Prudential plc

2015 Full-Year Results

Wednesday, 9th March 2016

Transcript produced by Global Lingo
London - 020 7870 7100
www.global-lingo.com

Opening Remarks

Mike Wells

CEO, Prudential plc

Welcome

Thank you for joining us for our 2015 results. We are going to do a little different format today. I am going to give you a couple of quick comments, turning over to Nic to do the financial overview. Then I am going to come back to give you context and address some key points about various businesses, some of the challenges we have and some indication of where we are heading into 2016.

CEO messages

We think the performance was strong and broad-based. Obviously, all the business units contributing effectively. If you look at the balance sheet I think it is in great shape; defensive, well-capitalised. The operating performance again underpinned the shareholder dividend. This was something we talked about in January. We are earning it first, we are stressing it, we are paying it. You can see that as well with the extraordinary dividend. I got asked this morning on the investor call: it is the first one since 1970, for those of you who are into Prudential history, if you would like a context for the last extraordinary dividend.

Execution is the key to what we are doing. The strategy is holding very well, the opportunity is there and it is our responsibility to turn that opportunity into tangible results for you. We will talk about that in detail today. Then again, our relative position to peers in the marketplace, to potential challengers and so on, we think is in very, very good shape. I am going to turn over to Nic now to give you the granular look at the financials. Then I am going to come back after, and put some colour and context around where we are as a business unit.

2015 Full-Year Results

Nic Nicandrou

CFO, Prudential plc

Key financial highlights

FY15 continued strong performance

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

Starting with our financial headlines: at a time when companies in many sectors are having to choose between growth or cash, Prudential has been able to deliver both in tandem yet again. All of the Group's key profitability and cash generation measures have improved by 15% or more, making 2015 our most successful year ever. We achieved this by making the most of our structural advantages in the markets that we operate, and by executing with discipline and with focus.

The 22% increase in our IFRS profit to £4bn was broad-based, as Mike said, and is underpinned by our large portfolio of in-force business. To this we continue to add valuable new business flows, up 20% in NBP terms to over £2.6bn, and this metric is led by Asia. Our capital disciplines ensure that sales translate to profit and then to cash relatively quickly across all our businesses. The success of this approach generated over £3bn of free surplus, up 15% year-on-year.

Operating profitably is the first and most important source of capital. Our performance in 2015 has increased our Solvency II surplus to £9.7bn and has added to our EEV shareholders' capital, which was up 11% and is equivalent to £12.58 per share. Our enhanced financial resources are a source of strength and resilience, and provide additional headroom to weather the effects of the market volatility that we have seen in the early part of this year. They have also allowed us to increase the full-year ordinary dividend by 5% to 38.78 pence per share, and declare a special dividend of 10 pence per share.

Group

Growing profit and improving quality

Turning to the detailed financials and starting with IFRS operating profit, the Group picture reflects our focus on diversified, high quality growth that lends both resilience and stability to our financial performance. All four businesses contributed significantly to our profits, with Asia, the US and the UK growing at double-digit rates, while M&G maintained its profitability despite the adverse impact of the retail flows that we've seen in the year. Our IFRS profit growth is predominantly led by insurance margin and fee income, with low exposure to rates. These two sources now account for 76% of our income, which represents a healthy evolution in the overall shape of our earnings.

Asia

Strong and consistent growth momentum

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

Our long-established and diverse new business franchise in Asia provides a high level of consistency when aggregated to the regional level. This consistency affords us the flexibility to take value-based decisions which prioritise future performance over near-term sales headline. In line with the discipline, we took a deliberate decision in Indonesia to limit sales incentives, to prioritise quality in the current soft environment. In Singapore we withdrew from Universal Life, which provided poor returns in the current low-interest environment, and redirected our focus towards Health & Protection. This will pay dividends as we move forward.

Notwithstanding these deliberate actions, our overall sales increased by 26% with seven countries reporting APE growth of more than 15%. New business profitability increased at a faster rate of 28%, supported by a strong rise from Health & Protection which now accounts for 62% of Asia's NBP. Our Health & Protection regular premium orientation also underpins the growth in both IFRS operating profit and free surplus generation. Eastspring's contribution here is now meaningful after reporting a 26% increase in profits to £115m on the back of record flows in the year.

Recurring income

I would like to take a few minutes to explain why we are confident about our earnings prospects in Asia. As you know, our Life book in the region is predominantly regular premium business. The power of this can only be truly appreciated by looking at the impact that this has over a longer time period. Mike first showed you this slide in January, which depicts the growth in the premium base of our Asian businesses over the last ten years. It confirms both the consistency of our execution and the power of compounding, with every year's new regular premiums adding to a growing in-force base which now exceeds £7bn. The £2.8bn added by new business in 2015 will further augment this premium base as we move forward.

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

In-force income

Now the benefit of the increasing scale of our in-force premium base is evident in the rising level of earnings. In 2015 our Asia business generated nearly £1.2bn of profit from in-force, reflecting the compounding effect that I have just referenced of regular premium sales and strong customer retention. Almost two thirds of these profits come from our Health & Protection book, a source that is uncorrelated to investment markets. Growth here reflects the consistent addition of new business cohorts each year, underpinned by strong and enduring levels of consumer demand; high levels of persistency given the limited social welfare provision in the region; and positive claims experience supported by our ability to reprice when necessary.

High quality, resistant earnings

Therefore, what we have in Asia is a high quality earnings base, one that is defensive in times of volatility and one that offers a secure platform for future growth. Our confidence in the future earnings prospect of our Asian business reflects the powerful contribution from our in-force book which in 2015, as you can see, increased by 14%; the growing contribution from our Health & Protection business, which was up 17% to £783m; and the benefit of operating a diverse portfolio across the region, where our most developed businesses are pushing forward their structural advantages and where newer businesses are making more sizeable contributions than before and compounding nicely.

US

Disciplined growth

Jackson's results reflect its disciplined value-based approach to managing the business, which has driven growth in earnings and cash. New business APE rose by 3% as we continued to manage the volumes and mix of variable annuities to match our annual risk appetite. Sales of VAs with no living benefits were 33% of the total, reflecting the continued success of Elite Access. Here, sales levels were slightly lower than last year, but we have seen a positive migration towards non-qualified accounts which represent 69% of the Elite Access total, up from 66% a year ago.

The 9% increase in IFRS profit to £1,702m reflected the growth in fee income on the separate account assets, which more than offset the decline in spread income. As I have previously flagged, yield compression has reduced spread margin on the fixed annuity book to 241bp, and I repeat my guidance that this will trend down over the next couple of years to around 200bp. Capital formation remains strong in 2015, reflecting both Jackson's operating performance and its disciplined approach to managing the market risks in the portfolio. This in turn enabled Jackson to make a sizeable remittance to Group for a second year running.

Asset-based fee income

Fee income on variable annuity business, which grew by 11% in 2015, remains the dominant component of Jackson's earnings. The economics of this growth continue to be very favourable. The business earns 192bp in fees and is serviced by a highly cost-effective platform. Growth in fee income is therefore directly correlated to the growth in the asset base. As you can see in the chart on the right, the increase in the separate account assets is primarily driven by the additions of new premiums each year. These continue to exceed outflows, creating a positive jaws effect, a feature that will endure for some time. While there is clearly a cyclical nature of this income source, market effects are dampened by the lower beta of our separate account assets and the positive expense leverage of our operations.

