Prudential 2019 Full Year Results

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Strategic Overview

Mike Wells

Group CEO, Prudential plc

Welcome

Good morning everybody and thank you for joining us. I know the actual gatherings are getting a little more interesting subject to company policy so I very much appreciate you being here with us. We have got a full presentation for you today on a couple of different dimensions. 2019 was a fascinating year in terms of global challenges and convergences, health, economic and political. I think it is an excellent backdrop for how we are positioned coming into this year. I know it feels like the end of the year was a while back but we want to spend a little time walking through the successes of the business, its capabilities and its resilience. Then we will talk a little bit about where we are today. The structure of the day is I am going to go through the strategic update, including some of the forward-looking initiatives that we are working on and that we have announced. Mark will come up and do a financial update and then as usual we will do a Q&A. We have Nic Nicandrou and James Turner our CRO joining us from Hong Kong. We have Michael Falcon our US North American CEO and Axel Andre our CFO here with us in the room. Welcome Axel. On the phone we have Chad Myers from our US as well. We have got the full team available to you to answer your questions in a variety of directions, post the presentation itself.

Group

Financial highlights: consistent compounding value in volatile markets

The performance of the Group last year in my 26 years is the strongest I have seen. I would suggest the environment that we operated in was unique and the amount of projects, processes, products and things that we accomplished was commendable. I am extremely proud of the diversity of the success, obviously, the scale of the success and some of the choices the team has made. I want to spend a little bit of time highlighting that but, obviously, Asia sales and new business were up which was no small feat given the climate last year. The earnings are up 20% to $5.3 billion. Our new capital regime which we transitioned to in Hong Kong is at 309% $9.5 billion. Asia NBP ex-Hong Kong up 29% and again with return on equity metrics still in the mid-20%s, very, very strong. Investment in Asia now that is totalling $7 billion since 2013.

Active portfolio manager – c.$7bn invested in Asia since 2013

We added to the column on the left the positioning that we are an active portfolio manager of the Group's capital and I think capabilities both. You see a summary of where we have chosen to invest, to divest and to partner. Those decisions are all key to our capabilities and our shape going forward. Today's announcement on the US is the latest on that but we continued in Asia to invest in distribution and banks. We acquired an asset manager. That $7 billion investment I mentioned earlier has now produced a doubling of embedded value. The percentage of our insurance income is now up to 71% in Asia and double-digit earnings growth across that cycle as well. Very, very broad and resilient returns on the decisions we have made and candidly the products we have chosen not to sell.

Asia

Overview

The other thing that I am extremely proud of is inside these businesses now you see more and more of what we have talked about here for years which is the attributes of scale. We can add clients faster, more efficiently, better and how they want to be serviced across our Asian marketplaces. I would define the Asian business now as a combination of growth, diversification and these results demonstrating resilience. The growth is the choice of markets. It is the choice of channels. It is the choice of consumer products and propositions that you choose to write and those you do not choose to write. Diversification is obviously our ability to execute in multiple markets concurrently. I think we are much better; and Nic gets a lot credit for this, at getting the teams to take best practices across geographies. You are seeing much faster adoption of some of our agency segmentation, our technology platforms, our operational and digital across region. That is something that five years ago was not in our operating models. Then the resilience is the sheer percentage of earnings now that come from recurring repeat consumer relationships across the region. Again, in this sort of climate, that resilience clearly stands out.

Strategy

Our strategy in Asia is well-rehearsed with you. The teams responsible focus on four key areas. First, enhance the core. It has been our feeling that we started with an advantaged position and we need to continue to self-challenge and self-disrupt that. One example would be a complete reboot of Indonesia and its product set and capabilities. One of our largest businesses, just a few years back. We continue to invest in our leadership position and the banca channel. You saw the extension of the UOB relationship last year. You saw entrances in SeABank in Vietnam and other banks. You are also seeing us going in to the digital platforms of our bank partners, which again is new capabilities for us. Product development, we are refreshing and innovating in the product cycle with 160 new products. Those new products were 16% of new business profits last year. We are continuing to focus on the agency force and continuing to focus on the quality and productivity of that agency force, investing in those capabilities as well.

We have highlighted to you why we think health is so critical and again in a period of volatile rates and credit cycles, you see why we think this business is so material. The gap in Asia is roughly $1.7-$1.8 trillion in need for health products. The team has been phenomenal here. The product innovation, the speed to market and the expense management as well as the pricing management both matter. Now we are adding a digital dimension to this with Pulse. This is a proprietary platform. It is an environment where multiple pieces of technology operate together. It is customised for each of the markets. We rolled it out in eight so far and it has 1.3 million downloads from what is really a late second half launch. However, we continue to work well there. Again, the new products and the Group sales now businesses we were not in before, Singapore and Indonesia, 13%.

We told you we need to build Eastspring into a bigger, more powerful regional asset manager. That has been, as we discussed, investments in technology and infrastructure. Last year you saw us buy an asset manager in Thailand so we are expanding markets. Nic was just there for the closing. We anticipate owning 100% of that business soon. In a fairly difficult year for asset managers this is a room I think understands the challenges fully. This is a firm that grew its AUM by 25% and attracted almost $9 billion of external capital. Eastspring is doing exceptionally well with lots of new management talent. Again, we continue to invest in their capabilities and their footprint.

Then finally China, I have said many times we need to succeed in China if we are going to succeed in the region. We continue to add markets. We now have 20 branches in 94 cities. We continue to grow faster than the market, improve productivity of the agency force. We are at 31 bank distribution partners and we established the WFOE last year. This business continues to evolve towards the opportunity in China. It is complemented by the business in Hong Kong, the Greater Bay Area initiative and some of the more macro issues in Northern Asia but as a standalone it continues to succeed and continues to get the management focus it deserves.

Key success factors driving growth

Success drivers in Asia, structural demand is incredibly well-rehearsed. I am not going to tell you the number of Asians that are in the middle class or savings rates. We have done that for a long time up here with you. I will take a slightly different approach today. The structural demands for growth in Asia represent effectively two thirds of the future growth of the insurance industry in the next decade. Let us start with that. If you are not successful in Asia you are not going to be a growing insurer. The second market is the US. We have got the markets right so why can someone else not come in and replicate what we did by spending more money faster? Let us start with that as a self-disrupter.

First off, it takes time. The licences and the businesses we built out, the technology, the distribution partners take decades to build. We have a long and successful track record of investing in Asia. It also goes to brand and trust of key stakeholders. That is consumers, business partners, regulators and policymakers. All those things enable you to do unique and interesting things. Pulse is a perfect example of that. We needed government support in markets to try something that is innovative. That is a great example of where our history in the markets and our alignment with social and political policy allows you to produce unique outcomes.

We have an efficient and UK-style with-profits fund in Singapore and Hong Kong, very much like the M&G fund here, our ex-subsidiary, incredibly difficult to build from scratch. Very efficient for consumers and the kinds of propositions you can build and very efficient for investors in its deployment on a capital basis. Unique to us. I mentioned Eastspring earlier. Depending on whose metric, we have one of the largest, most successful asset managers. Why does that matter? Accumulation and decumulation products are a part of maturing demand from these investors and these savers, particularly as yields get lower and lower and lower. We are extremely well-positioned to capitalise on that demand and to provide those services that are very high quality.

Then finally I think when you get into China pre-virus the dynamics in China were Greater Bay Area initiative and cross-border service. Shenzhen, Hong Kong, how are these markets going to align in servicing clients that move freely between the marketplaces; those macro issues in Northern Asia we are incredibly well-positioned to take advantage of. We have excellent businesses on both sides. Those sorts of trends you cannot replicate quickly and we have them. We have the management teams, we have the brands, we have the reputations and the regulatory and political relationships at scale.

Diversified high quality portfolio

The scale also comes through in the diversification of our success, particularly at times like this, in earnings. Earning across the cycle, you need recurring premium to do that, those existing consumer relationships. It is the quality columns on the right-hand side. How much of your premium occurs if you sell nothing? How resilient is your book through interest rate and equity cycles? Those sorts of factors. We think we built an incredible business from a shareholder point of view on those metrics. Recurring premium drives our Asia growth, our IFRS profit and our free surplus generation. That is a material change from where we were just five or six years ago. The renewal base is growing at 16% a year. The new business profit growing around 13%. We continue to invest in the existing clients. The repeat sales box in the upper right-hand side, I have stood up here many times and told you one of the things that is right in front of us is the millions and millions of clients we have with a single relationship. We are getting much, much better at going broader and deeper with our household relationships by bringing new and unique capabilities to their homes that address the risks they have. 45% is fantastic. I would love it to be 100% but it is a really good outcome given everything else again the teams are doing. Customer retention we continue to invest in. How do they want to get paid? How do they want to interact with us financially? Do they want statements digitally? What is the experience feel like? How fast do our call services answer the phone? All that sort of back office, less glamorous spend improves the service relationship we have with the consumers. We have excellent service with our consumers now and that goes to retention. The retention goes to the growth of those earnings.

On the left-hand side, the diversification, you have eight markets with double-digit growth in new business profits and earnings. You also have eight markets with now more than $150 million of earnings. If there is a slowdown in sales in Northern Asia, and that is the outcome of the year, what we get is further diversification across our footprint. This is a very, very resilient model and the team executing concurrently in all these markets has produced that outcome.

