Prudential plc 2008 Full Year Results

Presentation to Analyst and Investors

19 March 2009

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PRESENTATION

Harvey McGrath (Chairman):
Good morning ladies and gentlemen. I recognise quite a few faces in the audience but for those of you who don't know me I'm Harvey McGrath, Chairman of Prudential and it's a pleasure to have you all here today to participate in this presentation and discussion of the Group's Full Year results for 2008, which, as I think you will have seen from this morning's announcement, are robust in performance terms and robust in capital terms, all in what can only be described as a seriously challenging environment.

I'm going to hand over to Mark and Tidjane to take you through the detail of those results, but before I do I wanted to say a few words about the other news item that you will have read this morning. We announced this morning that Mark will be stepping down as Group Chief Executive, effective September 30th of this year, and that Tidjane will succeed him in that role. Mark has been with Prudential for some 25 years and he's had a pivotal role in the success of the Group for many of those years. His achievements many of you will be familiar with and it's a long list, but I'd like to make mention of his role as the main architect, organiser and driver of our leading presence in Asia, a very significant contribution indeed; and over the last four years as Group Chief Executive his contribution in transforming the Group's operating performance, the Group's financial strength and indeed it has to be said the level of respect that I think the Group is now held in by our stakeholders.

Over the same period, and significantly, Mark has built a really impressive world-class leadership team and that obviously has enabled us to deal with his succession very effectively and very smoothly on a basis that ensures continuity on the essentials of our programme and our strategy. Some numbers: during Mark's tenure as Group Chief Executive our compound annual growth rate in EEV has been some 21 percent and on an IFRS basis 14 percent. As you know, we now derive more than 65 percent of our earnings internationally. The Pru is a very different, much stronger and more resilient Group than the one that Mark inherited when he took on the Group Chief Executive position. Both the Board and I personally are truly sorry that Mark has decided to leave, but we accept and respect that decision, and thank him for ensuring such high quality succession.

You are, of course, going to continue to both see and hear from Mark because he's not going anywhere until September 30th and he will remain, as you know, firmly in control until that day and you will hear from him at interims in August.

As from October 1st Tidjane will become Group Chief Executive Officer. I know he is no stranger to all of you and I am personally very pleased and the Board is delighted to have such an obviously talented successor with proven experience of critical importance to all of the areas in the business in the coming years. Tidjane, you will recall, joined Prudential in March 2008 from Aviva, where he was an executive director and Chief Executive of Aviva Europe. He had worked for Aviva for six years in their core leadership team in roles including Group Development and Strategy Director. His professional career started with McKinsey; he spent time both in Paris and London from '86-'94 serving insurance companies and banks. You will also be aware he was a Cabinet Minister in the Côte D'Ivoire. Tidjane is truly a multifaceted and a very highly talented individual and I look forward to working with him going forward.

Today's focus isn't on succession, it's on the financial results that we've just reported and I'd like to now hand over to Mark and Tidjane so that they can take you through the results presentation. There may well be questions about the succession issue, we'd be happy to deal with this after the presentation in the Q&A in the normal way. Thank you very much and Mark, over to you.

Mark Tucker (Group Chief Executive):
Thanks Harvey and good morning; it's good to see such a full attendance in an insurance company results session. Just to let you know that I think we do want you to be comfortable this morning because this is going to be a long session. I think it's appropriately so, given where the markets are, the thankful part of this is that it's a long session from Tidjane and not from me. There are an immense amount of slides that we intend to go through and take you through in some detail, our financial position, and hopefully at the end of that there will only be one or two questions, but I think let's wait and see.

Before I go through the results, I would like to add a few words to say that I have hugely enjoyed my career with Prudential to date and my decision to step down was a personal one and was enormously hard. When I look at it – even though I look incredibly young – I've spent half my life with Prudential which is not an insignificant amount of time. However, I do believe that what I set out to do when I came back in my role as Group Chief Executive, the focusing of the business on value drivers in the retirement space; the clarity and I think the compelling nature of the strategy; expanding our international operations; improving the quality of the business through selective disposals; building capital strength; delivering consistent growth across all the key markets and most critically and most important to me and I think to the Group of all, was putting a top quality management team in place.

As you've seen from the results this morning, our strategy is demonstrating sustainability and our capital position is both robust and resilient. Having a very strong management team in place and an excellent successor in Tidjane, means that there will be continuity and consistency in our outperformance going forward. I think it's important to feel this is, as it seems, an orderly managed transition and I think a consistency of a very powerful strategy. As Harvey said, and as I have reminded my executive colleagues on a number of occasions this week, they haven't got rid of me yet. I will be around until September and it's not in my nature or my style to play a low profile, back office position. I think we will continue to drive the business forward as we always have over the next six months. I think just to record, while I remain in a good mood, my thanks to all of you. I'm going to read out what it says here now. "In promoting a better understanding of our complex business and for times your rather blunt, but always clear encouragement." Thank you for that.

I move onto the order for the day: I want to kick off this morning with a fairly short introduction before handing you to Tidjane to take you through a very detailed financial review. I'll then come back to give you my view on why we have been resilient in 2008; how we have continued to deliver on our strategy; the strength of the business model; and then looking in particular at the benefits of our approach to diversification. I'll then spend a little time giving you our outlook for 2009. At the end of that, as Harvey has said, we'll be happy to take questions and for that I'm joined by my colleagues on the front couple of rows here where we can answer your questions in as much detail as you would like and give you clearly as much time as you'd like for that.

Let's get into the numbers: I think you can see that our results represent a very strong performance and importantly both in absolute and relative terms in what we know have been exceptionally challenging circumstances, in particular in the second half of 2008. On an embedded value basis, new business profit is ahead 8 percent and we've seen an increase in margins up from 42 percent to 43 percent. As I've said before many times, we have maintained our focus on pursuing profitable growth not volume targets. EEV operating profit has grown to almost £3 billion including some additional gains on our in-force business. I think it's important to hear that this shows that our past assumption bases are holding up well even in these dislocated markets. Proactive management of the in-force book, particularly in times of market downturn, is clearly just as important as generating new business.

Shareholders' funds increased slightly and our operating return in embedded value remained a very healthy 15 percent. Our IFRS operating profit also saw growth of 12 percent and Tidjane will take you through these numbers in more detail later.

If we turn to the very important subject of capital and cash, you can see that the estimated IGD surplus is £1.7 billion and that's as we reported in February. We reported also that this will increase by £800 million or so on completion of the transfer of the agency back book business in Taiwan. We expect by sometime in June the completion of that transfer, which will give a headline IGD figure of £2.5 billion. This is a very resilient and robust position and we believe is one of the strongest in the industry with a solvency ratio of around 240 percent.

Through focused management actions, sensitivities to further falls in equity market and interest rates are low and don't have a material impact. Our hedging, as you have seen, has been effective. Indeed, as we'll talk about over the next two or three hours, there are plenty of options for us to bolster this position further should the need arise. As you'll see from Tidjane's presentation shortly the Group has the ability to generate significant amounts of capital and in particular he will discuss free surplus and cash, both of which are absolutely key. In this very challenging time we've successfully hit our target of operating cash flow positive at a holding company level in 2008, and as you'll also have seen we've increased the final dividend by 5 percent. That means that the full year dividend is up by 5 percent and is covered in line with our dividend policy 2.2 times by IFRS operating profit after tax.

The events of 2008 have put the balance sheets and capital positions of all insurance companies under close scrutiny. No one anticipated the full depth of the banking crisis, or indeed the speed or onset of recession in the Western economies. Having said all of that, we at Prudential entered the period in a relatively defensive position and we've maintained a rigorous set of operating principles throughout. Over the past few years we've also, we believe, made a series of clear sighted decisions and proactively moved to improve our capital position.

Let me remind you of some of these actions: in 2007 in the UK, after a strategic review of the market, we exited our high capital strain and uneconomic product lines and put into place major and significant cost saving initiatives. Over the years we have continued in the UK our prudent approach to both pricing and credit reserving. In the US, with our strongly held view that value was more important than volume, we deliberately stood back from the very competitive – and in our view uneconomic - pricing in the VA market in the early part of 2008.

In addition, our long-established hedging programme has been highly effective in these turbulent markets.

