Prudential plc 2014 Full Year Results

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Introduction

Paul Manduca

Chairman – Board of Directors, Prudential plc

Good morning and thank you for coming to our investor presentation this morning. You will have seen the announcement we made this morning alongside our annual results for 2014, and the announcement made by Credit Suisse. Of course the Board is sorry to lose Tidjane as Group CEO, but understands his desire to take on a new challenge in a new environment after seven very successful years at Prudential. He has made an outstanding contribution to the success of this Group in recent years, and that can be seen in today's results.

We are fortunate to have a strong management team beyond Tidjane. The board also has a rigorous succession planning process, and that is now being implemented. We believe we will be in a position to announce the name of a new CEO very shortly. You will, of course, be aware that the appointment is subject to regulatory approval.

That is all I am going to say. I am going to pass over to Tidjane. Thank you very much.

Business Review

Tidjane Thiam

Group CEO, Prudential plc

Opening remarks

Thank you, Paul. Good morning to all of you, thank you for being here. Those of you who know me know that I will not miss an opportunity to point out that today is kind of a tail-event, because we are the day after Arsenal beat Manchester United at Old Trafford, so that puts me in a particularly good mood; it does not happen very often.

Anyway, again: good morning. We have had a broad-based performance in 2014, a really good year, and if you look back to what we said in 2010 – growth and cash – I believe it is the fifth consecutive year where we have delivered on both commitments. So what I intend to do in my section is to give you the highlights of our financial performance in 2014. I will also cover the usual BU-by-BU overview, then Nic will take you through for financials, and I will come back towards the end for the outlook before we move to Q&A.

2014 full year financial headlines

Growth

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

New business profit, which is something we have always looked at more closely than APE, is up 10% at £2,126 million. We are satisfied with this number, given the low interest rate environment and the long-term interest rates going down in 2014, and also, as you know, the fact that in Jackson we have a sales cap, a self-imposed sales cap. So in that context, to grow at 10% is very pleasing.

Cash

The third thing we have encouraged you to follow and judge us on is really cash through free surplus generation, which is part of our 2017 objectives and which is up 9% at £2.5 billion. It is a number I will come back to; for me it is fundamental, but this Group, in the way it operates, generates in excess of £2 billion every year. That is core to our strategy.

Finally, we have been able to increase tangible returns for shareholders. By that I mean the dividend, which is rebased upwards by 10% to be at 36.93 pence. That said, we reiterate that our dividend policy has not changed; I am sure we will come back in Q&A, but it is always the same, and this rebase has only been decided by the Board because of the strong operating and financial performance of the Group.

Capital

If we move to capital, whether it is on almost in this last year the old regime – the IGD regime – we have a cover of 2.4 times, at £4.7 billion, after a number of IGD-costly moves in 2014 that Nic will come back to, from the SCB deal to repaying the hybrid debt. On an economic basis – on the same basis we presented it last year – we have 218% solvency from 257%.

We believe that these numbers are the translation of our strategy, which has been unchanged. You have heard us say the same things for a number of years, and we believe this strategy is robust, works across the cycle and delivers a good result.

Group

2014 backdrop

2014 is a good illustration of that, because if you look at the backdrop of 2014, it has not been without its challenges. Certainly in my years here I do not remember a quiet year. We go around the globe, from challenges in Asia from the Umbrella Movement, the Hong Kong protests, which worried a lot of you. There was the coup in Thailand. In Indonesia we got flooding at the beginning of the year, and the election that had a huge impact on consumer confidence in Indonesia. You have the FX depreciation across the board, in excess of 20%; these are very significant market moves.

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

2014 dashboard

So it was not an easy year, and this makes us reasonably happy with the numbers we have been able to deliver. Our job as management is to try and deliver for shareholders good results even against headwinds, and if you look at the progression by BU in 2014 you see that

Asia IFRS is up 17%, and eight of 11 business units in Asia had double-digit growth in IFRS profits.

If you look at the US, it is again a really bright spot with a record remittance, US$680 million or £415 million. To put this in context, in 2006 the total remittances from all the businesses to Prudential in the UK, to the centre, were £99 million. So that gives you a sense of the scale of the transformation and the performance of Jackson there.

So 2014 was 45% up on 2013, and 2013 was 17.5% up on 2012, so it has been really over three years a very, very strong progression. You know that we believe that the proof of a pudding is in the eating, and cash is the ultimate measure of everything we do, and, by that metric, we have done very well.

If you look closer to home here in the UK, PruFund, which is really our with-profit product, a very strong progression in 2014; +27% in funds under management, to reach almost £12 billion: £11.6 billion. For a single fund in the retail UK market, that is an amazing performance.

M&G was up 13% in profits, at £446 million for M&G. Again, if you look back a few years ago, you would see that the entire Prudential used to make £600 million or £700 million a year. So M&G has become almost as big as Pru used to be.

Higher quality and growing earnings

We believe this validates our strategy, and I think it is the illustration that the strategy we put in place works. One thing we have talked to you about for many, many years: I remember when we starting doing this in 2008 – the first time we did this disclosure – there was just one bar, the sources of earnings. We have told you that we would work hard to decorrelate, to the extent possible, our earnings from interest rates, and that is what we have done. Put the emphasis on fee income, the emphasis on insurance income; the sum of the two have gone from about 50% of the initial 2008 total to 74% today, and the total bar has more than doubled in the process. So a CAGR of 19% over eight years for the two together is very, very significant, and it has really transformed the nature of our earnings.

We do not really like spread income, because we think that it is risky, often underlying that our products with interest rate guarantees is guaranteed returns, it is capital intensive and it is very exposed to the economic cycle and the interest rate cycle, and we de-emphasise it. Actually, when we write that type of business, as you know, we tend to put it in the with-profit fund where we have a comfortable capital buffer. So this is really underlying; if you have valuation multiples, spread income is on a relatively low multiple. A lot of the re-rating of the stock has been in the ability to deliver this changing profile, which makes us we believe quite different from most companies in the sector, which have anywhere from 50% to 80% of their earnings from spread income. The lucky part is that we have done that at the time when interest rates went to one of the lowest points ever, so it certainly has increased the distance between us and others.

2017 objectives

However, it is really this consistency in the direction of the journey and in performance that supports our confidence that we are going to achieve our 2017 objectives. If you think about it as a ten half-year period, we have done four, so we are not even half way, but we think that we are tracking well and it is encouraging.

Regulation

Moving on to something I know which is on your mind, which is really capital and solvency. The first thing I would like to say is that the first source of capital in business is to operate profitability in a cash-generative manner. All our efforts in terms of running the company with a strategy or a business model is to make sure that we deliver every year positive cash generation. It was at £2.5 billion in 2014. We actually believe that that will allow us to grow our way out of any capital challenge, because when you are progressing at that pace – and again, Nic will give you more colour on that – you cannot really get in solvency trouble. We believe that whatever lengths you adopt for solvency, that strength will come through; cash is cash is cash is capital, and that is that. So we have designed the model; that is why we are so relaxed about it and quite confident, because we know we can operate at that level and think that there is plenty of upside there. This is with interest rates – long-term interest rates – at a very, very low level. We can generate £2.5 billion of cash.