UK

Positive response to changes in environment

Our UK Life business continues to build on the appeal of its extended retail offering. Retail APE and NBP both increased by over 30%, driven by the popularity of PruFund which is available through a wider range of drawdown, pensions, bonds and ISA wrappers. IFRS operating profit increased to £1,195m driven by an improvement in the Life result, which is analysed in the table on the right. The profit from new annuity business of £123m is lower than last year's £162m, reflecting a continued decline in retail sales and lower contribution from bulks. As I said in January, the onerous Solvency II capital requirements with effect of 1st January 2016 have reduced our appetite for annuities, and you should expect to see a very modest contribution to our profit from this line going forward.

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

The core profit from in-force annuities and with-profits business was £644m, and this will be the main driver of the UK Life result going forward. These are seasoned portfolios which should sustain a healthy contribution to earnings from the UK for some time, supported by the sizeable addition of new with-profits business. Finally, on a point of detail for your forecasts, the Longevity reinsurance that we completed last year will create an annual earnings drag of around £25m against this core in-force result.

M&G

Cash-rich earnings

M&G experienced £10.9bn of outflows from its retail funds, in part reflecting a market-wide change in investor sentiment away from fixed income. Retail outflows totalled £3.5bn in the fourth quarter, a run rate that has continued in the first two months of 2016. These retail outflows have more than offset the positive picture on the institutional side where we saw net inflows of £3.9bn, reflecting M&G's success in the specialist fixed-income market. The outlook here is positive, underpinned by a strong pipeline of committed capital. Despite these outflows revenues were broadly maintained, as the average AUM in 2015 was similar to 2014. By taking action on costs M&G contained its cost/income ratio at 57% and delivered a broadly unchanged IFRS profit for the year at £442m.

The 18% decline in retail AUM at the end of 2015 will have a direct impact on retail revenues, which account for 60% of the M&G total. While related variable costs will cushion the impact on profit, everything else being equal you should expect the overall cost/income ratio to drift higher in 2016 towards the 60% level.

Group

Increasing scale of free surplus generation

Having covered growth, I now want to turn to cash, free surplus, which is the primary measure of cash generation in our business, increased by 15% to £3,050m. The improvement is underpinned by the expected returns from Life in-force business and continues to be augmented by positive experience, which in 2015 included £223m from the non-recurring actions I described earlier. In the top right you can see that all three businesses are making significant contributions to the Life in-force result, reflecting business growth.

We remain disciplined in the redeployment of our capital, increasing new business strain to £745m. The components of this investment are analysed in the bottom right. In Asia and the UK strain climbed more slowly than sales, reflecting favourable product mix. The increased strain in the US was also impacted by changes in mix, and was principally driven by a higher proportion of new VA premiums being directed to the fixed account option. Jackson's business remains highly capital efficient, with IRRs well in excess of 20% and short payback periods.

Positive evolution in free surplus and central cash

This next slide provides the usual chart which shows you how the annual generation of free surplus has impacted stock on the left, and central cash on the right. As you can see, our operating performance has driven our free surplus stock higher. This has in turn enabled our businesses to increase remittances to over £1.6bn, while retaining sufficient buffers to fund growth and to absorb market shocks. The Asia remittance includes the £42m proceeds from the sale of our Japanese Life business. We continue to moderate upstreaming from Asia, given the current FX rates and the strong levels of central liquidity, which at the end of the year stood at nearly £2.2bn.

Strong future generation profile

Before leaving this topic I want to update you on the evolution of our free cash generation profiles from our Life in-force business. As normal, we start with the expected profile at the end of 2014 in dark blue, which a year later is broadly unchanged, as shown in the light blue, reflecting experience, changes to market assumptions and currency movements. Adding the free surplus from the 2015 new business in red produces, as always, an improved profile; evidence of the powerful capital dynamics of our book of business. Now, this analysis is prepared on a Solvency I basis; while it remains appropriate for our businesses in Asia and the US, the profile of our UK Life business will change under Solvency II.

UK profile not altered by Solvency II

As I indicated in January, we have reworked the UK Life in-force profile to allow for Solvency II and updated it for the 2015 year-end position. This slide summarises the output of this work on the right, and compares it to the profile under Solvency I on the left. The updated analysis confirms the conclusion from my January presentation that the annual release of higher Solvency II SCR and risk margin more than offset the effect of the transitional amortisation and other impacts to produce a broadly unchanged profile.

Group free surplus generation unchanged by Solvency II

Incorporating this new UK profile into the overall Group picture, now shown in the white bars, confirms that Solvency II has not fundamentally altered the overall cash dynamics of our Group.

2017 financial objectives

So having covered the operating results for the year, I want to re-emphasise our commitment to the 2017 financial objectives. On Asia, we are ahead of their 15% IFRS profit compound growth rate, as measured on the original objective definition using December 2013 exchange rates. The Asia free surplus objective on the same basis is a stretch, which was always the intention. Finally, at Group we remain on track, having delivered £5.6bn of cumulative free surplus across the Group at the half-year point.

Dividend growth

On the back of another strong performance the Board has approved a 5% increase in the 2015 full-year ordinary dividend to 38.78 pence per share, in line with our progressive dividend policy. The Board also decided to utilise the additional headroom created by management actions to award a special dividend of 10 pence per share. We remain focused on growing the dividend, given its importance to our shareholders, and in doing so we aim to strike the right balance between funding our long-term growth, which as you can see, is intact; maintaining appropriate buffers for uncertainty; and increasing pay-outs. Every dividend decision is subjected to severe market stresses to ensure that we can continue to grow it safely, even under challenging market conditions. Our conservative approach to dividends is a signal of good capital discipline.

Balance sheet

Well capitalised and defensively positioned

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

While our balance sheet is sensitive to markets it is more resilient than you might think, reflecting our scale, our conservative approach to risk management, our currency mix and the natural offsets that exist within our business portfolios. The best way to illustrate this is by reference to the position at end February where we estimate that, despite the falls in a number of market indices, IFRS shareholders' equity was up at £14bn and our EEV equity was just over £34bn, equivalent to £13.25 per share.

Solvency II

Strong Solvency II capital position

Having provided you with a detailed run-through of Solvency II only a few weeks ago, I will focus my comments on the end-2015 position. Our Solvency II surplus at the end of last year was £9.7bn, which was up on the half-year number. This is despite the more adverse market conditions in the second half, which turned what was a positive £0.5bn market effect at the half-year into the negative £0.6bn market effect that you see in the chart on the right. The strength of our operating experience of £2bn, which is roughly equivalent to 20 points under Solvency, and the impact of management actions of £0.4bn have mitigated the negative £1.6bn model approval effect, bringing the overall surplus back to where we started the year.

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

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

Strong local solvency capital

The local capital position of our main businesses, which remain the primary binding constraint, confirm the overall Group picture. The contribution of our Asian operations under Solvency II has increased to £5.2bn. However, it is the locally driven free surplus position of £1.5bn that remains a relevant measure for cash and local capital. The US RBC ratio has increased to 481%, reflecting the strong capital formation that I referenced earlier. In the UK the shareholders' Solvency II surplus is broadly unchanged from the half-year. The position of the UK with-profits funds is lower despite the higher estate value, as we decided to utilise the capital headroom to increase the equity backing ratio of the fund.