We've also taken a series of broader based initiatives that have significantly improved the capital position of the Group. In mid-year, after an exhausting review, we determined that in order to maintain a strong and robust life fund through the economic cycle, it would not be in the best long-term interests of policyholders or shareholders to reattribute the inherited estate. We also identified further and very effective ways to generate more IGD capital. For example, we've obtained FSA agreement to recognise a small element of the shareholders, economic interest in the PAC With-Profits Fund.

Additionally, our decisive action on Taiwan will significantly improve the Group's capital position and free surplus, and will also reduce long-term risk for shareholders. We've also deliberately reduced shareholder equity exposure in Asia. As was previously stated, we did review the AIG assets in Asia and their capacity to create material incremental shareholder value above our organic opportunities. After careful consideration, we decided not to proceed with an offer for any of these assets. Our financial discipline and our view of value and price did not meet the criteria.

All of these decisions and actions taken together have significantly improved the Group's capital position and the risk profile. I think with all of that as an initial context, let me now hand you over to Tidjane.

Tidjane Thiam (Chief Financial Officer):
Good morning; I think that becoming a CFO of a life company in March 2008 has proven to be a really interesting decision. Like Mark, I may look young, but I can guarantee you that internally I have aged significantly. They should have a special unit for CFO life-years, but anyway here we are. I'm looking forward to a next stage, but in the meantime I have to take you through exactly thirty-nine slides so brace yourselves; let's get started.

I have three key messages that I hope you'll take away from my presentation this morning. First, we have delivered a strong operating performance in 2008, whether measured in terms of EEV, IFRS or cash generation. Second, we have managed our capital and risks in a prudent but proactive manner for 2008, not hesitating when necessary to take decisive action, for example in Taiwan. Third, going forward we are focused on preserving capital and cash in 2009.

What I would like to do now is first present our performance on our key financial metrics in EEV and IFRS, putting a particular emphasis on cash and on the development of free surplus, an important metric for us.

I'll then talk about risk and capital management focusing on two issues that I know are on your mind, first our solvency, and second our asset quality.

Moving on, we believe that the best way to run our business is to have a balanced approach and to keep an eye on EEV, IFRS and cash. So at a Group level EEV operating profit has increased 17 percent, IFRS operating profit is up 12 percent and you can see at the bottom that the holding company cash flow turned from a negative £82 million in 2007, to a positive £54 million in 2008.

Looking in more detail at the EEV profit we have had a 23 percent increase in our in-force profit to more than £1.6 billion in 2008. In-force profit, as we see it of course, is a key driver of cash flow and free surplus generation - I will return to this in a few minutes. The largest component of in-force profits is the unwind in red here has increased to £1.2 billion in 2008, a 5 percent increase over 2007. This growth was driven primarily by Asia - Barry and his team - which increased their profits by 28 percent to £434 million, demonstrating the growing maturity and scale of the Asian in-force book.

We have also had operating assumption changes for the year at positive £118 million; we have benefited here from a number of assumption changes in Asia which underline the quality of our embedded value there. The second £118 million on the page - that's just a coincidence – reflects the benefit of portfolio rebalancing in the UK. I will come back to this in more detail later; finally, £153 million of other items which brings us to a total of £1.6 billion.

Moving on to new business; the 8 percent growth in new business profits we have achieved compared to a 5 percent increase in APE sales, tangible evidence of our focus on value over volume, which led to an increase in Group margin - at the bottom of the page - from 42 percent to 43 percent. Within this Asia delivered a strong performance again, with new business profit up 15 percent to £741 million. This was driven by an increase in both volume and margin, with margins moving up from 50 percent to 54 percent underlying the success of our increased focus on protection and health. More detail on the evolution of margin in Asia is in your pack in Appendix 1.

Moving on to Jackson: the evolution in Jackson's new business profit up 3 percent results from a 7 percent increase in volumes, which was offset by a shift in product mix from higher margin variable annuities to lower margin fixed annuities as you would expect at this point in the cycle; this led to a slight decline in margin from 42 percent to 41 percent. In the UK the 1 percent fall in new business profit is the result of higher sales of our well-performing with-profit products, offset by a decline in annuity margins where we have had, unsurprisingly, to make a higher allowance for credit risk. Overall, margin fell slightly from 30 percent to 29 percent.

Turning now to the EEV balance sheet; shareholder funds increased by 2 percent in the year to just under £15 billion. This increase is explained by a combination of factors; positive elements shown in dark blue here and negative elements in light blue. Starting first from the positives, we have strong operating performance at £2,961 million. We have the benefit of a mark-to-market of our own debt for 656. We have positive tax changes and other items of£720 million, which include the tax credit on negative short-term situations and finally currency gains of £2,010 million. The negative items in light blue were the impact of market movements as reflected in negative short-term fluctuations of £5,127 million; changes in economic assumptions of £581 million and a dividend net of scrip of £283 million.

Looking more closely within the short-term fluctuations, they include £2.4 billion for the UK of which the majority – £2.1 billion I believe – relates to a with-profit fund; £1.3 billion for the US and £1.1 billion for Asia.

To summarise on embedded value, we have increased the in-force profit by 23 percent; we have achieved an 8 percent increase in new business profits; and have maintained stable shareholder funds in an exceptionally challenging environment.

Let's move now to IFRS: our IFRS profits have increased 12 percent in '08 to £1,347 million. At the [BU] level Asia Life contributed £132 million, whilst Jackson saw a small decline of £38 million and the UK a slight increase of 21 million. Asia asset management experienced a decline of £20 million, mostly as a consequence of market volatility. Finally M&G; Michael and his team deserve a special mention here; they had a truly excellent year growing profits by £32 million against a difficult market background, thanks to their continued strong investment performance.

Looking now more closely at our life business in Asia, we have told you that we had an increased focus on IFRS going forward for a number of countries, particularly in India. As the business matures we have reviewed the treatment of deferred acquisition costs. This led to a positive movement of £66 million in DAC and other reserving. In addition, underlying growth in profit was £49 million as the business continues to grow and develop. Lastly, foreign exchange movements helped and other items giving us £17 million uplift in operating profit. Based on all these elements, IFRS operating profit has increased by 70 percent to £321 million, bringing closer the growth trajectories in Asia of EEV and IFRS operating profits.

Moving on, you may recall from my half-year presentation in '08 that I've shown a split of US earnings by source; we have now extended that analysis to all our life businesses. I have included the detail of those in your packs in Appendix 2. Fundamentally, we see our earnings coming from three sources; insurance income - which is made from underwriting risks and managing claims; fee income - where we receive a fee for managing assets; and spread income - where we make the difference between an earned rate and a credited rate. Shown here is the income split for Asia where, as you can see, almost three-quarters of our profit is derived from insurance margins, showing the value of our rider sales alongside our unit-linked business and the successful development of our health business. Those earnings are perhaps less sensitive to market movements than you may have imagined and increase the persistency of our portfolio. This underlines the success of our accident and health strategy in the region.

At the half year I also provided some data on the IFRS new business trend for Asia; we have extended this analysis to a full year, but for the sake of time I will not present it, it is in your pack in Appendix 3. Moving on to Jackson; you are well aware of the extraordinary movements we have seen in the US in equity markets and in corporate spreads in 2008. [Clark] his team Jackson have managed well through this challenging period. Operating profits have decreased by 9 percent, a creditable performance if compared with a 38.5 percent decrease in the S&P.

This movement lets out losses from the decline in investment spread of £26 million, offset by hedging gains of £57 million, thanks to Jackson's effective hedging programme; FX movement of 38 million and other items of £34 million to give an increase in operating profit up to £547 million after allowing for the acceleration in DAC amortisation which we flagged and discussed at Q3. The total IFRS profit fell to £406 million.

Moving now to the UK where IFRS profit increased by 12 percent, again a very good performance from the team there under Nick's leadership. At Q4 we talked about the increase we have decided to make to our credit reserves during the year. You can see the effect of that coming through impacting profit negatively by £413 million as we strengthen the IFRS assumption from 20 basis points to 55 basis points. You probably have in mind the 80 basis points that we discussed at Q4. It is important to explain how we arrived at 55 basis points in IFRS. The 80 basis points are related to Pillar 1; Pillar 1 is a very prudent reserving basis. For IFRS reporting, excessive prudent is not appropriate, so historically the Company's policy has been to set IFRS default assumptions around halfway, between the expected default levels and its 15 basis points for us and the Pillar 1 assumption is 80 basis points, its an average of 47.5 basis points; we set it at 55 basis points so we're being even more conservative than what we've done historically.

