Prudential plc 2013 Full Year Results

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Business Review

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Welcome

Good morning and welcome to our full year 2013 results presentation. Prudential has delivered a strong performance in 2013 with double digit growth across all our key performance metrics. We are pleased to announce that we have achieved all six of our 2013 growth and cash objectives. As you know, we have been early in talking about cash and we have been focusing on that metric since 2008. From a situation of great dependency on the UK, in terms of cash and earnings in 2007, we are now in a position where each of our four businesses is materially cash generative.

We have also been able in parallel to generate, we believe, more growth than any other large insurance company. So we have not only talked about growth and cash, we have been able to deliver on that promise and in the end it is this delivery only that matters. People sometimes are kind enough to refer to the quality of our strategy, I actually think what is really unique about this company and its team is our focus on execution, and our ability to deliver consistently.

Bancassurance agreement

A few weeks ago at the investor seminar, the motto was more of the same. This remains our motto with a little twist this morning which is more of the same, just better. The renewal announced this morning of our strategic bancassurance agreement with Standard Chartered Bank is a good example of that; more of the same, just better. The previous agreement was already a good one, and in the past 15 years our sales from this ownership have grown by 160 times. The new agreement is a clear improvement on the previous one; it is longer, it is deeper and it is broader than the previous agreement. It is longer; this agreement will run for 15 years. Where is Gregg? Gregg, we do not have to have this banter about when does it end anymore? 15 years, I can finally take that question with a smile; 2029. It has been going on for long; thank you for your patience Gregg, you have been really good. I know, I am trying to buy some goodwill here, I know my time will come, it is very transparent!

It is a longer agreement, it is broader, it gives us access to 11 markets in Asia, and it secures exclusive rights to discuss bancassurance agreement in seven additional markets in the near future. It is also deeper because in a number of markets we are strengthening our existing relationship as we move to either exclusive or preferred terms. Last but not least, as part of the agreement we will work with SCB to explore some of the huge opportunities available to us in Africa. Our teams know and respect each other, they work very well together as evidenced by the growth of our business over the last 15 years, I have said 160 times, that is why we are confident that this new agreement giving us unfettered access to one of the best banking franchises in Asia, about 800 branches in the new agreement, is a milestone in our development.

Overview of presentation

With that I will follow today my usual format; I will start with a highlight of our full year result, and then will comment on a few key aspects of our strategy. As as usual there will be a focus on Asia, but we will also cover Jackson, and our resources in the UK, the life business and M&G. I will then hand over to Nic who will cover our financial performance in more detail. Then I will come back at the end to talk about the outlook for the rest of the year and beyond, and we will then take your questions. As always, the executive team from across the group are here, and they will do their best to answer any questions you may have, and I am sure we will have opportunities to intervene.

Overview of 2013

Strong performance on key metrics

So, back to 2013; IFRS operating profit grew 17% to 2.954 million, we wanted to reach 3 million but we stopped a bit short of that, but 2.954 million. We often talked about doubling in four years for Asia, but we have actually been able to double the entire group; in four years we have gone from 1.4 billion in 2009 to close to three billion in 2013. New business profits grew by 16% to over 2.8 billion and within that, Asia has achieved the last remaining 2013 objective, you have heard me many times saying it was the most challenging; I believe it was. It has been the last one in time to be achieved, and we are pleased it was achieved, doubling the NBP to 1.46 billion in spite of significant efforts and headwinds, so it is a good performance. Now, importantly, these earnings have been converted into cash, and our key measure of free surplus cash generation is up by 18% to almost 2.5 billion. We have again material contributions from all business units, and I will come back to that.

Strong capital position

Our capital position remains strong, and as we promised, that is another long running debate between us, we have today published for the first time our economic capital ratio, which is 257% for 2013. Nic will give you much more detail on this in his presentation. IGD surplus capital remains unchanged at 5.1 billion. It is this continuing strong operating and financial performance, and robust capital position of the group, that has enabled the Board to rebase[?] our dividend upwards by 15% to 33.57p[?].

Delivering promise

So, in a nutshell, these results demonstrate that the group has been able to deliver on its promise of generating both growth and cash. We have now achieved all six of our objectives, in that process the financial characteristics of the group have been transformed and all businesses are now remitting significant amounts of cash and this year Asia delivered over £1 billion of IFRS operating profit.

You are all familiar with this slide by now, we have used it three times, but it shows you the change of scale that has been achieved in that period. Asia has more than doubled in the top there, both NBP and IFRS in four years. Asia's cash remittance has increased 10 times, Jacksons net remittance has increased more than seven times, and the UK has continued to generate large amounts of cash in a challenging context.