Resilient and compounding business

How resilient? There is the 16% and 13%. The key for us in growing our Asian business is our effective maintaining relationships with consumers who trust us and believe we provide value. That renewal premium compounding 16% is the base of the financial strength of the business. Each year sales are growing and each year sales, a profitable cohort and important relations to us financially but this is where the resilience comes to get good cross-cycle if we do not like pricing of competitor or we have an external event like the virus or a market shock. This is the strength of this franchise right here. You see it in the earnings and you see it in the free surplus generation.

Asia – Market highlights

Hong Kong: Resilient earnings

Let us drill down to a couple of markets. Hong Kong, $734 million of earnings, 22% of PCA's overall earnings. This is an excellent example of our playbook and how we execute it. It is also an extreme example of the intensity of the challenges a market can have at once. Effectively cross-border sales stopped this year. They slowed through political unrest and they stopped with the virus and government policy. The business continued to execute well. You see the resilience in the earnings again. Why? Derek Yung and his team, excellent management team, we invested in distribution when things slowed down so they grew agency by 15% to 24,000. Again, we want to be counter-cyclical whenever we can. They launched new products in the pensions space, health space and education space. They grew domestic sales by 8%. Most of their earnings come from recurring premium which is undisrupted by travel.

The issues in Hong Kong are different right now than issues in other markets. For example, the virus when you talk to friends there is a concern. Unemployment and the effect on small businesses is a bigger concern. Everyone knows someone with a small business that is being stressed. We work with the reinsurers, more forgiveness on payment timings and things to make sure we are alongside our clients in that. This is an incredibly well-run business that is growing through the cycle. Earnings here are up 24%. They have adjusted how they are working. The regulators now allowed some sales of products no longer face-to-face. We have the technology to do that digitally. We also have the training of our agents to do that. They will continue to move forward as whatever is being thrown at them from an external environment. It shows the resilience of the model. They are continuing to add digital. They are continuing to add other capabilities to the business. Nothing is slowed down here but they do have an external strain that they are dealing with and they are dealing with it I think as effectively as any management team in the region.

China and Indonesia

Indonesia and China; combined this is $759 million of earnings, again call it a quarter of PCA, which is 37% of the population in the region. We have got to succeed in both these markets. You are not going to be successful in Asia without a major presence in both these markets.

Let us start with China. Pre-virus a lot of the good macro in China got lost in the noise last year on trade and other issues. I think the one to me that stands out as the single most impressive is almost $10,000 per capita GDP, which is a key goal for the government for a lot of excellent critical reasons. That is a 39% increase in five years and one of the largest populations in the world. That is a staggering number. We think post-virus this market comes back fast. I am not trying to predict when that changes but this is an economy that adjusts quickly to external threats and challenges. The Greater Bay Area initiative and other initiatives that were in process were completely disrupted by the current virus. The work did not go away. It is still in place.

And again those sorts of structural changes, cross-border will help us. We are in the process of setting up a data centre in Shenzhen, a tech centre. We can do that very quickly when things return to normal, as can other businesses. One of the things about financial services there is not a physical plant, a factory that we are trying to retool up. These are very, very scalable at pace operations. We think our China business is doing incredibly well. It is growing faster than the market. New business profit is up 38% and earnings are up 20% last year. We have got 80% of the country's GDP and population under our footprint. I mentioned earlier we keep expanding our bank distribution. We keep improving our agency, scale and productivity. We have got a long way to go to catch the size of the agency of some of the larger firms, measure them in millions, but also the regulatory direction of travel in China is towards health and protection and some of the products that our teams are used to and focused on our agency model. We like where we are in this. We would love to be bigger and faster in China and we are doing everything we can to accelerate that. They had another great year outpacing the market, adding new cities and continuing to expand the opportunity set in front of us.

Moving to Indonesia, we asked Jens and the team to retool and refresh one of our largest businesses. Five or six years ago we were standing here and this was a paper-intensive business that was disproportionately cash collection and led by a single product. It was extremely successful. We have well-rehearsed from these meetings the challenges that came with that growth. You now have an incredibly automated back office. You have new distribution, recruiting, segmentation of the agency force, a great agency force, number one in the country, number one now in million-dollar round table. Create the elite status, plus 30% growth of elite agents so about a quarter of our agency APE now. Products across the spectrum from both experience and consumer. One of their new health products, Pru Prime Healthcare, is 40% of APE last year.

This business now has digital partners. OVO is the largest digital payment provider in Indonesia. And remember this is a country where 237 million people, depending on the data you are using, with about two million using credit cards. There is a big space here for digital payment providers to come in. It is one of the countries where they will have the most impact. OVO is the largest. We are just launching product with them now. Their payment capability is inside of Pulse again giving us the ability to transact with our consumers that want to on a digital basis in that environment. Now you have 97% of the business submitted last year by Indonesia digital. This is now a highly scalable business with a broad product set, a tuned-up distribution organisation, new channels, Group product and an excellent management team. Again, the opportunity here is ahead of us. This is the start of where Indonesia is going. From penetration insurance is still about 2.2%, so a long way to go in a country that is effectively individuals self-assure and we have got a number of initiatives to drive our growth in this market.

Asia

Coronavirus update

I was asked to give an update on the virus and I want to segment this into three parts. Our lens on this has been pretty consistent. We look at the impact on our customers, what we are doing in the markets given our scale socially, what is our role as corporate citizen in that; then, how is it affecting our staff and our agency force given the sheer size of it.

From a customer point of view in every market that we have, any sort of material outbreak, we have scaled up our benefits. As you are probably aware in most markets the governments are covering a disproportionate amount of the hospital costs. We have increased cash coverage in a market like Hong Kong. We have added benefits for if you are unemployed, in Singapore if you are quarantined, and they are customised with the demands and the policies in each of the markets we are in. There has been very, very low utilisation of those benefits because we have been very fortunate so far that we have not had a lot of our consumers affected by the virus. It is in the few hundreds, so this has not had a financial impact on us yet.

Socially aside from making the product benefits faster, better and available quickly to our consumers, we have also contributed millions in China and other markets to prevention, health, infrastructure, healthcare support for workers and I think you would probably hear that from any responsible firm operating in the region. It is our role at our size and scale to do those things. We have Prudence Foundation. We have partnerships in China and other things set up to do that. We can move very quickly to support it.

On the agency and staff side, again we have been very fortunate. We have had very, very few incidents of the virus but we did fairly early go to our alternative work models. Work at home in some markets, split teams in others and very similar to what I hear from some of the firms in the room. On travel policy, on separation key people with similar responsibilities, on how the executive committee travels together, all those sorts of things have been in place for a while. We went to those very quickly and to-date we have had very, very few incidents of customers or employees or agents having any exposure. Obviously, we are staying very close to the developments. Some of the most disruptive things as you are probably well-aware, is policies around schools and things where we have been dealing with that previously in political unrest. Those are challenges for us in the markets because that affects working parents and we have made accommodations for that voluntarily as well as structurally in the organisation as well.

We will continue to evolve our position on this as the issue becomes greater but so far I think it has been a conservative position operationally. Our normal support you would expect into the communities we are in and it has had minimal impact on us from a financial point of view or a claims point of view.

US

2019 sales and distribution highlights

Switching to the US if I could. First let us talk about what the US did last year and then I will reference a bit some context around the announcement we made today. One of the challenges we put to Michael and the team, and you heard up here on the review of the strategy, was it was critical for Jackson to be able to demonstrate that it could execute on multiple product agendas and multiple financial metrics at once. Was this a single product firm, was that its only niche, could it demonstrate to external investors and the external market that as the clients risk preferences change that Jackson is welcome to compete in those segments of the market.

What you saw was very successful and quick product launches, successful distribution of those products, support of those products across the consumer risk spectrum, an expansion of an already strong management team and you continue to see investment and capabilities added in advisory, fintech and some of the areas that are coming for the future growth of this business. Again, the numbers stand on their own. An incredibly fast diversification organically and we have said that again the opportunity for Jackson at scale is inorganic as well. However, I think we demonstrated to the market that the market wants products from Jackson across a wide range of risks.

Execution progress

I apologise for reading this but I learned today there are three lawyers in the United States for every one doctor and I understand 1.3 million of them are listening to how I say this next paragraph. Consistent with our announcement today external capital requires certain prerequisites to be in place. The US team is focused heavily on delivering those. You can see it has demonstrated efficiency and effectiveness on capital management, sales management and risk management. You see regulatory alignment by early adopting the new RBC regime, a more stable, less interest-sensitive regime. We have expanded the management team, increased our operational capabilities, maintained tight management over expenses and this is designed to manage the growth of distributable operating earnings across cycle. You will all be aware that given the announcement today our ability to discuss certain aspects of what we are doing in the US are restricted by regulatory requirements in the multiple jurisdictions where we have listings.

That is the first time you guys have ever seen me read. A few of you questioned if I could.