I mentioned earlier that I would give you more detail on our portfolio rebalancing. We have said that we would look to take advantage of the opportunities created by the current asset dislocation. We have a fundamental view that the increase in spreads we have observed is only partially linked to an increase in default risk. Therefore, in the UK, we have rebalanced our credit portfolio, in particular in the shareholder annuity fund. We came into 2008 significantly overweight gilts, with an average rating in the Fund of AA against a benchmark of A. After rebalancing the Fund now has an average rating of A+ therefore remaining ahead of benchmark. The £390 million net benefit you see here is due to a change in yield as a result of this rebalancing after allowing for credit risk. The GI commissions which we received following the sale of our GI business in 2002, increased by £40 million. Finally, a number of other items amount to £44 million bridging the gap from '07-'08.

Finally, the final slide on IFRS, our shareholder funds have decreased by 17 percent to £5058 million. A number of items have had a positive impact here; our operating profits of £1,347 million; FX gains of £631 million; tax and other items of £155 million. These have been offset by the effects of negative market movements as reflected in negative short-term situations for £1,783 million which include defaults, losses on sales and write-downs on our US debt portfolio of £570 million. Another negative element is the net impact of unrealised losses at £1,071 million and the dividend net of scrip for £283 million, which I probably shouldn't describe as a negative. The unrealised losses on the Jackson debt security shown here are after associated DAC and tax.

To summarise again on IFRS, operating profit is up 12 percent with a strong contribution from Asia and M&G and a resilient performance in the US. We are continuing to improve our disclosures and shareholder funds have decreased due to market fluctuations.

Moving on now to cash flow and free surplus; I have the first graphic which shows you the development of the holding company cash flow over the last four years. There are two key points about this slide: the first is that you can see from the dark blue bars in each year that over the period cash remittances to the Group have more than doubled. This is really an important point for us – from £417 million to £1.033 billion. Secondly in 2008 we saw a marked increase in capital invested by the Group into the businesses. The main driver from this was Asia where we needed to bolster solvency in a few territories. Overall, net cash to the Group grew to £515 million from almost zero in 2005. The overall net position for the Group was positive £54 million shown in red here, meeting the target set in 2006. We have been able here to achieve one of our significant external commitments.

Over the years we have drawn your attention to free surplus and I know that some or many of you use it as a useful proxy for capital, so I would like to spend some time on free surplus now for a few slides. You will be familiar with the mechanics of free surplus which we have tried to summarise here. First the generation of free surplus where we take our opening free surplus position, we add the expected profits generated from both the in-force book and our asset management business, plus any capital that is released as policies mature. This underlying free surplus is then adjusted at the bottom for operating variances and assumption changes. This gives us our stock of free surplus which we can of course apply to several uses. We use it to write new business, covering acquisitions costs and required capital; we use it to remit cash to the Group and we use it to build reserves as a function of our risk appetite.

I would like to underline that these uses of free surplus, new business, cash remittances, reserving, are fundamentally the result of management decisions. Finally the free surplus can also be used to absorb the impact of market movements.

Let us now look at how these various elements have impacted our free surplus in 2008. Here I have combined the life and asset management businesses to give a view of the sources and uses of free surplus in 2008. As explained in the previous slide, we started the year with a stock of free surplus of £1,915 million. During the year the business generated - and this is an important number - about £1.68 billion bringing the total free surplus to £3,595 million. After allowing for market related items of £1,068 million which are largely out of our control - also out of control [*laughter*] - this left us with £2,527 million of free surplus which we then had a choice of how to utilise. We decided to invest £825 million in writing new business during the year and in addition we took the decision to increase the UK credit reserves by £770 million. This brings us to a free surplus before cash and other items of £932 million – you see at the top which shows you a decrease of £983 million during the year and that is another important number, from £1915 million the starting level.

After allowing for £442 million of forex and other movements and the £515 million that we saw in the previous slide which was related to Group, this left us with a net free surplus of £859 million retained within the business. The two conclusions we draw from this analysis are that our operations generate significant levels of free surplus - close to £1.7 billion in 2008 alone and that overall in a tough year - the free surplus was down £983 million, but also as a result of a number of decisions we made.

I would like now to look at this evolution after 2008 over a number of years because it is interesting. You can see from the first set of bars the strong growth from the in force and asset management profits from £992 million in 2005 to £1744 million in 2008. Next to that you can see the impact of operating assumption changes and experienced variances and the key point here is that they are small, followed by the underlying free surplus generated shown in red here like in the previous slide. This has grown over the last four years as you can see; the 1680 which is a number you recognise from the previous slide. The amount we invested in new business in 2008 is £825 million; it grew quite significantly from £544 million in 2007. This is due to product mix as we increased sales of US fixed annuities and shareholder backed bulks in the UK. The light blue shows the significant negative impact the dislocated markets have had on our free surplus position in 2008.

An additional feature of 2008 is the £770 million used to strengthen our credit reserve. This should be a one-off, given that we have now provided for a great depression every year for the remaining life of our annuity portfolio in the UK. Therefore, in contrast to the preceding years, in 2008 we have seen a decline in our free surplus before net cash remitted to Group and other items of 983 as I mentioned earlier. We expect the free surplus generation to continue at a high level and looking forward into 2009 we expect new business trend to return closer to levels seen in prior years on this analysis and we will manage our appetite for bulks, individual annuities in the UK and fixed annuities and GIC's in the US carefully.

Given that our free surplus generation remains significant, we are confident that we are in a strong position to manage full volatility introduced by the current economic environment. That confidence stems in large parts from the quality of our VIF. This chart shows the expected discounted contribution from the in-force book and the pattern of release of required capital as the in-force book matures on current assumptions. Some 45 percent of this is expected to monetise in the next five years. The average pay back period on an undiscounted basis is in Asia, the US and the UK respectively four, five and six years. As we showed you in the previous slide, our track record for operating assumption changes and experience variances is good. We are therefore highly confident that these cash flows will materialise.

To summarise on free surplus: our businesses generates a high level of free surplus, close to £1.7 billion in 2008. The investment we make in new business increased our VIF with attractive payback periods. This gives us the ability to remit significant amounts of cash to Group, £515 million in '08. We believe that our VIF is of high quality and will continue to provide strong cash flows over the next five years. Finally, just a final comment on this - all these numbers include Taiwan - it is worth noting that on completion of the transfer the free surplus will increase by about 1 billion and you will find more information in Appendix 4 in your packs on Taiwan.

So free surplus is a key underpin of our cash and capital generation and will continue to be a focus for us going forward.

Moving on now to risk and capital: at Q4 on February 20th we talked in some detail about our capital position. Today I would like to focus mostly on two areas. We addressed our solvency and then talk about our asset portfolio focusing in particular on credit risk and our debt securities. Looking at our solvency there are two considerations for us. It's simple, it's the absolute level of surplus and its resilience or if you prefer, it's sensitivity. As at December 31st 2008 we had an IGD surplus of £1.7 billion and a solvency ratio of 162 percent. Post the Taiwan transfer the surplus will move to £2.5 billion, a very strong solvency ratio of 240 percent, or about 220 percent after allowing for the dividend. On the right here you can also see the sensitivities of our IGD position as at the end of '08; thanks to an active hedging strategy we have limited our sensitivity to equity market levels to £350 million, or a 40 percent fall in equities. We have also limited sensitivity to interest rate risk – £300 million for a 150 basis point fall in interest rates and we have provided as an example here a sensitivity to 10 times expected credit default on our entire portfolio which will be a sensitivity of £500 million for the Group.

Really, if you think about it the main exposure of our IGD, particularly after the transfer of Taiwan, will be credit risk and I will come back to this in a few slides. On 20th February I gave a bridge of the IGD movement from Q3 to Q4. What I wanted to do here is re-bridge it for the year; it is more significant. During the course of the year net earnings contributed £800 million underlying the importance of profitable operations.

