Investor Meeting

Company Participants

- Michael Andrew Wells, Group Chief Executive Officer & Executive Director
- Michael G. McLintock, Chief Executive-M&G & Executive Director
- Nicolaos Andreas Nicandrou, Chief Executive & Executive Director

Other Participants

- Abid Hussain, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Charles Anthony Bryan Cartledge, Analyst
- Greig N. Paterson, Analyst
- James A. Shuck, Head of European insurance equity research
- Jon M. Hocking, Analyst
- Oliver Steel, Analyst

MANAGEMENT DISCUSSION SECTION

Michael Andrew Wells {BIO 4211236 <GO>}

My wife plays a similar theme song in the morning when I get up to get ready for work, (00:05). Good morning and welcome. And those of you that joined us last night, thank you very much, that was – the team did a great job putting on that event, and appreciate all the effort went into that, beautiful facility. Lots of great questions, and we're committed to, as we have in the past at these meetings, addressing your concerns about the company, staying here as long as it takes, those themes also carry over. We're in very interesting times. And I think one of the recurring themes in the discussions last night informally was this whole – the challenge to us (00:41) seems to be a lot of uncertainty in the marketplace and a lot of uncertainty or challenges or disruptions in markets and what does that feel like.

So, as the introduction to today and a very full agenda with the – a large part of our management team here, I'm going to try and frame that dialog. Like we mentioned, the venue across the hall for the breaks. We have a large portion of our management team here, please put them to work when you're over there. It's a good chance informally to meet some of our folks and find out their thoughts on where we're going and how things as well are progressing as well as the formal presentations.

But I guess we're – where I am seven months into the role, 21st year with the group, those of you that don't me, one of the things that we have historically done very well is benefited from disruptions. And I guess I'm a little surprised that's not part of the narrative last night. I think we discussed it a bit, but there is – if you think through the material changes we've seen as a company and certainly some of the things that are being generally categorized as headwinds or challenges now, most of them disrupt the relationships and the value chain between the end consumer, the advice provider and the product – solutions manufacturer. And we see a lot of opportunity in that. I think it's not an opportunity available to every firm in the marketplace, I think there is attributes that you need, I think there is capabilities you need, markets you need.

But I want to spend a couple of minutes and walk you through why I believe that, some of which with some well-rehearsed slides that I think you're very familiar with. But I think they revolve around some general ideas. The strategy is correct. The position we have in the marketplace is strong enough, broad enough and defined enough that we have the capabilities to outperform, and that has a variety of dynamics to it.

We have an operating model that's not dependent on any one market, any one product, any one element of macroeconomics, interest rates, equity performance, volatility, et cetera. So it's the resilience gives us optionality. We have the headroom to actually capture the upside that I think is in front of us, and this is critical, this is operational headroom, this is capital formation. There is a variety of attribute to this that are key because only certain firms can do this at this point in the cycle if this is in fact an inflection point. And then, finally, we can convert that to profitable growth, profitable growth to free surplus, free surplus to dividend, cash flow and growth in the share price.

So, the strategy, we've talked about this before. I think we can't start today without saying the fundamental assumptions you make in your strategy are correct, or do they still hold, are they threatened by external factors. So, Asia, is there still a significant protection gap, is there is uncertainty in China after this regulatory change, you have political changes, if there is countries growing at different paces, has any of that candidly new to the business model. We didn't go into Asia from a – with a strategy of all markets would grow all the time, tailwinds all the time. That was never a part of the discussion, that was never a part of the plan and executions, why we have a portfolio et cetera. But do we think that's true? Do we think the U.S. baby boomers will behave materially differently if there is a change in DOL, change in market volatility of the U.S.? Do we think in the UK with pensions freedom and Solvency II that the landscape changes, and does that eliminate or change the material structural opportunities we have in these three markets? Okay? So let me just spend a – just a little bit of time on this.

So let's do some simple demographics. Two major trends we have built our strategy and our thinking around. One is the changes in demographics in Asia, that is the emergence of the middle class; working population, again two-thirds of these – of our relationship to (04:55) these clients are first-time buyers of products or services like ours. And then on the – and the Western markets in the U.S. and UK, the baby-boomers in the U.S., their equivalents in the UK, and in all of these markets, the disproportionate amount of responsibility being put on the individuals for their own health, wealth and protection. Got it?

Is the money there? Okay. So when we get into the wealth footprint, the markets that we are in account for 63% of the world's wealth. The forecast and projections you get from various experts and consultants generally model that forward at similar levels. So does a disruption in the type of wealth by age matter, or yes you're getting more drawdown at 65 plus, but again as we've seen in the last financial crisis in the U.S., the consumers tend to get more conservative when they are worried about market returns, withdrawal behavior and the consumption, they're careful with money.

So we don't think that changes materially. What types of wealth? Has this changed? The answer is no. You still see in the U.S. and the UK similar levels of equity investment. Slightly different levels now, bond investment, but the cash component in Asia is the buffer for health and wealth protection for taking care of family, that hasn't changed. So as the growth of Asia across the region continues, the inefficient candidly use of cash as a protection device, while these people grow in net worth then move on their personal financial journeys will be replaced by protection products and further investment in things that provide higher return to their (06:45) households. So that demand is still there, okay?

So if it's there, that we have the products and services to address it, or we're going to run out and build them. And if we have those products and services with existing clients, what are they going to look like with disruptions in equity or interest rates or volatility in markets, and will those clients leave us and do they stay as a – if you have a bear (07:12) sort of mindset is the fair question. So we take a look for a second how equity clients invest with us, okay, and how clients' retirement savings are invested with us, which you see are highly diversified portfolios, okay, very capable teams managing and performing for the clients. And what you don't see is a Shanghai index focus, what you don't see is a Aggressive Growth Fund U.S. focus, what you don't see are a levered equity play, contingent on high returns in UK equity markets, that's not our space, okay?

We're in the space where the consumer says, for the serious part of my money, I need help with the asset allocation, I need help with the diversification, I need retirement solutions that are long term and I'm looking for some stability, okay? That's our space. So when you're modeling how behavior and markets changes, we have conservative portfolios, they fit the clients' needs and expectations, okay? And we think they're very well positioned for what clients will want if it's a climate of uncertainty.

Let's go to Asia specifically. So we've shown you the slide a couple of different ways. And this is the life premium per capita and the Asian folks will get (08:37) much more granular than I'm going to today on this, and you've seen versions of this idea before. Based on the – sort of U.S. is the baseline and what are we seeing? Well, you are seeing the development of these markets in couple of different ways. We've shown you before, the speed is developing faster than Western markets, okay? I think one of the interesting pieces for Hong Kong and Singapore, the consumption rate is now above Western markets.

Now, is that a function of the nature of savers in the market and the importance on savings, is it a function of the – again perceived volatility in the market so there's more to protect, is it the rate of which wealth has grown. But for us, we are looking at markets that we think have tremendous upside and appetite for the product and actually more appetite than the industry can produce proper product for.

So the structural opportunity in terms of volume (09:33) and capacity is still there. So who gets it? Scale I think is a prerequisite. I think you need a pan-regional franchise, there's effectively two of us in the marketplace, okay? You're going to have to do a lot of different things for consumers to maintain and support your existing clients and distribution base. You're going to do a lot of new and interesting things to get them to buy a second product, to get new distributors, to get new consumers to come to you. And to do that and to stay with those clients, past that first transaction and stay with them on their financial journey, if you will, as they mature as consumers, you're going to need asset management, you're going to need protection, you're going to need help, you're going to need multiple platforms. If they change countries, if - and you need the scale to divide those cost capabilities across the markets. You need the brands, you need the regulatory relationships, you need the existing licenses, these are all attributes of scale that we have.

Penetration, is the market still there? You're back (10:42). We have markets that individually give you a little more granular look. Very, very low penetration rates, very strong market positions for us. Okay? When I look at this slide, I see it more as a challenge in the capacity. Can we ramp up the back office, can we ramp up our distribution institutionally to actually be able to meet this level of demand. Okay? Summed up, and again, this sum is a little simplistic, but it's important to see just our scale and region. Okay? The penetration rates are fractional. So, again, I would argue the structural opportunity is there, moving to us. So we have multiple growth engines in region. We are not dependant on a single company - country, excuse me, in our country - companies in country.

Why does this matter? They're evolving at different times, there's different political and economic issues, there's different demographic issues, okay, and it gives us discipline. If you - Tony and I were talking yesterday, didn't tell him I was going to say this, but the - if you said, what do we see as probably the biggest bump in Asia or disruption in Asia temporarily, it's an international competitor, is that fair, it's not the macro issues. It's the same thing somebody comes into one of these markets, they have been sent by their board, their job is to get a pin in the map in Asia, and they are not looking at cash flow, they are not looking at price, they are not looking for sustainable relationships and cost and structure, and that's a challenge in that market because the markets have put a premium on the earnings out of Asia. And so, you see some irrational behavior. We have the challenge and the luxury both of having to back off in a market if we need to, back off in a product in a market if we need to if someone wants to be undisciplined (12:38).