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

Those are the structural deficiencies of the framework. You see that a lot of the discussion and lobbying has been actually on mitigating, either through countercyclical buffers or it is matching adjustment or others. It is to mitigate, at the extreme of the cycle, the impact of that approach. So accepting that, we are also very pragmatic, even if we are not convinced that it is the right way to look at it. It is going to be implemented on 1st January 2016, so we do not have a choice, but we believe, even taking into account that there are still some areas under discussion with the regulator – and I have to stress it is a positive and a constructive dialogue – we are very happy with the engagement we have with the regulator on that.

There are mainly two issues there. One is around the recognition of the Asian surpluses. We are a very Asian company, we produce very significant material surpluses in Asia, and the regulator must make a determination on how much of the surpluses it is going to recognise. Our view on that, again from an economic value perspective, is that those surpluses exist in absolute terms, and they belong 100% to a shareholder. The debate on how much of it is recognised here in London is not economic, and it will not change the economic reality. So we accept that there is a discussion on that, but we are saying it does not affect the underlying economics. Those surpluses are sitting where they are sitting and they are accruing to a shareholder through the share price. You can see it in the share price, you can see it in the valuation of our Asian business: those surpluses are real.

The other discussions are on the calibration really of things like credit and longevity, and they are ongoing; however, the message – the key takeaway – on that is we are running a highly capital-generative strategy and business model, and we think that the result will be manageable. That is the word we want to put to you, manageable – i.e. without major consequences on the way we run the Group, our strategy, or on our ability to reward shareholders – and Nic will come back to that and give you those sensitivities with more numbers. That is all I wanted to say at the Group level.

Asia

Consistent performance

If we move to the business units, this is another chart that you have seen over the years. It is quarter-by-quarter sales in Asia. Again, when we started it there were not many bars, and there are now quite a few. We have had 20 quarters of growth; that is five years, and to us that is really the power of the story. It illustrates very much the power of the platform and the diversification we have in Asia, because if we wanted to make a very busy chart we could have put all the challenges we have had over the years, from the Indian market in 2010, from challenges in Korea, from Indonesia this year. I do not remember in my time in the company a quiet year in Asia, and Barry and his team have been able to deliver for you a straight line through that. Really, that is just diversification and the quality of our platform, and the quality of our distribution force, which has allowed us, if you look at the numbers, to double basically the sales between 2009 and 2014, and the profits in the same period have effectively more than doubled. Focusing on Q4, you can see the size of that bar, see the very strong rebound in our numbers in Q4 in Asia, and I think that came through in the results you saw this morning.

Country highlights: big units

I would like to give you a bit of colour on how it happened, looking at some of our key markets, starting with Hong Kong. I remember many discussions about Hong Kong being a mature market. Well, it was up 39% for us this year, year-on-year. More pleasing inside that is that H&P – Health and Protection – has taken off. This is something we have always wanted to do. You know that our profile in Hong Kong is very effective by the fact that we have a with-profit fund, the profit emergence is slow, and we have always had an ambition to inject more Health and Protection in there. Barry has launched two products, PRUmyhealth crisis multi-care and PRUmyhealth crisis lifelong care, which have been very successful, and actually H&P sales were up 50% year-on-year in Hong Kong. When you see the size of Hong Kong, it is actually our largest business. To grow your largest business by 39% and 50% is quite an achievement.

Singapore, the other very large business in Asia, did well. Agency APE is up 16%. You know that actually the market grew less on that, so we have gained market share in Singapore. Within that, SCB had a very good year also, up 12%. So we are, again, pleased with our performance in Singapore, which is growing very nicely in double digits and very profitable.

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

Those are the three biggest units, but we also have a range of smaller units that are coming up.

Country highlights: smaller units

China has made it on those charts because growing at 30% per annum for a number of years will take you to a good place. IFRS was up 30%, APE was up 35%, and again here the H&P theme is there, with Health and Protection, which are very helpful for bottom line, up 43% in China.

The interesting thing about China is we disclose only our 49% holding. If you put China on a 100% basis, it is my pleasure to tell you that China is now our fourth largest business in Asia, so it has taken over Malaysia. That is a major development for us, and it is continuing to grow very, very strongly. So the patience I think we have displayed there by not selling down and continuing is starting to pay off, it is starting to have a material presence on our scale in China. That is going to continue to grow.

The Philippines is kind of our little darling in the region. You know that it is a great economy. Over the next three years we have a best-expected economy growth, GDP growth in Sweet-spot Asia, earnings up 75%, and you know we focused on growing our regular premium and Health and Protection sales in that market, which were too low. 30% up regular premiums, great promise of future profits, and Health and Protection up 36% again.

Finally, Thailand, we had our first full year we have had with Thanachart, so 12 months we have done with Thanachart. APE is up 36% and IFRS earnings up 10%.

So Asia has a first division doing very well, and a second division smaller but growing faster and catching up, and we always believe that in the end we are all going to end up in first division, we hope.

Bancassurance

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

Eastspring

Asia is not just Life; what I have said up to here is about the Life business. It is also Eastspring, and Eastspring has had simply its best year ever: £5.4 billion of external net inflows. That is almost on the scale of M&G. It is remarkable. You see the funds under management going up 28%, £77 billion, and behind that the profit going up 32%, getting close to £100 million, which is kind of material for a business we built over the years and started from nothing. Actually, Eastspring is now the largest onshore retail asset manager in Asia; I am quite proud of that. Again, Barry, Guy and the team have done a great job on this.

Delivering earnings and cash

Now, what I said on asset management, do not get carried away. We know it is a cyclical and volatile business, and it is very much driven by markets, so we always have a word of caution there against projecting those trends as they are, but is still a very, very pleasing result. So if you look at Asia as a whole, again IFRS profit is now comfortably above £1 billion, at £1.1 billion. Again, a few years ago the Group was making £600 million or £700 million as a whole, so that is again a remarkable transformation of Asia, and cash generative, with almost £600 million of cash, at £592 million, up 15%.

Summary

So, it was a really good year, with strong delivery in 2014 in Asia in a challenging context. I will remind you all of these numbers were produced against overhead winds we talked about in the region last year. Disciplined execution by the team, a high quality pan-Asian platform, and we believe the business remains well-positioned to deliver long-term, high-quality profitable growth.

US

Successful diversification

Moving on to the US, I will go back to a chart we have been using now for two or three years, but the good thing is that we are building more data points. The evolution of the VA sales in the US has been nothing short of remarkable. Very, very strong – we went from £6 billion six years ago to about £23 billion this year – but the true story is inside those numbers. If you look at the grey chart, these are the GMWB, so the VAs with living benefits. We keep emphasising that actually since 2011 they have been flat, and that is deliberate. They are moving up and down, US$15.1 billion in 2014, but this is a point on which we are bit sensitive. We believe that we are controlling that volume of sales; Mike and his team are well in control of that. They are very proactive about it, they have a budget every year and they deliver on that budget, and we think that it is absolutely supported by the data.

They have not just done that. They have been innovative. They created Elite Access. Elite Access took US$5.1 billion in this year of sales. Since it started three years ago, we have sold now US$10 billion of this product. I say to Mike they have created a market, because in VAs it is the number four product on a standalone basis across the US market. In Elite Access alone that is a commercial success; that is a testament of the product development skills and the distribution power that Jackson has.

Finally, you have the VAs without any living benefits in dark blue. So we have been able to pull this trick of combining controlled risk consumption with a continued increase in the top line, and that is what drives the economic performance of a business. If you look at the non-living benefits VAs, they have gone from 11% three years ago to 34% now, and that is a very, very good development. It is also as a whole a more capital-efficient mix, and you will see that when Nic talks about the new business strain.

