue to grow.

The Philippines, it's kind of our little darling in the region, you know that. It's a great economy. Over the next three years, they have the best expected economic growth, GDP growth in Asia. Earnings up 75% and we focused on growing our regular premium and Health & Protection sales in that market (18:41). 30% up regular premiums, great promise of future profit, and Health & Protection up 36% again.

And finally, Thailand; we had our first full year with Standard Chartered, so 12 months with Standard Chartered, APE is up 36% and IFRS earnings up 10%.

So here is the (19:00) first division doing very well and the second division below, smaller but growing faster and catching up, and we always believe that in the end, we all going to look in first division we hope.

Maybe just a zoom on SCB, because it's topic of interest; we spent shareholder money to get the distributions. It's very important for us but we produce the returns and year-on-year progression second half, second half, 2013, 2014 to 33% and that is really broad-based, very strong performance in Hong Kong and elsewhere in Asia. The new markets we activated. So, when you talk about activating, we see this as a new relationship. We're very, very pleased with this progression.

But Asia is not just life, although I've said up to here it's about the life. We said, it's also Eastspring. And Eastspring has had simply its best year ever, £5.4 billion of net flows, total net flows. That's almost on the scale of M&G, it's remarkable. And you see the funds under management went up 28%, £77 billion, and behind revenue profit, growing up 32% to a very – getting close to £100 million, which is kind of material for our business we built over the years and started from nothing. Actually, Eastspring is now the largest onshore retail asset manager in Asia, I'm quite proud of that. And again, Barry, Guy (20:22) and the team have done a great job. Great job on this.

Now, we always said on the (20:27) don't get carried away. We know it's a cyclical and volatile business, and it's very much driven by markets. So we always have a word of caution there against projecting those trends as they are. But this year, a very, very pleasing results. So if you look at Asia as a whole, again, IFRS profit is comfortably above £1 billion, £1.1 billion. Again, a few years ago, the group was making £600 million or £700 million as a whole. So that's again, a remarkable transformation of Asia and cash generative, with almost £600 million of cash, £592 million, up 15%.

So a really good year, strong delivery in 2014 in Asia in the challenging context. I'll remind you all, these numbers were produced against all the headwinds we talked about in the region last year. Disciplined execution by the team, high-quality Pan-Asian platform, and we believe the business remain well-positioned to deliver long-term, high-quality profitable growth.

So moving on to the U.S.; I'll go back to a chart we've been using now for two years or three years, but the good thing is that we're building more data points. The evolution of the VA sales in the U.S. has been nothing short of remarkable, very, very strong. We went from kind of $6 billion six years ago to about $23 billion this year. But the true story is inside those numbers. If you look at the gray chart, it should come first. These are the GMWB. So, the VAs with living benefits, we keep emphasizing that actually since 2011, they have been flat, and thus deliberate. They're moving up and down $15.1 billion in 2014, but this is a point in which we're a bit sensitive. We believe that we're controlling that volume of sales. Mike and his team are well in control of that. They're very proactive about it. We have a budget every year and we deliver on that budget, and we think that's absolutely supported by the data.

But we have an interest on that, we've been innovative. They created Elite Access, Elite Access $5.1 billion in this year of sales. Since it started three years ago, we've sold now $10 billion of this product. And I said that they created a market because – I think VA is the number four product on a standalone basis across the U.S. market. Elite Access alone, that is a commercial success. That is a testament of product development skills and the distribution power that Jackson has.

And finally, you have the VAs without any living benefits in dark blue. So, we've been able to pull the streak of combining controlled risk consumption. We've a continued increase in the top line investment price of the economic performance of the business and if you look at the non-living benefits, VA has gone from 11% three years ago to 34% now. And that's a very, very good development. It's also as a whole a more capital efficient niche and you will see that when Nic talk about the new business stream.

So, low interest rate, of course, is always the discussions with U.S. 10-year Treasury in blue and we put that against the fee income, and again there, if you look at the 2006 numbers, £177 million of fee income, £1.4 billion, this year, it's a remarkable performance, and the fact that we have driven both the volume and the product characteristics generated this type of profitability in the low interest rates environment. It's one of the things that give us confidence that this is a robust business model that can survive and do well across the cycle, and no better proof of that than my favorite chart, the cash remittances.

From Jackson, there's nowhere to hide. (24:12), we've told you charges on the cash generation. These transfers have been made with a strong RBC. We have 450%, 456% at the end of the year, 450%, and $680 million of transfer. I don't have anything to add to that. It's a remarkable performance.

Moving on to the U.K., Jackie and the team have had a challenging year. You've seen what happened in the market with the budget announcement. So in that context, we are already pleased with the performance IFRS profit of 7%, and we're putting a great deal of in-force because it's obvious and you'll notice that we just repeat the importance of in-force in the profitability of a company like ours. Yes, there is a lot of focus on new business, and that's what's generated – commenced in the call, but really, most of the value is emerging the in-force. And besides, it's very good at doing that. And that only happens as a result of good discipline, cost discipline, (25:12) management, lapse management. That's what drives these numbers. So we're very pleased with that £614 million.

And at the top, you see what happened, the decrease in the retail annuities profitability from £110 million to £57 million, and the very strong activity we've had in bulks. And I will again insist one didn't drive the other. This was just a very good year for bulks. If the conditions for writing profitable business had not been there, we would not have written that business. We didn't write it to make up for fallen annuities. We wrote it because there's very strong demand for bulks. And Jackie has one of the best teams in the market. And there are customers who will pay a premium for the safety of Prudential and for the name of Prudential. And that's where we like to play in very big schemes but who'll understand the value we're buying and are willing to pay a premium price at the midst of hurdle rates in terms of capital allocation and trade levers. So it's been a really good story.

The other bright spot really in the U.K. is the with-profit. I know we keep surprising by talking up the with-profit but we have no reason not to talk it up. If you look at the – what does it do? Delivers controlled volatility and returns. That's that red curve and that red curve is against the fund comparator that's relevant and you can see the outperformance.

Well performed at FTSE. And of course, investment performance in the retail market drive net flows. Our net flows have been very, very strong. We were just two years before at £7.5 billion. We're at £11.6 billion. We did plus 21% followed by plus 27%. And this is where we think actually the reform is driving increased saving. I think that is linked to the environment where consumers are actually incentivized to save more. And we have a great engine, a great vehicle for savings that we wrap in different wrappers. But fundamentally, delivers good investment performance and therefore attracts flows.

So that's part of our answer to the regulatory change for which we're preparing in the U.K. If you look at the retirement space, we've been able to come up with a drawdown that has been launched in December very successfully. We're also developing a more flexible investment product, giving more choice to the investors and is doing very well.

If you move to the savings space, we told you we would develop PruFund ISA, so put the with-profit in ISA. That has been done, and the indications we have from the business is about – the applications are very, very strong, ahead of April 6. We're only going to put it through after April 6, it's very strong. Very strong pipeline and Jackie can give you more color on that.

So, stronger presence in the retirement space, better savings offering, and stronger distribution. We have now developed a bond that can go on platforms, and we are actively promoting it to place on more platforms. And that also contributes to the increasing sales. Actually, if you look at the proof of the increase, quite a bit of that is increased distribution. We just have been able to put the product on the shelves of more distributors with very good results.