I can tell you, standing up here is the - a member of the U.S. team pre-crisis. It was a huge luxury to have the group support to not have to sell or drive top line on a product and industry trends at the time that we didn't think were appropriate or sustainable. Okay? It's one of the benefits of the group, it's certainly one of the benefits of the portfolio of companies we have in Asia. The other is the learnings from the more developed markets we can drop into our more nascent, more emerging markets. So, we can accelerate our experience, our success as a group and certainly in the region to move these new markets up. And again, the populations and scale and opportunities here are big.

Well, what are you driving? We are driving recurring premium. Disproportionately 90% of the time, we are driving recurring premium. Why? First up, it's indifferent to markets. Okay? In some ways if you think of the consumers' decision between an appetite for headlines where the markets are going up and up and up, and then our ability to get them to be conservative in the behavior and that climate versus the climate where there is more uncertainty, this is actually a more favorable climate for us in a lot of ways. Okay?

What you see typically is the more uncertainty perceived, the more stable your back book. Now, our existing book of clients, our existing relationships with consumers and our existing relationships with distributors require work, okay? The quality of the service, the protection of those – we've talked multiple times before – the protection or reputation of that bancassurance partner, that agent or agency office, is a key part of what we need to do because they can only grow their business if we take care of their clients. And their clients will only stay with us, if we take care of their clients. Okay?

So there is a work stream involved with the recurring premium and earning it, but I want to show you a little more granular look at it today. It's an incredible capability that this group has that I don't believe is properly valued. So, from a weighted premium point of view, the blue is the in-force, the red is our new business. And again, look at the growth of the in-force in contributing to these metrics.

Earnings and cash, how does it emerge, same, okay? Again, you've got this – the cohort to the back book is starting to drive current and future earnings, and you've got this in front of you, so I'm not going to – just out of respect of time, I'm not going to go through it line-by-line. But the – we've talked before about vintages and cohorts per year of earnings. Let's take a little more granular look at that. Combined with that our new business profits on top of that back book, and remember, the new business profits emerge over time. But for the owners of the company in the room, you own these relationships. So you own these future earnings, they are embedded in the company, okay?

So the growth of these earnings unassisted by new sales, not that new sales have any issues as – I was very careful when I was thinking about how to convey this, this is a different issue than our ability to sell. But the back book that you own the relationships with consumers you own grow faster than most companies in our segment. Okay? I think that's a pretty unique set of strengths. Is it measurable? Of course. IFRS operating profits and importantly free surplus which speaks again to our ability to maintain a dividend strategy, okay, that's based on growth of earnings.

So Asia has got the right attributes from a scale point of view, from a market point of view, from a competitive point of view. And I don't personally see any of those challenged with any sort of market uncertainty, in many ways they're enhanced by that.

All right. Let's go to the U.S. So I had a couple of slides that I pulled that would have shown you trends on baby boomers, some of the market dynamics in the United States. I think I have over 20 years (16:56) so many times talking about baby boomers, I can name all 10,000 retiring a day and I decided to stay away from that. They are still retiring. Okay? That pool of money is still moving through.

So the big disruption that people are concerned about in the United States right now is the Department of Labor's potentially likely – I'll let Barry address this in (17:18) specific changing the ruling on how advice is provided and what the structure of retirement products and savings are in the United States. Okay? And the general view is it could happen before the end of the President's term. Okay. So we are talking about one of the most important opportunities in our business in a long time. Again the value chain, who provides advice, how they do it, what the products and services will look like will be up for grabs, okay?

There will be a realignment of the players if the worst case scenario is true. Okay. Now, stopping for a second, there has been some very good work out, I appreciate it, I do read the stuff that you guys publish, and I do appreciate the insights from it. There has been a couple of examples where it's measured on a linear basis, this is what it would look like. If we lost all of the VA sales, we've told you it's about 2% of group earnings, that's an interesting – qualified sales – excuse me, that's an interesting scenario.

But I don't personally believe it's possible to predict the shape of the event. So is there a phase-in period, and if there is, are we reselling product through that? One of the things I think you should measure when you look at our competitors in the U.S. against Jackson's capabilities right now is, if nothing happens, who is winning, okay? If there is a period of time where the change is known, who wins? If the changes happen quickly, who wins, okay? So we have the number one franchise now and I think for the right reasons, okay. We have the attributes I think to be – if there is a – if the advisors know that it was going to change in 8 months or 12 months, I think we are better positioned to capitalize on that again, attributes of scale in our competition. And if it changes, okay, I think we have the attributes to get to market faster with more innovation than competitors, why?

We have the best product in the marketplace. A product quality matters, it matters for retention of earnings, for creation of the ongoing cash flow and capital. It also goes to brand reputation, okay? The clients' ability to do more with you, the advisors' desire to do more with you, think of Elite Access, we have permission from those advisors to go into more complex products that no competitor's yet been able to replicate, okay? There is a – if- what you are providing for the consumers works, your options in the market are much greater. How is it (19:53) works?

This is a measurement of three-year returns, the portfolios in the variable annuity. Now, their – disproportionally value is, you have the allocation on previous slides, I didn't put both on one. But basically, we have nine times the number of funds in perspective over the last three years that had provided the client a 10-plus-percent rate of return. Okay? Why is that matter? Well, clients don't think – I've never met a consumer that could tell you what the S&P return was in 2014, okay?

What they can tell you is their return expectation over the life of their assets and those numbers vary, it's always a range, okay? But they need to be able to invest in things that actually produce growth where this (20:38) is a drawdown product, which we've seen with a lot of competitors. This is a product that has provided growth for consumers across the cycle, protection when they needed it, the assets grew back, we've gone through this story before, but it does exactly what it's supposed to do.

So, again, that gives us permission with our distributors, with regulators, with consumers, with the advisors themselves to do more, Elite Access. It was as much about advisor education as it as product quality, okay? That's why Jackson did so much better than its peers with that. We are very good at bringing information to the market. So, if there's a disruption, if there's complicated new rules, we're the logical provider of that support to advisors, okay? We earn that. And again, that's an attribute that we need. Now, can we do it? Of course. We have the most levered distribution and most effective wholesaling team in the industry, largest highest producing, best trained, most tenured. Okay?

Those relationships are well developed. What if there's a difference in price? We have the best technology, industry's best service and we can provide it at a cost that competitors can't so replace the (21:55) advantage. Okay? These are the attributes I think you are going to need. There's some other elements to it. If there is a disruption, what does it do to earnings? Well, you need a profitable back book, okay, well structured to provide earnings and cash flow and growth to support not only the U.S. ambition, but the group, it's dividend et cetera, we have that, okay?

The general account, I'll let the team later get into detail, but we've told you for a long time, we've been up in quality for a while, so it's defensive. The technology service, IT, best in the industry, fastest to market, okay? We talked about the distribution, I think Jackson is incredibly well positioned.

UK, pensions freedom, Solvency II. And the general concept when you talk to consumers in London might be almost nine months here now. They are both concerned and a little excited about the ability to take control of their own finances, okay, in the sense of the retirement assets. It's a very interesting dialogue. I've (23:01) some of you that if I want to be left alone in a flight, I tell people I'm in the insurance business, if I want to talk to a person next to me, I tell him I work with investments and boy, (23:09) they won't stop talking till the plane lands in Hong Kong.

People are very interested in this space, but it's very difficult time to hand this responsibility to consumers. Okay? It's not an obvious period of time. If this is your first time as an investor rolling over your pension assets to know what to do with the funds, so again, that disruption creates opportunity. Between Solvency II, the sort of political climate, low rates, the fixed guarantee products are out of favor.

These are more capital intensive, the consumers don't want to lock in that level of fixed return, right, and the – so the options go towards asset-based products, investment-based products which for us and shareholders and management are capital light, okay, and go to things that we are very good at. Again, best performing with profits product.

Start with a good product and franchise, and you have optionality in the market because you can demonstrate expertise, you have trust, all of the things we just talked about in the U.S. Okay?

The capabilities across the market between M&G and Pru UK, and John Foley was announced today, you'll see is our – if you haven't – didn't get up at four in the morning, the – as our new head of our UK business, and I'll let John and his team talk, but we've put more under that – we've aligned more of the resources under that business, the things that they should appropriately manage. And I think, structurally and both count wise (24:39) we ended up in a great place there.

But M&G as well, okay? We have the asset management capabilities, so there is no product or service that we can't create that the market demands, okay? And there's – again, without stealing their thunder, there's sort of a – there's an existing client, new client model here that we're going to pursue. This market is, by all predictions, and I think they're reasonable, should grow between 8% and 10% a year. Okay? We'd like a disproportionate amount of our fair share of that. Okay? As there's no reason with Pru's brand and attributes that we shouldn't get it.

Okay. Let's go to the group for a minute. So, what is it we're doing with our time? (25:22) something that's going pretty well, what is that we do day-to-day then? This is where our focus is. And I guess I would back up a half step from this, and if you think about – I've said this a couple of times this morning, we have client acquisition on one end and retention. So what do we do to take care of our existing clients, our existing advisors, and there is a lot to do there, and we can start going through these, just think about that.

Then the next piece is as we expand, as we add, so we add new distribution relationships, as we add new individual distributors, agents, advisors, as we add new relationships with existing clients, as we add new relationships with clients we don't have, as we look at buying blocks of business, as we look at new markets. Okay?

We're trying to make sure from a group perspective we have the scale and capabilities to do all of that concurrently, and I think we do. And there's more to do. Asia is going to continue to build out its scale, better penetration, we have the best performing bancassurance relationships, but there is a ton of room in those to go, and you'll see us follow the clients there and that's a journey that we have great partners on.