The cost of the dividend paid during 2008 net of scrip, was about £300 million, which is over two and a half times covered by earnings, an important consideration for us. An additional £600 million was generated by a large number of management actions taken during the year, reflecting our prudent but corrective stance. Offsetting this were £400 million of market-related items, £800 million for the strengthening of our UK credit reserves which we've mentioned several times already, and £600 million or so for US defaults, impairments and write-downs. After allowing for FX of 200 million this gave us a total estimated IGD position of £1.4 billion, including the £300 million for the portion of a shareholder's economic interest in future transfers for the UK With-Profit Fund, for which we have obtained FSA recognition which takes the IGD to the £1.7 billion I mentioned earlier, or £2.5 billion after allowing for the Taiwan transfer; therefore, a strong IGD surplus at the end of a year that saw very significant negative market performance.

You have seen how we've been able to maintain a stable IGD position. I would like to remind you now of the options we have to manage our capital. Regarding available capital, as illustrated in the previous slide, we can rely on our earnings; we have the ability to access more of the shareholder economic interest in the With-Profits Fund; we can also use financial reinsurance on other in-force books. We also manage actively our required capital for both the level and mix of new business and by maintaining our pricing discipline. We have employed and will continue to employ other risk mitigation strategies such as hedging.

After solvency I'd like to talk in more detail now about our asset portfolio. There is a significant amount of disclosure in your packs, some of which is summarised here. This slide covers our total invested assets, which for the Group amounted to £193 billion, of which 31 percent or £61 billion relate to shareholders. Of this £61 billion outside the £45.9 billion for debt securities circled here and the £5.3 billion of commercial mortgage loans, the shareholder exposure is limited.

I would like to focus now on those two items, the commercial mortgage loans and the debt securities, where I will mostly talk about the US which is £4.5 billion out of the £5.3 billion. The total portfolio of £4.5 billion consists of commercial mortgage loans. The exposure is well diversified by property type as shown here, and by geography, always important in the US; and its average loan size is £7.5 million with no single family occupancy. We have a strong underwriting discipline with an estimated average loan to value – LTV – of 73 percent as at 31st December 2008. In 2008 we have had no foreclosures or restructuring and there have only been two defaults resulting in a loss since May 1995. Therefore, overall we believe that our exposure here is contained.

I will now focus on our £45.9 billion of debt securities, but before analysing it in more detail for our key business units I would like to update you briefly on our exposure to banks and notably the Tier 1 hybrid debt, a topic that has generated much interest lately. Of our total shareholder debt portfolio, 12.9 percent is in respect of the banking industry. Our total Tier 1 exposure is £824 million, which is less than 2 percent of our debt securities portfolio. Of this £366 million - sorry I think I said £361 million on February 20th; 366 is correct – is in UK banks. The split by UK bank is shown at the bottom and of which I gave you £160 million for Barclays, Lloyds and RBS on 20th February.

Now turning to business units; of the shareholder debt portfolio of £45.9 billion, £17 billion is in the UK; £24 billion is in Jackson with the remainder in Asia and asset management. Looking first at the UK - so £17 billion; this portfolio is high quality with 86 percent invested in assets rated A or above. In addition - and as you know - we have built a £1.4 billion credit reserve; this equates to 10 percent of the credit related assets backing shareholder annuity business, and you know what's coming after this. This reserve would allow the portfolio to absorb a repeat of the Great Depression occurring every year for the life of the portfolio, and is equivalent to defaults of 185 basis points per annum for three years, which is more than 12 times the long term expected default and 45 basis points per annum thereafter. Fundamentally, we believe credit risk in the UK is appropriately reserved with very little residual exposure in the IGD.

Turning to the US Portfolio – £24 billion - which is made up of 16 billion of corporate bonds; £4 billion of RMBS; £2 billion for CMBS and £2 billion in other items. I will cover these elements in turn later, but first I'd like to talk about the unrealised losses - £3.2 billion at the end of 2008. You'll remember about £1.3 billion of this occurred in Q4; I'd just like to remind everybody that out of that £1.3 billion, £400 million is foreign exchange. As you can see on the chart of the £3.2 billion, £2.2 billion relates to the Corporate Bond Portfolio of which 82 percent at £1.8 billion is investment grade. As we have said before, we really believe here that the accounting does not represent the economic reality. We believe that our portfolio is of good quality and well managed. The actual default losses were £78 million for the year. We also experienced, as you know, £419 million of write-downs and £127 million on losses on the sale of impaired bonds, but this is part of our active management of the portfolio and of managing down some of our exposures when we don't like them

If we were to apply the highest level of defaults that we have seen in a recession with a conservative level of recoveries to this portfolio, it would generate losses of £350 million per year; significantly lower than the £2.2 billion of unrealised losses here and at a level that we can absorb within our IGD surplus of £2.5 billion.

Let us now look at each of the key components of the portfolio, starting with corporate bonds. We have £16.5 billion of corporate bonds, which are 92 percent investment grade with 41 percent invested in Triple-A to A. The remaining 8 percent of the corporate bond is in high yield with a vast majority Double–B rated. Taking first the investment grades, £15.1 billion – the first observation is that concentration risk is low. We have 489 lines, with an average of £31 million per line. As this chart demonstrates, we have a high level of diversification; a very important consideration at this point in the credit cycle of course. As mentioned in our Q4 release, our largest sector exposures are in utilities and energy. If you were to apply the highest level of Moody's historic default rates in a recession of 1.6 percent of this portfolio, we would generate losses of 140 million. In 2008 we experienced three defaults or a total of £78 million on this portfolio and unrealised losses of £1.8 billion.

Turning now to our high yield portfolio, the same approach applies and the same logic is used. The high yield portfolio is actively managed; it is equally diversified as shown here. Average holdings are, however, much lower, thus £8 million across 181 issues so £8 million to the £31 million in investment grade. It is worth noting anyway that the size of this book is £1.4 billion accounting for only 6 percent of Jackson shareholder debt portfolio. Applying the highest historic level of Moody's default in a recession of 15.4 percent you would generate losses of £130 million. In 2008 we saw no defaults on this portfolio and the unrealised losses were £400 million.

Turning now to our structured securities: starting with the CMBS portfolio of £1.8 billion which is performing strongly with no defaults or impairments in the year. 85 percent of the portfolio is Triple-A and less than 1 percent is below investment grade. We materially reduced our non Triple-A purchases after 2004 in response to what we perceived as a significant deterioration in underwriting standards observed in the market; so 96 percent of the bonds purchased post 2005 are rated Triple-A. This compares to 85 percent of the entire portfolio so we were proactive and conservative. There is an average credit enhancement across the portfolio of 30 percent and 81 percent of the Triple-A portfolio is in senior Triple-A tranches, which provide additional protection, even to the extent that there would be a principal loss its impact on us is going to be mitigated because we are the last tranche in line.

Looking now at the RMBS portfolio of £4.5 billion which has an average fair value price of 88.1 cents to the Dollar; it is important to break down this figure - why? Because our actual ultimate exposure is small and I'd like to show you why. Of the £4508 million, £2411 million or close to 50 percent of the portfolio is agency backed, which as you know is guaranteed; this has an average fair value price of 102.2. Next is £291 million invested in sub-prime, which is fixed rate collateral so no floating rate and originally all Triple-A rated and in senior tranches, so well protected; again average fair value price is high at 82.81. Our pre 2006 vintage of £1071 million has performed very well with the average fair value price holding well in the high 80s; so our exposure to the more problematic and well known '06 and '07 vintages is of £735 million. Two-thirds of this – £445 million - is in well protected senior tranches which ultimately out of this £4.5 billion leaves us with £290 million of non senior 2006/2007 which we have written down to 55.02 percent. This is an average of a Prime fair value price of 69 percent and Alt-A written down to 34.7 percent. Overall, our structured securities portfolio is small with the prime areas extensively written down so we believe that the exposure is now contained.

As I explained earlier, our main exposure within IGD is credit risk; therefore I have spent some time describing our credit portfolio which we believe in the UK is adequately reserved, in the US as a structured securities exposure which is contained, and is on the corporate side with a portfolio of good quality, well diversified and with low concentration risk.

This will be my final slide, so thanks for your patience as there has been a lot to get through. We are investing in improving our disclosures, some of which I have presented today, but there is a lot more in the schedules and I hope you will find that helpful.

My key messages have been: the underlying business is performing strongly; we have been prudent, but proactive in our approach to risk and capital management; we have clear results with a resilient IGD position; and a reduced level of sensitivity. Finally, I would like to guarantee you that we are taking our cautious mindset through into 2009 and I will be here to talk about that so let me hand back to Mark.