So the U.K. for us is always – U.K. life, but also M&G. Look at M&G, this chart is familiar. If you look at the – in the red, it's the external funds under management. We went from £70 billion in 2009 to £137 million in 2014. So it's more than doubled. And in the same time, Michael and his team have grown profits. You can see on the next slide progression in IFRS profits have more than doubled between 2009 and 2014 to arrive above £400 million.

So bringing all this together, just want to look at our three usual metrics: IFRS, NBP and cash but at a group level. We are pleased with this performance. It's been over a long period of time, I think which is really the main thing because – specifically one year or two years, but this is now can be called a long track record of very strong performance. Profits have tripled since 2006. IFRS profit, £1 billion to £3 billion, and we insist again on the consistency of the strategy. We've been quite boringly telling you about the same things, and I'm afraid we will continue to do so.

New business profit, same thing, more than three times increased between 2006 and 2014. And finally, free surplus generation which we have really emphasized the cash generation from kind of £0.5 billion to £2.5 billion, which we believe is a very natural evolution. We start with NBP, goes into IFRS, goes into cash if you are disciplined and if you execute well, which is what we believe we have done.

So with this, I'm going to stop, and I'm going to let Nic take you through the financials.

Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Okay. Thank you, Tidjane, and good morning, everyone. In my presentation, I will provide you with a detailed look at the drivers of our performance in 2014, and give you an update on our capital position and on our balance sheet.

So starting with the – can we go back, starting with the financial headlines, the group delivered a strong performance in 2014, with good progress across all of our key growth and cash financial measures. We achieved this against the backdrop of lower global yields and continued volatility in currency markets. Operationally, we faced a number of country-specific challenges in Asia, and unprecedented levels of regulatory change in the U.K. life market.

Despite these headwinds, and after allowing for the currency translation effects, IFRS operating profit increased by 14% to £3.2 billion. Free surplus generation was up 9% to £2.6 billion. Post-tax new business profit grows 10% to £2.1 billion, and embedded value operating profit also on a post-tax basis grows by 4% at £4.1 billion.

Both new business profit and EEV operating profit were adversely impacted by the decline in yields, absent which, the year-on-year improvement in these performance metrics would have been 14% for NBP and 11% for EEV total. Foreign exchange has been a feature in our headline results during 2014 when reporting the performance of those businesses that generate earnings in U.S. dollars or in various Asian currencies. Collectively, these businesses now produce most of our earnings.

The effect of reporting these overseas results using the stronger average sterling rate during 2014 is shown in the red bars on the right. As we have said before, this effect is purely translational because in all cases, we run local currency businesses, where assets and liabilities are currency-matched and we have no transactional cross-currency exposures.

So, in line with the approach that I adopted at the interims and for the purposes of today's presentation, I have re-expressed the 2013 comparatives on a constant exchange rate basis. This slide summarizes the effect of this retranslation on the four financial metrics that I'm about to cover with the impact coming from Jackson shown in dark blue and that coming from Asia in light blue. With this covered, we can now focus on the underlying drivers of our performance.

Turning to the contribution of our four businesses to each financial metric, you can see on this slide that the improvement in performance was broad-based. Asia delivered an excellent trading performance with strong growth across all measures, particularly IFRS operating profit and free surplus generation, the two metrics that form part of our 2017 financial objectives. In the U.S., the benefits of our disciplined approach to managing the balance between growth risk and capital were evident in the strong improvement in the IFRS operating profit and free surplus generation. The two EEV-based metrics also improved despite the self-imposed sales cap on certain products and the drag from lower U.S. Treasury rates.

In a year of considerable market disruption, our U.K. life business delivered a resilient performance achieving the highest levels of new business and IFRS operating profits since the 2008 financial crisis. Finally, M&G reached new highs for both funds under management and IFRS profit. So this 2014 broad-based delivery demonstrate Prudential's ongoing ability to generate both growth and cash a distinctive feature within our industry.

I would now like to look at each financial measure in more detail. Starting with IFRS, total operating profit increased by 14% to £3,186 million, which represents a 26% return on equity. As you can see on the right, most of this increase came from our preferred sources of fee income and insurance or technical income.

The rise in fee income was driven by growth in Jackson separate account balances as well as the increase in funds managed by M&G and Eastspring. The improvement in technical income reflected another year of strong Health & Protection growth in Asia and a higher contribution from REALIC. Spread income grew at a more modest rate as we seek to reduce the weight of this interest rate sensitive source.

Operating costs have also increased but at a lower run rate than total income, demonstrating once again the operational leverage in our business. So in 2014, we increased both the scale and the quality of our IFRS operating profit. Turning to the IFRS results for each business, and starting with Asia, our overall profit was up 17%, with strong underlying performances in both life and asset management. Higher life profits of £1,050 million reflected the increase in the scale of our operations across the region, and our focus on regular premium protection-oriented solutions that address the needs of Asia's growing middle class.

We measured the scale of our business by reference to policyholder liabilities, which as you can see in the top right hand box, increased by 20% to £26.4 billion, as we added another cohort of regular premium new business. As a result, total income across the region grew by 10%, which outpaced the 6% increase in costs.

So the dynamic that we have talked about before or that in high quality, new regular premium business through a large profitable and sticky existing book all processed through a scalable platform remains a powerful underpin of our earnings momentum in

Asia. In 2014, Eastspring attracted a record £10.4 billion of third-party and internal-led flows, which together with positive market movements drove assets under management to a new high of £77 billion.

Fee income increased by 20% in line with the growth in average AUM, and with costs rising at a slower rate, the overall IFRS profit was 32% higher at £90 million. In the U.S., IFRS profit was up strongly at £1,443 million driven by 21% increase in Jackson's life result. The improvement in Jackson's profitability has been accompanied by a positive evolution in the sources of earnings with fee and technical income growing strongly as shown in the chart in the top right.

Spread income is only marginally up on last year with reductions in crediting rates broadly matching the decline in yields. As the headroom between current and guaranteed crediting rate levels is now small, a lower for longer interest rate scenario will see spread margin decline towards the 200-basis point level in the next two years or three years.

Technical income benefited from an increased contribution from REALIC of £216 million, up from £178 million in the previous year. REALIC is now equivalent to 1/3 of the technical income block shown in blue. Jackson's fastest growing source was fee income, driven by the growth in separate account balances, which is illustrated in the chart in the bottom right. As you can see, the increase to $127 billion was mainly due to $12 billion of business inflows. Elite Access contributed $5 billion of this $12 billion and represented just over 8% of the separate account assets at the end of 2014. Finally, the profit from other U.S. operations is lower at $12 million, reflecting the fee refunds in Curian, which recovered at the interest.

Turning to the U.K., the improved performance was driven by the life result, which increased by 7% to £752 million. This result was underpinned by resilient contribution from our two core sources of with-profits and in-force annuities, which were not impacted by the U.K. market reforms. Alongside the rest of the market, sales of new individual annuities declined, reducing the contribution to profits from £110 million to £57 million. Box written on attractive economics added £105 million to the total.