Group

Key takeaways

Key takeaways, think back on the year. There are new variables in the marketplace that accelerate all sorts of the challenges we face. We had multiple markets with political challenges. We had elections in multiple key markets. We had an impeachment in a market. We had changes in political structure. We had protests globally. What was a dramatic movement at the time in rates, very high shape in US equity market, all of that. The performance for the Group in that setting I could not be prouder of. I think it shows the mix of businesses strength in very volatile environments. Then the growth in Asia, it is easy in these meetings to focus on the financials because that is the core reason we are here and what Mark is going to come up and highlight in just a moment, but spend a moment when you are looking at these materials and talking to our teams and when Nic and James come up on Hong Kong, on the capability difference this firm has now and where we are positioned going into this year. We have never been in a better position to capitalise on consumer trends globally in the markets we have chosen globally.

Finally, the Jackson team, the agility, the movement in design and structure, managing to two regulatory regimes, being one of the early adopters of the new regulatory regime, the build-out of the things that needed to be true for us to say what we said today in the RNS. All this was going on while we demerged M&G. And continue to move the shape and structure of this business forward. So very productive task filled year where the organic growth of the businesses came from the efforts that you would expect out of the teams we have.

So very pleased with it. I am going to turn it over to Mark and then I will come back up for the Q&A.

Financial Overview

Mark FitzPatrick

CFO and COO, Prudential

Group

Selected performance metrics: continuing operations

Thank you, Mike, and good afternoon to you all.

In my presentation this afternoon, I will address three main topics; firstly, the results of our Asia business; secondly, the US; and thirdly, I will provide some commentary on a number of Group related topics.

As you can see on this slide, our 2019 financial performance demonstrated the Group's ability to deliver against a challenging market backdrop while executing at pace, including delivering the M&G demerger.

The 23% increase in Asia EEV, net of remittances, is a demonstration of the growth potential of our diverse and high-quality portfolio of businesses in Asia. At the same time, our US business has started to deliver on the diversification strategy outlined at our half year results in August.

Asia

High quality, diverse portfolio supports new business

So on to the first main topic, which is our Asia results. What really stands out in our Asia numbers is the quality and the broad-based nature of these earnings and the balance between the growth of new business and the steady expansion of the enforced book.

Now all of these would live it against the challenging macroeconomic backdrop and political issues in the number of our markets. Asia APE sales increased 4% overall, and executing Hong Kong, was 17% higher.

The middle of the slide shows the extent of the diversity of our businesses with six markets producing double-digit sales growth. In Hong Kong, new sales were 11% lower, and within this, sales from mainland China were down 21% for the year and 41% in the second half, reflecting lower level of visitors coming to Hong Kong as a result of the purchase.

However, our domestic Hong Kong business grew 8% in the year, growing by 12% in the second half. Our performance in Indonesia is encouraging and follows a substantial reform of our agency channel and new product launches. Over 2019, as a whole, new sales were up 23% with growth of 41% in the second half following 4% growth in the first half of the year.

Turning to NBP. Overall, this grew by 2%, but underlying this, our Hong Kong NBP was down 12%, which was broadly in line with the reduction in new sales. Importantly outside of Hong Kong, our life businesses delivered NBP growth of 29% and these were well diversified with eight markets delivering double-digit NBP growth.

Following Mike's comments a moment ago in respect of the impact of the virus, the outbreak has slowed economic activities and lower levels of new sales in affected markets are to be expected. Year-to-date, we have seen impacts on sales in China and Hong Kong, however, outside of those markets, our major businesses are continuing to see double-digit sales growth.

Compounding new business profit drives growth in EEV

Over 2019, the embedded value of our Asia businesses increased to $39 billion. This EEV growth continues to be driven by the further addition of yet another year of profitable new growth, with $3.5 billion of NBP adding 11% to the opening balance.

NBP and 20% growth in post-tax asset management earnings, alongside the in-force result, drove a 19% overall operating return on opening embedded value. The 2.3 billion in-force return includes favourable operating assumption changes and experience variances totalling $0.8 billion, which again illustrates the quality of our business and the prudent assumption basis.

This in-force performance and continued focus on capital efficient profitable new business contributed to a 13% increase in free surplus generation and the higher net remittance to the Group.

Within non-operating and other, we saw favourable fluctuations in investment returns, mainly representing higher bond and equity values in Hong Kong and better-than-expected investment returns in Singapore, Thailand and Taiwan. Note that within our closing embedded value, our Eastspring asset management business is carried at its IFRS net asset value of $1.1 billion, while our share in ICICI Pru in India had a market value of around $2 billion, significantly above that in our embedded value.

Eastspring - delivering profitable growth

2019 was Eastspring's 25th anniversary year and also a very strong year across all of its key metrics, characterised by balanced high-quality growth. Third-party net flows reached $8.9 billion with Asia life flows also up strongly.

FUM increased to $241 billion, and operating profit was up 18% to $283 million. So, we are pleased with both the organic and inorganic growth for Eastspring as evidenced by the acquisition of TMB Asset Management in 2018, and more recently, Thanachart Fund, which added $7.5 billion of AUM.

We believe that Eastspring is strongly positioned in an attractive market and that we saw strong investment performance with 60% of funds in the top two quartiles, good balance between equity and bond mandates and third-party inflows were positive in our retail and institutional businesses with fixed income products accounting for the majority of net flows.

Flows for the early part of 2020 are continuing this trend.

What was also important to me is that these higher asset levels and the underlying investment performance are also accompanied by an equally robust financial performance.

Operating revenues performance fees increased by 14% and our focus on operating costs resulted in a smaller 8% increase. This positive operating leverage led to an improved cost to income ratio of 52%, which supported the 18% increase in IFRS operating profit.

Resilient in-force growth drives IFRS operating profit

Turning now to an IFRS lens. Our life insurance result again reflects our ongoing focus on recurring premium health and protection products and the associated continued growth of our enforced business. This contributed to a 12% increase in renewal premiums to $19 billion and in turn a 14% increase in life IFRS operating profit.

And at a business level, you can again see our track record of long-term investments continuing to deliver. We are generating very solid and broad-based growth from multiple businesses operating at meaningful scale. We now have eight businesses delivering operating profit of $150 million a year or more. And life operations delivering earnings growth of 10% or more, and five of these had growth of 20% or more.

And this is perhaps best exemplified by Hong Kong where the in-force resilience was clearly evident with the 24% increase in operating profit, notwithstanding a more difficult new sales environment.

In Indonesia, the team are making good progress to drive a return to growth. However, this is a work in progress and these improvements will take time to convert into IFRS profit.

In conclusion on Asia, we are very pleased with the financial and operating performance of the business in 2019. We believe this demonstrates the scale, resilience and quality of our diverse portfolio, and the power of our focus on renewal premium life insurance business and our high retention levels at over 90%, which underpins growth of the in-force earnings even in periods of more challenging new sales.

US

IFRS result

I will turn on to my second main topic, which is the performance of the US business. So, some of the headline numbers are driven by market movements, regulatory impacts and accounting asymmetries. Notwithstanding this, the underlying position is that this is a resilient business that is well positioned in a market, where there is a growing customer need.

By way of context, in 2019, the S&P 500 was up 29% and the US 10-year treasury yields fell 80 basis points. Consequently, from an economic perspective, our separate accounts performed very strongly returning 24%.

From an IFRS result perspective, favourable DAC accounting effects boosted our reported IFRS operating profit, while negative marks on hedge positions decreasing yields and accounting asymmetries depressed the overall IFRS result.

Breaking that down, there were three key drivers of the IFRS operating result. Firstly, fee income was effectively flat. This was due to relatively stable average separate account balance compared with 2018, which is a function of the particular path of the markets over both years.

Although, we had a favourable starting point going into 2020, given market movements year-to-date, much of the Q4 market uplift and the benefit in the 2019 year in separate account balance has since unwound.

Secondly, spread income fell. This results from lower investment asset yields and lower swap income. The spread margin was also reduced by full year's consolidation of the assets acquired with the John Hancock transaction in late 2018. At half year, you will remember I expected the spread margin to trend towards 100 bps based on 30 June 2019 interest rates of 201 basis points.

During the year, the team actively repriced products to mitigate some of the impact of the overall reduction in rates and have continued to do so post year-end. Given current market conditions, reinvestment rates on the portfolio and reducing swap income, I expect the total spread margin to continue to compress further.

Thirdly, at an operating level, the 24% separate account return was well ahead of the 7.6% assumed within the DAC mean reversion calculation for 2019. This drove favourable DAC deceleration of $280 million. And I have included a slide in the appendix providing you with more details on the associated accounting mechanics.

While collectively these factors, together with the negative short-term fluctuations, led to an IFRS loss after tax of $380 million, the same interest rate falls have led to gains on bonds and an overall increase in Jackson's shareholder equity in the period to $8.9 billion.

By way of a reminder, we hedged the economics and accept the accounting volatility that may result in the IFRS numbers. In particular, when increased equity markets will ultimately deliver increased profitability to Jackson through higher future fee income, the benefit is not recognised in the IFRS results in the short-term. This contrast with the impact of the hedging programme decided to provide protection when the markets fall, where rises in equity markets lead to short-term losses in the IFRS results. These losses within exacerbated by the falls in interest rates.

Evolution of RBC over 2019

2019 was a year of transition, both with respect to the business taking its first steps in the implementation of this new strategy and the transition to the new NAIC variable annuity framework, which we elected to early adopt. Reflecting these transitions, our year-end RBC ratio was 366%.