Group

Strong capital formation

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

Invested assets

Asset portfolio is high quality and well diversified

Before I sum up, I wanted to update you on our credit position at the year-end, which I know is an area of focus. Shareholders' exposure to credit is concentrated in the UK annuity portfolio and the US general account. These portfolios are actively managed and remain high quality with a defensive stance, as evidenced by the fact that 95% is held in investment-grade bonds. Credit exposure is well diversified across 1,800 names, and we operate strong risk management controls and concentration risk with strict limits by geography, by sector and individual security. We have updated the disclosures on our exposure to oil and gas, including the additional information on the energy and the mining sector provided by Chad at the January Investor Day. All of these are included in the appendix to your packs. In these two particular sectors our debt holdings are centred on high-quality names, and our high-yield exposures were small at end-2015. In fact, they have remained small since then.

Summary

FY15 continued strong performance

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

Group Performance in Context

Mike Wells

CEO, Prudential plc

Group

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

Finally, the dividend reflects a view on discipline that we will earn it, stress it and pay it. In the context of what our various options are as far as growth, we will balance that growth and income agenda. There is no other message beyond that. There were a lot of comments this morning as to whether it was too high or too low, or if it was too confident in our growth opportunities. We have plenty of growth opportunities. We actually have more than we have capital, at attractive returns. No message in that either. It is a great place to be as a business and we are going to execute efficiently with what we have. Let me dive a little deeper.

Strategy

This is well-rehearsed in this room, and there is no reason to get in too much detail on it. The idea that it is working effectively is well proven in the 2015 results. Two things are going on. The global stress, the global high-level metrics, are creating demand for us in the risk-off transactions. That, in one sense, is a good thing. Whichever way these trends occur we have part of our business that benefits. The idea that there is a growing tension on investment climate puts clients more open to some of the propositions we have that de-risk their portfolios, their wealth, their health and so on.

The second trend that is clearly global as you travel the markets we do business in, is the expectation that consumers are self-reliant. That is true in the West. It is clearly true in our Asian markets. We do not do business anywhere where the consumer does not believe they are personally responsible for their future, be it health, wealth, protection or all three.

Premium franchises

If the opportunity is there, do we have the franchise and the markets to capitalise? We think we are in the right marketplaces. We have talked a lot over the years about the quality of our businesses. Clearly our Asian business has no equal. Its capabilities continue to grow. We will get into some of the details about it but it clearly has the scale and the footprint in the marketplace that is second-to-none. The disciplined approach to the US, its operational, distribution effectiveness, its capabilities to adjust fast, to be an innovator, are unique in the marketplace; in the broadest definition of financial services, not just in the insurance sector. The brands we have in the UK, M&G and Pru UK: with their strength, the number of solutions, the quality of the products, the capabilities, we can compete with anybody here domestically. As you see from the results out of the UK business, these are trusted brands with long track records of servicing the clients effectively.

When you look at that from the Group, what summary do you get from the three? It is two things. It is what I mentioned earlier. There is completion for capital. The capital does not have citizenry here; we do not allocate it by percentage to market by country. It is the most competitive return for shareholders. We look at payback, cash flow signatures, all of those elements when we have these discussions strategically. Second, we can be disciplined. This is not a trivial issue. We have the ability to back off in a market or a product. We are not dependent on making any one part of this work at any point in the cycle. Some of you I have known for most of my 21 years here, and when we backed off in the US we had lots of discussions in the hallway if we were doing it at the right time or the wrong time. It is a luxury, I can tell you having run a business unit, and it is certainly a luxury for a CEO of the Group, to not be dependent on any one market, any one product, at any one point in time.

If you look at what Tony and Lilian's team are doing in Singapore, they are backing off the UL market because we do not like the economics. If that was our only business in Asia that would be a difficult decision, because you would be worried about the overall performance of your region. So again, the breadth of the footprint and the scale of these operations give us optionality that few competitors have.

Asia

Regional footprint

The footprint in Asia is outstanding. When I look at this what I am looking for is, how do we look across the spectrum? You are looking for attributes of scale that we can capitalise, that we can produce higher return for you than another player. That means, do we have diversification by country? Do we have diversification by product? Most importantly, do we have diversification by distribution? Are we in the right channels? Are we in the right markets? Can we capture this Asian opportunity? It is structural, it is measurable. However, do we have the breadth and depth to get there? I would say on the Life side, absolutely. I would say on the Asset Management side – Guy is here if you want to talk to him about Eastspring – they are there and growing and they are continuing to grow in front of the consumer demand, which again will be rapid. There is definitely a challenge to stay with the consumer demand for Asset Management in Asia. However, we have all the capability to do that.

Product portfolio aligns with customer needs

If we have the distribution and we have the reach, do we have what the consumers want? Is the pricing right? Are we at the right point in the cycle? Let me just pick one market. Let's take Indonesia. Health & Protection product in a market effectively with no government support or services for retirement or health protection, minimal. The product demand is there. Can they afford it? Our base product costs roughly what two cups of coffee a week cost in a major coffee shop. That is about the entry level. We can provide the service to a consumer, clearly what insurance does best. Take large pools of consumers, de-risk their individual position by dividing that over a large consumer base, allow them to move from cash into investments or into something else they want to do with the money because they give that risk to a trusted service provider, us. The transaction size we can do is incredible.

I was teasing a guy. Somebody gave me a penny and this is from when we were founded; you guys know I like history, I think it is really interesting. You may not know, but this was how Prudential started. It was industrial policies that were actually paid for with a penny, a very common way of collecting. One of the things that, when I travel, I ask our colleagues and I ask people I interact with: how do you pay for coffee? Obviously I know how we collect premium. However, the answer varies. It is mobile pay in some markets. It is Apple Pay in some markets. It is Union Pay in Hong Kong, in China in general. It is cash in some markets and it is credit cards in some markets. We talk to bank partners about when they introduced some of these new technologies, what does it do to ATM use and things? The consumers drive that preference, and at our size our job is to align with that.

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

Consumers remain resilient

If we have a product the client wants, can they afford it? Headline noise would suggest, GDP would suggest the client has been in a rough state. GDP is too high-level a metric for our consumers. It is directionally interesting and it is important for us to look at, but it is not a predictive indicator for us. One of the things meeting with some of you individually at various events last year, and we could not talk about where we were in the second half of the year: travelling around Asia these airports are packed, these flights are sold out, the hotels are booked. It did not feel like what I would read when I was in the US, or the UK in particular, on some of the metrics. Clearly these markets were chosen on purpose, because these are markets where we have large exposure and where there has been a lot of noise.

However, if you look at China, Malaysia and Indonesia, personal disposable income, these growth rates are not only material, they are consistent. The middle class is faring better than the tails. If you are a politician and responsible for the overall society, there are some challenges embedded in that. For us there is such a large middle class, and they are doing fine. This measures our opportunity. Do they have money in their pocket? Are they buying things? I chose airlines just because of my time in airports. It felt like an appropriate and personal one. We could have done telecom here. You guys all have capabilities to see this. We could have done telecom, we could have done department sales, grocery store sales. All those metrics look relatively similar in these markets.

The average consumer is still buying, still has disposable income and those numbers exceed the GDP numbers you are seeing. They are very resilient. That does not mean that if we were selling luxury goods and Chengdu that our market is not changing, or if we were an oil and gas company in the suburbs of the Philippines, outside of the major cities. However, that is not our business. Our ability to do transactions at varying sizes allows us to reach a very large definition of the emerging middle class.