We remain selective in our approach to the bulk annuity market, and we will only write the business where returns are sufficiently attractive. So as we move forward, we think about the profitability of our U.K. life business in three blocks. The first relates to the season and relatively stable results from with-profits and in-force annuities. The second relates to the contribution from new individual annuity business whose size will ultimately depend on how consumer demand for this product develops after April this year.

And the third represents the profit from bulks, which will vary depending on the ongoing availability of sufficiently attractive deals.

Staying in the U.K. and turning to M&G, IFRS operating profit was 13% higher at £446 million, reflecting the growing scale of the business. As you can see in the box in the bottom right, assets under management increased to £264 billion driven by strong inflows and positive market movements. Within this total, retail AUM grew faster at 11%, reflecting M&G's success in Europe where it secured record net inflows of £8.1 billion in 2014.

The higher overall level of AUM and the positive shift in business mix towards retail drove an 11% increase in fee income, which you can see in the box in the top right. M&G continues to invest in people and infrastructure to support the growth that we have seen in recent years. In 2014, the rise in costs was outpaced by the higher level of fee revenues, driving a small improvement in the cost/income ratio to 58%.

The rate of investment will continue for the foreseeable future which will mean that this ratio could rise in the coming years. I will now move to free surplus, the primary measure of cash generation of our business. As you can see on the left, free surplus generation after investment in new business, increased by 9% to £2,579 million. The key component of this was the return from life in-force book, which was 19% higher at £2,276 million. This strong increase reflects the dynamic of adding another cohort of high return fast payback new business on an already sizable back book.

The £314 million positive experience result reflected our ongoing success in managing the existing business for value. As I said last year, the comparative benefited from higher assumption changes producing a result which was well above the run rate that we typically achieved.

In the top right, you can see that all three businesses are making significant contributions to the life in-force total, with a strong uplift in both Asia and Jackson, with a high return fast payback dynamic is most evident. The U.K. free surplus is lower, as 2013 included £78 million of positive longevity assumption change, which has not recurred.

Total new business strain was broadly unchanged at £606 million. As you can see on the bottom right, Asia strain increased, reflecting higher sales volumes and changes in country mix.

In the U.S., strain benefited from proactive actions on commissions, and favorable changes in product mix, higher Elite Access for example.

The U.K.'s total new business strain includes £31 million for bulks, which represents part of the extra investment that we said we would make in the U.K.

This next slide shows how the 2014 free surplus flow has impacted free surplus stock on the left, and cash on the right. As you can see in the chart on the left, after deducting remittances, the overall stock is up at around £5 billion. However, as our business is now bigger, the level of cover that this stock represents is broadly unchanged. Once again, remittances have been strong across all businesses. The impact of sterling strength against Asian currencies is now beginning to come through in the remittances from Asia and you should expect this effect to carry through into 2015.

Jackson's record remittance of £415 million was a result of its disciplined approach to managing the balance between growth, value risk and capital. M&G's higher remittance reflected growth in its overall earnings base.

As previously flagged, the small decline in the U.K. remittance is due to the extra investment that we are making in response to the U.K. market reforms, which will continue through to 2016. As you're aware, remittances from our U.K. life businesses are subject to regulatory approval and notwithstanding the capital generative nature of this business, I anticipate that securing approval will be more protracted this year as we transition from the old, from the existing regulatory regime into the new one.

Finally, on the right, you can see that after paying a high dividend funding the upfront fee for the renewal of the SCB distribution agreement and repaying $750 million dollar-denominated hybrid debt, we closed the year with £1.5 billion of central cash, a very comfortable position.

Before leaving this topic, I wanted to re-emphasize the reliability of our future cash generation by reference to the updated undiscounted (45:00) monetization profile of our life businesses. The dark blue bars in the top chart represent the end 2013 life in-force book monetization profile as we reported a year ago.

The light blue bars represent the updated profile of this block one year later. These bars are now higher than before reflecting positive experience and the effect of the stronger U.S. dollar, which, taken together have offset the impact of lower yields between the two periods. When we add the cash flows from the 2014 new business cohort shown in red, we have another profile that is higher than the one we started with, evidence of the powerful capital velocity capital dynamics of our business.

We remain on track to deliver the £10 billion cumulative free surplus objective after financing new business over the 2014 to 2017 full year period. I will now briefly cover the EEV results before turning to capital.

On this basis, total operating profit was 4% higher at £4,096 million, equivalent to a return on embedded value of 16%. As shown on the left, the result is driven by combined life operations where profits were up at £4,174 million, led by Asia. The bar charts, the bar chart on the right analyzes the contribution to the life totaled from new business, which was up 10%; and from in-force, which was flat. As I mentioned at the start of my presentation, the decline in long-term yields during 2014 dampened both new and in-force EEV results by an estimated £90 million up on new business and £187 million for in-force.

And this effect masks a stronger positive underlying trend. Experience profits shown in the breakout box on the right remain the prominent feature of our results totaling £470 million, while assumption changes were also positive at £138 million. The fact that experience and assumption changes are positive in each of our three main businesses confirms the high quality of our franchise.

New business profit shown on this next slide increased by 10% to £2,126 million, with all three businesses posting year-on-year improvements. You can see in the table on the right that this improvement is primarily driven by sales growth offset by the adverse impact of lower interest rates.

All three regions continue to write new business at very attractive internal rates of return of more than 20% and show payback periods. In Asia, new business profit increased by 13% to £1,162 million driven by the higher volumes from our expanding distribution capability. Our NBP performance in the region is both robust and resilient, underpinned by a 16% NBP increase from our Southeast Asia sweet spot, and a 19% NBP increase from Health & Protection.

In the U.S., new business profit increased in line with sales, product and pricing actions have defended our new business economics, which remain close to all-time highs despite the drag from the lower interest rate environment. U.K. NBP was 14% higher at £270 million supported by a strong contribution from bulk transactions in the year.

Retail NBP was 23% lower due to a reduction in individual annuity sales mitigated in part by higher NBP contribution from with-profit bonds. Moving now to the rest of the profit and loss account, which is summarized here for both reporting basis, in 2014, the impact of higher equity markets and lower long-term yields produced a number of offsetting effects within the IFRS investment variants line which came to a negative £0.3 billion.

The most significant component in this line relates to Jackson for the reasons that we have set out previously, the different accounting treatment on the movement in the valuation of derivatives and the corresponding guarantee reserves produce a net negative result. This has been a recurring feature of Jackson's results on this basis, reflecting in perfect IFRS accounting. We continue to hedge the risks of this business on an economic basis and accept the accounting volatility that ensues.

As we move down the table, we see a positive £0.6 billion effect, reflecting unrealized gains on Jackson's fixed income securities following the decline in yields. The stronger U.S. dollar at the end of 2014 also contributed positively. So, after the payment of dividends, total IFRS net assets increased to £11.6 billion, up 22% in the year.

On an EEV basis which does not suffer from the same limitations as IFRS in reflecting the full economic substance of market movements on our U.S. business, the overall investment variances were positive £0.2 billion. Therefore, under this basis, the strength of our operating performance, together with positive foreign exchange effects, net of dividends produced a 17% increase in EEV net assets to £29.2 billion, equivalent on uplift of 165 pence to 1,136 pence per share.