To scale up the nascent businesses, again, we know what we need to do in these markets. And even going back to bancassurance for a second, we know what Standard Chartered looked like when it was new, okay. That's held out as the best bank partnership from a performance point of view in the region. It wasn't the first week, okay, it wasn't the first year, and the people that built that are here in this room. And if you want to – they know what you need to do to change the culture of a bank branch, to see that they've got a partner that they're going to work with for the next 15 years, okay. There is a skill set in that.

We know institutionally how to develop agency forces at scale, okay. If that market – if you believe the demographics on the market are correct, we need to be much bigger than we are now, okay. That means our training, our infrastructure, our ability to develop talented agents, right, has to be bigger and greater. And so, those of you have been in the region know, we have a very sort of an institutionalized model for that, very effective development of agency force. I think, the definition of agency varies and will vary through the presentations today. If you look at an agent in one of our newest markets, and an agent in Hong Kong or Singapore, the definition is stretched because it means a lot – different things in different markets, but they work with us, right. We need to maintain – continue to grow that.

Digital, Al-Noor Ramji is here, so if you haven't had a chance to meet him, we brought on a head of digital for the group. We already have digital in the business units. This is not a shift in strategy, this is bringing more resources to bear on what's – one of the ways we need to interact with customers and advisors, okay. But there's lots going on in this space. And given the importance of it, we want resources that are appropriate for that, and we're very, very pleased he joined us.

Bolt-ons in the U.S., okay, there has been sort of a feeding frenzy last year and some very competitively priced transactions, a little bit of market uncertainty probably helps us on that front. A little bit of a – some of the more technical transactions are where (28:54) more logical owner of, there's lots to do there. The team is working on that, again, in a disciplined fashion. We don't need to do anything, but you have bought and paid for a platform that can extract value out of a competitor that's at a level that's unique in the U.S. So, if we can utilize that, we will.

In the UK, involving how we're interacting with clients but the products staying with the changes in the market, it's probably the most fluid market from an advice point of view currently, pre-any deal all changes, because you see support from the government and socially for more advice, as that advice develops, you will see us bring more and more solutions. So lots to do there.

How does that respond historically? Pretty well. What I couldn't get up on this chart, you've seen this before, you've got total AUM, we've talked about earnings, and again, you're just not seeing the disruptions. But the piece I couldn't get up here is how do you explain the growth and capability, how do you – what single line would say the things we can do now that we couldn't do 24 months ago. And again, that's where you had fared out in today's presentations and the challenge that I would tell you to throw at my colleagues at the breaks and at lunch, okay. Our capabilities are materially better than they'd ever been.

Okay. My advantageous (30:16) slide. If it's true in Asia, let's take a look at across the group. So here's in-force IFRS operating profits for the group. Now we're going up a level. In-force free surplus generation, new business expected free surplus generation, and again, Nic shown you historically a couple of cohorts to this. But again, this is back to the what you own, right. The emergence of earnings from our relationships with our clients is powerful, okay. It gives us optionality and strength across the cycle that a new entrant doesn't have, someone who mispriced product doesn't have, okay, again someone without discipline doesn't have. The source of the earnings I showed you at the half year, okay, that's just the in-force piece. We have other sources of earnings that again have a little or no effect by what's going on in strong currencies, so the resilience again of our capabilities, I think, is measureable.

Solvency II, those again, they get up at 4 in the morning. 18 years of work. I think, the final agreement with the bank was sometime in November. They were very helpful and they did a massive amount of work on their side in getting everything over the line for all these companies for a December announcement. And I think the simplest thing (31:51) next going to go under great detail with you but we were well-capitalized coming, we're well-capitalized now, okay. We generated tremendous amount of capital as a group annually, demonstrated that. And as it turns out, it affects about 10% of our business, which is the – there were pieces you saw from the release. So, this is an imperfect measurement to measure Prudential, but even that shows our strength, okay.

Objectives. I want to give you a quick update on these. So, Asia, the free surplus target and IFRS, the year-over-year growth rates, they're on target. The accumulative underlying free surplus target was intended to be a stretch and is still looking like one. One of the questions I got from my travels was, was Asia responsible for FX back to the pound, and we're pretty clear at the time, no, that was never intended. So, these are local currency, if you will, but that you can see the rate and the growth, and we're very pleased with the progress towards those.

Value creation in general. I said this at the half year again to repeat myself, I think, when you look at these metrics, we're competing with ourselves. I don't think we have a peer who has this level of growth of IFRS, of new business profits and a free surplus generation, and therefore is paying their dividend from growth, right.

If you look at the folks we compete with in our space, and this goes to relative valuation, okay. Look at 2007 crisis forward. Roughly three of our peers, okay, are even earnings per share level that's higher than they were then – were materially higher than we were then. The growth of our dividend is consistent with the growth of our earnings and our available cash flow. That's how it should be, that's where the resilience comes from, okay. And again, I don't think that's valued high enough than the marketplace. It gives us that countercyclical nature, okay, because what we're paying you is what we're earning and the growth in that dividend is coming from the growth in the underlying value of the business measured, okay. I think it's a key, key element.

Wrapping it up, my piece. I think the underlying strategy, it's in difference at the very worst to uncertainty is measurable. For most of the markets we'd like to get in and the consumers we like to have relationships with, the uncertainty actually creates more demand, okay. We think the uncertainty changes the behavior of some competitors, probably a little more rational. But we have the right strategy, we're in the right markets, we have the right products and services, we have the right attributes of scale to capitalize on that.

And what I hope is over the course of the next somewhere between seven and 10 hours, depending how many questions you ask that the team is going to demonstrate that to you, the formula we're going to have is Nic's going to come up next to give you an update on Solvency II. And at the end of that session, we'll do Q&A. At the end of each sessions, we'll do Q&A, and all of us will be available and any of these (35:13) answer the questions for you. Thank you very much.

I want to turn it over to Nic Nicandrou.

[Break] (35:20-35:40)

Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Okay. 18 years. Thank you, Mike, and good morning, everyone. In my presentation, I will focus on the Solvency II outcome for Prudential following the approval of our methodology and models by the PRA, and the implications that this has on the capital management of the group. The analysis that we are presenting today is based on the position of half year 2015 as this corresponds to our most recent published financial close. An update on the end (36:16) 2015 Solvency II position will be provided alongside our preliminary results in March.

I will skip through the cautionary statement and go straight to the next slide, which summarizes the key messages that you should take away from my session. The first key message is that we have secured PRA approval for all of the applications that we made. In doing so, we have successfully addressed those aspects of the new regime that were most critical to our group. These approvals remove any uncertainty and confirm the strong and resilient capital position of the group on the Solvency II, reinforcing what our other measures of capital already demonstrated.

We can also confirm that the new regime does not change the capital dynamics of our U.S. and Asia life operations, all those of our asset management businesses. This is significant as these businesses contributed over 80% of the group's free surplus in the first six months of 2015.

In UK Life, where the capital dynamics will be directly impacted by Solvency II going forward, our analysis shows that the net impact of the new regime on both the stock of surplus and the expected future capital flows is relatively modest when compared to the position today. Finally, Solvency II has not introduced any new constraints that don't already exist today. So fundamentally, there is no change in the way we think about the strategy of our business, our capital and our dividend.

These key messages are very much in line with what we said back in August when I put up this slide to explain how we felt about Solvency II. Clearly, at the time, there were a number of key uncertainties, which I have highlighted in red text on the slide such as whether we would receive model approval in the UK, where we'd credit (38:33) and longevity calibrations land, will transitionals be granted and how would they operate. In the U.S., would RBC continue to apply and based on what level, and in Asia, how much of the extra capital over and above that which is recognized locally would we be able to include in our overall Solvency II position. We can now provide you with clarity in all of these areas.

So moving to the detail. As I have already said, we have successfully secured approval for all of the aspects of the Solvency II regime that were most critical to our group. The various components of the approval process are set out in the top right, which, as you can see, were received very close to the go-live date. This is critical because optimizing an outcome can only be done effectively when there is both clarity and certainty. We applied four, and received internal model approval for all of our Life operations in the UK and in Asia. In fact, securing full model approval for every Asian Life business was critical, given the full print of our group. Here we're grateful to the PRA's efforts as I'm not aware of any other instance where regulators have granted full internal model approval for operations outside the EU that contribute so significantly.

Approval was also granted for Jackson to apply RBC and to count surplus in excess of the 250% level. Here, the deduction and aggregation rules prevent us from including the diversification benefits between Jackson and the rest of the group, which are real and sizeable.

The end result of this process is a group solvency surplus of £9.2 billion at the half year, equivalent to a ratio of 190%. This amount excludes the surplus health enough with profit funds as these funds are intense, the most significant element relating to the UK where we continue to hold a sizeable estate. I'll come back to this later in my presentation. I believe that this is a strong overall outcome, which reinforces what we already know about the group's capital strength from our other established measures.

On this next slide, I want to take a moment to remind you what this £9.2 billion actually represents. It in fact represents the amount of capital that we would hold at the end of one year if a 1-in-200 year stress event or a combination of such events occurred in the course of that year. The SCR represents the difference between the base and the stress capital position. To calculate this surplus, we have to identify all of the risks that could impact our capital and calibrate each risk to a 1-in-200-year severity level using past experience or expert judgment, not an easy task. So many of these risks, we don't have a 200-year history, which tends to introduce further caution in the assessment of severity.