At end February, it remains within a 340% to 360% range and illustrates new regimes improved sensitivities and stress scenarios.

Now this slide shows the evolution of the RBC position over the year. So, we start on the top left with the 458% under the old regime. We have 141 points of in-force generation, 75 points of investment in new business. Remittances accounted for 37 points and the remaining movements related to non-operating variances and the impact of the NAIC changes.

So, I would like to draw out a few points on these. In respect of new business, you have heard from Mike how we are delivering on our diversification strategy. Fixed annuity, fixed index annuity and the institutional business represents 34% of 2019 new sales, thereby demonstrating the strength of the Jackson franchise.

This shift and mix has resulted in a higher investment in new business that has been seen in recent periods. Over time, we expect this to contribute to a more balanced mix of policyholder liabilities, which will enhance statutory capital and cash generation.

Non-operating and other variances primarily reflected net hedge losses. Favourable rising equity markets led to negative marks on our equity derivatives with the limited offsetting movement in statutory reserves. This also includes the non-admitted DTA impact of 26 points, which we expect to be utilised over the next two years subject to market conditions.

In addition, we occurred one-off hedge losses of $395 million as a result of needing to manage risks under both the old and new regimes as we went through the transition. This reduced the RBC ratio by 28 percentage points.

Looking forward, our previous guidance of total operating capital generation after new business strain of around $1 billion remains unchanged. In our usual disclosures, you will see a projection of this operating capital generation over the long-term under EEV assumptions for the in-force business. There is a slide in the appendix, which illustrates this.

For 2019 and future years, we have updated our EEV projections and assumptions to more closely align to the new US capital regime.

Summing up on Jackson. You can see the strength of Jackson's distribution capabilities has enabled it to pivot to new and different products, as demonstrated by the shift in new sales mix over the year. We have implemented the new NAIC variable annuity framework and particularly anticipated its improved sensitivities in stress scenarios. To that end, we have seen the RBC ratio showing considerable resilience so far this year.

And finally, as Mike mentioned, our preferred route to introduce third-party financing to Jackson is to seek a listing in the US in due course, subject to market conditions. We have commenced preparations for minority IPO and can now commence detailed engagement with key stakeholders with the view to ensuring Jackson will have capital strength as a separately listed business to support its continued success.

Our plans for the potential listing of Jackson did not extend beyond preparing for this initial offering. Jackson remains a subsidiary, and accordingly, we would continue to support it as required in the same way that we support all our subsidiaries.

Group

Central cost base to improve by c.$180 million post demerger

My third and final topic is on the overall Group results for the year. These clearly include a number of demerger related effects, and therefore the central overhead is not reflective of the expected go-forward position.

We signalled during the demerger that we would move towards a leaner operating model and that we would be looking for substantial cost savings by removing inefficiencies and duplication. As such, we expect to reduce central costs by around $180 million by 1st January 2021 by adjusting our corporate expenditure to reflect the footprint of the post-demerged business. We expect costs to achieve of approximately one-times annual savings. We commenced work on this initiative before the demerger concluded and are now proceeding at pace. We have already made progress towards this target, completing the first phase of this work which will deliver annual savings of $55 million from the beginning of next year.

We have a one-head-office, two-location model, with functions based in the most appropriate and effective place for their key stakeholders. By way of example, we have already commenced the relocation of our Risk and Compliance functions to be closer to our new regulator in Hong Kong. James Turner, our CRO, is there today. Restructuring costs primarily comprised the much-loved IFRS 17, which ramped up considerably in 2019 and we expect to increase further in 2020.

As the 2019 interest cost on core structural borrowings includes the cost of the debt stack up to the point of demerger, $179 million relates to interest on debt that has been transferred to M&G. As I have mentioned previously, we expect interest costs of around $300 million per year, based on the current debt stack.

So, in total, then, we are reducing overall central costs by around $400 million. This will be achieved by savings of around $180 million in corporate costs and over $200 million in respect of interest costs.

Robust and resilient LCSM capital generation supporting investment growth

We introduced you to the LCSM capital framework with our half-year 2019 results. The LCSM is expected to transition to a new group-wide supervision framework, which we expect to be finalised later this year. Overall, the group ended the year with an LCSM shareholder surplus of $9.5 billion and a cover ratio of 309%. On a consolidated basis, the ratio was 348% and provides us with confidence as we enter the turbulent markets today. Our businesses are strongly capital-generative. This provides considerable capacity to fund investment in growth, both organically and inorganically and enables us to absorb considerable market movements and supports our dividend policy. Specifically, the $0.8 billion you see in the chart represents our inorganic investment in Asia. This is, notably, the extension of the UOB bank assurance partnership, which, for LCSM, includes the full upfront payment and the Thanachart Fund acquisition during 2019.

This is the first time we have published the LCSM sensitivities, which show the resilience of our capital position to a range of market shocks. As at the end of February, the LCSM is estimated to be in the 270-280% range, slightly better than the sensitivities imply, mainly reflecting the benefit of some management actions.

Strong liquidity position post-demerger

2019 holding company cash developments really reflect the demerger and associated transition effects. Asia net remittances increased to $950 million, broadly in line with the long-term growth in FSG.

Moving down the table, I have already explained how interest costs and central cost management actions will play through in the coming year. And following the demerger, we expect that the central tax yield will decline sharply in 2020 and that it is not expected to recur going forward. Other movements is driven primarily by various demerger items, including the debt substitution, the pre-demerger dividend and the demerger transaction costs. While this line also includes a number of components which vary from period to period, you should continue to expect an annual outflow of around $200 million, in respect of supporting existing bancassurance arrangements.

As I said at the half-year, we have built up the central cash to be able to deal with all the demerger-related movements. With this now completed and appropriately calibrated, a lower level of cash will be held centrally.

Dividend policy

Strong cash generation in the business enables us to declare a second interim dividend of $0.2597 per share. This is in line with the £0.196 indicated in the demerger circular, translated at the year-end spot rate. This brings the total dividend proposed for 2019 to $0.4626 per share.

For 2020, the dividend policy will be applied to the post-demerger 2019 base dividend of $0.3684 per share.

Looking forward, I want to remind you that, post-demerger, our priority is to deliver on our Asia-focused growth strategy. In the last two years, we have increased average annual investment by over 50%, to $1.3 billion per year. As such, when setting the level of dividend growth, we will take into account investment opportunities, capital generation capacity, financial performance and prevailing market conditions.

Key take-aways

So, to summarise, the results of our structurally-growing Asia businesses once again demonstrate the benefits of a high-quality, resilient and broad-based business operating at scale.

Our US business has taken the first steps in the strategic journey outlined at half-year, demonstrating that it can pivot to new and different products. We remain focused on improving our operational efficiency across the group and we are well placed to capitalise on the growth opportunities and build upon a strong and resilient capital position.

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

Q&A

Mike Wells: I think from that what we would like to do is go directly to Q&A. We are obviously very pleased with the breadth and depth of the numbers and the activity that has been highlighted for you.

Nic, James, welcome.

Nic Nicandrou: Hi Mike, hello everyone.

Mike Wells: Good choice of buildings behind you, well done.

James Turner: Hi Mike.

Nic Nicandrou: Yeah, we thought you might like that.

Mike Wells: I do. Chad, are you with us as well?

Chad Myers: I am.

Mike Wells: Great, thank you everybody. So, let us go to the first question.

Patrick Bowes: Now for the Q&A session. As Mike has highlighted, in respect of our announcement about the preparation of the minority IPO for Jackson, we are unable to comment on this, or provide further details at this time. We will make further updates to the market in due course and any offering would only be made pursuant to prospectus. Thank you for your indulgence.

With that in mind, I am happy to open up to questions.

Greig Paterson (Keefe, Bruyette & Woods): Hello, good morning, three questions. One is, could you just update exactly how you are hedging for interest rates in the US? Previously you did not have a hedge, or it was well out of the money, so if you could just explain that?

Second point, if you could just comment on the potential to increase your stake in China? There was no comment anywhere about that, even though it is in the stated intention.

The third thing is, I wonder if you could update on the RBC ratio in the US, given market movements and interest rate movements that we have seen in the last week. I think that is more relevant than in the Feb.

Mike Wells: Okay, I think, hedging for rates, Chad, do you want to give the specifics and Michael an overview on that and go in that order?

Chad Myers: Sure. With respect to Greig, the hedging on rates is something that has been longstanding within Jackson. As Mark mentioned earlier, under the new regime, we are a little bit less rate sensitive, requiring a little bit less rate hedging than we previously had. However, we do have a significant rate hedge on. You will recall we previously had a permitted practise which muted the impact of the interest rate swaps coming through statutory. With the new regime, that is not required anymore and so what you see is a combination of interest-rate swaps, swaptions and treasury futures that we use to manage interest rates. While the new regime is more muted than the prior regime, it still, obviously, is impacted by interest rates, so we continue to adapt the interest rate positioning to the market. As rates have dropped, as you might guess, our interest rate position continues to grow.

Mike Wells: Michael, or Axel, do you want to add anything to that? No? Good. Okay.

Greig Paterson: [Inaudible]

Mike Wells: Sorry, we...

Greig Paterson: [Inaudible]

Speaker: [Inaudible].