The next few slides cover the group's economic capital position and our preparation for the implementation of Solvency II. We're now less than a year away from having to adopt Solvency II. However, there remain significant areas where quality clarifications are needed. We intend to apply for a full internal model in June, and we will seek to incorporate Jackson using the equivalence provisions. PRA internal model review, feedback and final approval is not expected until later this year which means that we will only have full clarity on this topic once this entire process is completed.

We have updated the group's economic capital results which are based on outputs from our internal model. Other than replacing the liquidity premium approach with the matching adjustment principles for U.K. annuities, these results have been produced using broadly the same methodology and assumptions as last year.

So we continue to assume U.S. equivalence and have included Jackson's excess surplus above the 250% RBC level. Our methodology recognizes fully the value of overseas economic capital and incorporate a risk margin in line with the Solvency II requirements.

Now based on this methodology and assumptions, our economic capital at the end of 2014 was £9.7 billion, equivalent to a healthy cover of 218%. As you can see on the right, our business operations delivered £1.8 billion of economic capital in the year, equivalent to around 25 points of cover.

As this capital measure is more market sensitive, the impact of the decline in U.K. interest rates is more pronounced contributing to a negative movement of £0.9 billion. So before capital actions and notwithstanding the adverse market effects, our business performance drove an overall increase in economic capital.

The remaining items shown in light blue reflect the impact of deploying our economic capital to renew our distribution agreement with SCB, repay hybrid debt, domesticate the Hong Kong business and pay the external dividend. The negative £0.3 billion for model changes is mainly due to the impact of adopting the matching adjustment principles.

So the key messages here are; one, that we are capital generative on this risk sensitive metric reaffirming the positive cash and capital dynamics of our business; two, that the overall reduction in the level of capital was principally driven by deliberate actions in pursuit of our strategy; and three, that our year end position remains strong even in this historically low-yield environment. We have updated the analysis of the economic risk profile of the business which is broadly unchanged from last year and is not highly concentrated to any particular risk type.

We have also updated the sensitivity of the end 2014 economic capital position through a range of market shocks shown before the impact of potential management actions, and that's important. Even though the financial impact of these sensitivities is a little higher than the previous year, which is due to the lower end 2014 interest rate levels, the overall effect of these market stresses is manageable reaffirming the resilience of our business model.

Before leaving this topic, I would reiterate that these results should not be interpreted as representing our Solvency II capital position. As I have already mentioned, policy remains unclear (54:01) in a number of areas, while in others, it is ultimately subject to regulatory interpretation and supervisory judgment. We have provided you with some indicative sensitivities in your pack on three key areas under discussion based on completely, and I stress completely, hypothetical assumptions.

These are one, the impact of an artificial haircut to Asia's economic capital contribution to the group total under the Solvency II fungibility tests which, as Tidjane has said, would not represent economic reality; two, the impact of calibrating U.K. credit and longevity one-year stresses above levels that we would deem appropriate; and lastly, the offsetting effect of applying transitional relief in the U.K. for differences between the economic capital and the Solvency I relative position.

While we would expect the Solvency II result to be lower than the £9.7 billion of economic capital, our starting point is strong and our business remains highly capital generative in nature. This fundamental feature of our business is unaffected by Solvency II, and underpins our confidence in the overall capital dynamics and capital position of the group.

I have provided on this next slide the usual update on balance sheet. In summary, we remain well capitalized and defensively positioned. The group's IGD surplus at the end of the year is estimated at £4.7 billion, and this is after deducting an aggregate £1.3 billion for the full upfront fee of renewing the SCB agreement, the hybrid debt repayment, and other corporate activity.

The financial strength of the U.K. with-profit estate remains a core part of our product offering, and this stood at £7.2 billion at the end of 2014, up from £6.8 billion at the start of the year. The U.S. RBC ratio has improved to 456%, after covering the record cash remittance, underlying Jackson's disciplined approach to risk management. On this basis, the hedge program was essentially breakeven, as movements in hedge assets and guarantee reserves broadly offset.

And finally, in response to your requests, we have provided you with some additional disclosure on our exposure to oil and gas, which in our view is well contained, are properly diversified, and focused on high quality names. For further details, please refer to the appendix slides.

So, to summarize, we delivered a strong broad-based performance in 2014 against the challenging backdrop. The group remains highly cash generative, given by the predictable generation of free surplus from our growing life insurance book. Our capital position and conservative balance sheet remains a source of strength for our business and adds to our resilience. And finally, we are positive on the financial outlook of our business and have signaled our confidence in our future prospects through the 10% rebate in our full year dividend.

I will now pass it back to Tidjane.

Tidjane Thiam {BIO 7518525 <GO>}

Okay. Well, thanks a lot, Nic. I'm now going to talk to you about the final part of this presentation, our outlook, which is positive and confident. And I'll start, really, with the basics, where do we compete? Where are we?

We think that we have an attractive footprint. As you know, we have 24 million customers across regions. And our footprint is really Asia, the U.S., the U.K. and as you can see, two spots in Africa where we're starting.

But we think that the point about this, if you look at new growth, not the stock of assets, but new growth, where we are – represents 63% of the GDP growth expected in the next five years and that's a great place to be.

But presence alone is not a guarantee of success. It's a (57:55) of your capabilities and having the right strategy and we have the right strategy. In those geographic areas, we are focused on the right opportunities. It's the emerging middle class in Asia and its savings and investment needs – sorry, saving and protection needs; for U.S., Baby Boomers and transitioning into retirement; and the U.K., which is a very attractive asset management and savings market.

So, if you look at the scale of those opportunities, there are many, many assessments of the middle class in Asia, but in our sweet spots, so just the sweet spot countries, Hong Kong, Singapore, Vietnam, Thailand, Philippines, Malaysia, Indonesia, we expect the middle class to grow by more than 100 million in the decade between 2010 and 2020. That is more than the entire population of the U.K. and we have 8 million customers in that space. So we think that the headroom is very, very significant.

Look at the U.S., we expect 16 million more retirees in that same decade and that's more business for us. And if you look at the U.K., we expect the assets under management to increase by – to more than £1 trillion over the same decade. And, again, it's the second largest market in the world. And we got massive opportunities. We have the capability and the execution to capture them, and that's really the next slide where we'll just give you the progression in our Health & Protection sales in Asia in six years, they have more than doubled.

If you look at the U.S. again, more than doubled in terms of sales and deposit by product, if you can also see that the makeup has been transformed, VAs which were smaller than fixed annuities in the dark blue in 2008 are now more like three times, the volume of fixed annuities. That's, again, a transformation. And I could also talk about M&G and its success in the retail asset management market.

But all that, if it doesn't translate into tangible returns, it's not really meaningful. The good news is we have been able through a disciplined execution to grow that red bar, which is really the free surplus generation to keep the blue bar going down, the new business strain under control. As the group gets bigger, in absolute terms, it hasn't really moved which means that the light blue bar, so cash generated after new business strain has been growing very nicely which has allowed us – and that's really my final slide – to have a very nice slope in the dividend, and take it above to pre-crisis level which for a financial services company is a good performance.

So, to summarize and close and conclude, we're in the right places. We have the right strategy. The execution is good. 2014 was a good year. We have no intention to change our strategy. It served us very well. There's plenty of headroom, and Asia is at the center of all this for very obvious reasons. It's more than half the world's population. It continues to grow even if the absolute growth rate may slow down on a relative basis, still a very, very high growth area and we are uniquely positioned in Asia with our distribution platform, our capabilities and our team to do well.