The extreme nature of the standalone stresses for some of these key risks are illustrated in the table on the right. For example, in Asia, the equity stresses applied range between minus 58% and minus 72% depending on the market. In the UK, interest rate stresses involve a further 108 basis points reduction from the already low current interest rate levels. On longevity, the stresses assume that over the next year, an event would cause a life expectancy to increase for all of our annuitants equivalent to an extra 2.5 years for a 65-year old male. So, the £9.2 billion surplus represents the amount of capital that would remain after absorbing the effects of some pretty severe stresses.

On this next slide, I provide a bridge between our previously reported economic capital surplus at the end of 2014 and the half year 2015 Solvency II position based on the approvals received. The light blue bars in the chart indicate the business driven movement over the period, which comprise the operating capital generation of £0.8 billion, positive market effect in the first half of £0.5 billion, the contribution from debt raised in June and the dividends paid.

The dark blue bars capture the impact of the approval process, the main item being the £1.4 billion of Asian economic capital surplus excluded from the Solvency II result. The impact of all the other changes is modest at minus £0.2 billion as the transitional benefit other changes to own funds and higher risk calibrations broadly offset (43:53). So, the key message here is that the outcome of the approval process has produced a Solvency II result which is only £0.5 billion lower than what we have previously published, aided in part by the capital generative nature of our business.

I have given you some additional color on this next slide of how the movements in the surplus over the six-month period have come through own funds and the SCR. You can see in the third entry down that the excluded Asian surplus is principally a straight deduction from own funds. The combined effect of all the other changes shown in the next line comes through as a £2.3 billion benefit to own funds and a £2.5 billion increase in the SCR.

Now, there are many moving parts here, including higher calibrations for UK longevity impacting both the SCR and the risk margin, increased operational risk charges, changes to dependency assumptions and allowance for foreign exchange risks, all impacting the SCR, revisions to the matching adjustment which affect both own funds and the SCR and the inclusion of transitionals also within own funds, so many moving parts. While the net impact of these changes is small in terms of surplus, when numerator and denominator are increased by similar amounts, then the impact on the ratio is more pronounced.

The last line in the table labeled U.S. deduction and aggregation relates to the way that the PRA have asked us to include Jackson's local solvency within own funds and the SCR, which improves the ratio, even though there is no effect on the overall surplus. I will explain why in a later slide.

I have provided on the left of this next slide the reconciliation between IFRS shareholders' equity and Solvency II own funds at the half year. The components are the same as those in the equivalent reconciliations that we have previously published. I would therefore only comment on those aspects which have changed in some way.

The first such aspect relates to the fourth line down, which refers to the value of future shareholder transfers (46:32) profits, which Solvency II allows us to capture within own funds. These now exclude the shareholders' share of the estate or £0.7 billion as the final rules prevented us from taking credit for this item.

The next line that I would draw your attention to is the one labeled risk margin net of transitionals. The risk margin is an additional liability on the Solvency II, which it patches (47:02) itself to non-market risks that are non-hedgeable. In the UK, transitionals broadly compensate for the effect of the risk margin, but there is no equivalent offset for the risk margin of our Asian businesses, which is what most of the £2.8 billion shown relates to.

The final line that I will comment on is the one labeled liability valuation differences. Consistent with our previous approach, this line reflects the additional take credit that we can take in own funds for margins in our technical reserves and for future profits. The amount shown here is now net of the Asia surplus deduction.

On the right, the pie chart shows the distribution of our group-wide risks, which confirms what we have previously said that there is a balanced spread of risks by category with no unduly high concentration in any particular risk type.

A few words on capital quality, which is summarized on this next slide. The composition of our available resources is dominated by high quality core Tier 1 capital. Total Tier 1 accounts for 81% of own funds, representing a 153% of SCR. There are no restrictions on any of our capital tiers. Our two most recent debt instruments totaling £1.1 billion were issued on a Solvency II Tier 2 compliant terms with the remaining instruments – while the remaining instruments have been grandfathered for 10 years.

Since our current capita tiers are well within the prescribed limit, we retained significant headroom to increase the capital stack through the issue of qualifying debt. This headroom is in excess of £7 billion, £3.5 billion of which is in the Tier 2 bucket.

We have updated the sensitivity – if we can move on one slide, thank you – we have updated the sensitivity of our Solvency II surplus through the usual range of market shocks shown here before the impact of management actions. I would remind you that these represent stresses on stresses. So we're now looking at the outcome of an even more extreme event than 1-in-200.

The base surplus position of the group is not compromised under the further stress scenario shown, demonstrating the group's capital resilience under this regime. The sensitivities are more muted than those that we've had previously published, reflecting a number of factors, including the business evolution in the first half of 2015, the effect of incorporating transitionals and the fact that the base position now excludes both the shareholders' interest in the estate and a component of Asia surplus. The point here being that if something is no longer included in the base, then you can't lose it in a shock. So, as I have shown you, our Solvency II capital is both high quality and resilient to further market shocks.

I would now like to cover how the key areas of uncertainties have been successfully addressed and what this means for each business, starting with Asia on this next slide. The significant health and protection bias (50:53) of our Asian businesses means that the capital surplus under Solvency II is considerably higher than the level recognized under the various local regimes. The extent of this access is illustrated in the schematic on the slide.

On the left, I have presented the aggregate local capital position of all of our Asian Life businesses at the half year sourced from our existing free surplus disclosures. As you can see, our available capital of £2.6 billion comfortably covers capital requirements with a net £1.4 billion representing the locally recognized free surplus.

Solvency II allows us to additionally recognize the value of future profits after a 1-in-200 strat event computed on the prudent Solvency II methodology. Taken together with the local surplus, this calculation produces a Solvency II surplus of £6.2 billion for our various businesses in the region.

As part of the approval process, £1.4 billion of this amount, shown in the grey bar, has been excluded from the total, reflecting a prudent regulatory view, leaving Asia with a £4.8 billion contribution to the group's overall position. Notwithstanding this deduction, the fact remains that the amount representing the excess of the £4.8 billion over the £1.4 billion local free surplus does not represent capital that Asian regulators would recognize. It is therefore not available to be deployed in the business or to remit to (52:47) group. So the effect of the extra recognition of capital under Solvency II and its subsequent partial reduction is of no real consequence to our Asian businesses.

I have been asked in the past whether a situation can arise where the Solvency II approach can somehow constrain or encumber (53:08) local Asian free surplus and capital flows. The answer to this question is no. To illustrate this, why this is true, I have shown you on the right, the sensitivity of Asia's £4.8 billion surplus to each of our published market stresses. In all cases, the Solvency II surplus would continue to comfortably exceed the more modest local free surplus amount. So the deduction in no way constrains capital movements from Asia in either the base or on the (53:46) stress.

The local regulatory basis, which are reflected in our existing free surplus disclosures, remain the binding constraint for this business. As a result, our Asian strategy and the way we think about capital consumption, generation, and remittances from the mid (54:05) region are all unaffected by Solvency II.

Moving to the resolution of the key uncertainties relating to Jackson, by receiving approval to continue to use RBC and to take credit for Jackson's surplus in excess of the 250% level, we have maintained the status quo. As a result, there is no change in the way that we think about capital in our U.S. business. The schematic on the slide illustrates this. On the far left, I have shown you the components of the local RBC ratio, which expresses total adjusted capital as a percentage of the company action level.

In the middle, I show you how the local numbers are brought into a free surplus analysis, which is also the approach that we used to present the (55:00) 2014 economic capital result. Here TAC is unadjusted, but required capital is set at 250% of CAL, reflecting the amount of risk (55:12) capital that we believe we need to run-off the business safely based on a mark to year (55:15) model. So at the half year, this calculation produced a free surplus for Jackson of $2.2 billion. The same $2.2 billion is also included in Solvency II. However, the construct is different. Following EIOPA guidance, the PRA have asked that the SCR be set at 150% of CAL. So to achieve the same overall result, Own Funds are then set at TAC less one times CAL (55:50).

The effect of all of this, however, is that we can continue to manage our U.S. business on a local RBC basis with no change to our current free surplus approach. Jackson maintains a strong and resilient RBC ratio and has repeatedly demonstrated its ability to successfully manage its capital through various crisis over the years. So this part of our business portfolio is also unaffected by the move to Solvency II.

For completeness, I (56:24) cover M&G on the right of this slide. M&G is a modest component of our balance sheet and is included based on the current sectoral rules. Therefore, similar to the position for Asia and for Jackson, Solvency II does not affect M&G's strategy or its capital dynamics.

Now, our UK Life entities will need to manage the transition to the new regime, being the only part of the group that will be directly regulated at the local level on a Solvency II basis. But even here, we have a healthy surplus of £3.4 billion in relation to our shareholder-backed business. This surplus excludes the capital that we hold in the UK With-Profits Fund as it resides in a separate ring-fenced fund.

As you can see in the middle chart, our UK With-Profits Fund retains a sizable state (57:23), valued at £7.2 billion at the half year on a Solvency II basis, covering its standalone requirement by over two times. A large and strong With-Profits Fund remains strategically important to our UK business.