Proactive management

So, low interest rates of course are always a discussion. We have given you a US ten-year Treasury yield here in blue, and we have put that against the fee income. Again there, if you look at 2006 numbers, US$177 million of fee income, US$1.4 billion this year; it is a remarkable performance. The fact that we have driven both the volume and the product characteristics to generate this type of profitability in the low interest rates environment is one of the things that gives us confidence that this is a robust business model that can survive and do well across the cycle. No better proof of that than my favourite chart, the cash remittances from Jackson.

Successful execution

There is nowhere to hide. At the end of the day, we have told you to judge us on the cash generation. These transfers have been made with a strong RBC; we are at 450%, 456% at the end of the year, and US$680 million of transfer. I do not have anything to add to that. It is a remarkable performance.

UK

Steady progress

Moving on to the UK, Jackie and the team have had a challenging year. You have seen what happened in the market with the Budget announcement. In that context we are really pleased with the performance: Life IFRS profit up 7%. We have put in grey there the in-force. It is obvious that you all know this, but I will just repeat the importance of in-force in the profitability of a company like ours. Yes, there is a lot focus on new business, and that is what generally is commented upon, but really most of the value is in managing the in-force, and the business is very good at doing that. That only happens as a result of good discipline, cost discipline, expert management; that is what drives these numbers. So we are very pleased we have got £614 million.

At the top, you see the decrease in the retail annuities profitability from £110 million to £57 million, and the very strong activity we have had in bulks. I will again insist one did not drive the other; this was just a very good year for bulks. If the conditions for writing profitable business had not been there, we would not have written that business. We did not write it to make up for a fall in annuities, we wrote it because there is very strong demand for bulks. Jackie has one of the best teams in the market, and there are customers who will pay a premium for the safety of Prudential and for the name of Prudential. That is where we like to play, in the very big schemes where people understand the value they are buying and are willing to pay a premium price, but then meets our hurdle rates in terms of capital location and deal and trade with us. So it has been a really good story.

Strong product proposition

The other bright spot really in the UK is the with-profit. I know we keep surprising by talking up the with-profit, but we have no reason not to talk it up. If you look at what does it do, it delivers controlled volatility and returns; that is that red curve, and that red curve is against the fund comparator that is relevant, and you can see the out-performance. We have out-performed the FTSE, and of course investment performance in the retail market drives net flows; the net flows have been very, very strong. We were, just two years before, at £7.5 billion; we are at £11.6 million. We did +21% followed by +27%. This is where we think the reform is driving increased savings. We think that is linked to the environment where consumers are actually incentivised to save more. We have a great engine, a great vehicle for the savings that we wrap in different wrappers, but fundamentally it delivers good investment performance and therefore attracts flows.

Preparing for regulatory change

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

If you move to the savings space, we told you we would develop proof on ISA, so put the with-profit in an ISA. That has been done. The indications I have from the business is that the applications are very, very strong ahead of 6th April. We are only going to put it through after 6th April, but it is very strong, a very strong pipeline, and Jackie can give you more colour on that.

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

M&G

Successful diversification and strong track record

So the UK for us is always UK Life, but also M&G. Look at M&G. This chart is familiar. In red is the external funds under management. We went from £70 billion in 2009 to £137 billion in 2014, so it has doubled. In the same time, Michael and his team have grown profits. You can see on the next slide the progression in IFRS profits have more than doubled between 2009 and 2014 to arrive above £400 million.

Group

Long term track record

So bringing all this together, I just want to look at our three usual metrics: IFRS, NBP and cash. At the Group level, we are pleased with this performance. It has been over a long period of time, which is really the main thing, because it is possible to do one or two years, but this now can be called a long track record of very strong performance. Profits have trebled since 2006; IFRS went from £1 billion to £3 billion. We insist, again, on the consistency of the strategy. We have been, quite boringly, telling you about the same things, and I am afraid we will continue to do so.

With new business profit, we see the same thing: a more than three times increase between 2006 and 2014. Also, free surplus generation – cash generation – has grown from around £0.5 billion to £2.5 billion, which we believe is a very natural evolution because you start with NBP, it goes into IFRS, it goes into cash, if you are disciplined and if you execute well, which is what we believe we have done.

With this I will stop, and let Nic take you through the financials.

Financial Review

Nic Nicandrou

Chief Financial Officer, Prudential

Introduction

Thank you Tidjane and good morning everyone. In my presentation I will provide you with a detailed look at the drivers of our performance in 2015 and give you an update on our capital position and on our balance sheet.

Key financial highlights

FY14 continued strong performance

Starting with the financial headlines, the Group delivered a strong performance in 2014 with good progress across all of our key growth and cash financial measures. We achieved this against a backdrop of lower global yields and continued volatility in currency markets. Operationally, we faced a number of country-specific challenges in Asia and unprecedented levels of regulatory change in the UK Life market.

Despite these headwinds, and after allowing for the currency translation effects, IFRS operating profit increased by 14% to £3.2 billion. Free surplus generation was up 9% to £2.6 billion. Post-tax new business profit rose 10% to £2.1 billion, and embedded value operating profit also on a post-tax basis rose by 4% at £4.1 billion. Both new business profit and EEV operating profit were adversely impacted by the decline in yields, absent which the year-on-year improvement in these performance metrics would have been 14% for NBP and 11% for EEV total.

Currency mix

Currency translation effect

Foreign exchange was a feature in our headline results during 2014. When reporting the performance of those businesses that generate earnings in US dollars or in various Asian currencies, collectively these businesses now produce most of our earnings. The effect of reporting these overseas results using the stronger average sterling rate during 2014 is shown in the red bars on the right. As we have said before, this effect is purely translational because in all cases we run local-currency businesses where assets and liabilities are currency-matched and we have no transactional cross-currency exposures.

Therefore, in line with the approach that I adopted at the interims and for the purposes of today's presentation, I have re-expressed the 2013 comparatives on a constant exchange rate basis. This slide summarises the effect of this retranslation on the four financial metrics that I am about to cover, with the impact coming from Jackson shown in dark blue and that coming from Asia in light blue.

Key financial highlights – broad based growth

With this covered, we can now focus on the underlying drivers of our performance. Turning to the contribution of our four businesses to each financial metric, you can see on this slide that the improvement in performance was broad -based. Asia delivered an excellent trading performance, with strong growth across all measures, particularly IFRS operating profit and free surplus generation – the two metrics that form part of our 2017 financial objectives.

In the US, the benefits of our disciplined approach to managing the balance between growth risk and capital were evident in the strong improvement in the IFRS operating profit and free surplus generation. The two EEV-based metrics also improved, despite the self-imposed sales cap on certain products and the drag from lower US treasury rates.

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

IFRS – Group

Growing profit and improving quality: 26% ROE

I would now like to look at each financial measure in more detail. Starting with IFRS, total operating profit increased by 14% to £3.186 million, which represents a 26% return on equity. As you can see on the right, most of this increase came from our preferred sources of fee income and insurance or technical income. The rise in fee income was driven by growth in Jackson's separate account balances as well as the increase in funds managed by M&G and Eastspring. The improvement in technical income reflected another year of strong Health and Protection growth in Asia and a higher contribution from REALIC. Spread income grew at a more modest rate as we seek to reduce the weight of this interest-rate sensitive source. Operating costs have also increased, but at a lower run rate than total income, demonstrating once again the operational leverage in our business. In 2014 therefore, we increased both the scale and the quality of our IFRS operating profit.