2015 operations

If they have money, the demand is there, what are we doing about it? One of the things I would like to do going forward at these events is give you a slide of what you paid for over the year. Some of the tangible deliverables, year-over-year from an operational point of view, because we have internal objectives to make the company better every single quarter. I want to make sure we give you some context for what we are doing with your funds. Scale, distribution, speed and quality are all up. Stay on Asia for a minute. You are well north of 500,000 agents. These are managed very effectively, so this is growth in quality not just growth in quantity. You are seeing innovation; 25% of the sales have come from products that we did not have 24 months ago. We are innovating. We keep coming out with new things that are good for the consumer and good for you as shareholders.

We are getting better at the boring but absolutely critical operational IT touchpoints with the clients. Over five million interactions with the clients in Asia last year. If we are going to grow at these rates we have to have scalable, high-quality platforms to keep those recurring earnings. Those recurring earnings are people. They are people who care about their relationship with us, about how they are treated, about how well the products work, about how good our service is. You will see us continuing to improve that side of our back book, because it is critical to our recurring earnings.

Outperformed peers. Disciplined delivery

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

High quality, defensive growth

Correlation to markets, IRR returns. We have shown you this slide before, but I think given last year's performance in market: shared equity is down in Asia 12%. You had recurring premium up 30%. Nic walked through it. This is disconnected by nature of the transaction with the client, by the client demand and again it has been counter-correlated to headline news. We have a material disconnect between our opportunity and the equity markets in region.

That obviously should translate, if you have premium growth, into earnings and cash. Today you have seen that. A disproportionate amount of that comes from taking care of and doing the right thing for existing clients. Then adding additional cohort after additional cohort, vintages as we call them in the States, of clients on top of that. That part of our model is succeeding and we are very, very pleased with the performance there. Again, it is highly predictable.

Significant growth headroom

Fair question: you are the market leader, you have done well, good growth rates and so on; is there any room left? A couple of things. Our penetration level in our most established markets – so Singapore and Malaysia, Indonesia and Hong Kong – is still low. We have great market share in each of these markets but there is still a very large unserviced population there for us. This is without even expanding our product portfolio.

Our other markets, our nascent markets are growing exceptionally well. We have shown you a couple of times on slides where they were relative to some of our large markets ten years ago. The reality is they are growing at very high rates, very high quality. What you are seeing the team do when you are down on the ground is you are seeing them take the lessons from previous markets, previous experiences, and Lilian and Tony and the team are dropping those into these newer markets. We do not use all of them. We may skip a generation of tools if we think the market has moved past that. However, at the end of the day we can deploy people who have done it before for us in a market, who have done a start-up.

I was in Cambodia with our team, Phnom Penh. We are a new player. We are one of two major new players there. We have the bank distribution relationship, so exceptionally well done by the team there. What you are seeing is what we know in region applied in a new market. There are new challenges, and those come with the local granular on-the-ground things. You see that same thing in Africa. You see the same thing in a rural part of the Philippines. However, we take what we know. We take people that are part of our culture, know our tools, and we drop them in. You get a similar result to what we had in other markets, faster. There is less of a learning curve. That is a critical element, and again it comes back to our scale and our footprint.

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

US

Outperforming peers. Delivering results

We spent a lot of time on the US in January, so I do not want to spend too much time here. The key argument I would make is this is a unique business in its space. It has a fraction of the costs of the competitors. There is better technology, better operations, better distribution, has a track record of innovation and has a track record of bringing products to market faster and more effectively than peers.

If you want a simple measurement of that look at the Elite Access launch relative to the 12 or so clones of that. The sales of that product still exceed the cumulative sales of the rest of the industry attempting to copy it. Even at lower prices, even with more incentives, even with guarantees on products that probably should not have a guarantee on to begin with. This is a Group with an ability to execute at a very, very high level.

Proven execution skills

The other piece as we go into the changes in the US, and the DoL being the key, is the structural demand in the US has not changed. If the Department of Labor in some way with their new regulations changes access to advice, cost of advice or access to the products or the configuration of products, the consumer still wants some level of protection on their retirement assets. The consumer still wants good, balanced portfolios. This is no different than what we see in the UK. The question becomes the attributes of the competitors.

To be clear, I think a major disruption is arguably bad for the consumer, but that does not necessarily mean it is bad for us. Those both can be true at once. We can build whatever product the rules and the regulations allow to get the most benefit to the consumer at the highest returns for the shareholder. We can balance those stakeholders. We can do it faster than peers. We are quite a way into our contingency planning for this, so we have planned for the worst. We know what we will do if that is the case. We will see when this gets dropped on us what the period is on when it is effective, what the grandfather period is, if there is, the transition on sales. All those dynamics we will navigate as well as and arguably better than most in that space. If it is at the extreme end of the DoL proposal, it does reshuffle the position of providers of financial services and for providers of advice. When that happens there will be winners and losers. I would argue with you Jackson has the attributes to be one of the winners.

UK

Navigating change. Investment focus

A market where we can prove that to be true would be the UK. Our UK business had a record year. This included pre-RDR and this includes the changes to annuities. The team is doing a great job. Why? Again, trusted brand, good product, product innovation, doing the right thing for the consumer and doing it at a pricing and level that gets the shareholders a good return. M&G then gives us the capability on the Asset Management side combined with our UK business to compete with anybody in this space domestically. You will see more changes. That is the nature of our market. It is the nature of all of our markets. Regulatory changes are a part of the business.

Group

Effective response to challenges

Let us look at changes in a little broader context. We have used this slide with you before. We have always had something going on. I am 21 years here, as you guys now. I do not ever remember a year when we sat around in December and went, 'That was an easy one. There was nothing to work on.' There is always something, and this firm's resilience is measurable. I think there is an element of our history as part of our DNA and the culture of the firm. We are ready for more. The UK business is a good example of a disruption in a marketplace on advice and product that creates opportunity. That is similar to what you will see in the US.

Well positioned to deliver across cycles

Let us get to shareholder-centric metrics for a second. The earnings are high quality. Measured how? By source, by currency and mix of the customer base they come from. Not a single-dimensional look. Whatever stress you want to throw at this, different ways to look at it. What if US rate policy changes the value of the dollar? We have a lot of earnings in dollars. Rates go up, we can benefit from that. Most financial metrics moving, we have benefit on both sides and risk management on both sides. I think we are very well positioned with the shape of our earnings, the source and the relationships at the consumer level for them to be predictable and strong.

Disciplined execution

This all sums up on one of my favourite slides. Two things I would ask you to take away from this: these should grow in tandem. If you are squeezing a business, there will be a misalignment of these metrics. If you are looking at us versus competitors, this slide side by side, there should be a similar nature. It does not have to be a perfect correlation but these should grow in a similar fashion with businesses. It tells you that you are consistently adding profitable business, managing capital correctly and so on.

There is one other takeaway I would like you to look at. Look at where we were pre-crisis in terms of operating income, new business profits and free surplus generation. Look at the change in order of magnitude of where we are now. We had a good crisis. We were fine last time. We are materially, three times, stronger and more capable and have more recurring earnings and have more client relationships than we had last crisis. That is not a forecast of a bad market crisis, but I heard this morning it was the seven-year anniversary of this market going up. We are well positioned for market changes and we are well positioned for resilience across a variety of climates.