The surplus positions of both shareholder and With-Profits are in line with those under the outgoing ICAS regime. This is despite the fact that the overall capital resources set aside to cover the SCR and risk margin for annuity business have increased.

I illustrate in the top right, the severity of these calibrations for both credit and longevity. In relation to the former, credit allowances of 170 basis points per annum are applied, which we estimate are equivalent to roughly 1.5 times the actual default experienced during the 1930s Great Depression.

On longevity, taking capital requirements and risk margin together, we're allowing for an improvement in life expectancy of around five years for a male aged 75 years (58:38). This is more than three times the largest increase in industry life expectancy assumptions in any year since 1950. Transitionals mitigate these effects to bring the overall surplus position for our in-force business back in line with ICAS.

On the right, I show the sensitivity of the two components of our UK surplus to further market shocks, which demonstrate the resilience. While we are happy with the surplus positions I've shown, I should add that there are many actions that we can take to increase the UK surplus, should we choose to do so or should we need to do so or/and to further improve its resilience. These actions include extending our longevity reinsurance program. At the half year, reinsurance covered £4 billion out of the £33 billion (59:32) of the shareholder-backed annuity liabilities. We could hedge the market risk on shareholder transfers or take action to improve the efficiency of the matching adjustment, which currently applies to 95% of the asset portfolio. So there's £1.5 billion to £2 billion (59:53) that we can bring in with further optimization of assets in terms of assets.

Having covered the strength and resilience of the stock of surplus on the previous slide, I now want to turn to the implications of Solvency II on future UK capital flows. We have always been transparent in this area and have regularly disclosed the future expected annual capital generation profiles for all of our businesses based on the free surplus concept. On the left, I have shown the UK profile that we have previously reported as at the end of 2014, which was based on the Solvency I Pillar 1 regime. Going forward, we will calculate and report the expected free capital generation profile for the UK based on the Solvency II regime. Our work on this is advanced and we plan to include this information as at the end of 2015 within our prelims on March.

Ahead of this and by way of (01:01:04), the middle chart shows you the output of this work as at the end of 2014. It depicts how free capital is expected to emerge in the UK Life business under Solvency II. Now, although the two charts look similar, the mechanics underlying each profile are different. For example, the Solvency I profile benefits more from the annual release of prudent valuation margins. This is less so in the Solvency II profile as most of the valuation margins have already been captured in the stock.

Conversely, the contribution to capital from the annual release of the SCR and the risk margin is significantly higher under the Solvency II profile. So for Prudential's UK Life in-force book, these factors taken together with the annual amortization of transitionals, broadly offset to produce an expected Solvency II free capital generation profile, which is very similar to the one under the previous regime.

New UK business written from 2016 will not benefit from transitionals, significantly increasing capital intensity at inception for products, particularly products like annuities. We have not changed our return hurdles and payback periods' criteria here, which given the higher capital requirements, these will be more difficult to achieve for annuities, unless accompanied by significant financial engineering. I will therefore guide you to expect reduced annuity volumes going forward.

So to summarize on the Solvency II implications for our UK Life business, the approvals received produced (01:03:00) a strong and resilient surplus position for the two components of our business, both of which are in line with ICAS, the basis that we have used to manage the UK business for over 10 years. Expected capital generation from the in-force book is not materially different. And you should expect us to continue to apply strict capital disciplines to the new business opportunities in the market.

I would now like to move away from the technical Solvency II detail and talk about the extent to which this new regime affects the way we manage capital of group. This slide summarizes at a high level Prudential's overall approach to capital management. The majority of our capital is held in business operations where we aim to hold substantial buffers above local requirements. This is deliberate as we want to be in a position to absorb the effects of severe market shocks and still have sufficient capital in each business to pursue a strategy and impede it.

We target high return fast payback opportunities in each market, which means that once the business attains a certain scale, it is able to finance its own organic growth from in-force generation and remit cash to group. Sizeable inorganic activity is typically funded by group. We remit an appropriate amount of cash to the center to cover central costs, service centrally held debt and pay a progressive dividend. We look to maintain a strong central cash position as this provides us the flexibility to take appropriate risk management actions at the center in a stress (01:04:50), fund business opportunities as they arise and manage any temporary or unforeseen liquidity constraints in any of our operations.

At group, we also see to ensure (01:05:02) that overall capital level, mix and quality is appropriate with an eye to returns and to our financial strength ratings. Solvency II introduces a new parameter to this framework, but given our business footprint and that's important, it is neither more nor less important than all the other features.

I have said before that operating profitably is the first and most important source of capital for any business. This is exactly what we have done in recent years, as illustrated on this slide, that (01:05:39) reference to IFRS operating profit, free surplus generation, cash remittances and operating capital generation on a Solvency I and now on a Solvency II basis. This has been achieved by adding a growing level of highly profitable new business cohorts on to a sizeable back book, increasing both our scale and operational leverage. This powerful dynamic differentiates Prudential. And as you have heard from Mike, it is set to continue.

As you can see on this next slide, if we can move on, over the five-year period to the end of 2014, all of our businesses have contributed significantly to the generational profits, free surplus and cash. Indeed a substantial proportion of these totals has come from those parts of the group, which are not directly impacted by Solvency II.

Having summarized the past in the previous two slides, let us now turn to the future. As I have already shown you, the introduction of Solvency II does not change the capital dynamics of our life businesses in the U.S. and Asia, or those of our asset management operations such as M&G.

In the UK, the application of transitionals moderate the impact of Solvency II on the capital dynamics of the business written up to the end of 2015. So given this picture, our free surplus approach, which is based on the local regimens, remains an appropriate way to assess, one, our ability to generate capital in the future, two, our capacity to support new business growth, and three, assess the quantum of business unit remittances to group.

I have reproduced on this slide, the expected free surplus generation profiles for all three of our life operations, based on the end 2014 position. Solvency II affects only the profile of our UK business, but even here the impact for us is modest for the reasons that I have outlined earlier. Taking the three profiles together, the overall effect of Solvency II is not significant. This contextualizes why the new regime does not result in a fundamental change to our capital framework and why for Prudential, a dividend policy solely anchored on the Solvency II result is not appropriate.

The group's dividend philosophy is therefore unchanged. We have said before that in making a dividend decision, we assess the affordability by reference to a variety of financial metrics and subject these to severe stress events. Solvency II will not change this approach beyond adding another metric to this assessment process.

I want to take this opportunity to explain how we arrive at our annual dividend decision using the schematic on this slide. It starts with the businesses where we track and manage capital consumption, capital returns and payback, capital generation and the effects of any market events. As I have already mentioned, we ensure that each operation maintains sufficient capital, buffers on a local basis, enabling it to absorb shocks and still be in a position to pursue its strategy unimpeded.

In Asia, this translates into holding a healthy buffer over local capital requirement stress to a 1 in 25 event (01:09:20). In Jackson, we hold a sufficient capital buffer to ensure that we can maintain an RBC ratio in excess of 350% after shocks. In the UK, our current intent is to manage the business within a Solvency II target range of 130% to 150%, albeit, and I repeat this, this is something that we will keep under review, and I repeat, it's something that we will keep under review. The objective here is to ensure that we have an appropriate buffer to absorb volatility under further stress.

Now in a stress event, 130% would not be a flow. It would be the trigger point for more intensive management actions and remittances to group would continue unless we came close to breaching the SCR. In general, remittances from business units are informed by the framework that I have just outlined, but also by what we need at group to cover our commitments. Here, we manage our liquidity with a view to holding over £1 billion (01:10:28) in central cash for the reasons that I have outlined earlier.

The annual dividend decision is assessed by reference to a number of stock and flow financial metrics. If you take IFRS operating profit as an example, we'll look for the new dividend level to be well covered by the actual IFRS result for the year. We then test using our financial plans that future IFRS operating profit can maintain this healthy cover going forward, assuming a 5% per annum dividend increase from this new level.

We are very mindful of not raising the dividend to a level that is unsafe. In other words, a level that would run the risk of being cut at some point in the future following a market stress, a market shock. We test this by repeating the exact same analysis, this time using the IFRS profit outcomes from a stress set of future financial plans. This exercise is repeated for a whole host of KPIs, the most relevant of which are shown on the right. And the entire output of this work then informs the board's (01:11:42) eventual decision. As I have said, Solvency II simply adds another metric to this exercise.

Okay. Now, I'm conscious that I've given you quite a lot of information over the last 35 or so minutes, 40 minutes, which no doubt you will need time to digest. I have repeated my opening slide here as I don't want to lose site of the key messages. As I said at the start, we're pleased that we have successfully secured approvals for all those aspects of the new regime that were most critical to the group. These approvals confirmed a surplus position at the half year of £9.2 billion, only £0.5 billion lower than what we showed you previously, supported by our ability to generate capital on this new basis.

And remember, this excludes the surplus With-Profit Fund (01:12:36), ignores diversification benefit between Jackson and the rest of the group, and is arrived at after taking a deduction in our Asian Solvency II surplus. These components are sizeable. They are real and are indicative of further underlying economic strength and resilience. The new regime does not change the capital dynamics of our U.S. and Asian, our life (01:13:01) operations or those of our asset management businesses. This is significant as these businesses generate the bulk of our capital.