IFRS – Asia

Continued strong growth in Asia life profits

Turning to the IFRS results for each business, and starting with Asia, our overall profit was up 17% with strong underlying performances in both Life and Asset Management. Higher Life profits of £1.050 million reflected the increase in the scale of our operations across the region and our focus on regular premium protection-oriented solutions that address the needs of Asia's growing middle class. We measure the scale of our business by reference to policyholder liabilities, which as you can see in the top right-hand box increased by 20% to £26.4 billion as we added another cohort of regular premium new business. As a result, total income across the region grew by 10%, which outpaced the 6% increase in costs. We see therefore the dynamic that we have talked about before – that adding a high-quality new regular premium business to a large, profitable and sticky existing book, all processed through a scalable platform, remains a powerful underpin of our earnings momentum in Asia.

In 2014 Eastspring attracted a record £10.4 billion of third-party and internal-led flows, which together with positive market movements drove assets under management to a new high of £77 billion. Fee income increased by 20% in line with the growth in average AUM, and with costs rising at a slower rate the overall IFRS profit was 32% higher at £90 million.

IFRS - US

Jackson Life growth of 21%

In the US, IFRS profit was up strongly at £1.443 million, driven by a 21% increase in Jackson's Life result. The improvement in Jackson's profitability has been accompanied by a positive evolution in the sources of earnings, with fee and technical income growing strongly, as shown in the chart in the top right.

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

Technical income benefited from an increased contribution from REALIC of £216 million, up from £178 million in the previous year. REALIC is now equivalent to a third of the technical income block shown in blue.

Jackson's fastest-growing source was fee income, driven by the growth in separate account balances, which is illustrated in the chart in the bottom-right. As you can see, the increase to $127 billion was mainly due to $12 billion of business inflows. Elite Access contributed $5 billion of this $12 billion and represented just over 8% of the separate account assets at the end of 2014.

Finally, the profit from other US operations is lower at $12 million, reflecting the fee refunds in Curian which we covered at the interims.

IFRS – UK

UK Life growth of 7% in challenging market

Turning to the UK, the improved performance was driven by the Life result, which increased by 7% to £752 million. This result was underpinned by a resilient contribution from our two core sources of with-profits and in-force annuities, which were not impacted by the UK market reforms. Alongside the rest of the market, sales of new individual annuities declined, reducing the contribution to profits from £110 million to £57 million. Bulks, written on attractive economics, added £105 million to the total. We remain selective in our approach to the bulk annuity market and we will only write the business where returns are sufficiently attractive.

As we move forward, we think about the profitability of our UK Life business in three blocks. The first relates to the season, and relatively stable results from with-profits and in-force annuities. The second relates to the contribution from new individual annuity business, whose size will ultimately depend on how consumer demand for this product develops after April this year. The third represents the profit from bulks, which will vary depending on the ongoing availability of sufficiently attractive deals.

IFRS – M&G

M&G IFRS profit up 13%

Staying in the UK and turning to M&G, IFRS operating profit was 13% higher at £446 million, reflecting the growing scale of the business. As you can see in the box in the bottom right, assets under management increased to £264 billion, driven by strong inflows and positive market movements. Within this total, retail AUM grew faster, at 11%, reflecting M&G's success in Europe, where it secured record net inflows of £8.1 billion in 2014. The higher overall level of AUM and the positive shift in business mix towards retail drove an 11% increase in fee income, which you can see in the box in the top-right.

M&G continues to invest in people and infrastructure to support the growth that we have seen in recent years. In 2014, the rise in costs was outpaced by the higher level of fee revenues, driving a small improvement in the cost-income ratio to 58%. The rate of investment will continue for the foreseeable future, which will mean that this ratio could rise in the coming years.

Net free surplus generation

Increasing free surplus generation

I will now move to free surplus, the primary measure of cash generation of our business. As you can see on the left, free surplus generation after investment in new business increased by 9% to £2.579 million. The key component of this was the return from Life in-force book, which was 19% higher at £2,276 million. This strong increase reflects the dynamic of adding another cohort of higher return, fast-payback new business on an already sizeable back book. The £314 million positive experience result reflected our ongoing success in managing the existing business for value. As I said last year, the comparative benefited from higher assumption changes, producing a result which was well above the run rate that we typically achieve.

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

Total new business strain was broadly unchanged at £606 million. As you can see in the bottom right, Asia strain increased, reflecting higher sales volumes and changes in country mix. In the US, strain benefited from proactive actions on commissions and favourable changes in product mix – higher Elite Access, for example. The UK's total new business strain includes £31 million for bulks, which represents part of the extra investment that we said we would make in the UK.

Underpinning cash to Group

This next slide shows how the 2014 free surplus flow has impacted free surplus stock, on the left, and cash on the right. As you can see in the chart on the left, after deducting remittances the overall stock is up at around £5 billion. However, as our business is now bigger, the level of cover that this stock represents is broadly unchanged.

Once again, remittances have been strong across all businesses. The impact of sterling strength against Asian currencies is now beginning to come through in the remittances from Asia, and you should expect this effect to carry through into 2015. Jackson's record remittance of £415 million was the result of its disciplined approach to managing the balance between growth, value risk and capital. M&G's higher remittance reflected growth in its overall earnings base. As previously flagged, the small decline in the UK remittance is due to the extra investment that we are making in response to the UK market reforms, which will continue through to 2016. As you are aware, remittances from our UK Life businesses are subject to regulatory approval, and notwithstanding the capital-generative nature of this business, I anticipate that securing approval will be more protracted this year as we transition from the existing regulatory regime into the new one.

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

Increasing free surplus generation

Before leaving this topic, I wanted to re-emphasise the reliability of our future cash generation by reference to the updated, undiscounted with-monetisation profile of our Life businesses. The dark blue bars in the top chart represent the end-2013 Life in-force book monetisation profile as we reported a year ago. The light blue bars represent the updated profile of this block one year later. These bars are now higher than before, reflecting positive experience and the effect of the stronger US dollar, which taken together have offset the impact of lower yields between the two periods. When we add the cash flows from the 2014 new business cohort, shown in red, we have an overall profile that is higher than the one we started with, evidence of the powerful velocity capital dynamics of our business.

We remain on track to deliver the £10 billion cumulative free surplus objective after financing new business over the 2014 to 2017 full-year period.

EEV operating profit (post-tax)

Operating return on EEV of 16%

I will now briefly cover the EEV results before turning to capital. On this basis, total operating profit was 4% higher at £4.096 million, equivalent to a return on embedded value of 16%. As shown on the left, the result is driven by our combined Life operations where the profits were up at £4,174 million, led by Asia. The bar chart on the right analyses the contribution to the Life total from new business, which was up 10%, and from in-force, which was flat.

As I mentioned at the start of my presentation, the decline in long-term yields during 2014 dampened both new and in-force EEV results by an estimated £90 million for new business and £187 million for in-force. This effect masks a strongly positive underlying trend.

Experience profits shown in the break-out box on the right remained a prominent feature of our results, totalling £470 million, while assumption changes were also positive at £138 million. The fact that experience and assumption changes are positive in each of our three main businesses confirms the high quality of our franchise.

Value creation through increasing NBP – up 10%

New business profits, shown on this next slide, increased by 10% to £2,126 million, with all three businesses posting year-on-year improvements. You can see in the table on the right that this improvement is primarily driven by sales growth, offset by the adverse impact of lower interest rates. All three regions continued to write new business at very attractive internal rates of return of more than 20% and short payback periods.