Michael Falcon: So, the answer is we are hedged for it consistent with the strategy that's been in place. While we are less sensitive at any starting point of capital and interest rate in the new regime to where we would have been in the old regime, we still have rate hedges on; and as rates drop, we add to those positions because we get more sensitive to rates as they drop. The dynamics have not changed; the magnitude of the sensitivity to rates has changed favourably. We think it is more reflective to the economic value in the new regime versus the old regime.

I think you had a question around RBC ratio as well.

Greig Paterson: Yeah, just a [inaudible] you think the RBC is running at.

Michael Falcon: We do not disclose RBC on an interim basis. I think it is, again, more stable in the current environment. We certainly do estimates on the run, at month end and with full sensitivities. We are directionally, I think, somewhat lower than where we were at year-end but not significantly.

In the context of that, let us think about what drives RBC. There are two components. One is the actual TAC that we are carrying. That is the numerator and then the denominator, of course, is the capital that is required. As markets have fallen and as rates have fallen, we have the hedging positions that pay off and generate capital. We also have the economics and then the money-ness of the portions of the book that would be more in the money; you have required capital that goes up. The dynamic that we have seen since year end is encouraging in that the amounts of capital that we are putting are in excess of the amounts of capital required. So, it may not be at the same 366% dollar per dollar, which would lead to the dilution of that RBC number. However, the actual surplus has grown and grown substantially. That is what we would look to see, in terms of the effectiveness of the programme. We are protecting capital and we are increasing surplus at exactly the time when the market is under stress.

Mike Wells: Nic, do you want to comment, please, on China and the JV?

Nic Nicandrou: Yes, Greig. As you know, we like the business. We would like to have a bigger share of the business, if possible but of course, that requires our partner to be willing to divest. For now, as I said, we are both concentrating on delivering value by growing into our footprint. You see through our results today that we are making great progress in driving the joint venture forward together.

Jon Hocking (Morgan Stanley): Good afternoon, Jon Hocking from Morgan Stanley. I have three questions, please, firstly on Jackson. Can you help us understand a little bit more about what RBC level you are trying to defend now? I think, with the change in the regime, it is quite hard for us to have a number in our heads because, previously, we probably have all been thinking around 400-450%. So where do you think the competitive number that you need to print is in that business, going forward?

Then, secondly, I think you previously have spoken about $1 billion of statutory capital generation in Jackson, about 100 RBC points a year. Can you update that for the change of regime and what is happening with markets, etc.? Are you still accreting that sort of capital every year?

Then, just finally, on the Asian business, can you comment on agent attrition? I guess, with the disruption we have seen in Hong Kong and China, you have agent income down quite a long way. What are you doing to support those agents? Are you actually seeing any impact on productivity? Thank you.

Mike Wells: Good question. Okay, again, on the RBC, we are not going to get any more specific than what we have said. I think Mark has given good guidance on capital formation in the materials you have seen. Michael, do you want to add anything?

Michael Falcon: I would say the biggest components to where the RBC was at the end of the year. We have given direction in the past that would say we would ideally want to be between 400-450% through cycle. We are obviously slightly below that. The biggest contributor to that is the non-admitted deferred tax asset and this asymmetry between what happens with the positive effects of the hedging programme and what could be reflected in terms of reserve release in the book.

So, we get into these floored-out positions that cash surrender value and you cannot take the full economic benefit in stat for what may seem obvious reasons. Again, they are pro forma but when you make those adjustments, we are right there in the low-400% range. So, I do not think anything changes in regard to that in terms of direction. I would prefer a higher number on RBC but we are not upset, or worried, about where we are relative to the 366% at year-end and what we are seeing in terms of the performance of the business so far this year.

On the statutory new capital generation, I think you saw it already in the chart that Mark showed earlier, net of new business, we had higher friction cost than in the past because in the middle of last year we stepped up significantly our spread and other businesses relative to what we have done in the recent past. Despite all of that, we generated in excess of $1 billion of operating statutory capital through that and that is before the Hancock release. So, I do not see any change; the majority of our contribution in that comes from the back book. It is quite stable and continues to perform well. We also put it in the context of the drop in equities and the change in rates. Again, this business has been written and the VA portion, which I know many of you are quite sensitive to, has been written over the past decade. There has been quite a steady and quite consistent, actually, over time, progression of those account values. The policyholders have done well through that, but so have the stakeholders, so has Jackson and Pru in that regard. So, most of these positions are still very in the money in terms of investors, and we have NAV to support the future claims. It is still a very healthy book, right

Mike Wells: Yeah.

Michael Falcon: Despite the recent drop.

Mike Wells: Thank you Michael. The other thing, Jon, on your question, relative – I think it is fair to say that you still have just a handful of firms that have early-adopted, so the full comparison of how does everyone look under this is just, I would say, spotty; is that fair? It is just early.

Michael Falcon: Yeah, it is early and people are resetting expectations. A number of firms have early-adopted; a number have indicated that they're going to adopt this year. I have not seen anybody yet choose the three-year averaging method but it is possible someone is out there too.

Mike Wells: So, the relative question is a little more difficult because of other people's behaviour, not ours.

Okay. Nic, could we update on Asian, particularly, I guess, North Asian attrition, given that [inaudible] Do you want to talk about what we are doing there and what the activity is around the agency force, say, in Hong Kong and China?

Nic Nicandrou: Yeah, we can talk about that more broadly than North Asia. Attrition levels in the first two months of this year are pretty much in line across our businesses to where they were in the first two months of 2019. We are not seeing a spike. Of course you have to recall, you have to take into consideration, that a lot of agents are earn trail commission for the first few years, depending on the contract. Clearly, when it comes to rookie agents, agents that have only joined us in the last, say, six months, they do not benefit from that. However, we do have programmes in place where we can give them advances, provided the agency leader stands behind those advances. That facility is available all the time; it is being used sporadically, though, so we have not seen any change in the exits.

In terms of recruitment, we are also seeing no change. Roughly, our recruitment numbers in the first two months of the year are the same as last year, across the portfolio. In Hong Kong, through January and February, we have recruited about 450 a month. That is just down a little on the 500 or so that was our run rate last year. However, interestingly, in China, our recruitment in February went up 83%, as we now deploy the technology that you referenced, Mike, in your prepared remarks. We are using online profiling tools, online assessment tools and they are generating an increase in the recruitment, so technology is coming into its own here.

Mike Wells: David.

David Motemaden (Evercore): You gave the update on operating capital generation of one billion, but that is before hedge costs. How should I think about capital generation after hedge costs and how should I think about your hedge costs going forward, following the NAIC rule changes?

Secondly, I just wanted to get a sense in terms of the change in the business mix. Maybe you can give us some sense for what the ideal mix of business would be between VA and non-VA and how that should impact capital generation going forward. Thank you.

Michael Falcon: I will turn to Chad in a second for some thoughts on the hedge cost component more specifically, but the way I think of the difference between the new regime and the old regime is that, at any given level of rates, market and capital, the requisite hedge position that we would have on is lower in the new regime than it would have been under the old regime. What we experience in any given quarter or year is going to be very subject to market conditions and path of market. Chad, maybe you have something to add in response to that question, if you heard it?

Chad Myers: Sure. I would echo what you said, Michael. Under the new regime, there is the expectation that we would have lower hedging costs than the old regime. You will have seen, as we have talked about over the last couple of years, for various reasons, including things like floored out reserves and, on the stat side, there has been a need to do additional hedging to support the statutory limits relative to the economic, which is our preferred place to be. The expectation has been that we would see less of that statutory hedging going forward, which should give us a better position. So, David, to answer your question about the billion of operating surplus, we generally would expect to run the hedge programme more or less at break even, so the billion would come through. We have had additional hedge costs due to the statutory piece that I was just talking about. Unfortunately, we have not really been able to road test the new regime very easily, because the market has been so volatile the last many weeks and rates have dropped as precipitously as they have, but I still say we are better off under the new regime than we were. However, this is not really the environment to test the long-term theory on the new regime vis-à-vis hedging and additional surplus generation.

Mike Wells: On product mix, we are not trying to get to an ideal mix there. Given the size of Jackson, it is a bit more opportunistic than that and the lens is the capital generation first, how that is deployed and one of the options, obviously, that is in management's control is how much capital is deployed towards new business, expenses, those sorts of things. It is formulaic on available capital, not necessarily on a sales target. Jackson has never had a sales target.

Michael Falcon: We are not talking about anything in the IPO realm in terms of what a target mix of business would be. The drop in rates has an impact on that spread business. We have taken pricing actions through the balance of last year and several this year. We have increased our cadence of reviewing pricing on spread and the normal review on VA product features as well, so we will just continue to do what Jackson has always done, which is to be very proactive on those pricing actions.

Patrick Bowes: Andrew.

David Motemaden (Evercore): If I could just ask one quick follow up on the RBC ratio. Michael, I believe you made a point that you expect some of the DTA to reverse over the next couple of years and get you to the 400% range on the RBC ratio. I just wanted to confirm that that would be the case even where we are today with interest rates. How dependent on statutory earnings is that reversal of the DTA?