The UK Life business is directly impacted, but the surplus positions are in line with ICAS, the regime that we have successfully managed this business on which we have successfully managed this business for over 10 years. Future capital generation from UK in-force business is only modestly impacted on the Solvency II, even with the transition on (01:13:29) amortization. As I have shown you, Solvency II has not introduced any new constraints that don't already exist. So fundamentally, there is no change in the way we think about the business strategy, our capital and our dividend.

Before I finish, I want to say a few words on our credit position, which I know is a topic of interest in the current climate. Shareholders' exposure to credit is concentrated in the UK annuity portfolio and the U.S. general account, mainly attributable to Jackson's fixed annuity business. These portfolios remain high quality and are defensively positioned with a low exposure to securities below investment-grade. Credit exposure is well diversified and we operate strong risk management controls on concentration risk with strict limits by geography, sector and individual security.

Since the 2008/2009 credit prices, we have taken a conscious decision to trade yield for quality. As a result of this approach, 96% of our U.S. and 98% of our UK debt portfolios are investment grade, the healthiest position we have enjoyed since the last crisis. With no defaults and minimal impairments, credit performance has been positive. We have updated the disclosures on our exposure to oil and gas that we first provided with our 2014 year-end results and have included these in the appendix to my slides. Chad (01:15:09) will expand on the U.S. credit position for this sector in his presentation, but in overview our exposures are well contained, appropriately diversified and focused on high-quality names.

In my final slide, I will cover four reporting items of note. The first is that going forward we will provide a solvency to update on a six monthly basis alongside our half and full year results. These updates will contain a similar level of information as the ones that were included in today's R&S (01:15:46). The second is that we will retain our EVV and free surplus reporting, as we believe they continue to have an important role in our suite of financial metrics.

We will, however, evolve the UK components of these metrics to capture the implications of Solvency II. This change will be fully embedded in our reporting at half year 2016, but we will provide additional memorandum information and analysis on this with the 2015 Preliminary Results. We're also announcing today that going forward, we will not produce first quarter and third quarter interim management statements.

Finally, starting in 2016, instead of proposing a final dividend alongside the year-end results, the board will declare a second interim dividend. To be clear, we will be moving from an interim in our final dividend to twice interim approach in common with some of our FTSE peers (01:16:45). This will have no impact on time and all quantum of dividends. It's purely a technical change.

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

[Music] (01:16:57-01:17:35)

Michael Andrew Wells {BIO 4211236 <GO>}

Okay. Well, first, the Q&A sessions. So again, we're going to get into tremendous details you see by the deck in front of you of the various business units, but we want to take a quick pause here before the break and answer any question on the first session, if you'd like.

Q&A

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

(01:17:54) your firm's name and then follow in terms of questions and wait for the microphone. So Jon?

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

Good morning, everybody. It's Jon Hocking, Morgan Stanley. I've got three questions, afraid all on Solvency II. So first question, I'd appreciate that the Solvency II framework has no real impact on the dividend flow apart from the UK business. And we were (01:18:18) applying an internal model for the group and also for the Asian unit, as you said. Just wonder how the use test manifest itself. And you're actually using this model presumably to stay in (01:18:30) the business in some way. You mentioned UK and U.S. I just wonder if there are any behavioral changes that you can point to from actually using Solvency II models. First question.

Second question, the restriction to the Own Funds in Asia, the £1.3 billion that Nic mentioned, is that just a pro rata (01:18:49) of the entire Asia Own Funds or is that one specific territory or a couple of territories that you couldn't get approval for?

And then finally, I just wonder if you get better (01:18:56) dollar value on the UK transitionals please? Thank you.

A - Michael G. McLintock {BIO 1524907 <GO>}

Okay. Okay. Shall I? So use test – I mean, given the footprint of the group and given actually the way the approvals have panned out, where it ends up mattering most is in relation to the UK. Of course, as I said, this is an additional lens. So when making pricing decisions, when looking at product decisions in all parts of the group, we will look at it through a Solvency II lens, more relevant in Asia. But – I mean, you referenced that it impacts things at the margin, but not that dramatically outside the UK.

The restrictions are effectively pro rata. It's not focused on any particular market. It is applied to a percentage of the Own Funds. And as we move forward, we have agreed a formula with the PRA. And as we move forward, you should expect that deduction to effectively, broadly move in line, will be in sync (01:20:14) with the growth of the business and the contribution that that business makes to the overall surplus.

And on the dollar amount or sterling amount on transitionals, look, for me, it's not the amount that matters. What matters most is what does it mean, what is its impact, which is where I'll focus my presentation today. As we got stock, the PRA is on the record, both last July, but also last Friday, saying that this is good capital. It's core Tier 1 capital (01:20:46). It's capital that we can rely on in terms of making our dividend decisions and actually it's quality. It's no different to any other type of capital that we have.

So it doesn't really affect. Its existence does not affect the way the regulator or we think about the quality of our stock. Now, as – (01:21:09) I appreciate that it's relevant in relation to flows, because it is a benefit that will amortize over a 16-year period in a straight line, which is why we work hard to accelerate our work, notwithstanding all the uncertainty on trying to show you and give you the detail as to (01:21:26) on the Solvency II profile in terms of capital generation going forward, and to reassure you that notwithstanding that there is a deprecation, the impact is de minimis and very manageable. So really don't be focused on its size. We are not. We are focused on what does it mean. And as we've shown you, it's the effects. I'll put that order (01:21:51).

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

We got Blair here. Please.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Thank you so much. Blair Stewart from BofA Merrill Lynch. Just two questions. Firstly, does the exclusion of the shareholder share of the State impact the way you might think about the State (01:22:12) in future and is that a final ruling as some of you hope to get some movement on over time?

And secondly, with regards to the capital structure of the group, you've mentioned that you've got significant debt capacity, and I wonder what's your thinking around that in terms of the capital structure of the group.

Let me just add the third question. Sorry. What's your feeling about where the Solvency II numbers may have gone as of (01:22:42) through you neck, just a sort of qualitative assessment, please?

A - Michael G. McLintock {BIO 1524907 <GO>}

So thank you for those questions, Brail. The exclusion of the shareholder share is frustrating, because it's real. It's something that even though we can't access it until we distribute the stake (01:23:07), well we have to do so, and as I said, it's frustrating. We went backwards and forwards on that with the PRA. Interestingly, it is something that we were previously allowed to count in the ICAS regime, and of course, we bring it into our

EV. It is a final ruling. The only way that that could change, the only way that we can bring this in to the shareholder is to effectively distribute the stake (01:23:33) and crystallize it. But it's not without benefit, because $0.7 billion or at least $0.7 billion less the risk capital attaching to that $0.7 billion (01:23:40) is included as part of the surplus in With-Profit Fund (01:23:49). So it's not lost entirely from the numbers that I have shown you. It's simply no longer captured in the group number of £9.2 billion or the UK number of £3.4 billion (01:23:57).

Capital structure, debt capacity, there – I mean, I think – look, we're broadly happy with the structure that we have today. Regulatory mix is not the only thing that we look at when thinking about our capital. We have regard to the cost of the capital, and that influences the decisions about mix. We also have regard to the impact of the debt on the rating agency position because rating agencies will often apply different set of criteria and give us different amount of credit for each instrument, and of course, ultimately this is capital that we have to service and it does impact our interest cover ratio. So there's a whole variety of factors, which go into the mixer and where we are is broadly where we'd like to be, but it's good to know that there is that significant capacity, should we ever need to tap into it.

Full year 2015, I mean, we just haven't run those numbers. And we will do so alongside our year-end results, which we'll present in March. What can I say in anticipation of that? You've heard me talk before many times about the capital generative ability of our business. You saw that in the previous disclosures that we have given you. You saw the number at the half year. So clearly, that will remain. It's not evenly distributed in a year. So you could double what we showed you, but there may be a way of doing it. The world market effects (01:25:47) particularly in Q3, that will have impacted the solvency position and my expectation is that those market effects would have effectively unwound (01:25:59) the benefit that we got in the first half that I have shown you on the slide. So more capital generation offset by a slight unwinding of that positive that we saw in the first six months.

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

James, please? Just right in front of you.

Q - James A. Shuck {BIO 3680082 <GO>}

Thanks. It's James Shuck from UBS. I have three questions, please. Firstly, on sensitivities you've shown on Solvency II ratios, could you just help me understand a little bit the insensitive nature, both to equity markets? You showed a 20% full has about 1 point (01:26:33) impact on the ratio. And in particular to credit spreads, because with sort of nearly half of your SCR deriving from credit spread risk, I would have expected the sensitivity far more sensitive than you're showing there.

The second question is on the RBC ratio. I'm just interested to know, I mean, they seem a long way away, but if the U.S. rates do rise, could you just talk to how the RBC ratio actually responds to a higher interest rate environment, please?

And then, thirdly, I see the sensitivities you gave us on slide 11 for Asia in terms of the actual impact on the surplus. Could you just talk a little bit about the sensitivity of new business to things like slowdown in GDP growth, lower equity market, that sort of stuff?

A - Michael G. McLintock {BIO 1524907 <GO>}

Okay. So equity sensitivity, not too significant largely, because the U.S. position is strongly hedged to a minus 20%. So that's what drives that. We also do have some hedging in place. We have hedged part of the equity risk in the shareholder transfer in the past and therefore those two elements give us an element of protection on that particular metric.