Delivering cash

Again, that translates into cash for our shareholders. I said this earlier, it is a disciplined dividend policy: earn it first, stress it second, pay it. If we have extraordinary capital or pull forward earnings, it is yours. You see the special dividend today reflecting our view on that. There is no other message in that. It is not a lack of confidence in our growth. We have plenty of capital to grow in 2016 and beyond. It is not a reflection of the market climate. However, we are a bigger company. We have grown in size and scale. With that, we should have the reserves and the opportunity to be counter-cyclical that goes with that.

Delivering profitable growth

Finally, we are a growth stock as well. You have seen increase in value. I think the metric that has to jump off this page is a 30% growth in revenue in Q4. Think of the noise around Q4. I do not believe that that is what people thought was going on. It was very frustrating to see this in our business units, and by law we cannot share that with you in the quarter we were talking, but the strength of this business and the attributes of how it relates to clients, it does very well in rough markets. The value creation and the investment, at returns that are competitive with any industry, are key to our growth story. We think the opportunity is there.

Summary

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

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

Q&A

Blair Stewart (Bank of America Merrill Lynch): On the dividend, Nic, you talked earlier this year about performing a one-in-25-year stress on profits and looking at how the cover looks. I wonder if you could provide a little bit more detail around that? Everything about the company is growing at double-digit, yet there is a 5% base growth in the dividend and you talk about two times cover. There are maybe some mixed messages around the dividend, so any colour you can give on the stress aspect of that would be really helpful.

Secondly, also for you Nic: can you give us an indication of what you think the organic Solvency II available capital generation is for the business? That is everything, including in-force creation and so on. What is the organic Solvency II available capital generation of the business? Thank you.

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

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

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

Second point on DoL: could you talk a little bit about where we are on the politics? Is there anything that could happen to actually derail the whole rule change? If you could give us some colour on where your base case is for the change, that would be helpful.

Finally, there are a couple of minor regulatory issues; one with the PRA on the back books, and secondly with CIRC in China. I just wondered if you could comment on those please? Thank you.

Nic Nicandrou: Shall I start with the cover? When I covered this in January I said that whilst our dividend policy is anchored on IFRS cover, we use a number of other metrics to assess that. Candidly, if you are a growing company and the assets and liabilities that you write grow as well, you need to put risk capital aside. IFRS is imperfect in terms of capturing that, which is why we use free surplus as well, which is something else that we assess cover against. It is something else that we stress, and of course now we do have the Solvency II and a number of other metrics, ratings capital for example. We take the full suite of capital metrics, and I wish it was as simple as managing this business by reference to one metric. It would make my job a lot easier. Unfortunately, it is not. We have to balance all these things. Interestingly, the slide that I have put up that said the operating formation of capital, it is different numbers under different bases. There are different mechanics under each. We have to take all of that into consideration.

Most of these KPIs we are covered strongly, but of course in a stress we will come off a little. The way we make the decisions is that in a stress we can sustain the growth of the dividend at 5%. That is what we judge alongside the growth prospects. As you have heard today, those are intact, and particularly in Asia we are seeing great opportunities for growth. That ultimately needs financing as well.

Mike Wells: Barry, you want to give us some colour on DoL? You are closest to the politics.

Barry Stowe: Yes. With respect to the politics, in some respect the politics of it is scaling back and it is more focused on implementation, which does not mean to say that there is not still some politics at play. Right now, the rule is sitting with the Office of Management and Budget; they are tasked with trying to measure the cost, the economic impact of the implementation of the rule change.

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

They are going to publish, I would guess, within the next 30 days at the outside, probably less than that, whatever they are going to publish. We have tried from every source to get a sneak preview of where it has landed; it is very difficult to do. The ranking minority member, the ranking Democrat on House Labor Committee demanded, basically, from Secretary Perez that he be allowed to see the bill or the rule change before it was issued. They refused to share that with him. Their alternative was to go to Capitol Hill and brief the opposing Democrats principally, because there is about 100 Democrats on Capitol Hill that are opposed to the change or at least have some level of concern about the change.

The briefing, as far as we can tell, consisted of: do not worry, this is going to be very consumer-centric, it is going to ensure that people get better advice than they have been getting in the past so you should be for this. Some Democrats have come back concerned that they did not really get any meat, if you will, in that briefing. Others have said, 'Well, they satisfied me, because they said it is going to be good, so it must be good.' We will see what it looks like when we get it. If they land in a sensible place, the prospect is that companies will try to adapt to it.

As Mike has said, and I would reiterate, we are prepared for this from both a product perspective and a process perspective, so do not be concerned about that. We do have a track record in the Group and within Jackson specifically of using disruption of this sort to our commercial advantage. Without disclosing things we cannot talk about, around product changes and so forth, I would say everything I could possibly say to allay your concerns that we will be able to deal with this.

If it goes too far, if they do things like not grandfathering, then the politics again becomes very real. My suggestion to you would be that if they went as far as that and say you have got to repaper the whole industry, you would probably get a stay of implementation in the courts. You will have lawsuits anyway. There are a number of trade-oriented groups, as well as the potential for other regulators to come in and go to the federal courts, and immediately ask for a stay of implementation while they work out the legal matters and so forth.

It is still a very messy process, and it really just all depends on what the rule says, and we are not going to know for a few weeks. I wish I could tell you more about that, but I would, again, close by emphasising that we are prepared for any contingency.

Mike Wells: There were two other questions, both on regulatory. Tony, do you want to comment on the CIRC.

Tony Wilkey: CIRC. Yes, okay, so I think maybe this is what you are referring to. CIRC conducts a review or inspection of the life companies operating in China every five years. We recently went through that – not only for us, for the entire sector – and the results of that get published. That is a good thing I think.

Broadly, the results, the findings: no material issues, just some tightening up of certain controls within the company. Ties in nicely, though, with all the work being done and the implementation effective 1st January of China's Solvency II, C-ROSS, so it ties into the operational side of that.

Worth noting; we were in Beijing last month I think with the chairman of CIRC, and having dealt with these folks for many, many years now, they consistently hold us out as the gold standard of operating environment and controls within the China insurance sector. So, yes, no major concerns about it.

Mike Wells: John, do you want to just take the FCA?

John Foley: Yes. I assume you are talking about the FCA recent press release on the review into long-standing customers. I mean, there is not much we can say. We are obviously working very closely with them. We take it very seriously. However, it has gone to enforcement, so they are using their enforcement powers to conduct a further review. This has been going on for nearly two years now, so it will go on for a while longer.

I think in their press release, they have said that they will make no further comment and they expect us to make no further comment either, because it has gone to the enforcement group, so there is nothing more we can really say.

Greig Paterson (KBW): Good morning, everyone. Three questions. One is, just in terms of Indonesia, in January you spoke about consumer confidence and other leading indicators. I mean, this is an oil and energy-poor country, it must be benefiting from low oil price and so on. I just wondered if you could give us some kind of feel for the outlook for Indonesia?

In terms of US, you mentioned impairments, but I am saying: what were the cost of downgrades in terms of 2015, so we can get a feel for the total cost of the wider spreads and the downgrade theme?

Nic, just in terms of this 180% coverage you mentioned, I think you said on 6th March, I wonder if you can give us a bit of waterfall. Is that ex of dividend, have you just marked to market as including operating elements and so on? Because investors want to know why there has been a reduction.