Michael Falcon: DTA originates from a couple of different differences, one of which is the tax impact of the loss on derivatives and that is what I am talking about coming in over a three-year period. That is based not on statutory but on taxable profits and those losses are useable in the new tax code indefinitely going forward, so they do get used. I guess the constraint on that would be you need taxable income and Jackson has been a taxpayer and is expecting to continue to be a taxpayer, so we can monetise those. The other restriction is that admission into the TAC is capped at 15% of the non-DTA number. So, it is a combination of the statutory earnings, the operating statutory capital generation and the recognition of taxable income in the US which can be offset by the DTA coming in. Those two things combined will play out over time.

Andrew Crean (Autonomous): Can I ask three questions? Firstly, with the current level of 10-year bonds in the States at just over 50 basis points spreads and the hedge cost index over 225, can you talk about the outlook for new business volumes and margins and, also, give something on the spread? You said the spreads would be coming down on general account, but by how much?

Secondly, you talked about how, with a changing mix of policyholders in the US, i.e., more general account, less separate account, you could generate more cash and capital. Could you give the market some sense of that in terms of the potential for the dividends going forward, so that we can put some numbers around that?

Thirdly, in Asia, the new business margins that you have in China are much lower than AIA in China, which is pursuing a similar strategy in terms of products. Could you tell us why that is and where the control of your business would allow you to materially close that gap in terms of Chinese margins?

Mike Wells: Unfortunately, Andrew, as you know, we do not do outlooks on IRRs and product sales and mix and we certainly cannot do that with the US pre-IPO rules. We cannot answer the what do we think we are going to sell or what are we going to earn on it next year question.

Andrew Crean: Not what you are going to sell, but what happens to margins with this macro environment.

Mike Wells: Well, I think we have shown what the margins were last year but, again, we are not going to forecast what a US margin is with the pre-IPO statement out. I am not going to get into that space.

On the pricing actions, we will defend the pricing in the US, as we have across cycle and if something is not profitable they will not write it. I do not want to get into a forward-looking statement on what they can and cannot do given the current rate market.

Nic, do you want to discuss the differences between our approach in China and AIA's and if additional control would impact that?

Nic Nicandrou: Okay. Look, the margin – and we have said this before – is really the outworking of channel mix and product mix and our JV really is equal weighted between the two channels, banca and agency, and pretty much now equal weighted between health and protection and savings products. Let me drill behind that a little, because we do not just look at margin, we look at IRRs. When we take the IRRs of the business that we write, through all the channels that we write it and through all the products, it is around 35% in China, with a payback between three and four years. Looked at through a proper return metric, the business is attractive.

Let me address your question specifically on margins. When we split it between agency and bank, our agency channel is producing a margin of around 75%. In 2016, the year before I arrived, it was doing 45%. In fact, the year before that it was doing 30%, so we have seen quite a lot of improvement in that time, as we have driven agency to be much more health and protection focused and we have driven agency to write richer content of regular premium business. There is further room even under the current ownership structure to drive that forward as we push for further agency productivity initiatives – Mike referenced the improvement last year – and also we look to agency to sell longer tenured product.

Let us turn to banca. As I said, banca is predominantly savings focused. Ninety-eight percent of what it sells is savings related. Margin is not the right measure to look at the profitability of that, and those products that are sold through banks have an IRR in the high 20s, with a payback of four years. More importantly, and that IRR has improved again over the last three years, as we have got the bank to sell more regular premium products. Again, compared to three years ago, we are selling three times as much volume through banks and we are doing so at very attractive economics.

Why do we have multichannel and why do we have multiproduct? It is the best strategy that we think we need in order to drive and accelerate the penetration and the access to this huge footprint. The other reason we write the banca product is we need the premium to cover the cost, because broadening, if you like, our infrastructure, adding more cities every year, adding more branches every year, adding more sales offices does require an investment before these pay back.

I hopefully you have a good sense now, looking behind just that single margin figure, of what it is that we are doing by channel and, indeed, by product to drive value in this business. The returns are plenty good enough; and, as I said, we are doing that together with our partner.

We are aligned when it comes to the disciplines that we need to adopt in driving value going forward.

Patrick Bowes: We have a question from Blair, who is stuck in Scotland.

Blair Stewart (BOA): There are worse places to be, Patrick. Good afternoon, everyone. I have three questions, if I may. Firstly, on the Group, could you comment on what financial flexibility you have in the business, both from a liquidity perspective and with regards to access to capital?

Secondly, on the US, given what you said about the benefits of having a higher capital base, how do you think about the conflict of perhaps not paying a dividend to Group, to build capital in the US instead? That probably ties into my question about financial flexibility.

Thirdly, maybe two very quick questions on Asia. On Hong Kong, you talked about non-face-to-face sales; I just wonder if you could quantify or give a bit more colour on that. Secondly, with Indonesia returning to growth again, from a new business perspective, should IFRS profits growth follow from that? Thank you very much.

Mike Wells: On the Group financial flexibility, Mark, do you want to cover that? We are probably okay saying the impact of no dividend from the US versus what is our dividend policy from the US. Do you want to approach it from that angle?

Mark FitzPatrick: Okay. In terms of the Group piece, in terms of our financial flexibility, we think we are very well positioned. At year end, we had $2.2 billion of stock. Bear in mind that was after having paid out a lot in terms of the demerger and we also had redeemed 500 million of expensive debt earlier in the course of the year and we had made sure that our activities in the debt market were focused on supporting M&G and substitutable debt during the course of last year. So, we are feeling comfortable in terms of liquidity, comfortable in terms of the stock of cash that we have and our ability to be able to access the markets, whether it is through the facilities we have or through capital markets and the various opportunities that we might see over the course of the coming quarters in Asia and the like. From that perspective, we are feeling comfortable.

In terms of the US piece in terms of the element of capital versus dividend, one of the things you have heard me say consistently for a little while now is that we only bring up the cash that we need at the centre. We are very conscious of the fact that there is inevitably a degree of friction whenever we bring money up to the centre, whether it is from Asia in terms of withholding tax or whether it is from the US in terms of the potential DTA angle that we might be missing out on. It is something that we weigh up and look very carefully at.

Having said all of that, we are very confident in the capital generation that we have in terms of the US, as I mentioned, the one billion that we are looking at. When you look at last year, notwithstanding how the markets moved and what happened to the element of rates, if you strip out a lot of the one-off effects in terms of the RBC, you strip out the elements in terms of the change to the NAIC regime, you see a business that has a very mature book that is capable of generating good capital and, therefore, giving us flexibility and choice in terms of what we might do vis-à-vis level of remittances from the US.

Mike Wells: Okay. Nic, Indonesia, new business profits converting to IFRS and also the non-face-to-face options developed in Hong Kong.

Nic Nicandrou: Okay. Let us start with the non-face-to-face. We have all the technology in place – this is the outworking of the investment that we have made in the last few years – to be able to conduct a compliant sale remotely. Even Pulse, which is now launched in Hong Kong, can allow an agent to effectively converse with a customer using that particular app. In fact, we are using that already in Indonesia, but there are plenty of other social apps and other means of being able to connect – through video, like we are doing just now. Technology is not the inhibitor. The inhibitor is regulation. The reason regulation is translated as requiring a face-to-face meeting in Hong Kong is because a big chunk of the market is in mainland China and you need to be able to prove that the sale has taken place in Hong Kong.

Now what is the relief that the Hong Kong Insurance Authority has granted only last week? On two specific products, the qualifying deferred annuity plan and the voluntary health insurance scheme, these are tax-incentivised products that are aimed at the domestic market, they have removed the need to do that face-to-face, it can be done remotely. We have been able to get that up and running within two days of relief being granted. As I said, we are going to push to be able to do that on our other standard products as well, but that will require some regulatory relief.

Hong Kong is not the only place where we are looking to do more non-face-to-face sales; in other words, remote sales. In China, where again we have invested very heavily in automation, we launched a very simple, low premium product called Amchin[?]. It is, effectively, a cancer product that we were able to launch remotely through the WeChat platform and also our own platform there and it has met with a phenomenal amount of demand. In just over a month, we had 200,000 consumers buying this product; 45% of those are new to Prudential customers and although the premium is relatively low on this simple product, we will have the ability to go back and upsell at a later stage. 200,000 is a lot of customers for our business in China; in the whole of last year, we onboarded 220,000, albeit full fat premium customers. Remote technology and remote selling is being deployed not only in Hong Kong but also in China.

On your question on Indonesia, the structure of our Indonesia product has the profitability coming through in the first couple of years. We have had five years of declining sales and the lag effect of that is what you are seeing coming through the IFRS numbers. In the same way, as when sales were coming down the IFRS profit decline lagged, you are going to have the reverse of that as we go back into growth. We have made some tweaks also to the product pricing in order to make it a little more attractive, putting some of the yield back to consumers and that will also have an effect. Provided we continue to deliver growth, in time, the IFRS profits will come back and I am confident that we will from here.

Blair Stewart (BOA): Thanks very much. Maybe just one quick follow up to Mark. Are you able to say what debt capital headroom you might have in the Group?

Mark FitzPatrick: So, the debt headroom that we have in the group is about $1.5 billion based off year-end.

Blair Stewart (BOA): Thank you very much.

Patrick Bowes: Definitely time for the room now.