Credit spreads, credit spreads are not that significant in the way that they come through the calculation. What hits us, which is actually the real economic position, is if these whatsoever become default. So the movement in spreads is not a feature of the RBC regime. In the UK, the matching adjustment and the way that operates means that our spreads widened the fundamental spread or the amount of credit for that spread that we compared (01:28:38) moves broadly and in sync. So that was exactly what the matching adjustment was designed to immunize, such that you're then left with only having to bear a hit if that ever convert into a default.

The impact on the RBC ratio or movements in the UK interest rate rises, I think maybe I can ask Chad (01:29:01) to comment on that either now. I don't know if we have a mic or maybe later in his session. I think we'll do (01:29:09). We have lost, Chad (01:29:19).

No, we got...

Oh, there he is.

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

Can you hear me? Okay. So the question was on RBC and interest rates, is that correct?

A - Michael G. McLintock {BIO 1524907 <GO>}

Yeah.

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

Yeah. Because the statutory regime is on a book value basis, the asset side of the balance sheet is not going to mark. So (01:29:38) and interest rates are not going to impact the surplus position. The (01:29:44) really is as rates move up, we will get some relief on the VA reserving. So we would actually see some modest capital benefit overall in the RBC, but it also depend on where the starting point is with the overall VA reserve. So, a small reserve, we're not going to get much relief, a large reserve, we'll get more relief.

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

And on impact of GDP in your business, this isn't the risk that is explicitly modeled. There are – whilst SCR captures kind of 99-point-something-percent what it does on capture (01:30:24) things like the impact that a strategy may have on the RBC. And really your question – your question really changes the GDP, behaviors, what that might do for new business is not explicitly included there.

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

Go to Greig, please. Over there, that table.

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

Hello. Greig Paterson, KBW; three quick questions. One is, on the capital topic, the question I'm getting asked quite often is the Hong Kong orphan estate. I assume now, the whole local Hong Kong regime still applies in terms of your thinking, and the rapid growth you've had in your power business. At what point or how many years of that sort of growth can that state finance proposals burning (01:31:24) through on to the (01:31:26)?

And the second question is, a lot of the Asian regulators have looked at Solvency II and want to mimic it, and then I think to Hong Kong, I think some of those back-to-back power products, they would be hurt under the Solvency II regime (01:31:42), so one of you can just talk about...

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

Okay.

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

...Asian regulators. And then, the third question, and that's for Mike. You mentioned – and maybe it's a sneak in, you might (01:31:49) have no comment on this one, but you mentioned that some of your competitors in Asia are trying to ramp up and using possibly irrational parameters. I was wondering to what extent your biggest competitors is doing that or is it some of the Europeans, smaller Europeans, U.S. ones what are...

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

Do you want me to get Mark on the phone...

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

No, no, no. I'm sure you'll respond, so...

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

Okay. Hong Kong estate, there isn't a state in Hong Kong clearly, Poland did domestication on a Solvency II basis as on a local basis, that estate is about £1.3 billion. But because it's in a ring-fence funds and the SCR against that is around £0.8 billion, but because it's in a ring-fence fund, yes, I haven't referenced it, I haven't – trust me, there are so many other pockets of economic capital, I haven't referenced them all, I've just given you the big ones. But there is more economic capital there. We just can't bring it into the overall group position.

As regard to the ability of that is due to (01:32:51) finance future growth, it's significant; A, because the number is sizeable and of course it appreciates and value (01:32:59) on the returns that we get, but more importantly, because of the team have done a phenomenal job on actually getting the products that we sell there to be very capital-light. So, the growth that you've seen us report in the third quarter has not in any way reduced or used up chunks of that estate. And the fact that I was saying at the half year is £1.3 billion, when the amount that we transferred across was £1.1 billion, £1.2 billion just goes to show that.

Asian regulation moving to risk based, that's really interesting. That's a really interesting topic and, you're right, whether it's Singapore, whether it's Hong Kong, China is increasingly talking fact that we see rose (01:33:52), they are moving to effectively risk-based capital regimes, and those are tailwinds for the solvency position of our Asian businesses. Why? Because of health and protection. And just to explain why that is. The risk-based regimes will allow us to calculate the liabilities of a health and protection product taking into account future flows, premiums that we will receive that claims. When you do that some, you come up with, what you would call, a negative reserve. Under the existing regimes those are regimes, those are zeroised (01:34:24). But under a risk-based regime, you get value for it, which is why we have value for it in Solvency II.

Now, the really interesting thing is, as these regimes move to a risk-based capital, they will begin to recognize that locally. So, we have an interest and we're pursuing it to push EU to extend its assessment of equivalents to places like Hong Kong, to places like China and to places like Singapore. Because if the Solvency position of those countries is higher as these regimes get introduced and they're deemed equivalent or they're assessed as equivalent, then we can recognize additional profit.

The question that I put to the PRA, were that to happen, how would you think about the deduction that you've applied? And they've (01:35:15) come to that position when that situation eventually emerges. But it's potentially a positive as we move forward, and we've seen glimpses of the extent of that positive through the combined numbers that we've provided you in relation to Asia.

A - Michael G. McLintock {BIO 1524907 <GO>}

And Greig, on the Asian competitors, I guess, I'll leave it for Tony's panel later (01:35:36) in detail, but I would tell you just traveling the region fairly extensively, what you see is inconsistency in pricing and behavior of some of the smaller players. So you'll see a market where you'll see something that seems irrationally priced and the next market will be in – the same firm will seem to have a reasonable pricing or – and I think that balances again goes to a lot of different factors about their models. I think you're fine that we're pretty disciplined across the region and how we price and we look at our expectations on return and some of the metrics we've discussed this morning. So, I'll let you work through the individual competitors and we can do by country later in the event today.

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

Andy, and then Oli then (01:36:23) next.

Q - Andy Hughes {BIO 15036395 <GO>}

Thanks so much. Andy Hughes from Macquarie. A couple of questions, if I could, about the account of Asian VIF credit you're getting in the free surplus definitions you're using. So, I know as you've not changed the free surplus definition for Asia, which obviously is going to lack the VIF credit, so when you write a new business in Asia, it's going to give you presumably (01:36:40) contract boundaries a boost to your Solvency II capital position. Now obviously that's not going to be – that's going to be much greater than you see from the actual strain you're incurring locally in Asia, which means your £4.8 billion that you got a VIF in Asian credits with Solvency II, you'd expect to grow overtime as the new business comes in.

And so I guess, my question is, given you can't use that locally in Asia, why are you taking kind of a business unit approach to the UK because at any place you can use that Solvency surface in the UK (01:37:10) grow, your target range for Solvency increase, and what is the target range that I can't actually see in the presentation by the way?

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

Okay.

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you.

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

Yes. As we write new business, particularly the health and protection nature in Asia, given its underlying profitability, embedded value increases you've seen that come through and the credit even though it's done on a Solvency II method using stress as the credit, it should also come through in the Asia's contribution to the Solvency II result.

The point of this though in concept (01:37:49) is that it has no real consequence, because it's not capital, as I said earlier, that the local regulators would recognize. And therefore, it's not – I can't call it kind of free or excess capital that I have that we can deploy in any particular way in the same way, for example, as if it was locally recognized, which is part of the reason why we haven't, unlike many of our Europeans, and given the footprint of our business, not kind of given you a ladder of what is the range that we want to operate. The number, it depends where that capital comes from. If it's Asia, our Asia was magically doubled in the course of the next 12 months. And the £4.8 billion that we brought in was to become £9.6 billion. The ratio would improve substantially. So what? Sort of selling the businesses or sort of doing some sort of VIF monetization profile, I can't bring that and I can't do anything with that capital. And it's not something that VIF monetization or selling the businesses is not in sync with our strategy. We will be giving value away, and it's clearly contrary to our strategy. So it isn't helping us.

In the U.S., yes, if it improves the - if the RBC ratio is stronger, we will have a stronger access and that can be brought back to group and et cetera. And similarly, in the UK, if we operate comfortably above the kind of rates that I've indicated, then that would indicate that we can bring more back. So it depends where it's coming from. That's why I'm agnostic, if you like, as to where this ratio at the group level gets to at the top end, and to a degree whilst I'm agnostic where it gets to at the bottom and unless of course it gets to a range where it's at a real risk of reaching the SCR.

Q - Andy Hughes {BIO 15036395 <GO>}

You said (01:39:46) the reinsure or some of this business into the UK (01:39:49) lower than the 100% ratio on the UK business on the Solvency II benefiting from some of the same transact (01:39:56).

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

Okay. Are there opportunities - we can - out there to think about either moving capital or moving risk from one jurisdiction to the other to kind of optimize that? There are. Of course, in a G-SII type environment, that is not without its consequence, because it does increase the interdependencies that we have between the business as the G-SII drives you effectively to have businesses that are not - or penalizes those interdependencies. So, yes, there are opportunities we can do that in relation to Solvency II, but it could potentially halve out these consequences downstream as we move to G-SII and the interdependency charges that we may end up having to carry. I don't believe we need to do it, I said it's £9.2 billion, I think it's a strong overall position. For all the factors that I have outlined, yes, but there are - yeah, as I said, there are opportunities to do things.