Mark Tucker (Group Chief Executive):
Thank you Tidjane; I think much of what you have heard this morning is about the critically important here and now, and focus on the balance sheet and capital and that is of course very appropriate, but it is also very important to us and I think to you to spend a few minutes reinforcing how we continue to deliver on our strategy and the strength of our business model, in particular as I mentioned before the benefits of our approach to diversification.

If we look over a four-year period the Group has sustained significant growth in operating profit both on the EEV and IFRS bases. We have continued to pursue a strategy focused on the retirement opportunity, but in doing so we have also made choices. We have chosen to be highly international, but on a carefully selected basis in terms of the countries in which we operate. We are also systematically selective in our choices of both products and distribution channels and as a result we have a level of diversification within the Group that means we are less at risk from changing market conditions. These graphics demonstrate the spread of profits across the geographic regions and also the significant contribution from the asset management businesses.

The benefits of diversification can also be seen from one of the new areas of disclosure that Tidjane touched on earlier. In his presentation Tidjane talked about IFRS earnings by source in Asia; this chart extends that analysis and consolidates sources of earnings at a Group level across both the life and the asset management businesses. Beyond that diversification of earnings our aim is to have a suite of products that delivers value by meeting customer needs, that is highly capital efficient and does not leave the Group overly exposed to the economic cycle. We saw clear evidence of this in 2008.

Asian markets did start to feel the impact of the global financial turmoil in mid 2008 and the region’s economic performance has undoubtedly suffered as a consequence of the downturn in demand for its goods in the Western markets. In that environment we saw market conditions that were much tougher, particularly in the second half. However - and this is one of our key differentiators - we continue to benefit from our focus on regular premium products which accounted for 90 percent of total APE sales in the region. We also were able to refocus our energies on higher margin health and protection products, which were up 32 percent and on with-profits products for the more cautious investor. In addition to that we we’ve developed our shariha compliant products in both Indonesia and Malaysia.

In the US we took the decision to give up a share in the competitive variable annuity market. Jackson’s strength across the annuity product range enabled us to anticipate and react to the changes in consumer demand towards fixed annuities. The mix was more capital intensive and lower margin, but as Tidjane said, this is one area where we would likely limit our appetite in 2009.

In the UK our strategy has been focussed on areas of real strength for us; we have benefited from our leadership position in the individual annuity market, from the financial strength of the With-Profit Fund and in particular our excellent and sustained long term investment performance.

We also benefit from diversified distribution; in Asia for example we are unique in that we have developed the largest network, the tied agency network of agents, as well as excellent partnerships with Standard Chartered, ICICI and Citic and many other banks across the region.

In the US our industry leading wholesaler teams offer genuine added value to the independent financial advisor channel and also focus on the regional broker dealers and banks.

In the UK we have got a diverse multi-channel approach including direct sales, financial advisors and partnerships. By removing ourselves from uneconomic product areas in the market we now have a much lower proportion of IFA and therefore traditionally structured commission-related distribution.

The scale and profitability of our asset management operations is a clear and powerful differentiator for the Group. In 2008 M&G's performance against the market in the UK has been quite exceptional. This is based on sustained investment performance with 25 percent of retail funds in the top decile over three years. M&G achieved 62 percent growth in its UK net retail inflows as the market fell by 57 percent and we also saw the value of our funds under management hold up very well. On the institutional side, 70 percent of fixed income mandates met or exceeded their benchmarks – over three years.

The benefits of our focused strategy and diversification across our businesses have also enabled the Group to show strong performance against the competition in 2008. In Asia we are ranked number one in three markets. In Malaysia where we combine our conditional business with our successful shariha compliant products, we believe that for the first time in our history we are the market leader, we are number one. We are now in the top five position in eight markets across the region and an interesting statistic that we use for the first time there, we believe ex-Japan that we outsold the regional market 2.5 times in 2008 and gained profitable share in many, if not most of the territories that we operate in.

In the US I have already said that we deliberately gave up shares in the VA market and you can see that from this slide. I have also talked about our ability to react to changing market conditions as demands for FAs increased. In the UK, as Tidjane has mentioned, we achieved an excellent relative performance with retail growth up 10 percent compared with the overall retail market which was down 10 percent.

As we look forward, we will continue to implement our clear and consistent strategy and to maintain our rigorous and disciplined operating principles. First we will continue to focus on the retirement opportunity and take advantage of the clear demographic and social trends that are driving the largest financial services profit pools in each region. This makes our revenue streams highly resilient.

Second, we have a highly attractive geographic spread with exposure to the main growth areas of the retirement market, especially in Asia.

Third, our concentration will be on profitable product lines within our chosen markets as we seek to generate strong returns with short average payback periods.

Fourth, our portfolio businesses allow us to make efficient choices on where and when we commit our capital.

Fifth, we have consistently refused to pursue volume at the expense of value and in this environment it is even more important that we remain immensely disciplined on this point.

Last, and certainly not least and it applies across right our management team, we will combine targeting of growth with financial conservatism.

The key messages that I hope you will come away with following our presentation today are: we are a Group focused on a consistent and compelling strategy; we have a business model that is both well diversified and resilient; and we have a management team that have made and continue to make a series of clear sighted decisions and proactive moves to improve both the capital and the cash position of the Group.

2009 is and will continue to be a very difficult and challenging year for all our businesses. Bearing in mind the uncertainty in the operating environment and as you heard from Tidjane earlier we have taken a prudent approach to our plans for 2009. This means focusing on balancing new business with cash generation and making it our top and our absolute priority to ensure that our balance sheet and our capital position and that our cash flow remain robust. As the past year has demonstrated, prudence pays.

Q&A

Mark Tucker (Group Chief Executive):
Thank you for that, and let me hand over to you guys for questions.

Andrew Crean (Citi):
Andrew Crean of Citi; a couple of questions; first one is you are enthusiastic as ever and the company is doing well and yet you are leaving and it is quite difficult to square those things; perhaps you could talk about it. I assume something about strategic difference in direction particularly with all the rumours which are in the papers about what you were trying to do in AIG and how you were going to pay for those things if you achieved that. The second question; could you give us the sensitivity tests on your embedded values from spreads widenings by 50:100 basis points.

Mark Tucker (Group Chief Executive):
Let me deal with the first part. I am sorry that I haven't shared my enthusiasm before. I think anybody that knows me knows that I have been an enthusiastic supporter of the Group for 25 years; so I am sorry it had to take them 24.5 years to get there, but I remain as enthusiastic and committed and I hold an awful lot of Prudential shares and I intend to continue to hold an awful lot of Prudential shares going forward. There is absolutely no strategic difference; I think on the basis either clearly of a new Chairman who again Harvey and I knew each other before and I was an immensely keen supporter to Harvey's introduction to the company and clearly Tidjane again, was somebody that I recruited in.

There are no strategic differences between us. I think that hopefully they will say the same thing, but I think the basis of the strategy is clear. We have got a clear track record of delivery. I think there has been an awful lot of speculation about AIG; it was a simple decision and I have said to you and many others before I don't get emotional about acquisitions. If it makes sense in terms of the financials then we look at it; if it doesn't we won't. We couldn't get to a situation where it made sense and we did not put an offer forward. There were no differences at all, it was a purely value equation.

In looking at sensitivity test for EV, Tidjane where are we with that? Is there something that we can look at giving?

Tidjane Thiam (Chief Financial Officer):
What we have given is 1 percent in the schedules; on Schedule 12.

Andy Hughes (JP Morgan):
Hi, Andy Hughes, JP Morgan. A couple of questions if I may; first one is about the general view of defaults being the important driver of the business or risk to the business. My real concern is not defaults, but impairments to bond assets on the balance sheet, because you have impaired 500 million of assets last year and that is 10 times your expected defaults; can you talk a bit about that, and potentially what leverage you have within that.

Then just a couple of clarification questions on the bond disclosures that you gave today. First one, on the financial debt exposure you talked about the Tier 1 bank debt exposure; what is the rest of the £5 billion that you disclosed on the slides, because obviously some Tier 2 stuff is treated the same way as Tier 1, now in the debt market?