Key developments of 2013

Customers

So, we tried to cover, with one page[?], some of the key developments of 2013. So as always we should start by talking about our customers; our progress in Asia has allowed us to acquire 1.9 million new customers in 2013. When I was in Hong Kong last week with Barry, and we did the calculation in our idle time, and we came down, if you take a 24/7 basis, to one policy every 10 seconds in Asia. If you assume we work 24 hours a day, seven days a week. So I have given Barry a new challenge to beat Hussein Bolt and break the 10 second barrier; we need to go to one every eight seconds, or something even better.

Distribution reach

We have explained our distribution reach in Asia with the new agreement with Standard Chartered that I have just described. We have conducted the integration of Standard Chartered in very fast time, sold our first policy in May, the first day after receiving regulatory approval, and our new [inaudible], as you will see later, is already making a material contribution to our profits. Across our bancassurance relationship, to give you a number, NBP in our sweetspot market grew by 23% in the year which is a pleasing result.

Achieved long-running ambition

We have also achieved a long-running ambition of the group by domesticating our risk profits business in Hong Kong, separating the UK with profit fund from the Hong Kong with profit fund. We have entered new markets in Asia; we have launched in Cambodia in January 2013, and have opened a representative office in Myanmar.

US

Moving from Asia to the US, we have continued to innovate, as demonstrated by the success of Elite Access which generated 4 billion of premiums in 2013, triple the level achieved the year before. The REALIC position we announced in May 2012 has been successfully integrated, and you can see its contribution to its numbers; it has been delivering above the expected benefits and has contributed to enhancing and diversifying our revenue stream in the US.

Asset management

In asset management we have continued to expand M&G's presence in Europe, driving Europe in retail funds under management of 64% to 24 billion. The addition to our well-known portfolio; PCA, Jackson, UK Life, M&G, we have entered Africa for small acquisition in general. We also played an integral part in reaching an agreement with regulators and politicians in November last year, Omnibus II, directive of Solvency II; this agreement provides more clarity, we believe, to you, our investors, on the capital implications of a new regime, and also ensures that we ensure it can continue to play a role in finance in[?] long-term capital needs of the economy.

Now, this chart for us is just a translation, in financial terms, of core reductions[?] we have conducted since 2008, and I think every year has been at least as busy as 2013, when you list everything that has been done. 2013 adds one more year to a track record built up over several year, and in reference to 2008, we would [inaudible] because they are very interesting, they are empty because we only started measuring our sources of earnings in 2008. Those of you who were in this presentation at the time should remember these 2008 results being presented first time.

What gets measured gets managed, we all know that, so since then, our focus on driving growth in fee income, and insurance margin, has delivered growing scale with improved quality with 31 CAGR for those two categories together over five years, and they have moved from 38% of our earnings from 63%, in a total that itself has more than doubled. So, it has been really a very important part of the strategy.

Cash

In more simplistic terms just looking at cash, it is quite straightforward; from being highly dependent on the UK in 2008, which you can see here, and even more in 2009, the UK in 2008 was contributing 40% of the group's remittances. We are now a better balanced, well diversified group with material contributions from all our four business units; something which we wanted to achieve. It is hard to overstate the importance of this transformation for the group, from the way we are able to run it, for up front in terms of profitable growth and investments, the Standard Chartered deal, based on internal resources, as well as for cash rewards over time for shareholders.

Objectives

Now, achieving the 2013 objective of course would present an important milestone for the company, however, you know us, we never want to be complacent, and it is a luxury, sadly, that we cannot afford; I wish we could.

As announced at the investor conference in December, we have set ourselves new and challenging objectives that underline the scale of our continued ambition for this group. We are essentially looking to double Asia from this already larger and higher base, while also aiming to generate cash equivalent to a third of the current market capital of the group. Now, of course, we have not given you the balance for 2014, 2015, 2016, because we do not want to forecast the shape of our trajectory. These will be four additional years of hard work and we are confident that we will get there by 2017. About 1 billion of free surplus generation in Asia – we said between 900 million and 1.1 billion – 1.8 billion of IFRS profit, and 10 billion of cumulative group free surplus generation over four years, after funding significant growth.

Key considerations

Now, of course a key consideration when we are looking ahead towards 2017 is a microeconomic context. We actually believe that the microeconomic environment today has become more supportive for the group, and actually largely validates our geographic focus. The stream of positive economic news that we have recently received in the US and the UK are good news for our business. I was reading this morning that the OECD is now at 3.3 for the UK, so it is all positive, and put simply, if you think about financial risk at Prudential, it is mostly sitting in Jackson and in UK Life. And, as the US and the UK economies continue to recover and as long-term interest rates rise, accordingly there will be a strong beneficial impact on both the profits of our businesses and their capital strength in the US and in the UK.

Asia

Now, moving onto Asia, of course some of the currency weakness, which we have seen in a few select Asian countries following the Federal Reserve tapering of quantitative easing, will impact our reported financials in 2014, and Nic will provide you a sense of that impact, looking at 2013 on-spot rates[?] will give you sensitivities.