Of course, we don't ignore the clouds on the horizon, certainly lower for longer. Low long-term interest rate is a particular challenge for the industry, but we think that we have effective responses for that. We have a strong balance sheet. Nic and I have spent a lot of time talking to you about the cash generative nature of our business model, and how that allows us to deal with the challenges of new solvency models.

And again, we believe that that strong balance sheet leaves us well positioned to deliver long-term shareholder value.

So with that, I will stop. I will ask my Executive Director colleagues to join us on the podium here, and we will start taking your questions.

Raghu, if he wants to allocate the... and Richard, yes. Okay.

Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

The usual drill, please. State your name and your firm's name before asking the questions, and mic is going around.

Tidjane Thiam {BIO 7518525 <GO>}

(1:02:10)

Q&A

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

Are we ready? Jon?

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

Good morning. It's Jon Hocking, Morgan Stanley. I've got three questions on capital, please. Just on the point about the overseas surpluses, are you including any surplus above 100% of local? Or are those numbers the same numbers as you've got in the free surplus calculation to EEV?

Second question. Presumably, this doesn't impact remittances at all; this is purely an aggregation impact at group. So you might end up with a lower group number than we might have hoped, but from a business point of view, it has no impact. And then thirdly, on the credit longevity point you mentioned, is that purely a U.K. issue? So it's a U.K. annuity book issue? And actually, if I tack on a fourth one, you presumably have got quite a lot of debt capacity. So if you did end up with a low ratio, there's a very easy solution to all of us. Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you. Thank you, Jon. The easiest is the credit longevity, so I'll take that. That's U.K., exclusively U.K. Nic, do you want to take the oversea surpluses, where do we take them (1:03:18)?

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

Sure. I mean the oversea surplus in Solvency II is a completely different calculation. So what we do for our own free surplus calculations is we look at tangible assets and the extent to which those exceed more about – on average, about 130% of local minimum. That's the definition of free surplus and 130% is what we think across the region we need to hold relative to local minimum.

Solvency II just looks through completely. It's a completely different calculation. It allows you to put a realistic value on your reserves. And candidly, when you're talking about a lot of health and protection business, that realistic value uplift is significant and it throws away the local requirements or an uplift on those and replaces them by one in 200 stress, which we then calibrate taking each risk and modeling that out and applying diversification benefits. So net-net, Solvency II gives an answer that is bigger in terms of available capital or surplus in Asia than either taking 100% or the level that we apply. In reality, it doesn't change the distributions from Asia one jot. Why? Because those distributions will be determined by reference to the local regulatory regime. Yes. So, Solvency II is interesting and it's relevant for Asia, but doesn't change the way we think about that business or indeed what capital can be remitted from that business. Therefore, whether there is a haircut or not against that, it doesn't affect it. That's why we say it's uneconomic.

A - Tidjane Thiam {BIO 7518525 <GO>}

And that's the central point really. So, the remittances are driven by local solvency. We spend a lot of time building the local solvency to a level where capital can flow freely and it's not a constraint. So, there is no connection there.

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

Here's the follow-up. In terms of the – you mentioned there's a sensitivity in the press release, though, I haven't had a chance to dig through the press release yet. So you're saying that even those these aren't equivalent regimes in Asia, your economic capital number recast on an economic basis, you're effectively including a larger economic solvency than might be there on a local regulatory basis?

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

Yeah. They're not equivalent this year. We have had to look through all of that and redo a calculation at this stage. They may become equivalent regimes in the future if the local regime evolves in some way and as we saw at the visit in Asia earlier, there are one or two steps in that way over the next five or so years. So, no, what we're bringing in is a completely different model.

You asked a question on debt capacity. Yes, with the repayment of debt and, of course, the increase in IFRS in embedded value, if you like, a gearing ratio whichever way you may want to calculate it. It has reduced. Yes, we have the capacity to increase that. And we have done from time to time just increased the flexibility that we have at the group. It's another lever that we have. It's a great position to be in if you have a growing business that throws out capital, yeah, we can borrow against that. So, we make those decisions as and when - as we need be - as necessary.

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

Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

We go to Blair, please.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Thanks very much. It's Blair Stewart from BofA Merrill. A couple of questions, please. On the fungibility issues, I think you gave us 20% sensitivity in the pack. I just wonder if that's how we should read that 20% number. And wouldn't one answer to the fungibility concerns from the regulator be to change your policy and the way that you remit capital and just remit as much as you possibly can rather than just what you need just to prove the point on that issue? And your sensitivities on economic capital to interest rates have broadly doubled, I think. Could you talk a little bit about that? Is it just a function of where rates are? Have you changed the methodology there at all, please?

And, I guess, Tidjane, I'll probably ask the inevitable question. Why - because we ask this question lots of times over the next few months. But why are you leaving a big company like Pru to join a relatively small company like CS?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Blair. Okay. Fungibility, do you - and the sensitivity we gave?

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

I mean I wanted to stress that they were completely hypothetical. I mean, candidly, until we go through the discussions, until we apply - formally apply for the internal model, I will mislead you if I said anything other than the fact that it's completely hypothetical. I want to reiterate that this is purely, I mean, I hesitate the word, it's a fungibility testing Solvency II that we must demonstrate on how that you can remit this capital with even in a nine-month period. And it's quite an onerous test now. There's ways in which you can do that.

Yeah, clearly, if you brought the money back, you'd avoid that. But candidly, we need the money there to take advantage of the opportunities that exist in those markets. So that wouldn't be a smart thing to do given the opportunities that are there to create value and generate more capital in the future.

A - Tidjane Thiam {BIO 7518525 <GO>}

But on that, we have a data point, and we keep referring to it, which is the 2008-2009 crisis. It's a little what Solvency II does is trying to mimic what would happen under stress and we got absolutely all the dividends we wanted out of Asia in 2008 and 2009, because it was a single dividend payment at the worst possible time. So this gives us high confidence but actually that capital is accessible even under stress but the problem here is that we're simulating a hypothetical event. And then it's easy to make extreme assumptions. But in a real life case, the capital has proven to be very fungible even under stress.

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

I mean that's the sensitivities – we're talking about onerous sensitivities here. So just to give you an example, 40% shock on markets, that's 40% on top of one in 200. That's a 70% market decline, just to put a sense of perspective as to what these things represent. Interest rates, interest rates is entirely – yes, the 50 basis points sensitivity that we give on interest rates particularly staying in the U.K., that's up to 130 basis points reduction. Where the effect is more significant is at those levels of interest is the value of the future with profit transfers and that's what's driving the additional volatility there, but notwithstanding the point that I made earlier, and I'll reiterate now is that even taking further reductions in the yields from this very historically low interest rate environment, the other opposition is safe.

A - Tidjane Thiam {BIO 7518525 <GO>}

I'll give – the next one was for me. Okay. Where do I start? I know that Africans have a bad reputation but I – pardon me for making that joke. I never had an ambition of being a CEO for life, and we have presidents for life in Africa. So I was always going to lead, so let's start with that someday. So the question becomes when. When you're a CEO, it's something, probably one of the most difficult calls you have to make knowing when to leave.