Ashik Musaddi (JP Morgan): Yeah, hi, thank you. Ashik Musaddi from JP Morgan. Just a few questions. So, first of all, I mean if I understood correctly what you are saying is that the recent drop in interest rate, i.e., if interest rate remain here at 70 basis point for two, three years, it will not change your capital generation that $1 billion number. I mean is that understanding correct because what I am seeing on the hedge cost index, it has already more or less doubled and that is not factoring in the most recent drop in interest rates, so your hedge cost could actually more than double. So, is my understanding correct that $1 billion will not change if rates remain here for two, three years?

The second thing is Mark you mentioned that you only take out cash, which is necessary. So, how should we think about potential extra cash from Asia? The reason I am asking is again, I mean you grew the cash remittance by 3% year on year in Asia versus earnings of about 10% or 15%. So, why was the cash not coming? I mean keeping in mind that you are still planning to grow 10-15%, what would be your max dividend capacity from Asia?

And the last bit is about China. I mean your $2.2 billion holding company cash might not be enough to fund the acquisition of CITIC in case your partner is ready. So, what are the options available for you to think about funding that? That would be the third one. Thank you.

Mike Wells: Okay, so Ashik, I think on your 70 basis points that is very much equity market dependent. So, it is just, it is what scenario do you want to add to that? Do you want to rate markets up/down? Is everything going to remain right where it is today as short term vol going to be at 45? It is forward-looking, which we can do, but in a general theoretical sense, it also is one metric in the new capital regime, so it is a very difficult question to answer without saying these other assumptions were built in that. So, I am going to ask Mark not to answer that. However, you got the answer on the hedging on the rates. And I think you could back into how those hedges would perform and then you choose the equity path that you think is appropriate for that, and that we are not providing you an assumption in equities or things.

On dividends, Mark, do you want to mention?

Mark FitzPatrick: Ashik hi. The element in terms of the level of remittances coming out of Asia, if you think of the pay-out ratio, it is somewhere in the 50s, whether it is in terms of a IFRS or if in terms of a free surplus generation component.

Bear in mind, the comment that Mike and [inaudible] mentioned early on in terms of the level of investment for putting into Asia. With the IRRs that Nic spoke about a few minutes ago in terms of the returns, in terms of the velocity of those returns, in terms of the speed of payback in terms of those particular components. And in terms of when I said when we look at our dividend, one of the first things we considered in terms of looking at the dividend component is our investment opportunities that we have. So, while Nic and the team continue to look – with our scale and with our size, we get to see everything of any sizes happening in Asia. The bankers are knocking down our door. But Nic and the team and we are incredibly disciplined. There is lots of things we would not look at if we do not think the price is right. And we do not think it is going to be additive, and we do not think it is going to be able to take our business forward in a meaningful fashion.

So, there is a lot of capacity in terms of Asia on the ground. Some of the elements in terms of that were announced at the back end of last year, Nic and his team have been able to fund elements of those locally along the way. That is because they have the flexibility there to be able to do that from that particular piece.

And then from a China perspective, I mean it we are in the land of hypotheticals. You have got all options open in terms of what you may or may not do in terms of if something came along. But there is not anything specific I can say for you at that particular period.

Mike Wells: And it would be the same issue of compounding, so if you say is at 1%, the control premium is at 50, is it something, that would define price. I mean this is a business that sales grew plus 50%, new business profits dramatically, in earnings dramatically. So, as it continues to grow, continues to grow in value; and it is one of the most unique platforms now I think in China for a new player. So, we recognise it is valuable, but every market option would be open to us with that.

Oliver Steel (Deutsche Bank): Oliver Steel, Deutsche Bank. My understanding is that when bond yields fall in the States, the RBC ratio only reflects that every period of one or two years, is that right? And if bond yields do remain at these levels, what is the ultimate impact on the RBC ratio?

Second question is on the dividend, I think the dividend policy is still progressive. So, I just wanted to check that you were not thinking of cutting the dividend, which seems to be implied by some of the comments you are making about opportunities in IRRs in Asia?

And then thirdly, net flows, Nic, into Asian health and protection policies seem to be about 17% [inaudible] liabilities. Is that a relevant metric because that has jumped enormously; so I am just wondering what has driven that, and whether we should be seeing that as a indicator for future IFRS profits growth from that segment.

Mike Wells: So, on the forward-looking RBC, go back to the same question.

Michael Falcon: If there is a mechanical question about it, maybe Chad can answer because I am not exactly following, but many he understood that.

Chad Myers: Yeah, I would say, there is no specific lag that comes through actually in that regime at least vis-a-vis VA. It would come through immediately in the discounting mechanism and the reinvestment embedded in the reserves.

I would say the only place it would come through on a normal course based – if rates stay down low is through its spread book. So, if rates stay low and you got the reinvestment fees[?], but we are obviously closely managing the duration on the back book there as well. So, if there is no mechanical dynamic, that is got to lag other than just the normal spread dynamics.

Michael Falcon: Maybe without commenting because we are not going to give forward statements or projection about our business, but a market commentary on low rates for insurance, right. If rates stay at this level or it get lower and they are there for sustained periods of time, it would be naive to think that that does not have an impact on the insurance market and the annuity market in the US; we know it would. However, there are mechanisms around that. One is we are managing those risks in the pricing. Two, consumers will have something to say about the demand for products at various rates, and they already are. And you will see that as market level data flows through. And three, there is such thing as product innovation. And so, if we find ourselves in different rate market circumstances, we have proven that we have the ability to come up with creative solutions for that that meet consumer needs.

And I think the fundamentals are actually strong. These periods of shock and volatility particularly long into bull markets speak to the value of the risk transfer and the insurance that we provide. People have 11 years of bull market and they feel that they do not need to pay for insurance because markets always go up, and then they are reminded that they do not. And so, there is value in what we do and the value that we provide is not going away because of low rates or high FX[?].

But the industry will change and evolve and will adapt, and you can be confident from a Jackson perspective as we are on top of it through dynamic hedging, and our strategies, we are paying attention to product feature and pricing, and we increase the cadence of that during times of stress, and we are doing all of the things you would be expecting us to do, and we go forward.

Speaker: So, Nic, flows into health and protection in Asia?

Nic Nicandrou: Yes. So, in 2019, roughly health and protection was around 27% of our APE, and remember this is a highly persistent business. So, what you see is that layering effect that we have talked about coming in and you have another cohort of business, which is why the insurance margin coming out of Asia has increased by 14% this year. But I think what is also in the column that you are referring to it is not just health and protection, it is anything that is not with profit, and it is also anything that is not unit-linked.

So, in that column, this year specifically, we are also including effectively the annuity flows that we generated in the course of 2019 on the back of a very successful queued up launch in Hong Kong, which saw about USD 162 million of APE come through. That is effectively a non-par type product, and, therefore, the flows will also be reported in the in the column that you are sourcing your information from. And clearly, annuity is not as profitable as health and protection, but is plenty profitable.

Speaker: Okay Abid.

Abid Hussain (Credit Suisse): Hi, it is Abid Hussain from Credit Suisse. Thanks for taking my questions. I've got three questions if I can. Firstly, coming back to the US capital position, it feels like most of your peers have reported RBC ratios of in excess of 450%, and I suspect most investors expect you to rebuild to that sort of level, the 450% level. Relative to where you are as of today feels like a sizeable gap. Putting that into dollar amounts, it feels like the gap is around $1.5 billion in terms of repairing back to the 450% level. Any comment around that that you might make to investors who are thinking along those lines would be very helpful I think.

Secondly, sticking with Jackson, on the reserve mix, I recall last year that you said that you were seeking to optimise the reserve mix between VA and non-VA, and you were seeking to bring the reserve mix down to about 60% VA in order to optimise the net hedge costs. Is that still the case under the new regime? If you can update on that please.

Finally, on China, is there anything that you're looking to do to expand your footprint in China outside of the CITIC JVs? Is there anything that you can indeed do, or is it mainly focus on the CITIC JV? Thanks.

Mike Wells: Okay. Capital position, again, I think we've kind of where we were historically at 400-450%. I think you're comparing old regime, new regime numbers, which is a difficult comparison to do, because it's company by company. I would suggest until more firms get on the new regime that side-by-side needs a lot of specific work per firm to try and compare them, because we're not reporting under the old regime, we're reporting under the new regime.

As far as an absolute level of capital projected forward that goes back to the pre-IPO statements, we're not going to forecast anything. I think we've been pretty granular on what the elements are of our RBC that would naturally emerge in the US business. Again, we're not going to discuss the forecasted level perspective.

Abid Hussain (Credit Suisse): [Inaudible]

Mike Wells: I don't think most have early-adopted. Again, we can go offline and go through who, but I think most of them have guided lower on RBC thresholds. Is that what you would agree?

Abid Hussain (Credit Suisse): [Inaudible]

Mike Wells: Again, it depends on the nature of the book and the liabilities thereof that they've got.

Michael Falcon: The quality of the book goes along that. You have books with more capital, but multiples and multiples of required capital versus our required capital, even though their separate account balance may be lower in total. I think health and composition of the book is a lot as well.

Mike Wells: I think the general comment reserve mix is against the overall liabilities and not sales. Demonstrating doing it on sales, but if that's more bolt-ons and further transactions, we get that mix not – I think Mike was pretty clear at the half year you're not going to get that organically.