In Asia, new business profit increased by 13% to £1,162 million, driven by the higher volumes from our expanding distribution capability. Our NBP performance in the region is also robust and resilient, underpinned by 16% NBP increase from our Southeast Asia sweet spot and a 19% NBP increase from Health and Protection.

In the US, new business profit increased in line with sales. Product and pricing actions have defended our new business economics, which remain close to all-time highs despite the drag from the lower interest-rate environment.

UK NBP was 14% higher at £270 million, supported by a strong contribution from bulk transactions in the year. Retail NBP was 23% lower, due to a reduction in individual annuity sales mitigated in part by a higher NBP contribution from with-profit bonds.

Equity shareholders' funds

Summary of movement

Moving now to the rest of the profit and loss account, which is summarised here for both reporting bases. In 2014 the impact of higher equity markets and lower long-term yields produced a number of offsetting effects within the IFRS investment variance line, which came to a negative £0.3 billion.

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

As we move down the table, we see a positive £0.6 billion effect, reflecting unrealised gains on Jackson's fixed-income securities following the decline in yields. The stronger US dollar at the end of 2014 also contributed positively. So after the payment of dividends, total IFRS assets increased to £11.8 billion, up 22% in the year.

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

Economic capital

Economic capital model assumptions

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

We have updated the Group's economic capital results, which are based on outputs from our internal model. Other than replacing the liquidity premium approach with the Matching Adjustment principles for UK annuities, these results have been produced using broadly the same methodology and assumptions as last year. We continue to assume US equivalence and have included Jackson's excess surplus above the 250% RBC level. Our methodology recognises fully the value of overseas economic capital and incorporates a risk margin in line with the Solvency II requirements. Based on this methodology and assumptions, our economic capital at the end of 2014 was £9.7 billion, equivalent to a healthy cover of 218%.

Robust economic capital position

As you can see on the right, our business operations delivered £1.8 billion of economic capital in the year, equivalent to around 25 points of cover. As this capital measure is more market sensitive, the impact of the decline in UK interest rates is more pronounced, contributing to a negative movement of £0.9 billion. Therefore, before capital actions and notwithstanding the adverse market effects, our business performance drove an overall increase in economic capital.

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

The key messages here are therefore: one, that we are capital-generative on this risk-sensitive metric, re-affirming the positive cash and capital dynamics of our business; two, that the overall reduction in the level of capital was principally driven by deliberate actions in pursuit of our strategy; and three, that our year-end position remains strong, even in this historically low-yield environment.

Balanced risk exposures

We have updated the analysis of the economic risk profile of the business, which is broadly unchanged from last year and is not highly concentrated to any particular risk type. We have also updated the sensitivity of the end-2014 economic capital position to a range of market shocks, shown before the impact of potential management actions, which is important. Even though the financial impact of these sensitivities is a little higher than the previous year, which is due to the lower end-2014 interest-rate levels, the overall effect of these market stresses is manageable, reaffirming the resilience of our business model.

Before leaving this topic, I would reiterate that these results should not be interpreted as representing our Solvency II capital position. As I have already mentioned, policy remains unclear in a number of areas while in others it is ultimately subject to regulatory interpretation and supervisory judgement.

We have provided you with some indicative sensitivities in your pack on three key areas under discussion, based on completely hypothetical assumptions. These are: one, the impact of an artificial haircut to Asia's economic capital contribution to the Group total under the Solvency II fungibility tests, which as Tidjane has said, would not represent economic reality; two, the impact of calibrating UK credit and longevity one-year stresses above levels that we would deem appropriate; and lastly, the offsetting effect of applying transitional relief in the UK for differences between the economic capital and the Solvency I Pillar 2 position.

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

Balance sheet

Well-capitalised and defensively positioned

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

The financial strength of the UK with-profit estate remains a core part of our product offering, and this stood at £7.2 billion at the end of 2014, up from £6.8 billion at the start of the year.

The US RBC ratio has improved to 456% after covering the record cash remittance, underlying Jackson's disciplined approach to risk management. On this basis, the hedge programme was essentially break-even as movements in hedge assets and guarantee reserves broadly offset.

Finally, in response to your requests, we have provided you with some additional disclosure on our exposure to oil and gas, which in overview is well-contained, appropriately diversified and focused on high-quality names. For further details, please refer to the Appendix slides.

Summary

To summarise, we delivered a strong, broad-based performance in 2014 against a challenging backdrop. The Group remains highly cash-generative, given by the predictable generation of free surplus from our growing Life in-force book. Our capital position and conservative balance sheet remains a source of strength for our business and adds to our resilience. Finally, we are positive on the financial outlook of our business, and I have signalled our confidence in our future prospects through the 10% rebase in our full-year dividend.

I will now pass you back to Tidjane.

Outlook

Tidjane Thiam

Group Chief Executive, Prudential

Thanks a lot Nic. I am now, in the final part of this presentation, going to talk to you about our outlook, which is positive and confident. I will start with the basics – where we compete and where we are.

Group

Geographic footprint

We think that we have an attractive footprint. As you know, we have 24 million customers across regions, and our footprint is really Asia, the US, the UK and we see two spots in Africa where we are starting. We think the point about this is if you look at new growth rather than the stock of assets, where we are represents 63% of GDP growth expected in the next five years, and that is a great place to be.

Strategy

However, presence alone is not a guarantee of success; it is a function of your capabilities and having the right strategy. We have the right strategy. In those geographic areas we are focused on the right opportunities. It is the emerging middle class in Asia and its savings and protection needs, the US baby boomers who are transitioning into retirement, and the UK's very attractive asset management and savings market.

Significant growth opportunities

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

If you look at the US, we expect 16 million more retirees in that same decade, and that is more business for us. If you look at the UK, we expect the assets under management to increase to more than £1 trillion points, over the same decade. Again, it is the second-largest market in the world.

Disciplined execution

So, these are massive opportunities. We have the capability and the execution to capture them, and that is really covered on the next slide, where we give you the progression in our Health and Protection sales in Asia. In six years, they have more than doubled.

If you look at the US, again they have more than doubled in terms of sales and deposit by products, but you can also see that the make-up has been transformed. VAs in the dark blue, which were smaller than fixed annuities in 2008, are now more than three times the volume of fixed annuities, and that is again a transformation. I could also talk about M&G and its success in the retail asset management market.

Value creation

All of that is not really meaningful if it does not translate into tangible returns. The good news is we have been able through disciplined execution to grow that red bar, which is free surplus generation, and to keep the blue bar going down, which is the new business strain under control as the Group gets bigger. In absolute terms it has not really moved, which means that the light blue bar, the cash generated after new business strain, has been growing very nicely.

Delivering cash

This has allowed us – as you can see on my final slide – to have a very nice slope in the dividend and take it above the pre-crisis level, which for a financial services company is a good performance.

Summary

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

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

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

Q&A

Jon Hocking (Morgan Stanley): I have got three questions on capital, please. Just on the point about the overseas surpluses, are you including any surplus above 100% of local or are those numbers the same as you have got in the free surplus calculation for the EV?

Second question: presumably this does not impact remittances at all? This is purely an aggregation impact to Group, so you might end up with a lower Group number than we might have hoped, but from a business point of view, has no impact?

Thirdly, on the credit longevity point you mentioned, is that purely a UK issue? Is this a UK annuity book issue?

Actually, if I tack on a fourth one: you presumably have quite a lot of debt capacity, so if you did end up with a low ratio there is a very easy solution to all of this?