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

Oliver there, yeah.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions. So first is, just on the credit sensitivity, you used to show that credit sensitivity, including rating migrations of the UK. Have you removed that or you've just been sharpening (01:41:28)? And secondly, on credit sensitivity, you talked about a 10 times default assumption in the state, what is your existing default assumption?

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

Okay.

Q - Oliver Steel {BIO 6068696 <GO>}

And then moving on from that. On your dividend slide, you sort of have a rather tantalizing little clock, so I can say that somewhere between 1.9 times and 2.5 times cover is being the sort of tail green area, so I'm wondering if you could just wanted to expand on that?

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

Okay. Dividend clock, that was illustrative, that I'll expand on that. Rating migration is not in the sensitivity. Just to give you - actually, the 1 in 200 stress for rating migration in the UK is equivalent to half the portfolio effectively going - being downgraded in one year. So that's how much - that's how severe, if you like, the base position is. As I said, we haven't included it. It wouldn't point to a different picture, and we can consider doing that next time.

The default assumption in the U.S., it's what we incorporate in our IFRS reporting. We show you an RMR (01:42:43) based on historic experience for the portfolio, for the debt portfolio that we have in the U.S., that's 25 basis points, so effectively it's 10 times up.

The dividend, that was illustrative. I've said we use - I wanted to make the point that we don't just use the base in the actual covers. A number of you have talked to us before to say, look, your dividend is so healthily covered by the IFRS profit, it's 2.5 times at the end of 2014, why don't you draw down on the cover? It's a legitimate question. The way we think about that isn't just effectively the spot number, it's to look at what would happen in a stress. And this is what we do. We take a 1 in 25 combined stress and we say what would happen - what would have happened if our IFRS profits were to be - were to experience a 1 in 25 event, and what would the new - the cover be on that event, which is what the two dials are meant to represent.

And if those effectively are in a good zone, then - and of course, we then have similar dials, not only for other metrics, but for year one of our plan, year two of our plan, year three of our plan. So, we have all these things. The board gets lots of dials, and we see where they all sit, and then we make a dividend decision. And the reason we have that second aspect is because we don't ever want to be in a position to cut the dividend. So in a stress, we want to continue to grow it by at least 5%, which is why we do what we do. So, that's what that little schematic was meant to represent.

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

Okay.

Q - Charles Anthony Bryan Cartledge {BIO 22087608 <GO>}

Charles Cartledge, Sloane Robinson. Nic, could you give us an update on G-SIFI, the timeline and potential impacts? I know it's early days. Thanks.

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

2019. And there is sort of quite a lot of water that will need to go under the bridge before 2019. It's progressing. There is - I mean, clearly, we now have a BCR, the Blackstone Capital Requirement (01:45:06) is not significant, it's not a constraint for us or any of G-SIFIs, the Blackstone Capital Requirement (01:45:15) is equivalent to around 70% of the SCR. Of course, that will get scaled up and they've already been cleared that they will do that kind of bring that BCR back up to SCR. And then depending on the non-traditional non-insurance, there will be an additional factor on top of that.

What is outstanding is what exactly is and what precisely is non-traditional non-insurance going to be, and what factors do you – would you need to apply depending on a number of criteria, not least the component that is NTI, or indeed some other factor such as interdependencies. We are kind of still some way away from getting to a position interesting – interestingly the BCR for our U.S. business has been set up on 50 (01:46:09), so of course it will be scaled up, but it's not at a level that is going to suddenly present us with a surprise – a significant surprise downstream.

So, 2019, we still have some way to go. At the same time, you do have the International Capital Standard, the ICS, that is kind of at the moment working slightly separately will apply – it's designed to apply to the 50 largest multinational insurers. And again, that is on a different basis, there are exchanges at the moment between – the IAS was leading on that piece of work and ourselves and others to help them – to help inform their thinking.

All these things will eventually converge. As I said, we are some years away. At this stage, we're not seeing anything that is fundamentally threatening. And at the end of the day, as we said earlier, we are a business whichever way – whichever lens you want to apply to us that generates capital. I said the first and most important source of capital is operating profitably, this is what you've seen us do, and that will continue.

Q - Abid Hussain {BIO 20229932 <GO>}

Morning, hi. It's Abid Hussain from SocGen. I've got three questions, if I can. First on the U.S. RBC. Can you just talk about the change in methodology for equivalents from when you last published? It looks like it gave you around a 7% boost to the solvency ratio?

The second question is on the UK, and on (01:47:57) you said that we should expect lower volumes going forward. So, to my mind, would it just be simpler to run the UK business off and maximize the cash generation there? And the third question is on Asia. On your 2017 IFRS earnings target of 1.9 billion, how comfortable are you with that target?

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

Okay. So, the RBC change in methodology, it's a numerator/denominator play. So, what we had in the – when we published the full year 2014, we mirrored what we had in our free surplus thinking, which is to keep the numerator the same and have a denominator that's 2.5 times. All we've done is kind of shifted the components. So, it doesn't change anything, it's just optical. That's the – I think if that's your question.

And actually that this gives me the opportunity to actually to make another point which is, I know the market gives a lot, but (01:49:03) we are relatively unemotional about the ratio. We tend to look at it more in terms of surplus. Why? Because it's – as you've seen, it's a little arbitrary, the RBC is a good example as to what you put in the numerator and what you put in the denominator here, something has happened to shift it positively by 7 points, but nothing has changed in substance, which is why you've seen we've put a lot of the sensitivities on the actual pounds billions rather than be emotional about the ratio. And there is other things that you can do to effectively move the two in sync and it's optical.

UK annuities, look, it is possible with - if the market pricing was to move substantially, if you went off the high yielding assets or if you did extensive longevity reinsurance to kind of make the thing work, it is possible. But it's a lot of financial engineering to deliver that outcome. And candidly, when it's only contributing - and it's - really we're talking about bulks. When this is contributing less than 1.5% at the half year of our IFRS profits, it's a lot of work when we can deploy that capital more usefully elsewhere in Asia, indeed in the U.S. and deliver higher returns. I'm not saying we're not going to do it, but we - relative to the volumes, we did 1.8 billion of bulks last year, kind of 1.5 billion roughly at the third quarter this year. I don't - I just don't see it sustaining at those levels as we move forward.

I don't think the UK is in run-off. You shouldn't interpret it as that. You'll hear later on from both John and Aki the opportunities that we have elsewhere, the With-Profit Fund is a vibrant fund. That's why the strength in its solvency position is super critical for us. I know it's not sexy and I know it's not that exciting, because ultimately the profit's drifted through as opposed to simply turn up on year one, which is what's made bulks an interesting thing. But it's real, it's sustainable, it's resilient and it's coming. And you'll see that in Aki's presentation.

As to the IFRS numbers, you tell me what the FX rates will be in 2017, and I'll tell you what the number will be. The point that Mike was making is that they were not - we're not make - we're not asking the Asia business to deliver a sterling amount. We're asking them to grow compound by 15%, at least 15% on the local currencies, and that's exactly what they've been doing.

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

So we can take one more (01:51:48) in this session. Ashik, please?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning. Ashik Musaddi from JPMorgan. Just couple of question. On the roll forward from IFRS to Solvency II, you showed a number called value of future shareholder transfer of 3.4 billion. Can you just give us more thoughts on what that number is? Is it like (01:52:06) because there is a separate line called liability valuation difference? So what that 3.4 billion number is, is it coming from just UK, U.S., any thoughts on geographical split as well?

And secondly on annuities, UK bulk annuities, I mean, you're kind of guiding that not - don't expect a lot of volumes, I mean, is it because the margins are like going below 10% ROE or is it like single-digit ROE, or you are still not ready to accept, let's say, a low-double digit ROE? So what's the difference here?

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

Okay.

Q - Ashik Musaddi {BIO 15847584 <GO>}

How much is the change in the ROE recently because of Solvency II? Thanks.

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

Shareholder transfers, you're right, it is akin to a valuation margin. We could have put the two together, but with the 9 billion, but we decided to show it separately because if anything – so what does it represent? It is effectively the one-ninth share of the bonuses that we will be declaring going forward to with-profit policyholders. So the numbers are – of the 3.4 billion, around 2.3 billion is in the UK, the rest is in relation to the one-ninth of the bonuses or whatever the relevant percentage is in the various countries for Asia, and most of that is in Hong Kong.

Annuities, I don't – we don't – we've never looked – sorry. Is that okay? On annuities, we've never looked at it by reference to margins, I know it's a simplistic thing to do. Margins is not a good measure. So profits over APEs is not that interesting, it's for all the reasons that we've rehearsed in the past, doesn't tell you about the capital that you have to put behind the business. It doesn't tell you anything about payback, which is how we've looked at it that capital requirements, if you don't have transitionals, are much higher. So the denominator that comes into that calculation, if you're running the business by reference to return on capital and the period it takes to pay back that capital is elongated. If we can do it in a way -- but – and we haven't changed that hurdles. If we can do it in a way that allows us to deliver what we've been able to count under the previous regime and what we can achieve elsewhere, then we will do it. But I just don't think – I'm not putting a lot of pressure on the business to do a lot of it, i.e. we have other opportunities.

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

Thank you very much. So, now we'll break for coffee for 20 minutes. And I'd appreciate all of you being back in the room at 20 past to listen to the Asia team. Thank you.