Michael Falcon: Also, I want to clarify, because we said the direction we would start to look to start to get into something that was in the 60s, given that we're in the mid to upper 70s now. We also, despite the success we've had in providing a broader solution set to our clients, which is one of the key motivators of the diversification strategy, you had a big run up in market values and so our separate accounts performed quite well, which more than offset the move. I think we actually ticked up a portion of a percent in percentage mix. I don't think we set –I'm quite sure we didn't set a specific target on where we will want to see that mix. However, we said directionally, we would look to get at least into the 60s to start. As Mike said, that takes time and bolt-ons and other –

Mike Wells: I think on the China question, there is the legal option for foreign firms to own multiple investments in China, with percentage limits on second and third. I think our focus has just been on, and continues to be, with CITIC.

Nic, do you want to comment further on that?

Nic Nicandrou: Maybe to just add some colour to what you just said, on the regulation you're only allowed to control one business, and a 50-50 JV is considered control under that rule. If we had a second presence on the life side, we would have to restrict our ownership to below 33%. I'm not sure I would want to do something in China I didn't have the ability to control.

Beyond that, what else can we do? Clearly, there's a GBA initiative that we're working with Hong Kong on both sides, if you like, of the border to see how we can leverage as we go forward. There's the ability to do Pulse, at least if not the whole of China, then some aspects of China before that belonged had a contract with another party that's expired. As we gain traction on that, and as we are able to deliver revenues in the rest of Asia, that's a possibility.

Of course, on the asset management side, we've already established a wholly foreign-owned entity. In the first year, we've either sourced or supervised about RMB 1 billion of funds, so that's getting good traction as well.

Mike Wells: Thanks Nic.

Thomas Wang (Goldman Sachs): Hi, can you hear me?

Mike Wells: Thomas, we can hear you. Go ahead please.

Thomas Wang: Okay, thank you. Three questions. The first question is on Asia. Firstly, on the margin, Nic spoke about – because I'm seeing margins [inaudible] compared to the first half and second half as well. Am I right to assume that you've reached that 50-50 balance between Asia[?] and a foreign [inaudible]; so we should think about that margin being the most stable as you commented before?

Secondly, you talk about a quick recovery, Mark, despite operating [inaudible]. Is there anything you can give us that gives you that confidence that you think it's a quick recovery?

Finally, from LCSM [inaudible], on both interest rates up and downside of the margin, normally we have to position margins since they're going down. Just help me to understand why that's the case? Thank you.

Patrick Bowes: Thomas, I think we didn't hear two-thirds of that. I think we did hear a question about margin in China.

Mike Wells: I was just going to hand it to Nic.

Patrick Bowes: I would suggest, Thomas, if you want to give us a call afterwards or an email, we'll sort it out.

Mike Wells: Thomas, let me see if I got a couple. You talked about target agency mix. Again, one of the important takeaways from this, the mix is a by-product of the success of the channels, not a target. We are not looking to manage one up or down, or limit capital available.

Then on the quick recovery, I think it's operational agency, training, all those sorts of things. And I'm sorry, I didn't get the LCSM at all.

Thomas Wang: LCSM [inaudible].

Speaker: Thomas, we literally can't hear anything. Probably, it's best if you send me an email and we'll follow-up afterwards through –

Mike Wells: Apologies, Thomas, we were doing so well with the tech right up to then.

Nick Holmes: Thank you very much, Nick Holmes of [inaudible]. Just a couple of questions on claiming. The first one is a pretty obvious one; why are you thinking of this IPO now? You could have done it many, many times in the past. You could have done it in better markets. You could have done it in all sorts of better circumstances, at least that's my opinion. Can you tell us why now? What is your rationale?

Then the second question is on the RBC ratio. 366% is a little bit disappointing it seems to me when you've had a ten-year bull market. Obviously, you've had low interest rates, but do you think you could have managed that ratio in a different way? Do you think you should have put more capital, more reserve, into Jackson? Thank you very much.

Mike Wells: To answer your second question, no. I think the decisions we made on capital allocation and on hedging, and multiple regimes, and on diversification, which was 75 points of it, was a conscious decision. The final outcome at year end does have market elements to it, and we don't – there wasn't a – the fourth quarter was a fascinating period of time for interest rates in the US, and it was what it was.

The why now, third question. The first board strategy away meeting I can think of – gentlemen, correct me if I'm wrong – was about nine years ago, where we reviewed Group structure, including options in the US. There's a variety of dynamics around approvals, cash flow. If you think where Asia has been in cash flow, we talk very proudly about putting $7 billion in Asia. Over that same period of time, the US has created $5.5 billion. In those days, Asia wasn't creating $900 million a year of distributable cash flows. There is an alignment of the portfolio in total, there's diversification benefits, there's opportunity in the market, as you saw from the growth of the US business.

Then market-wise, four firms brought product or equities – two public, two private – to the US market. My personal view is a disproportionate amount of capacity for those sorts of risk assets given what they brought and how it was funded, and how they had to re-insure those and things, that defined a lot of the market elements. What we're saying is we're preparing for this. If we thought for some reason the market wasn't attractive to it, we can scale it, we can change timing. We have the same options because there isn't – we're not forced into doing this necessarily. This is more of what we think is the most effective path to grow this business. It's a very different circumstance to someone disposing of a business that's not performing and needs capital.

Johnny Vo (Goldman Sachs): It's Johnny Vo from Goldman Sachs, just three questions. The first question is, again, while the IPO is the central scenario, I guess, does this preclude any other options for Jackson? That's the first question.

The second question, just in relation to the expenses, Mark. If I look at the Group liquidity position, and you have the corporate activities line there, would the expenses predominantly come out of that corporate activities line?

The third question is just in relation to Hong Kong. Nic, you've been able to toggle between the domestic and the Chinese visitors. If disruption continues, is this sustainable? Can you keep the level of growth, because it's been much more resilient than most people have expected? Thank you.

Mike Wells: Let me comment generally on other options. We were very clear at the half year that all options are on the table, and very specific in our language this was our preferred option. I need to leave it at that, but we're aware of other paths.

Sorry, I missed the second one?

Mark FitzPatrick: It was expenses.

Mike Wells: Mark, on expenses?

Mark FitzPatrick: Yes, it will come out of that line in terms of the corporate activity. In terms of the line that you're looking at for the element of the cash flows, you're looking at the liquidity position post demerger. The element of the corporate activity lines, there's an element of half that will come out of that line of that 260.

Mike Wells: And then the China question?

Nic Nicandrou: Look, we haven't given up on the China opportunity. We think the reasons why the mainland Chinese, particularly the high net worth in Hong Kong haven't changed its asset diversification, its currency diversification, its access to the health system here, and its coverage for conditions and illnesses that you just cannot buy at this point in time in China, not least because have as active or as deep an insurance market as you do in Hong Kong, where we can take advantage of global coverage.

Now, to your question on the domestic, we put a lot of emphasis on the domestic in the course of 2019. Our Hong Kong business has roughly 13% overall level of market, but within that, it's 25% share of the mainland China, and a single-digit share of the domestic. Therefore, there is no reason why we can't be better. Which is why we pushed very hard last year. In fact, our agency-sourced domestic sales went up 20%. Behind that 8% number that Mark referenced for domestic sales, agency was up 20%. And behind the 12% that Mark referenced in the second half, agency was 23%, as we pushed hard not only in relation to the QDAP and VHIS products, but also more broadly. That emphasis will continue as we go into 2020. Clearly, the mainland China sales are going to be linked to number of visitors. With the restrictions that we've seen from the beginning of February, flow is relatively modest.

However, the sales on the domestic, we came into 2020 with a velocity that was above where we started 2019. Even though there's been some slowdown, we're feeling good about domestic sales so far this year. We think there's plenty to go for.

Andrew Baker (Citi): Andrew Baker, Citi, just one, actually. In Asia, shareholder-backed their exposure is about $25 billion, approximately 50% is in corporate bonds. Given the slowdown over there, is there anything we should be worried about or concerned about with that shareholder-backed exposure? Thank you.

Mike Wells: James Turner, we're going to put you to work. Do you want to talk about our bond exposure? Why don't you quickly go through Asia specific to the question and then just a little more broader overview on our exposures globally?

James Turner (Prudential): Okay, so in terms of Asia and corporate bonds, it's a relatively small amount, and of that corporate bond exposure, it's got an excellent profile. The piece that is BBB is 84%, of that is BBB or BBB plus. The whole exposure in terms of the corporate bonds, a bit like the Group's exposure to corporate bonds, more broadly, is very prudently placed. I'm happy as well, Mike, if you want to go back to the Group and work down between the two. However, if you're looking at Asia's total corporate exposure in terms of credit ratings, then A and above is 64%, BBB is 19%, and so, you've got a total investment grade of 83%. Within that BBB, as I said, over 80-odd percent is BBB or BBB plus. Importantly, when you look at the debt exposure that is below investment grade, over half of it relates to sovereign debt in Vietnam. If you take that out, then again you get a sense of just how prudently positioned the Asian credit portfolio is. That does have an impact, because it means that we are sacrificing yields for this more prudent position.

Mike Wells: I think we're done. Thank you very much everyone. You know how to get hold of us if you have any follow-up questions. We look forward to seeing you with the interims in August. Thank you very much.

[END OF TRANSCRIPT]