Tidjane Thiam: Okay, thank you, thank you, Jon. The easiest is the credit longevity, so I will take that. That is UK. I should have said UK; it is specifically UK.

Nic, do you want to take the overseas surpluses? Where do we take them?

Nic Nicandrou: Sure. The overseas surplus in Solvency II is a completely different calculation. What we do for our own free surplus calculations is we look at tangible assets and the extent to which those exceed on average about 130% of local minimum. That is the definition of free surplus, and the 130% is what we think across the region we need to hold relative to local minimum.

Solvency II just looks through completely. It is a completely different calculation. It allows you to put a realistic value on your reserves, and candidly, when you are talking about a lot of health and protection business, that realistic value uplift is significant and it throws away the local requirements, or an uplift on those, and replaces them by a one in 200 stress, which we then calibrate taking each risk and modelling that out and applying that diversification benefit. So net-net, Solvency II gives an answer that is bigger in terms of available capital or surplus in Asia than either taking 100% or the level that we apply. In reality, it does not change the distributions from Asia one jot, because those distributions will be determined by reference to the local regulatory regime.

So Solvency II is interesting and it is relevant for Asia, but does not change the way we think about that business or indeed what capital can be remitted from that business. Therefore, whether there is a haircut or not against that does not affect it. That is why we said it is uneconomic.

Tidjane Thiam: That is the central point, really. So the remittances are driven by local solvency. We have spent a lot of time building the local solvency to a level where capital can flow freely and it is not a constraint. So there is no connection there.

Jon Hocking: Can I just ask a follow-up? You mentioned the sensitivity in the press release, and I have not had a chance to dig through the press release yet. So you are saying that even though these are not equivalent regimes in Asia, your economic capital number recasts them on an economic basis; you are effectively including larger economic solvency than might be there on a local regulatory basis?

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

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

Blair Stewart (Bank of America Merrill Lynch): I have a couple of questions, please. On the fungibility issues, I think you gave us 20% sensitivity in the pack. I just wonder how we should read that 20% number? Wouldn’t one answer to the fungibility concerns from the regulator be to change your policy in the way that you remit capital and just remit as much as you possibly can, rather than just what you need? Just to prove the point on that issue.

Your sensitivities on economic capital to interest rates have broadly doubled, I think. Could you talk a little about that? Is it just a function of where rates are? Have you changed the methodology there at all, please?

Tidjane, I will probably ask the inevitable question, because I will be asked this question many times over the next few months: why are you leaving a big company like Pru to join a relatively small company like CS?

Tidjane Thiam: Okay. Thank you, Blair. Okay, fungibility and the sensitivity we gave?

Nic Nicandrou: I wanted to stress that they were completely hypothetical. I mean, candidly, until we go through the discussions, until we formally apply for the internal model, I would mislead you if I said anything other than the fact that it is completely hypothetical. I want to reiterate that this is purely the fungibility test in Solvency II that says you must demonstrate somehow that you can remit this capital within a nine-month period, and it is quite an onerous test now. There are ways in which you can do that. Clearly if you brought the money back you would avoid that, but candidly, we need the money there to take advantage of the opportunities that exist in those markets. So that would not be a smart thing to do, given the opportunities that are there to create value and generate more capital in the future.

Tidjane Thiam: On that, we have a data point and we keep referring to it, which is the 2008/2009 crisis. A lot of what Solvency II does is trying to mimic what would happen under stress, and we got absolutely all the dividends we wanted out of Asia in 2008/2009. There is not a single dividend payment at a worse possible time. So this gives us high confidence that actually that capital is accessible, even under stress. The problem here is that we are simulating a hypothetical event, and then it is easy to make extreme assumptions, but in a real-life case capital has proven to be very fungible even under stress.

Nic Nicandrou: We are talking about onerous sensitivities here, so just to give you an example, 40% shock on markets. That is 40% on top of one in 200. That is a 70% market decline. Just to put a sense of perspective as to what these things represent.

On interest rates, yes the 50 basis-point sensitivity we give on interest rates, particularly say in the UK, is after a 130 basis-point reduction. Where the effect is most significant at those levels of interest is the value of the future with-profit transfers. So that is what is driving the volatility there. Notwithstanding the point that I made earlier, and I will reiterate now, is that even taking further reductions in yields from this very historically low-interest-rate environment, the overall position is safe.

Tidjane Thiam: The last one was for me. Okay, where do I start? I know that Africans have a bad reputation, but you have all heard me make that joke: I never had the ambition of being CEO for life, and we have presidents for life in Africa. So, I was always going to leave, someday, so let's start with that; the question becomes when? When you are a CEO, it is probably one of the most difficult calls you have to make, knowing when to leave, and for me, knowing when to leave is a time when everything is going well, okay? You do not want to leave when there are issues to solve, businesses to restructure, things to deal with, because that is what I think unsettles the market the least and leads to the least suspicion. I am leaving after our best year ever, and I will be here to talk about Q1 and you will be able to see if the business is going sideways or slowing down. I can tell you, it is not.

So that is really the best moment to leave, if you are a CEO and if you want not to throw a hospital pass – which is an expression I have learned in the UK – to your successor. So, that is one.

Two: I have always had someone on my team reminding me that I have still got five years. I really think that is a very natural cycle. Sorry, I am going to come back to my favourite topic, Arsenal: it is not healthy to stay too long. It does not matter how successful you have been. I was going to save that always, because this is just stuck in my throat. We are in year 19 of Mr You-Know-Who; that is not a model to follow. So you have to know when to gracefully bow and move on and go do something else. So that is really the core of the answer.

Then where I go is a function of opportunities. I am not going to talk about Credit Suisse on this stage, because I am paid by the Pru and I am here as CEO of the Pru and it would be inappropriate, but I can answer the first part of your question, which is why leave now. I have built a good team. It takes a few years; I think it took five or six years. Actually I was announced in March 2009 and you were here, so it is six years ago. I think I am leaving a great team behind, and I am very confident in the prospects of the company. I have never believed that I was irreplaceable. We say in French, 'The cemeteries are full of irreplaceable people,' so I will be replaced and very well-replaced.

Greig Paterson (KBW): Tidjane, congratulations on your performance the last few years. I know we have bounced heads back and forth a few times, but I think it has been very successful, so well done.

Tidjane Thiam: Thank you.

Greig Paterson: Just three questions. One, DBS is coming up for renewal this year; I just wondered if you want to talk about your appetite for big bulk distribution deals in Asia?

Second thing, just in terms of Standard Chartered, the new deal, I was wondering if we were up at the terminal run rate now, in other words you have rolled out in all the regions, or is there still some coming through in the next few months as you fully bed down that deal? I am just trying to understand where we are in the trajectory.

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

This is not a question, just a clarification, Nic: when you were talking about that 130 times local, were you talking about the IGD basis or the economic model?

Nic Nicandrou: It is the free surplus basis.

Greig Paterson: So that is what you are currently using in your eco-capital model?

Nic Nicandrou: Yes.

Greig Paterson: Alright, cool.

Tidjane Thiam: Okay, well thank you Greig, and I am glad you did not take personally my constant teasing of you. I ask for forgiveness.

DBS, you know we never comment on M&A situations. We never confirm or deny or say anything, so we will not say anything specific about DBS. On the general appetite for deals and SCB, Barry, do you want to take that?