And for me, when to leave is a time when everything is going well, okay? You don't want to leave when there are issues to solve, businesses to restructure, things to deal with because that is what I think unsettles the market the least and leads to a least suspicion. I'm leaving after our best year ever, and I will be here to talk about Q1 and you will be able to see if the business is going sideways or slowing down. I can tell you it's not. So, that is really the best moment to leave if you're a CEO and if you want to not to throw a hospital pass which is an expression I've learned in the U.K. to your successor. So, that's one.

Two, I've always had someone on my team was reminding me that I've still got five years. I really think that's the kind of very natural cycle. It's just not good. It's not healthy. Sorry, I'm going to come back to my favorite topic, Arsenal. It's not healthy to stay too long. It doesn't matter how successful you've been. I'm going to say – I was going to say that always because this is just stuck in my throat. When you're 19, Mister, you know who, so that's not a model to follow. So, you have to know when to kind of gracefully bow and move on and do something else. So, that is really the core of the answer.

And where I go is a function of opportunities, et cetera. I'm not going to talk about Credit Suisse on this stage because I'm paid by Pru and I'm here as CEO of Pru and it would be inappropriate. But I can answer the first half of the question which is why leave now. And I've built a good team. It takes a few years, I think, took five, six years. That was announced in March 2009, and you were here six years ago. I think I'm leaving a great team behind, and I'm very confident in the prospects of the company. I've never believed that I was irreplaceable. We say in French, when the cemeteries are full with irreplaceable people. So I will be replaced and very well replaced. Yes?

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

Greig?

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

Good morning, everyone. Greig Paterson, KBW. And, Tidjane, congratulations on your performance the last few years, I know we've bounced heads back and forth a few times. But I think it's been very successful. So, well done.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you.

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

Just three questions. One is DBS coming up for renewal this year. I just wonder if you want to talk about your appetite for big bulk deals, distribution deals in Asia. Second thing, just in terms of Standard Chartered, the new deal, I was wondering if we are up at the sort of returnable run rate now. In other words, you've rolled out in all the regions or is there still some figure coming through in the next few months as you fully a bed down. Just trying to understand where we are in this trajectory.

And in terms of U.S. remittances, if I recall, there was some issue around business mix VA versus fixed annuities and the rating agencies, and that was more of a concern in Solvency II and the local stat and whatever. I just want to – wonder if you can talk about the prospects for remittances and how it fits in the context of the rating agency model.

And sorry, this is not a question, just a clarification, Nic. When you talk about that 130 times local, are you talking about the IGD basis or your economic model, sorry?

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

It's a free surplus basis.

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

So that's what you're currently using in your eco capital model?

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

Yeah.

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

All right. Cool.

A - Tidjane Thiam {BIO 7518525 <GO>}

Well, thank you, Greig. I'm glad you didn't take personally my constant teasing of you. So, ask for forgiveness on that. But dividends, we never comment on M&A situations, whether we never confirm or deny or say anything. So, we won't say anything specific about DBS. But with general appetite for deals and SCB, Barry, you want to take that?

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

Sure. I mean, we are – one of our strengths, obviously, is that we have the largest, most productive and most diverse distribution platform in Asia – in the industry in Asia. Obviously, our intention is to continue to build upon that existing strength and make it stronger and stronger still. So do we want distribution deals? Of course, we want distribution deals. Do we need them? We do not. We've already got a market-leading position in terms of scale and quality. So what that means is the – getting a deal, any particular deal or not getting that deal is not existential to us. We will continue to do well no matter what. And therefore, it comes down to economics where the economics are rational, where the partner gets a sense that based upon our track record of success that we'd be the best partner, then – and the chemistry right between the two partners, that's a perfect combination, and we usually get those deals and we usually do well with those deals.

The best evidence of that is SCB, which continues to go from strength to strength. As we've told you, the half-year point, the 7-1 (1:16:08) kind of reboot of that relationship for another 15 years was really a pivotal moment because it's sort of re-energized both teams, and the level of cooperation has been extraordinary. The chemistry between the teams, both at a global and at a local level, which has always been good is even better, ideas that have been talked about for the last few years is interesting ideas in terms of how to expand the business for the bank and for us are now being put into action. So, I think the simple answer to your question is you should expect to continue to see very good performance out of SCB, I'm very optimistic.

A - Tidjane Thiam {BIO 7518525 <GO>}

I think there's a question on the run rates, do you feel that you have some headroom of which – sustainable run rates on SCB, I think, he was asking.

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

I thought I answered it, no?

A - Tidjane Thiam {BIO 7518525 <GO>}

Well, I'm coming back for more. Okay, great. Are you – should you be – I know, Greig, I know, Greig.

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

(1:17:15)

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

There is more under – more new initiatives underway, so I think you should be optimistic as I am.

A - Tidjane Thiam {BIO 7518525 <GO>}

I just wanted to get you on to a hook US...

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

Thanks. Thanks.

A - Tidjane Thiam {BIO 7518525 <GO>}

...U.S. mix, VA, FAs between Michael or Nic.

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

I think, Greig, it matters by rating agencies for one. They have different views of it and they look at now – the dialogue we have with them is the various risk levels and the various types of VA we've written. So, I think it's a little different discussion for us than a carrier with a single product when they go in. I think the rating agencies are certainly more conservative post-crisis. The process has changed. It's much more scripted and structured. They have latitude, I think, for judgment. So, there is a little bit more of a formula but I think we're fine. It's not – that wouldn't be a remittance issue for us. That remittance discussion will be with the regulator state level, New York or Michigan.

Q - Unverified Participant

[Question Inaudible] (1:18:17-1:18:24)

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

You notice I'm not answering that.

A - Tidjane Thiam {BIO 7518525 <GO>}

(1:18:27) I thought it would be very cool if (1:18:29).

Q - Unverified Participant

(1:18:33)

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

It is – you see the recurring nature of the revenue. The question is what we do in country, all the normal variables we look at in a given year. But the resilience of Jackson's earnings is clearly there.

A - Tidjane Thiam {BIO 7518525 <GO>}

Absolutely. Okay. Thank you. Who's next?

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

Lance?

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

Morning. It's Lance Burbidge from Autonomous. Two questions. First one for Mike, I just wondered if you might comment on what The White House has been saying on purchase of retirement products in the past couple of weeks. And secondly, for Barry on Indonesia. Indonesia, obviously, had a very good December. Is there any kind of idea you can give us in terms of how active your agency force is at that point and sort of how much capacity you have to see that growing rapidly?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. So, Mike, you go on then.

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

This is actually an issue in the Department of Labor about, I'd say, two and a half years ago it first arose. And I think the – and The White House now has the documents of what we're understanding is somewhere in the next 60 days to 90 days, the release or comment office (1:19:48) management budget, there will be a little financial impact of the normal commentary, then we will see what we have. I think the academic work that was done to support the argument that some things not – that there's not value to be advised. It's always difficult because how invested would those – what percentage of equities what those clients have had if they made the choices by themselves. And I can tell you we're dealing with advisors every month, where they would tell you as they get clients to invest when they want and they get them to sell when they want. And that's not a new concept. I mean, that's the same thing you'd see with advice in Asia, the U.K. or anyplace else. They get clients to manage risk levels prudently.