The other question was on the Prudential Capital unit in the UK which has £1.7 billion of bridging loans and other things on it which I don't really understand. Is there a credit provision in respect of this business, or is it treated as zero; and indeed how does that square with the view of being able to cope with the 1930s style recession?

Tidjane Thiam (Chief Financial Officer):
I will take the bank first, the bank question; the Tier 2 exposure I can give you a number, it is £3,513 million the total for the Group. We have a breakdown I can give, and UK £1,393 million; US £1,198 million; other £921 million which adds to £3,512 million.

Andy Hughes (JP Morgan):
Is that lower?

Tidjane Thiam (Chief Financial Officer):
This is together; we can also provide a breakdown between upper and lower; but that gives you the two together. Impairments; maybe we ought to let Clark address that.

Clark Manning (President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
Good morning. On the impairments from the perspective of Jackson's portfolio all figures being Dollars not Pounds, we have investments trading below 80 cents on the Dollar, $2.8 billion so that would be the pool that you would look at on the mark-to-market for potential write-downs. Our approach to write-downs is we don't have a bright line price trigger, or time trigger; what we do is we look at whether we think the investment is impaired. For structured securities we project cash flows and if there is a significant impairment we mark them to fair value. On other bonds what we're looking at is how are the credit spreads moving relative to overall credit spreads, where overall credit spreads in the US market have exploded since 30 September resulting in average prices across the entire market dropping a great deal. We would look at whether the spread increase in the bond indicates some sort of credit impairment, or does other information on the company indicate some sort of credit impairment; that's what gave rise to the write downs that we took.

I think the question being what might future write-downs be? That's forward looking, can't address it; I mean the market is too volatile to address that directly. We will continue to look at the structured securities portfolio; Tidjane and his presentation flagged the portion of that portfolio that we think is most interesting and that's the Alt As and non-agency backed prime '06/'07 subordinated tranches and we will watch the Triple-Bs and what I'd say about the Triple-B portfolio, its first well diversified; second it's credit quality is reasonably good in that it's tilted towards the higher end of the Triple-B spectrum, about 75 percent of it is Triple-B or Triple-B+. When the portfolio was configured it was a little higher than that, but obviously there has been some rating migration there. The largest sector exposures are utilities, consumer noncyclicals and energy; so what will happen there I don't know exactly; there will be some downgrades; there will be some defaults and we'll take them as we incur them, but that's the general philosophy that we take to those impairments.

Mark Tucker (Group Chief Executive):
Let's pass to address your third part to John who heads up Prudential Capital.

John Foley (Prudential Capital):
Book continues to perform; we review that book constantly throughout the year; it's performed well during the year, all the assets are performing to the original specifications that we signed them on to and there are no impairments against that book.

Tidjane Thiam (Chief Financial Officer):
We take impairments for M&G into the operating profit - was £22 million in 2008.

Greig Paterson,(KBW):
Greig Patterson KBW: three questions; one if you can give us some colour on how Asia is trading currently, that's question one. The second one, Indian IPO, isn't there a date coming up soon that you have to potentially increase your stake, if you just want to talk around that. The third thing is you mentioned that financial reinsurance was one of your levers; Friends Provident have hit up against their fixed charge cover. I wonder if you can just discuss the headroom you have within that constraint in terms of levers and I'll ask a quick fourth one for you Mark; the one thing that worries me about you leaving is if you went off to AIA; I was just wondering if you want to rule that out for me expressively now.

Mark Tucker (Group Chief Executive):
The fourth one absolutely, totally and anything that gives you complete confirmation I will rule that out. In terms of colour on Asia, Barry are you happy to give a few seconds update?

Barry Stowe (Chief Executive, Prudential Corporation Asia):
As the presentation said, it's no surprise that the environment is a lot more complicated than it was a year ago. Asia has been impacted just like every other part of the world. When we announced the Full Year results and specifically the Fourth Quarter results you did see difficulties in October, November in terms of sales results; they came off quite a bit; they came roaring back in December, we had quite a good December and without giving you information that I'm not meant to give you until we announce our First Quarter results, we feel good in the context of the environment and I guess I should say we feel good about our performance in that environment.

You see in the presentation as well the market share movements; I think those tell the story about performance and out performance is really I think the key indicator right now. While no one is doing as well as they did, say in 2007, or maybe in the First Quarter of 2008, the reality is we're doing better we think than most anyone else and that shows in the numbers. Even in the markets where it may appear that our market share, or in fact our absolute market share, did come off a little bit during the course of 2008, when you look at those specifically such as Korea, while it's true we did lose absolute market share, we gained market share amongst the foreign companies which are the companies that seem to impose more of a value over volume mind set than the local companies who've done some quite uneconomic things. When you look at India we did lose a little market share relative to the full marketplace, but we maintained our number one position.

One of the big issues there is that we refuse to participate in a distribution system that's starting to proliferate; it's built on multilevel marketing where essentially you have unlicensed agents selling your products; these are literally the Amways of the world who are now selling insurance; we wont do things like that. In Singapore again we lost some market share, but retained our number one position and the reason we lost market share there is because we refused to try to replace the CPF driven single premium sales with uneconomic single premium sales, simply for the point of getting market share. We refocused on protection products where we've got big increases; we refocused on recurring premium and that's serving us well. So you see that story come through in the margins; it's a tough environment but we feel good about it.

Mark Tucker (Group Chief Executive):
The other thing I would add to that, Barry, is 2008 First Quarter was one of the highest quarters in history.

Barry Stowe (Chief Executive, Prudential Corporation Asia):
Yes, 2008 First Quarter is our second highest quarter in history and it only fell behind Fourth Quarter of 2007 literally by about £10 million so it's essentially equal to our best quarter ever.

Mark Tucker (Group Chief Executive):
In terms of the IPO Indian date, I think the rules have adjusted, Greg, and at this point in time we're not bouncing off any level of issue of having to go to IPO in India and that's not on the schedule or the itinerary at the moment. In terms of the financial reinsurance as a lever…

Tidjane Thiam (Chief Financial Officer):
The point there is that there is a degree of tension between economic capital and solvency capital as you know. We've fundamentally managed to economic capital so we try not to do things that are not sensible from an economic perspective for solvency reasons, but I think the limit is actually our appetite for those types of transactions which have little economic value and just have a solvency benefit. But in terms of fixed charge cover I don't have a number from the top of my head, but we're not running into any constraints; we looked at a number of structures in Q4 and Q1 and they were implementable.

Raghu Hariharan (Fox-Pitt Kelton):
Morning gentlemen; three questions: on your IGD capital you have given us the waterfall chart; the second biggest component is £600 million of management actions. I was wondering if you would some colour on what the composition of those management actions are in terms of that £600 million. The second question also on the IGD capital, was what is the regulatory reserving for defaults in the US because you are at 80 bps in the UK which I guess is included in your IGD I was just wondering what the equivalent number was for US for bonds. The third question was for Clark I guess on the DAC recoverability testing; obviously there's a big movement in DAC and we want to understand what the levers are. Two questions that I have are what is the sensitivity of DAC to lapses and what is the sensitivity of DAC to credit defaults and/or impairments, because these two things will drive impairment of profitability and therefore amortisation of DAC.

Mark Tucker (Group Chief Executive):
Okay lets start in reverse order and ask Mr Manning to talk about DAC.

Clark Manning (President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
The primary sensitivity of DAC is going to be the moves in the equity markets and that is what we saw in 2008. To the extent that there are defaults that will be taken into account in the overall amortisation schedule of that DAC and it will actually mute the impact of the default somewhat in the period in which it occurs. From a surrender standpoint our acquisition costs are very well covered by the surrender charges on the business, so you shouldn't see material moves there. What hit us last year was the movement in the equity markets and the DAC sensitivity there as we discussed just last year we were within the corridor until October of last year - the DAC amortisation corridor where we smooth the DAC amortisation without going through all the mechanics - and that accounted for about 170 million of excess amortisation until we broke through the corridor in October.

At that point the sensitivity of DAC to movements in the market moved from $4-6 million per 1 percent move in the market, to about $11 million per 1 percent move in the market; and so we incurred another 70 million in the last three months of the year outside of the corridor. Our current DAC sensitivity to equity which is really the most relevant point; we're out of the corridor; we're way out of the corridor at this point. As of the end of February the market would need to go up 57 percent to get us back into the corridor. I'm not even going to give you what the sensitivity in the corridor is, because we no longer calculate it. Out of the corridor the next trigger point would be where do you hit recoverability thresholds, where your fees are no longer sufficient to amortise your outstanding acquisition cost.