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

Tony Wilkey: Sure. While the business did de-grow slightly in 2015, it was still a very good year for new business, generating essentially £0.33bn of new APE sales at about 70% margin, IFRS around £0.33bn as well. Highlights were good. There have been a lot of economic headwinds there, but notwithstanding that, we have been pushing forward with expansion of the business. We opened 25 new branches. We call them GAs. We recruited around 10,000 new agents every month. We onboarded 410,000 new customers in the year; that is 1,100 customers per day. Pretty vibrant growth in the business.

Where we are today, it does look like there might be some signs of economic turnaround there. The JCI is up, I think about 4–5%. The rupiah seems to be stabilising. We are pushing forward with all our activities. One example is last month we were in 30 cities in 30 days in front of 50,000 of our top agents. Let me just say morale is quite good and, yes, we feel pretty good.

Nic Nicandrou: Downgrades? Okay, just to give you some stats for 2015. In the UK, in the annuity book, we had £2.4bn of various securities being downgraded and we have £0.9bn being upgraded. In the US, we had across our portfolio \$4.7bn downgraded and \$3bn upgraded. Those are the numbers that are flowing through our accounts today.

Now, clearly the impact that that has on a capital and earnings has been captured in the ratios that we put out today. The 481% for RBC clearly fully factors the impact on that, and the £3.3bn on the shareholder account in the UK on the Solvency II also captures the effects of those.

I was asked in January what the sensitivity is to the downgrades on the UK ratios. We have added some additional sensitivity in the appendices. You now have that, so hopefully that answers that question.

On the 180%, what has driven that predominantly is the drop in yields and, to a certain extent, the drop in the equity markets. That does impact, if you like, the transfers that come out from with-profits, because bonuses are ultimately linked to that, so that has had an impact on that. Of course, it has had an impact in one or two other places where we have interest rate risk.

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

Greig Paterson: Does that include one quarter's operating profit?

Nic Nicandrou: Not one quarter's, it includes two months, yes.

Lance Burbidge (Autonomous Research): A couple of questions, firstly on Asia. Hong Kong is obviously a crucial part of the business, so I just wondered if you had seen any impact in terms of capital flight from China coming through in terms of explaining why the sales were so strong?

Then on China, your new business margin is actually pretty low compared to some of your peers; I wonder if you might talk about that?

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

Mike Wells: First one, Asia, Hong Kong and China. Tony, you want to grab those two?

Tony Wilkey: Sure. I think as you will note from the results, Hong Kong had a fairly respectable year in terms of new business. About 50% of the new business is coming from mainland Chinese who buy in Hong Kong. As I think we have mentioned before, this is in no way a new phenomenon. We started selling to mainland Chinese in Hong Kong over a decade ago and have built infrastructure, Mandarin speaking capabilities, simplified Chinese and so on to deal with these customers, and I think we have a bit of a first mover advantage there.

A lot of the growth in that business can actually be fairly well correlated with the growth in the agency force. The agency force I think in the last – I am looking at Lilian – I think in the last three or four years has almost doubled. We are now at close to 14,000 agents in Hong Kong. We continue to recruit and license new agents, and we continue to onboard new customers, both domestically and from the mainland.

It is worth noting that the business in 2015 from, let us call it domestic, with Hong Kong people buying in Hong Kong, also grew by about 35–40%, so domestic growth and coming through with the mainland piece. Again, business continues to do well in that regard.

In China, I think we had a fairly respectable year. The business grew by about 28% in terms of top-line APE. The NBP grew slightly higher, not as significantly as maybe some of our competitors. The growth in that margin came from two things: a shift in distribution and within the shift in distribution, a shift in product. We have deliberately grown our agency force. I think we have pretty good intellectual property when it comes to building agency force. Our CEO in China, Mr Zhao Xiaofan, has spent a lot of time in other countries studying the Prudential agency model, and has taken that back to China and we have been building out the agency force very strongly. We are now at record levels. I think we are over 20,000 in terms of China agency; small by China terms, so a lot of headroom. The agency force has also been selling more Health & Protection, and that has increased the margin. We are very happy with the quality directional growth of that business.

Mike Wells: I am not sure if there is more to say on dividend. I think the last answer was pretty thorough.

Nic Nicandrou: You are right that the potential for earnings growth in Asia is robust. I would agree with that. Your point on the US, just to correct maybe one statement that you made: you are right, some of the fees are linked to the guaranteed asset base, but that is the component of the fees that pays for the guarantee. So the 192 basis points does not include any of that. That is utilised, if you like, to hedge and it is reported with a hedge result. In the UK and M&G, I guided you down.

I mean, I do not know how else to answer the question. It is a reflection of discipline, it is a reflection of the opportunities that we have elsewhere to direct the money. In the end, the payment that we made is a 40% pay-out. Yes, we have not used a special dividend mechanic before but it is a tool that we have decided to use this time, and we may well use going forward.

Oliver Steel (Deutsche Bank): Two questions. The first is, I was a bit surprised to see that Health & Protection new business profits in Asia were up 'only' – I say only – 20% against the 28% increase across the whole of Asia. What was growing by more than that?

I suppose linked to that question is: if it is the with-profit new business profits, how does that link through then to IFRS? Because historically, the with-profits funds in Asia have not actually driven much in the way of IFRS earnings. That is sort of question one-and-a-half.

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

Nic Nicandrou: 20% is a pretty good number for the Health & Protection growth, when I look at how the team has to work to deliver that. We have cautioned you a little about the susceptibility of the NBP of Health & Protection to interest rates. I know it is a discussion that Adrian and I have constantly. If only we were on stable assumptions like some of our competitors, you would be able to see the underlying growth without, if you like, the noise that comes through from that. We are on active. If you want us to change to passive, we are happy to do that.

However, what is working against that H&P total was a near 100-basis-points increase in interest rates in Indonesia, and a lot of H&P comes from there. It is 60% of the sales. There was also an increase in interest rates between start and end of the year in Singapore of 32 basis points. Again, with the reorientation of the focus of our Singapore sales force into H&P, the economics worked against that underlying growth. Of course, in Malaysia is the third place we sell a lot of H&P, and interest rates were up there as well by ten basis points. That is what has held it back. It is only 20%; some of it is optical because of that particular mechanics.

Now, our free surplus generation, yes, that is a nice problem to have. If it turns out as you predict, yes, then we will decide how we use it at that point.

Andy Hughes (Macquarie): Hi, thanks very much. Three questions, if I could. The first one is on the UK. Obviously you have got £170m benefit from longevity reinsurance on £8bn of liabilities, but you still have £22bn of liabilities which are still on CMI 2014. If you move to CMI 2015 at the end of the year, which is quite a lot lower in terms of improvements, presumably you will get a big IFRS benefit then as well, so how should we think about that?

Second was a kind of follow-up question on the FCA investigation and the work you are doing there. If there was any compensation to be paid, would a large portion of that come out of the estates? Could you just confirm that?

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

Final question, M&G: obviously you talked about institutional pipeline of inflows. Is that not enough to offset the continued outflows from the optimal income? On the cost income ratio, guided up, are there cost savings embedded in that or is that something you consider? Thank you.