I don't think the work that was published shows that. I think it shows, if you bought a fund perfectly timed an ETF purchase versus bought a load fund with advice, it's the net difference. And so that's sort of the – I think the mistake in the core premise of it. But you also see the SEC pushing back on. They see it as their enforcement jurisdiction and no – I don't think they share the mandate at this point.

So I think we're going to see a lot of comment on it, a lot of discussion. I think the counter is going to be - it's a very well governed market, heavy disclosure. You'll probably get a little tightening of the movement from suitability, which is the U.S. standard towards best advice, which is more of what you used to say here the reasons why letters and things. There isn't that concept really in the States. You see where the SEC advisors a bit, but you'll probably see a more of a hybrid of the two, and if I was guessing, that's where to land. But it will be an industry issue for six months to nine months at least.

A - Tidjane Thiam {BIO 7518525 <GO>}

And if I may add just one thing, there's a bit of good news, actually non-risk, which is - and we met some of The White House people. They have examined commissions and decided not to touch with, and they mentioned RDR or (1:21:44) something, they looked at and proved was not a success. And that they didn't want to imitate.

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

Yes. The early draft of the language as we understood it would have bought all commissions on retirement products. And again, that would have allowed advisory fees. So the details when this will matter and I would tell you from Jackson's point of view, if it acquires a change in product or structure or distribution, I think we're better situated than any of our competitors to address that quickly and effectively. And I think again, the systems capability, you're going to need sophisticated delivery on whatever the new structure is, technology, et cetera, and we have those capabilities.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Mike. Barry, Indonesia activity?

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

Yes. So the short answer is that, yes, December was a great month and obviously the number of active agents spiked a bit. So that was very important. We couldn't have produced those numbers without that having happened. The dynamic that's been happening throughout the year is last year as we had sort of this consumer uncertainty and then the natural disaster issue with the flooding and so forth as well, is really that if we were taking longer to activate new agents, and as you know the agency model there - a lot of the production - a material part of the production is dependent upon our ability to quickly activate new agents who're being recruited. And that's really the metric where we were struggling that it slowed down and that did pick up significantly in December. So I don't think we're at a point where we can declare victory. Obviously, Tidjane alluded to the political environment there. It is - people are more optimistic, I think, generally speaking, based on what Jokowi has been able accomplish so far. He has taken the hard decisions, as he said he would. So, I mean that, I think, calls for optimism. But I think don't think we're at a position we can declare victory, but we're hopeful of that point.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Very good. Where do we go?

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

Gordon.

A - Tidjane Thiam {BIO 7518525 <GO>}

Gordon, yeah.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. It's Gordon Aitken from RBC. I have couple of questions for Mike, and one for Jackie. Mike, you were very open about your desire for M&A within Jackson, and you said back in December the market was quite tough in terms of P/E having lower hurdle rates. Can you just update us on the market? I'm not asking you about the specifics, but the market there.

And secondly, and is related, why do you need to acquire? I mean, if Jackson remains within the Pru Group, you have lots of diversity. Admittedly, Jackson standalone, it does look exposed to VAs. And then third question for Jackie is, you had a competitor saying in bulks they were quoting on £10 billion of bulks at this current point in time. What's your expectation for the market this year? We've got some people saying it's a £10 billion market. That's a new norm. Other people are saying £100 billion over five years. What do you think?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Mike, do you want to start?

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

Just for the – Gordon, on the M&A, I think the market remains competitive. The participants are a number of U.S. insurers and foreign insurers. They have said they'd like to buy something. You have private equity, that's opportunistic where you just want to do a single transaction and hand it to a third-party administrator to run and they see it as – they tend to like the annuity deals because they see those fixed annuities as sort of a levered planned bonds. The model being stripped the capital out and run up the risk in the portfolio and just about everything the regulator doesn't want to hear.

And the third is now you have private equity firms that have actually built platforms in the U.S. where they are building competitive insurance companies to consolidate. So those are the three types of buyers. And you have your hybrid to that, (1:25:50) and things. So that's the competitive landscape. It's a great point of diversification globally. We absolutely have that as part of the group, but there is actually pretty good opportunity for our shareholders when we do these purchases. We can take a lot of the expenses out of a competing life company and get materially higher returns than if we bought life policy individually, and it's also, I think, a lower risk transaction you get away from some of that first and second year risks writing a life policy in the States. But the actual returns we've got on the life blocks we've done have been excellent for shareholders. It goes to our expense base. It goes to the technology. It goes to the service model. It's all scalable. And as shareholders, you own the capacity in the States and we're just utilizing some of that. So I think that's the other reason to do it.

A - Jackie Hunt {BIO 16204866 <GO>}

And on the bulk pipeline, we continue to see it as an attractive market. Overall, we think there is about £1.8 trillion of liabilities looking for a home. If you look at the pipeline coming into this year, it has been incredibly strong, certainly stronger than I've ever seen it. We will, however, continue to be selective. We've talked about being disciplined and we genuinely are disciplined, and we look at the opportunities, not just in terms of the financials of hurdle rates and the return in that way, but also the amount of capital consumed on various bases. So you should expect to see us active in the market, but very selective about the deals that we choose to undertake.

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

Just being conscious of time, we'll take a couple more.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes, a couple more.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Oliver Steel with Deutsche Bank. Three questions. First is, Elite Access has seen quite a lot of lookalike competitors. So I'm wondering what the competitive landscape is there and what advantage you still have over the competitors?

Secondly, I wonder if you could just give us a bit more insight into where the SCB sort of premium increases come through. I mean, Hong Kong clearly obviously but perhaps you can talk through the other countries as well and where the opportunities still are? And then thirdly, Nic talked about the U.K. regulator taking a bit longer to agree to any cash transfer from the U.K. business. So I was just wondering, what the issues were in that regard?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Oliver. Competition for Elite Access, Mike?

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

The short answer is there's a dozen or more. And I think there is two more filed. With our £5 billion in change of sales last year, I think the most successful number two product was in the 200s with 70% of their sales being in their own agency force in in-country. It is - one of the things I'm most proud of with Elite Access is it is - if you were trying to measure Jackson's capabilities, I think it's an excellent example of you need product alignment, the design, the training. Jackson was named yesterday in one of the industry trades, BlackRock, us in a - I apologize one of the firms has provided the best training to advisors in the alt space period, not just the VA space.

And I think the formula behind it of building a good product, understanding the client, et cetera, and being able to help the advisor work into the business model, that last piece is incredibly difficult. And I think that's where the competitors are having the most trouble. They are building - well, the category is called IOVAs now, investment-only VAs and are immediately adding guarantees to them. And so they are no longer IOV - so they are IOVAs with guarantees now, I guess. So this is just going to continue to go to the industry's default high commission, throw a guarantee on it model. We're not - and it's a good investment product. And if you think of the alt returns expectations, you would have, this is not a product that can support a super heavy fee load. It doesn't have the S&P kind of upside to it. So you got to - I think the industry has got to be careful here not to commission themselves into a product that doesn't work for the consumers.