For us, as of the end of February we could incur another 40 percent drop in the market before hitting recoverability. Our K factor for those who follow those things was 73 percent which is good; the business that we're writing is profitable and our funds are outperforming the equity indices. Equity indices through the end of February were down 19, we were down 14; about 500 basis points of outperformance, all of which is helping. So that leaves us with a current sensitivity for DAC, it's about $7 million to $8 million per 1 point move in the market today, outside of the corridor between where we'd go back into mean reversion and where we would hit DAC recoverability thresholds.

Tidjane Thiam (Chief Financial Officer):
Alright, if I can just add a point to this. We have £5.2 billion of DAC; there is four in the US, 1.1 in Asia and 0.1 in the UK, so that gives you a sense. In Asia the DAC is about 30 percent of the VIF, so we think it's well covered in addition to what Clark said in the US we're in a good position globally.

IGD, the management actions; it's a lot of various little lines; it goes from changing the interest rate cap in Vietnam to some de-risking of equity in Asia. That's why we haven't detailed it; you've got at least 20 actions there; it's a lot of little things that we do to manage the book as we go forward and that's a characteristic of IGD as it is today. Clark has just obtained the deferred tax assets in Michigan, so what Iowa gave a few months back we've obtained it in Michigan. That would be an additional gain for IGD going forwards, so it's constantly moving; that's the nature of the beast.

Clark Manning President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
Our regulatory books, we carry the bulk of the investments at amortised cost; we impair them on our statutory books roughly when they are impaired on our IFRS books, same sort of criteria, with the exception that it's a little bit looser on the structured securities. At present there is a SSAP 98 which would bring it more inline with IFRS, which we expect will come into force this year.

James Pearce (Cazenove):
Morning its James Pearce from Cazenove; you've got a new Chairman and a new Chief Executive; have you got a new strategy as well please? Second, can you talk about arrears development on the US mortgage book; and thirdly could you say how you are investing premiums on fixed annuities now? Are you taking more credit risk in the US like you seem to be doing in the UK, or are you holding it in cash; or what are you doing with the money?

Clark Manning (President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
As far as what we are doing with the money, we're going up quality right now. We don't want to deploy the capital against lower quality investments and don't want to run the downgrade risk, so we've gone very much up quality in terms of cash flow. And commercial mortgage question; was that a commercial mortgage question?

James Pearce (Cazenove):
Arrears and mortgages, yes.

Clark Manning President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
The performance on our mortgages has been very good; as of Year-End we had one mortgage that was in arrears 60 days. By the end of February we'll have at most three in our portfolio; I think that's $33 million worth of book value so our mortgage portfolio is performing very, very well.

Mark Tucker (Group Chief Executive):
James, I think our new Chairman and Chief Executive-elect can talk for themselves and I won't add to that, hardly, maybe just a few words.

Harvey McGrath (Chairman):
Yes absolutely; the simple answer is no; no change to the strategy that Mark has recapped and outlined and I'm pretty confident that that's what the gentlemen behind me would also confirm.

Tidjane Thiam (Chief Financial Officer):
I'm nodding to say no.

Mark Tucker (Group Chief Executive):
That's pretty uniform; okay next, John.

Jon Hocking (Morgan Stanley):
Jon Hocking, Morgan Stanley; I've got three questions if I may, firstly could Clark give us a little bit more detail on the performance of the VA hedging programme particularly how it's performed relative to expectations and when hedges roll etcetera and how you are prepared for that. Secondly on the DAC point; I see there's a billion movement in the shadow DAC in the US and that seems to be linked to widening of spreads, so presumably that balance is actually more spread sensitive rather than equity sensitive. I wonder if you can talk about that and how you look at impairments on that number. Finally if you could comment a little bit on what you see competitively with AIG in Asia; I think there's lots of room certainly on the P&C side in the States, they have been quite aggressive using the same thing on the life side in Asia.

Mark Tucker (Group Chief Executive):
Barry can, as diplomatically as possibly give a sense on Asia.

Barry Stowe (Chief Executive, Prudential Corporation Asia):
What I've heard from, on the AIU side and I think at AIG in the United States as well, particularly in commercial lines the sort of pricing that you have never seen out of AIG, I mean very, very, very aggressive pricing which undoubtedly you would think would have an impact on their combined, so I guess the question is are we seeing similar sorts of activity in Asia? What we're seeing, you don't see it in the life sector as much in terms of ravaging products, building completely uneconomic products, but what we are seeing is very aggressive compensation to distribution.

AIA in South East Asia is very reliant upon agency distribution and we do get intelligence about a lot of money being spent in order to try and stabilise a distribution plan in what's obviously a very unstable environment.

Mark Tucker (Group Chief Executive):
Let me be slightly less diplomatic; what I've heard is they are doubling commission on most products, you would have to look at the economic viability of those products.

Barry Stowe (Chief Executive, Prudential Corporation Asia):
You'd have to assume that destroys value.

Mark Tucker (Group Chief Executive):
Yes, I think you have to; that's what we've heard.

Barry Stowe (Chief Executive, Prudential Corporation Asia):
Interest free loans, you know.

Mark Tucker (Group Chief Executive):
Clark; your thesis on VA hedging.

Clark Manning (President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
We'll start with shadow DAC; the shadow DAC number is a large number because the mark-to-market on the assets is a large number. We're not close to any impairments there; if you think about the margins in a fixed annuity contract we've got a good 100 basis points per annum between the costs and the amortisation of the acquisition costs and the earned rate on the assets and so we're not incurring any real spread pressure, so it's just the default, so we're not bumping into a shadow DAC recoverability issue.

The VA hedging: IFRS in Dollar terms, $119 million profit above the line, $101 pre-tax on the bottom line. On a US regulatory basis we had a profit of about $30 million on the hedge programme. What is it right now? I'm not going to give all the details on the hedge programme, because that's proprietary and if I gave too many details it might impact our trading, but we've got right now about $17.5 billion notional on the books, maturity is up to 4.5 years, average life of about 1.5 years and futures short position of about $900 million.

What we've been doing is rolling those options positions in adjusting the delta position using futures and we have been able to do so and stay well within our hedging budget. The thing I'd emphasise on the hedging though is that the purpose of the hedging is not to make a profit. We went into last year over-hedged and we're very happy about that and that's showing up in the numbers. The purpose of the hedging programme is to hedge the liability, so it's fortuitous that we have profits on it, because of the over-hedged positions and very volatile markets, so we're quite happy with it.

Andy Hughes (JP Morgan):
A couple of follow-up questions, if I may, I was more worried about another buyout fund and not joining AIA, so hopefully you're not going to set up a buyout fund, Mr Tucker. On impairments, if the credit spread you see today is partly reflecting future credit migration in terms of a bunch of bonds pulling back to par or a bunch of bonds getting downgraded, the bunch of bonds that get downgraded in your criteria would presumably need to be impaired and the bunch of bonds that pull back to par would be as you currently allow for in your reserves, so I'd be quite keen to get a viewpoint, obviously given the current annualised loss, which is below 80 percent. The other point was, I guess, about the VA hedging and the take-up rate. You mentioned £900 million of short futures position against £23 billion of guarantees.

Clark Manning (President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
The £900 million Plus £17.5 billion notional option position. You have to look at that in combination.

As far as ratings migration, we'll get some ratings migration. We don't need to impair an investment because of a ratings migration. What will happen upon a downgrade is that the capital charge associated with it under the US risk-based capital ratio calculation will go up, but you don't have to impair the instrument unless you actually think that the creditworthiness of the instrument is impaired or you're not going to get recovery of the cash flows.

Andy Hughes (JP Morgan):
Yes, but I guess my question is that the bonds you hold today, a big chunk of them will pull back to par and they'll be fine; another chunk will get downgraded and the price will fall of those bonds that were downgraded and they'll fall below your 80 percent test.