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

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

Tidjane Thiam: I think there was a question on the run rate. Do you feel that you have some headroom or have you reached the stable run rate? On SCB, I think he was asking.

Barry Stowe: I thought I answered that, no?

Tidjane Thiam: Well, I am coming back for more. I know Greig.

Barry Stowe: Should you be sitting out there?

Tidjane Thiam: I know Greig, I know Greig!

Greig Paterson: So the pipeline is not complete in terms of the new projects?

Barry Stowe: There are more new initiatives underway, so I think you should be optimistic, as I am.

Tidjane Thiam: I just wanted to get you on the hook on that, so thank you.

Barry Stowe: Thanks.

Tidjane Thiam: US mix?

Mike Wells: I think, Greig, it matters by rating agency, for one. They have different views of it. The dialogue we have with them is the various risk levels and the various types of VA we have written, so I think it is a little bit of a different discussion with us than with a carrier with a single project when they go in. I think the rating agencies are certainly more conservative post-crisis. Their process has changed; it is much more scripted and structured. They have less latitude, I think, for judgement. So there is a bit of a formula, but I think we are fine on it. That would not be a remittance issue for us. That remittance discussion would be with the regulators at the state level, New York and Michigan.

Greig Paterson: Is the remittance sustainable, the US one, at this level? This higher remittance that you have got this year, is that sustainable?

Mike Wells: You notice I am not answering that.

Tidjane Thiam: He has already tried two or three different ways.

Greig Paterson: Is it a one-off?

Mike Wells: You see the recurring nature of the revenue. The question is what we do in-country, all the normal variables that we would look at in a given year. The resilience of Jackson's earnings is clearly there.

Lance Burbidge (Autonomous Research): Two questions, first one for Mike: I just wondered if you might comment on what the White House has been saying on purchase of retirement products in the past couple of weeks.

Secondly for Barry, on Indonesia, Indonesia obviously had a very good December. Is there any kind of idea you can give us in terms of how active your agency force is at that point and how much capacity you have to see that growing rapidly?

Mike Wells: Well, this actually initiated in the Department of Labor. I would say it first arose two and a half years ago, and I think the White House now has the document. So what we are understanding is somewhere in the next 60 to 90 days they will release for comment, Office of Management and Budget will do a financial impact, the normal commentary, and then we will see what we have.

The academic work that was done to support the argument that there is not value to the advice is always difficult, because what percentage of equities would those clients have had if they had made the choices by themselves? I can tell you that dealing with advisers, every month what they would tell you is they would get clients to invest when they will not, and then get them to sell when they will not. It is not a new concept. It is the same thing you would see with advice in Asia, the UK or any place else. They get clients to manage risk levels prudently.

I do not think the work that was published shows that. I think it shows if you bought a fund, perfectly timed an ETF purchase versus bought a load fund with advice, it is the net difference. That I think is the mistake in the core part of the study, but you also see the SEC pushing back. They see it as their enforcement jurisdiction, and I do not think they share the mandate at this point.

So I think we are going to see a lot of comment on it, a lot of discussion. I think the counter is going to be it is a very well-governed market, heavy disclosure. You will probably get a little tightening of the movement from suitability, which is the US standard, towards best advice, which is more what you are used to here. I would say the reasons why letters and things, there is not really that concept in the States. You see it with the SEC advisors a bit, but you will probably see more of a hybrid of the two. If I was guessing, that is where it will all end, but it will be an industry issue for six to nine months at least.

Tidjane Thiam: If I may add just one thing, there is a bit of good news actually in all this, which is that we met some of the White House people. They have examined commissions and decided not to touch that, and they mentioned RDR as something they had looked at and thought that was not a success and they did not want to imitate.

Mike Wells: Yes, their early drafts of the language, as we understood it, would have barred all commissions on retirement products, and again, it would have allowed advisory fees. So the details in this will matter, and I would tell you from Jackson's point of view if it requires a change in product or structure or distribution I think we are better situated than any of our competitors to address that quickly and effectively. I think you are going to need systems capability, you are going to need sophisticated delivery on whatever the new structure is, and technology etc., and we have those capabilities.

Barry Stowe: On Indonesia, the short answer is that December was a great month and obviously the number of active agents spiked a bit, so that was very important. We could not have produced those numbers without that having happened.

The dynamic that has been happening throughout the last year, as we had this consumer uncertainty and then the natural disaster issue with the flooding and so forth as well, is really that we were taking longer to activate new agents. As you know, the agency model there, a lot of the production – a material part of the production – is dependent on our ability to quickly activate new agents who are being recruited. That is really the metric where we were struggling, that it slowed down, and that did pick up significantly in December.

So I do not think we are at a point where we can declare victory. Obviously Tidjane alluded to the political environment there. People are more optimistic, I think, generally speaking, based on what Jokowi has been able to accomplish. So far he has taken the hard decisions, as he said he would, so that calls for optimism. I do not think we are in a position where we can declare victory, but we are hopeful about 2015.

Gordon Aitken (RBC Capital Markets): A couple of questions for Mike, and one for Jackie. Mike, you were very open about your desire for M&A within Jackson, and you said back in December the market was quite tough in terms of PE having low hurdle rates. Can you just update us on the market? I am not asking about specifics, but the market there.

Secondly – and it is related – why do you need to acquire? I mean, if Jackson remains within the Pru Group, you have lots of diversity. Admittedly, if Jackson's standalone, it does look exposed to VAs.

The third question, to Jackie, is you had a competitor say in bulks, they were quoting on 10 billion of bulks at this current point in time. What is your expectation for the market this year? Some people are saying it is a 10 billion market that is the new norm; other people are saying 100 billion over five years. What do you think?

Mike Wells: Gordon, on the M&A, I think the market remains competitive. The disciplines are a number of US insurers and foreign insurers have said they would like to buy something. You have private equity that is opportunistic, where they just want to do a single transaction and hand it to a third-party administrator to run, and they tend to like the annuity deals because they see those fixed annuities as sort of a levered play on bonds, strip the capital out and run up the risk in a portfolio and just about everything the regulator does not want to hear. The third is now you have private equity firms that have actually built platforms in the US where they are building competitive insurance companies to consolidate. So those are the three types of buyers you are seeing, and you have hybrids of that. So that is the competitive landscape.

It is a great point on diversification globally. We absolutely have that as part of the Group, but there is actually pretty good opportunity for shareholders when we do these purchases. We can take a lot of the expenses out of a competing life company and get materially higher returns than if we wrote a life policy individually. It is also, I think, a lower-risk transaction. You get away from some of the first- and second-year risks, you know, writing a life policy in the States.

The actual returns we have got on the life blocks we have done have been excellent for shareholders. It goes to our expense base, it goes to the technology, it goes to the service model; it is all scalable, and as shareholders you own capacity in the States and we are just utilising some of that. So I think that is the other reason to do it.

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

Tidjane Thiam: Yes, that is correct.

Oliver Steel (Deutsche Bank): Three questions. First is Elite Access has seen quite a lot of localised competitors, so I am wondering what the competitive landscape is there and what advantage you still have over the competitors.

Secondly, I wonder if you could just give us a bit more insight into where the SCB premium increase has come through. I mean, Hong Kong, fairly obviously, but perhaps you can talk through the other countries as well and where the opportunities still are.

Thirdly, Nic talked about the UK regulator taking a bit longer to agree to any cash transfer from the UK business, so I was just wondering what the issues were in that regard.

Tidjane Thiam: Okay, thank you, Oliver. Competition for Elite Access; Mike, that should be a short answer.