Mike Wells: Andy, on Asia, that was my decision. That is about as much details we can get. It is similar answer on the FCA. There is zero upside on us commenting about a regulatory process. We have an ex-regulator in the front row nodding his head going, 'Yes, Mike, stop talking now.' We take it very seriously. We interact with the regulators in all our markets frequently. This was an industry-wide look. The underlying product has done extremely well for the client, 1, 3, 5, 10, so we will do everything we need to do to work with the regulator to get this through. Publicly commenting on the process is something they asked us not to do, so that is as far as we can go.

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

Mike Wells: These are changes in longevity.

Nic Nicandrou: Improvements in the – or rather, reductions in the rate of improvement, which longevity is increasing. There are many in the industry that believe 2014 and 2015 are aberrations as opposed to signalling, if you like, a true change or improvement in the life expectancy of people.

Our reserving last year was on CMI 2012. We looked at CMI 2014. We have moved to CMI 2014, but we did it in a, if I could describe, a CMI 2014 'minus minus' basis, because in line with that conservatism and the caution that you would have heard from us throughout the whole presentation, we want more data before we can declare victory on that particular point. There is a small benefit coming through the numbers, but it is not significant.

We will see. If there are more studies and they confirm the trend, then we will move our assumptions but we have not moved them. We have moved them modestly at the moment.

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

As it happened, the outcome was fine, so I wish I could turn back the clock and unwind those, but it is not possible. We did it, they were a good value. We have no plans to repeat that, of course, other than to say if we ever needed to we would, the market is there. Of course, there is a trade-off, ultimately, by how much you can bring up-front versus ultimately what you lose in profits going forward. Those were the circumstances, they were unique. As I said, there are no plans necessarily to repeat that, which is why I guided you to look at that core line in the UK result and project from there.

Mike Wells: M&G.

Nic Nicandrou: Cost/income ratio: I was very specific in my words. I said, 'everything else being equal,' so to the degree that there are further cost actions we can take, management actually can take on the cost basis, those are not counted in the 60%

Farooq Hanif (Citigroup): Hi there, thank you. Can you just give a little bit more guidance on what you mean by the contingency plans for the Department of Labor? I mean, you talked a little bit about product and I know you do not want to share your full economics and plan strategy, but just to give us a bit more comfort.

Secondly, if in the US we move to kind of lower churn-type of model in the VA market, so we have kind of more stable AUM – and in the UK, it looks like we are going to have potentially net outflows unless you really ramp up in the bulk market – are we ever going to move to a situation where you see better remittance ratios in both of those two markets, so a way of growing remittance above surplus capital generation?

Lastly, very quickly: do you have an updated view on the forthcoming RBC changes for credit risk in the US? Thanks.

Mike Wells: Well, on the US regulation, it is a bit of the same answer on some other questions, so we cannot discuss product filings for both approval reasons and competitive reasons. We are not looking to coach competitors on direction they should go at this point. I think from the worst case DOL proposal, we backed into what would be effective strategies and how to get those to market.

I think the piece that is key in this, when you think of our US platform, is one of the absolute critical elements will be: who is going to help the most heavily hit in the worst case in an as-written DOL implementation, right? No softening whatsoever. Broker dealers really get hit hardest. Their business models take the biggest hit, in a very disproportionate amount of the IT and, you know, the biggest change in their role and position with the consumer.

There will be a need for someone to get those advisors in those firms technically up to speed and have systems and products that are compliant and so on. That is something we are very good at. The planning is operational as well as product, as well as training. It is multidimensional. Again, no desire to give competitors a view candidly on where that is going, and regulators do not allow us to comment on filings in the US as they would not here either.

The comment on churn, I am not sure where you are going there. The VA products in the United States, Jackson is the net sales. Let us be very clear: if you look at net sales tables, it is us, right? We do not have a retention of consumer issue with Jackson. I think that goes to quality of product, it goes to who you do business with, it goes to the returns the policyholders have been able to receive by not capping the structure of the product with an unnecessary volatility adjustment or fee structure that portfolios cannot support. The quality of the underlying product – this is true in the UK, this is true in Asia – gets you better retention. There is no way we win in this room of shareholders if the client does not win.

The US product is very good. It is by far, immeasurably, the best in the industry, okay? We are not trying to chase our own outflows in the book. I used to hear, 'Well, that is because you are a new entrant.' We have led the net sales league tables since we started. It is not just that. We now have a book at scale, we now have a distribution at scale; we have all the elements that any of our peers do, and we still positive net inflows. That is how you are getting earnings growth, with us managing the total risk exposure to absolute sales.

Now, we are looking at that again, taking a more sophisticated look at our risk appetite in the US, and we will keep you informed on that. Because not all sales have the same risk, right? If one has a 3% guarantee and one has 5%, that is two different risks to us as shareholders.

Again, we will look at that, but I am not sure I understand the nuances of churn.

Nic Nicandrou: I think the point that Farooq was making, if there were fewer moving parts, would there be more stability in free surplus of profit and therefore can there be higher remittance ratios? That was the question. Well, I kind of admire your optimism. I hope you are right. Yes, there may be fewer moving parts, but there are still a lot of moving parts, which is why in the past we have resisted giving you targets, financial objectives, for any parts of our UK business, because they were selective, or any parts of our US business because it is cyclical. All we promise is to do the best in the circumstances as we find them. As I said a minute ago, there are still many moving parts that could influence those KPIs.

Now, as it relates to the remittance ratios, they are the not top numbers that they can be. We never said that that is the case. We have them in a place that is comfortable in order to leave enough capital behind to buffet any market events. They are also informed by what we actually need at the centre. They are not, if you like, indicative of the best percentage that at any given point in time we can deliver. They have gone up and down. They have been higher actually at the time of crisis which is exactly what you want, you want that flexibility at that point. On RBC, Chad?

Mike Wells: The changes in RBC?

Chad Myers: Yes, so the changes on RBC, they are still not defined at this point, so the NAIC is kind of a slow moving entity. We do not know yet exactly what they are going to do. It is going to take typically a few years to implement. Generally speaking, the direction that they are heading would tend to, across the industry, move RBC a little bit lower. It really depends on how they shake out. There are some differences between what is in the investment grade, non-investment grade world too, so they are just making it more granular.

I think wherever it shakes out, it is going to be similar to what we have seen in the past, which is if the charges become more onerous and RBC drops, the industry will adjust and I think the rating agencies will adjust to the kind of new normal there. It should not really change anything in the long run.

Gordon Aitken (RBC): Thanks. Just on the reinsuring of annuities. You have reinsured some in-forced annuities there: I just wonder what the difference is with reinsuring new business? Because obviously you have said you have stepped away from that.

The second question is on, if I can understand the thought process behind the special? Obviously it is quite unusual for you to do this. I mean, if it is a one-off gain, then pay a special, but this is a little bit different in that you are essentially giving some profit away to the reinsurers. It is a change in the shape of the cash flow, so it is more up-front and you mentioned a £25m drag. Is it to do with this, or is it just a signal that our balance sheet is strong enough?

Mike Wells: Let me address the one-off and then cover the reinsurance in-force. I think that the discussion around the boardroom, as Nic said, the reinsurance was precautionary going into Solvency II. This was a work in progress until approval. That being the motivation for this piece, it effectively, to your point, pulled forward earnings belonging to the shareholder. If you look, you adjust for tax and they have been paid out. It also goes to the general view, though, that if we have excess capital, if we have earned it, we are open to paying it out. Again, it is earning it first. It is having it in-house first and then paying it.