Clark Manning (President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
The 80 percent: let me clarify on the 80 percent; it's not a test. That is it's a metric that's widely disclosed in the US to give an idea of what are your unrealised losses that could be subject to impairment in the future. The bond markets have traded way down. The average index price for a BB, B is around 70 right now and it's been lower than that and it's about 90 for investment grade right now and it's been in the low 80s at times. The $2.8 billion trading below 80 is simply something we watch; it's not a hard test, so if it's impaired then we're going to have to impair it and some portion of that will become impaired and have to be impaired through the books, but our belief right now is looking at that portfolio the unrealised loss on it and the unrealised loss in the US credit indices is not reflective of the actual impairments that we would expect out of that portfolio.

Andy Hughes (JP Morgan):
The second on withdrawal benefits, I guess, was the other bit of the question; how you hedge things and taking withdrawal benefits, how are those moving and how do you expect them to move?

Clark Manning (President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
The withdrawal benefits we hedge very conservatively. When we priced the products originally we assumed very efficient election of the withdrawal benefits on the part of the policy-holder in the sense that when they were in the money they would start taking the withdrawal benefit and when they started taking the benefit that they would take all of it, meaning take the maximum, if it was a 5 percent withdrawal benefit that they'd take all 5. We're now getting some experience in the tails and what we're seeing is that the withdrawals are not at all efficient, which has been helpful to us and what we have also seen on the policy-holder behaviour front is that their deployment of the assets is much less aggressive than what was assumed in the pricing of the products. We assumed 80 percent equities and we're looking at about 60 percent equities today, which is helpful.

The hedging is by and large following the pricing in terms of policy-holder behaviour assumptions and what we have been doing with the pricing is where we get clear experience in the tails we adjust those utilisation assumptions, but do so on a conservative basis still assuming that over the long haul election becomes more efficient, but so far it has worked to our benefit. The benefit type that's most subject to policy-holder behaviour is guaranteed minimum income benefits, because you have to do a point-in-time election on the part of the policy-holder and it's a light switch; it's either on or it's off, there's no partial utilisation. We have shied away from that benefit type, we have reinsured what we have and we are in the process of pulling it within the next couple of weeks.

Bruno Paulson (Sanford Bernstein):
Bruno Paulson, Sanford Bernstein; sorry to drag Clark up here. On the write-downs the $419 million, can you give us any breakdown; and apologies if it's in the modern version of the Bible you gave us this morning. You gave us a breakdown of where those $419 million came, that's in Pounds, apologies.

Clark Manning (President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
Answering back in Dollar so I don't screw up the conversion rates, it was about $500 million corporates, about $300 million in structured securities and about $100 million in preferred and others, that being mostly the GSEs.

Bruno Paulson (Sanford Bernstein):
One final question is you didn't want to talk about the continuity strategy and also rumours about AIG, most of which I try to ignore, but there was a very alarming one in the Sunday Telegraph at the weekend that Prudential was contemplating sponsoring Manchester United. Now, under current Management that would clearly be unthinkable, I trust, season tickets have had to be forfeited. Can the incoming Management, whose affinities are elsewhere in London, also confirm that sponsoring Manchester United is entirely unacceptable and unthinkable?

Mark Tucker (Group Chief Executive):
I think from a socially, ethically, philosophically personal basis it's totally unacceptable. I think from a business basis it's something that we must examine if there is value and we can generate a compelling business case for that.

Tony Silverman (Standard & Poors):
Tony Silverman; Standard & Poor's Equity Research. I'd just like to ask two questions, one on the US again and I just wonder if you can clarify what the impact, if surrenders increased in fixed annuities, is. I know you said surrender penalties are good from your point of view, but given the sort of profile I was wondering if you could expand on that; do you keep a liquidity reserve just in case? The second question was for Mark really. Despite everything that's been said I'm not quite there yet as to why you've decided to resign and we've covered several things that you probably wouldn't do, but perhaps you could talk a bit about what you would do and what you might be thinking of doing next to get us to an appreciation of why you've decided to resign.

Clark Manning (President and Chief Executive Officer, Jackson National Life Insurance Company (Jackson)):
Starting with the fixed annuities, if we start with our recent persistency experience, persistency last year actually improved in fixed annuities. Our surrender rate in '07 was about 12 percent and our surrender rate in '08 was 10 percent, so that book is fairly well locked down. From a liquidity perspective we've got plenty of liquidity facilities. We've got right now about $1 billion worth of essentially cash on our books, that's a little higher than we normally run, plus we have availability liquidity facility from the Federal Home Loan Banks in excess of $5 billion that we could access very quickly that we have flexible collateral for some of it already pledged, so from a liquidity standpoint we're quite liquid.

Mark Tucker (Group Chief Executive):
Tony, I think, again, it is very simple; it is not complicated. I think the strength of the business is clear, I think, as I say, I've given 25 years and it will 4.5 years as Group Chief Executive to the Group. I think when I look back what I didn't do effectively when I was in Asia was create succession as well as I would have liked and I was certain that I wasn't going to do that again when I came back to this job and it was one of the clear criteria and I put in place what I believed is succession in the Group and Tidjane is a living example of that.

It's simple as that; I believe regeneration of a CEO should happen after a certain time and I think Tidjane will come in and do a superb job. As to what I will do, I have no idea. I think I will not be inactive; I will want to do something. I think I have another big job or so in me, but I think the point is now when you are in these sorts of jobs you don't have time to think about it; it is totally inappropriate to have any conversations, so I have not thought about it and not been in any conversations and what happens in the future happens in the future, but I think the timing for the Group to do it from a position of strength was very important to me and I think this is a great position to do it from. And Manchester United of course.

Andrew Crean (Citi):
It's Andrew Crean. Can we go back to the subject of the economic capital under QIS IV, how does the Group look on the emerging capital debate? Particularly what I'm thinking about is the capital that you require behind things like UK annuities and US fixed annuities, how that compares with the Solvency I regime.

Tidjane Thiam (Chief Financial Officer):
We are working on it as you can imagine. With Solvency II we did QIS IV like others. I don't know if what you want is to start a discussion on liquidity premium and its treatment, it's similar to some of the discussions, I think, we've had in the CFO Forum on MCEV. I think the discussions are ongoing; regular meeting of the FSA, etcetera on these topics.

Andrew Crean (Citi):
Presumably you actually went through your QIS IV figures.

Mark Tucker (Group Chief Executive):
Yes, we've got the figures; we're not going to disclose them. We have the figures and I think, as I say, the basis is so uncertain that when the CFO Forum itself hasn't got together in terms of standards I think at the appropriate time we're happy to talk about them, but I think until there is greater consistency and comparability we're unlikely to release those figures.

Andrew Crean (Citi):
I'm not sure the spreads are there. You've go the movements to interest rates, but not corporate bond spreads; it was the question I asked right at the beginning. Sorry, the question I asked at the beginning about corporate bond spreads, I looked again and I can see your…

Tidjane Thiam (Chief Financial Officer):
It's interest rates, it's not spreads.

Andrew Crean (Citi):
I was asking you if you were sensitive to corporate bond spreads.

Tidjane Thiam (Group Chief Financial Officer):
We can come back to you on that.

Greig Paterson (KBW):
It'd be amiss not to ask a question, with the CFO Forum deadline coming up, I suppose, in Feb 2010; given the current hullaballoo that's going on within the Committee and the way Aviva's been treated, etcetera, in the market, would you, if you got there and there wasn't any consensus reached would you consider un-signing yourself from the CFO Forum or is there some kind of loophole in your document that you can just delay it until? I just want your thinking around that.

Tidjane Thiam (Group Chief Financial Officer):
I think we've been an active participant of the CFO Forum. We think the CFO Forum is a good thing for the industry. We would welcome a joint agreed position on these issues that are on the table now. We think it would be good for the industry to have a comparable standard. We decided not to be an early adopter, because we didn't think it was helpful for the industry for companies to go ahead in a dispersed and inconsistent manner; I think we've been proven right on that. We keep the same position; we just work within the Forum towards a solution hoping that we will find one.

Greig Paterson (KBW):
Are you near a solution now?

Tidjane Thiam (Group Chief Financial Officer):
I think there's a lot of work ongoing. We don't want to forecast the outcome of that work, but we are active participants.

Mark Tucker (Group Chief Executive):
Can we have one last question if any? The CFO Forum's a bit of a … a bit of a downer to end on. Let me say thank you very much for coming this morning and we'll be around for a bit if you want to talk. Thank you.