Mike Wells: The short answer is a dozen or more, and I think there are two more filed. With our 5 billion and change of sales last year, I think the most successful number two product was in the 200s with 70% of their sales being in their own agency force and in-country. One of the things I am most proud of with Elite Access is if you were trying to measure Jackson's capabilities, I think it is an excellent example of how you need the product alignment, the design, the training. Jackson was named yesterday in one of the industry trades, BlackRock, us and one other firm, as providing the best training to advisors in the out-space, period. Not just the VA space. I think the formula behind it of building a good product, understanding the client and being able to help the adviser work their end of the business model, particularly that last piece is incredibly difficult and I think that is where the competitors are having the most trouble.

The category is called IOVAs now, Investment-Only VAs, and they are immediately adding guaranties to them. So they are no longer IOVs, so they are IOVs with guarantees now, I guess. You know, this is just going to continue to go to the industry's default, high-commission, throw-a-guarantee-on-it model. We are not. It is a good investment product, and if you think of the ALT returns expectations you would have, this is not a product that can support a super-heavy fee load. It does not have the S&P kind of upside to it. I think the industry's got to be careful here not to commission themselves into a product that does not work for the consumers.

Tidjane Thiam: Very good Mike, and that sits front and centre because really Mike is being modest, but the level of success achieved by Jackson on this compared to the competition is extremely impressive. I mean, $5 billion to $200 million is impressive.

Standard Chartered, where did the growth come from?

Barry Stowe: Yes, if you look at what happened in the second half of the year, particularly towards the end of the year, it is actually quite broad-based. Hong Kong, which has always been the largest market, did really well. The relationship in Hong Kong in December, to give you an idea, was up 37%. You might be shocked to hear that Korea has done really well. In fact, I am almost reluctant to give you this number, but in December, Korea was up 630% for SCB.

Tidjane Thiam: So it is probably from a low base.

Barry Stowe: Yes, it is a relatively low base. It is 600 policies versus the one we sold last year! Taiwan has done well. Now, Taiwan and Korea are lumpy, because the bank market in those two countries features a lot of hot money products, which we will not do. So generally what happens is our sales in Taiwan and particularly in Korea tend to spike when all of the local competitors who manufacture the hot money products have run out of capital and there is nowhere else to go. So they come to us, and we sell them a sensible product.

So it is a little bit lumpy, but the Hong Kong story is a strong and continuing and durable story, as is the story in Singapore. We are making good traction in markets where banca is still not as big, like Malaysia, but one of the real shining stars post-renewal of the SCB deal is really India, where we did not have a relationship until we signed a new agreement which was effective on 1st July. They were fully active on 1st July, got into every branch and have done an amazing job, some specific products that are very appealing, some using technology. It is a 100% paperless process; it is all done on iPads. It is really quite clever. Interestingly, from a standing start, India went from zero to our number four market within the context of SCB. So a very strong start there.

Tidjane Thiam: Absolutely. UK dividends?

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

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

Lastly, the application of a risk margin is quite onerous. Again, just to give you an example, if you took at the end of 2014 interest rates, if you took the combined effect of risk margin and SCR that would be equivalent to around 15% of annuity reserves. That is much higher than what you currently are required to do under ICA, which brings transitionals straight into scope. They were designed exactly to do that, to give you relief, where Solvency II comes up with an answer that is different to ICA. The whole process of how you go about securing transitional relief is still up in the air.

So, all I was flagging is there is a lot up in the air; in a year of transition, with so many questions outstanding, I would be wrong not to flag a risk that the discussions will take longer. Now, the keynote point is that the business is throwing out capital, okay? So that is key, and it is the same across all of our businesses.

Tidjane Thiam: If I can just add to that, because if you step back, what I want to put on the record – I said it in my notes – is that the dialogue with the regulator is good and constructive. I insist on that. We found a very receptive regulator and Paul and I went to see them and we put all the issues on the table and we are all working towards a solution. That is one.

Two, again back to the capital-generative comment and stress testing the dividend, we always tell you we stress test the Group dividend. One of the scenarios we look at is what if the UK did not pay any dividend for three years or four years? I can tell you the dividend is sustainable, can continue to grow at 5% even under those scenarios, and part of why we are always so cautious when we rebase is we look at all those scenarios and we give you an offer of rebase that is robust and that will basically survive under any scenario. That is really important.

The final point on the remittances, they are not actually that important, because as Nic said, if a business is cash-generative, if for any reason you stop paying from any business, you build up very quickly the position of that business. After two or three years, the capital starts to flow again, because whatever point of tension there is, is resolved. That is why the system is very safe as a whole, because if you are running four cash-generative businesses you cannot ever really get in trouble. All you have are timing differences. I will insist on that. That is why we feel so confident in the Group dividend. I would stress the timing difference, nothing more.

Ashik Musaddi (JP Morgan): Just a couple of questions. First of all, on your economic capital required movement, what actually drove the £1 billion increase? I guess it is not the US rates, because you are treating US only through equal balance, so it should not really impact the required capital. So what really moved that? That is the first thing.

Secondly, you showed £1.8 billion of capital generation on an economic capital basis. Again, can we get more colour on how much of that is coming out of US? Because as the US is on the equivalence basis, how does that move? Should we think about EEV basis of economic capital generation, or it is a different metric altogether? Thank you.

Tidjane Thiam: Okay, thanks Ashik. Nic, they are both for you. You put it on the slide?

Nic Nicandrou: No, not on the slide. Yes, you are absolutely right that required capital has increased from 7.2 to 8.2. A third of that, roughly, is the model changes. The matching adjustment, for example, goes straight to the delta. The 0.3 that I referenced goes straight to the denominator. A third of that comes from, literally, business growth. As you put more business onto your book then it requires you to put some capital. The other third comes roughly from FX. A lot of the required capital sits outside the UK, and therefore when currency moves, that has some impact. Yes, there is some market effect, but that is relatively *de minimis.*

The £1.8 billion we bring in the US on effectively the local RBC above the 250. I do not have the maths in my head, but we do give you a slide that shows the movement in the available capital in the US in the back of the pack starting from the opening stat position plus generation, albeit with market effect, less dividend. I think you can use that to broadly calculate it. So that is a good way of bringing that in, but of course that is capital generation excess 100, not excess 250.

Tidjane Thiam: Okay, very good. Well, I think this brings this morning to a close. Since this is probably the last time I do this at the Pru, you will allow me to make a few closing remarks. Mike reminded me that he has served under five CEOs at the Pru and that I am the longest-serving, so I am quite pleased for all the questions.

It has been a real privilege, an honour to lead this company. It is a great company and we have a great team, I have said that several times today. I think the day I was appointed, we closed at £2.52. I do not know where we are today, but it starts with 16, so I will not claim the credit for that, because a lot of that, I took that hospital pass, but I was appointed at an interesting time. So some of that is just the crisis being resolved, but some of that is really the merit of this team, and it has been a great ride, so I just want to thank all of you. I know that over the years we have had many, many meetings, many discussions. We would not have got where we are without your support, your interest in the company and your understanding.

Just two more points. One, which may surprise you, but I want to on the record acknowledge someone who is a fierce competitor of ours. It is Mark Tucker, who gave me a great opportunity here, and I want to put it on the record and express my gratitude to him. It is something I owe him.

Finally, just to say that you should not stop loving the Pru. It is a great company and it has a phenomenal team. So, thank you very much.

[END OF TRANSCRIPT]