I have not seen a piece on risk-adjusted dividends. I think if someone is bored on a Sunday, it would be an interesting work stream. I think as long as we make our earnings drive dividend and, again, cash is driving dividend, we have a highly sustainable dividend relative to peers, and we are doing that while we are growing the company at the numbers we are seeing.

That balance is critical, but the first piece – I have been here when we had an unsustainable dividend. Part of that is personal experience. We want you to be able to count on that. There is an element of – you are going to keep hearing this conservative coming up, conservatism. It is real, but we also understand that at a point it is unnecessary. There is a balance in here, and we will keep working to that. However, if we have excess earnings, we will pay them out. There are multiple mechanisms, Gordon, we could have used. In the US, there would have been a share buy-back. That drives other metrics that may or may not be things you want to move. Cash is a simple, clear message: it is your earnings, pulled forward, here you go.

Nic Nicandrou: On the reinsurance: look, post-1st January, given that we do not have the benefit of a transitional, the capital that has to be actually utilised and then priced into an annuity contract going forward is very, very onerous. Where the interest rates were at the end of last year, it would have been somewhere between 20–25% of premium. Where interest rates are today, it is greater than that.

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

On the back book, candidly, it was to increase. There are many factors: the fees were attractive, the trade-off between the fee that we ended up paying to the reinsurer and, if you like, the PADs that were released into the various capital bases were sufficiently attractive. At the same time, it increased our resilience. Part of the reason that, when interest rates are a lot lower in the UK, the sensitivity is unchanged in the UK, is because having pulled the levers we have muted that sensitivity to the impact of the market effects. That is part of the reason why, at the end of February, we were only down about £1bn.

You take all of that into consideration. We think it was the right thing to do for the back book. For the front book, it is just that there are easier ways of using our capital and generating returns. That is what underpins our stance in that particular space.

Abid Hussain (Société Générale): Two questions if I can. Firstly, on China and Hong Kong: is there a risk the Hong Kong business is cannibalising the JV in China? Especially if I can just jump on a plane and go across the border and the trust in the rule of law is higher across the border. That is the first question.

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

Mike Wells: China, Hong Kong, Tony?

Tony Wilkey: Yeah, is there a risk of Hong Kong cannibalising China? With 1.3bn people there, I am not sure there is at this stage. I think it is probably worth nothing that the mainland Chinese consumers who are purchasing products in Hong Kong are slightly different. The lion's share of them come from Guangdong province which is the neighbouring province, formerly Canton, where most of the JV business is actually coming from the eastern seaboard, Shanghai, Beijing. We just opened a new branch in Hunan. Actually, it is a different geography and it is also a slightly different socioeconomic, so we do not see any cannibalisation at this stage.

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

In relation to the in-force book – and again, it is difficult to generalise – on average, the guarantees are around the 3% level. The crediting rate on average have about 20, 25 basis points' headroom against that guarantee level. They are backed by assets that deliver 240-odd basis points on top of that, which is ultimately what drives after RMR deduction.

Of course, they are backed by securities that produce that, and there is a good level of cash flow matching their own duration. The only issue would be if, for whatever reason, all these holders decided to extend well beyond the point at which we hold the assets. There are trades that we do to lengthen the duration of that. We have done that in the past where we needed to.

No, we are a long way away from that being a problem. Actually, people save for a reason; they cannot extend ultimately forever.

Alan Devlin (Barclays): Just one question on the Department of Labor. I know nobody knows what is going to happen to sales, but have you got any concerns on the in-force? You mentioned grandfathering, because that would materially impact earnings. Thanks.

Mike Wells: Well, there is no clarity on it. Earlier in a previous life I actually ran retirement services for one of the broker's firms, Smith Barney, and we bought Shearson. You had art, antique cars, people's mortgages, oil and gas, limited partnerships, REITs; all these products have been allowed over the years in retirement accounts.

It is unimaginable. It is possible. When Barry talked about a political reaction, if you said that all of these clients by year-end, whatever the timeframe is, this all has to be put into a fee-based asset manager relationship, the political reaction to that would be severe. I do not think the White House is looking for that. Not even the most extreme advocates of anti-advice, anti-active management people would see that as a good thing, but that would be the implication, okay? That is the question on grandfathering. It is clearly an issue in the market. People are very concerned about it.

The single best thing with DOL now is: get it out. We can deal with whatever changes they make. I hope they are more consumer-centric than the first draft. It would be nice to know the rules, and we will go from there. It is not helpful for the industry to be in limbo, and it is certainly not helpful politically for House Ways and Means, Senate Finance, Labor – these key committees – to be in limbo. That is not an efficient process.

It is clearly coming to an end. The grandfathering element, I think you would see the other bill probably passed.

Barry Stowe: There is a piece of legislation that was introduced in December with a broad Democratic support called Roskam-Neal. The effect of that legislation, if it were passed and survived a presidential veto, which would be almost certain, would be to completely undo the rule change. Again, the key there is that it is difficult, even with Republican majority, to override a presidential veto.

If you had grandfathering, the speculation is you would see Roskam-Neal attached as an amendment to the Puerto Rican financial bailout, which the president cannot veto. That would basically be: okay, if we are going to play nuclear options, here is the nuclear option from the other side. I do not think it will go there. That is a very inelegant thing to happen in the last 12 months of any presidency. I would be surprised if they went there.

Mike Wells: If you think about, Alan, some of the securities that can be legally owned: it is forcing a client to sell at this point in the cycle, and some we would effectively be forcing them to realise losses for no reason other than a policy change.

It is possible, but again I think it is fairly remote. We will see. The best thing for us: let us get it out there, let us react, let us get back to business, see what opportunities it creates, go from there. We are ready.

Ashik Musaddi (JP Morgan): Yeah, hi. Good morning. Just a couple of questions. One on UK: can you give us some thoughts about where your UK capital ratios are at the moment? I mean, you gave the Group number, 180%, but where would the UK number be? Would it still be above your comfortable level which I think is around 130%? I think that is what you said at the investor day. That is number one.

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

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

Nic Nicandrou: Okay. On the UK, it is in our range. It is in the range of that I highlighted in January.

On the percentage of spread, it is 45%. That is what is coming through in the surplus. I mean, it is 58 basis points in the base. It is 172 basis points in the SCR, in the stress. When you translate that into percentages, it is around 45% in the SCR.

Mike Wells: Chad, do you want to do hedging costs?

Barry Stowe: As you would expect, the hedging cost has gone up a little bit for certain transactions. Nothing so significant that it has impaired our ability to put the hedges in place that we think need to be in place, and the programme still performs well. I mean, in terms of the scale of the increase, I do not know if it is that easy to quantify actually.

Chad Myers: Yeah, I guess two things there. On rates, because we are tending to be and have been for years on the shorter end – call it two years and in on the most of the hedges we are buying – the fact that long rates have come down has really not affected anything. Actually, the two-year rate is actually a little higher than it has been for a while. So the rate side of it has been somewhat helpful.

Volatility has actually been a fair bit lower than we saw last year, so it is manageable. It has been a short-term spike, and we adapt. I would say very minimal impact.

Mike Wells: Okay. With that, I want to thank everybody for your time today, your questions and appreciate all your support. We will see you in six months. Thank you.

[END OF TRANSCRIPT]