A - Tidjane Thiam {BIO 7518525 <GO>}

Very good. And that's important so, because really Mike is being modest but the level of success achieved by Jackson is - compared to the competition is extremely impressive. I mean £5 billion to £200 million is impressive. Standard Chartered, where did the growth come from?

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

Yeah. It's - if you look at just what happened in the second half of the year, particularly towards the end of the year, it's actually quite broad-based. Hong Kong, which is always been the largest market did really well. The relationship in Hong Kong in December to give you an idea was up 37%. You might be shocked to hear that Korea had done really well. In fact - and I'm almost reluctant to give you this number, but in December, Korea was up 633% for SCB.

A - Tidjane Thiam {BIO 7518525 <GO>}

So it's probably from a low base.

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

Yeah, it's a relatively low base. I think 600 policies versus the one we sold last year. But - and Taiwan has done well. And Taiwan and Korea are lumpy because it's really - the panic market in those two countries features a lot of hot money product, which we won't do. And so generally what happens is our sales in Taiwan, and particularly in Korea, it tend to spike when all of the local competitors who manufacture the hot money products that run out capital and there is nowhere else to go. And then they come to us and we sell them a sensible product. So it's a little bit lumpy. But the Hong Kong story is a strong and continuing and durable story as is the story in Singapore. We're making good traction in markets where Banca is still modest, be it like Malaysia as an example.

But one of the real shining stars post-renewal of the SCB that you have is really India where we did not have a relationship until we signed the new agreement, which was effective on July 1. We're fully active on July 1. Gone into every branch and have just done an amazing job of some specific products that are very appealing, some using technology. It's a 100% paperless process. It's all done on iPad. It's really quite clever. And interestingly from a standing start, India went from zero to our number four market within the context of SCB. So a very strong start there.

A - Tidjane Thiam {BIO 7518525 <GO>}

U.K. dividend?

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

I mean the simple answer is that there is still too much up in the air. I can give you some examples around that. I mean, matching adjustment is a completely new set of new approach. You're having to think through eligibility. You have to think through cost of defaults, cost of migration in relation to downgrades. EIOPA guidance in terms of the base has only emerged in the last week and every week that goes by as you see some more guidance emerge laterally around some of the criteria around the asset liability matching and so on and so forth. All that is to pay out with participating in the pre-application process and matching adjustments in the second quarter.

Longevity. In longevity, we're moving away from a one-off test which is the way in which ICA has been underpinned to a one-year test. And we're trying to effectively establish a capital amount that says, how would you change your longevity reserves based on any information that might evolve in the year, and then how do you apply one in 200 stress on that? So it's a completely new way of looking at things with no precedent in a one-year context.

And then luckily lastly, the application of a risk margin is quite onerous. Again, just to give you an example, if you took at the end of 2014 interest rates, if you took the combined effective risk margin and SCR, that would be equivalent to around 15% of annuity reserves. That is much higher than what you currently require to do under ICA, which brings transitionals straight into scope. They were designed exactly to do that, to give you relief when Solvency II comes up with an answer that is different to ICA. The whole process about how you go about securing transitional relief is still up in the air. So all I was flagging is there is a lot up in the air and it'd be wrong of me to sit here and say in a year of transition with so many questions outstanding, I'd be wrong not to flag a risk that the discussions will take longer. Now, the key, though, point is that the business is throwing out capital. Okay? So that's key, and it's basically the same across all of our businesses.

A - Tidjane Thiam {BIO 7518525 <GO>}

And if I can just add to it that if you step back, really what I want to put on the record, I said it in my notes is that the dialogue with the regulator is good and constructive. I insist on that we found a very receptive regulator and we engaged in a – Paul and I want to see them and all issues on the table and we're all working towards the solution. That's one.

Two, again, back to a capital generative comment and stress testing with dividend, we're always telling with stress test for group dividend. One of the scenarios we look at is what if the U.K. didn't pay any dividend for three years or four years? And I can tell you dividend is sustainable, can continue to grow at 5% even under worst scenarios and part of why we're always so cautious and we rebased. So for example, we look at all those scenarios and we give you an upper rebase that is robust and that will basically survive under any scenario and that's really important.

And the final point on the remittances is they are not actually that important because, as Nic said, if the business is cash generative, if, for any reason, you stop paying from any business, you're building up very quickly, the position of that business and after two or three years, the capital starts flowing again because whatever punctual tension there is, is resolved. And that's why the system is very safe as a whole, because if you're running four cash generative businesses, you can't ever really get in trouble, all you have are timing differences in system and that's why we feel so confident in the group dividend. It's just the timing difference, not anymore. Next question?

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

Final question?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Just a couple of question. First of all, on your economic required capital movement, what actually drove the £1 billion increase? I guess it's not the U.S. rates because you are treating U.S. on equivalence that should not really impact the required capital. So what really moved that? That's the first thing.

And secondly, you showed £1.8 billion of capital generation on economic capital basis. Again, can we get more color on how much of that base is coming out of U.S. because as U.S. is on the equivalence basis, how does that move? I mean, should we think about EV basis of economic capital generation or it's a different metric altogether? Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thanks, Ashik. Nic, I think they're both for you. You put on the slide, the movement.

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

Not on the – yes, you're absolutely right, the required capital increased from £7.2 billion to £8.2 billion. A third of that roughly, a third is the model changes, the matching adjustment, for example, goes straight to the delta, the £0.3 billion that I referenced goes straight to the denominator. A third of that comes from literally business growth, as you put more business on to your book, then it requires you to put some capital. And the other third comes roughly from FX. A lot of the required capital sits outside the U.K. and therefore when currency moves, that has an impact. Yes, there was some market effect, but that's relatively de minimis.

The £1.8 billion, I mean, we bring in the U.S. on effectively the local RBC, above the 250 (1:38:20). I don't have the math in my head, but we do give you a slide that shows the movement in the available capital in the U.S. at the back of the pack starting from the opening stock (1:38:33) position, plus generation, albeit with market effect, less dividend. And I think you can use that to broadly calculate it. So that's a good way of bringing that in, but of course, that's capital generation excess 100, not excess 250 (1:38:48).

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Very good. Well, I think this brings this morning to a close. Since this is probably the last time I do this, if you will allow me to make a few closing remarks. Mike reminded me that he served under five CEOs at the Pru but I'm the longest serving, so I'm quite pleased for all the questions. So anyway, I'm quite pleased about. That's all of the questions on the way now. It's been a real privilege, an honor to lead this company. It's a great company and we have a great team. I've said that several times today. I took – I think the day I was appointed, we closed at £2.52. I don't know where we are today, but it starts with £16. So I won't claim the credit for that. There is a lot of that – I talk about hospital pass when I was appointed at an interesting time, some of that is just the crisis being resolved but some of that is really a merit of this team and it's been a great ride. So I just want to thank all of you. I know that over the years, we've had many, many meetings, many discussions. So we will not have gotten where we are without your support, your interest in the company and your understanding.

Just two more points, one, it may surprise you but I want to, on the record, acknowledge someone who is fierce competitor of ours that is Mark Tucker, who gave me a great opportunity here and I want to put it on record and express my gratitude to him. It's something I owe him. And finally, just to say that you shouldn't stop loving Prudential. It's a great company and it has a phenomenal team. So thank you very much.