But, the key thing here, I just want to make a very small number of high level comments which I believe are important; in each country, we must keep in mind that we are fundamentally in local currency, and we have, so to speak, no cross currency exposure in the business model.

When we face the market, we are not a car manufacturer, manufacturing from a high base country, high cost country having to sell into Indonesian market, we do not import any raw materials; all our inputs and our outputs are local, our assets and liabilities are matched in local currency, so clearly the only remaining asset[?] exposure, as we very well know, is non-economic, it is purely a translation exposure. Vietnamese dong [inaudible] rupia[?] was collecting, they are sitting there in our coffers, okay; the only thing that changes is how many pounds that represents.

What matters in a long-term business like ours is actually the dongs and the rupias that we are collecting, and the economic fundamentals in those countries, and we believe these are sound in our sweetspot countries and we have evidence to support that.

In effect, growth has proven resilient in our sweetspot countries, and on the ground, our businesses in all these countries are doing well. As a result of the local currency basis, we continue to grow strongly and our view remains that over the medium to long term, currency values are highly correlated with GDP growth, so we are happy to be predominantly in a part of the world that grows faster than the rest of the world, that is the long-term positive of this [inaudible]. Because, clearly, Asia continues to be the main driver of global growth; there is of course the long running debate around whether China will grow at 6.57 or 7.5. But, the marginal difference in China's GDP growth will not matter too much for Prudential, and we have much more data to show you why.

The relatively negative sentiment vis-à-vis Asia that prevails in financial markets today, seems to us to be somewhat disconnected from the drivers of the real economies that we see locally with VRR businesses.

Asian middle class

Within this context what really matters the most to us, and to our story, is actually what happens to the Asian middle class; it has been at the heart of our strategy for a few years. One of the most visible manifestations of the economic success of our sweetspot countries – our sweetspot is Hong Kong, Singapore, Malaysia, Indonesia, Thailand, Vietnam, the Philippines – has been the emergence of a vast and growing middle class with high savings, low levels of household indebtedness and significant needs for protection. Frankly, that is an ideal combination for a savings and protection company like Prudential.

Here, what we have is a simple way, I believe, of capturing the scale and sustainability of the opportunity. I have asked our team to track the contribution of middle class GDP in our sweetspot market over a long period of time; we have 32 years here. As you can see, the Asian middle class' contribution has proven not only extremely resilient over this period, it reflects several successive periods of quite significant microeconomic challenges and upheaval, and we have named a few here; the Asian crisis in 1997-98, The Lehman collapse; what you see is a flattening, so you lose one or two years, and then it starts and comes back again.

Needs for protection

So, please keep that mental image in mind because a lot of what I am going to say further refers to that slide. Our strategy across Asia is focused on meeting the needs for protection of that middle class, that straight line over 32 years. The demand for the insurance coverage which we provide to people; protection against illness and accidents in their lives, is highly correlated to healthcare and medical services spending, so we have looked at the behaviour of that. We see here that it is a nondiscretionary item; that is a good classification from the IMF; you have necessities, semi-necessities and discretionary; healthcare sits in the nondiscretionary and the semi-necessity, so it is actually quite robust across the economic cycle, and we see that several times this morning.

Over a 20 year period shown here, 1990, 2010, it stays stable, 6-7%, it is not a huge movement, but the more interesting thing about Asia is always to look at the absolute numbers, that 6% was 28 billion in 1990, it is now 92 billion, okay, it has grown 3.3 times. And, that is really, for us, the central theme of the Asian story, and looking forward, there are some really solid projections that it is going to go in the next 20 years to 250 billion, so it is going to treble again. So, typical of Asia, it will have grown from 28 to 250 in that space of time.

You have seen the next shot several times, if my memory serves me correctly; we have been using it time and time again. It says an important thing; there are a large number of customers facing an accident or illness risk for which they may be substantially out of pocket or in other words, a protection gap, and these are a great opportunity for insurance companies. So, a great opportunity for an insurance company to come in and offer coverage that will benefit, not only those who buy it, but also society at large, whilst generating good returns for shareholders.

To summarise, there is a huge and growing unmet demand for protection in Asia, penetration remains low in a market that itself is going to continue to grow very strongly, so we are starting from a low base in something that itself grows very strongly. So, this pie will continue to grow faster than our ability to eat it, which is an expression I borrowed from Barry, but I think it is very accurate in describing what we face. I think Barry has a project, he is developing a pin[?]; I saw a draft of it which says, 'I like pie.' I want the first on, thank you.

Competition and distribution

So, this vast opportunity, of course, has not gone unnoticed, we do not believe that we are the only ones who know this. Anybody who has access to microeconomic data can run those numbers, and a lot of companies have woken up to the Asian opportunity and are trying to capture it. Indeed, there are more than 200 insurance companies present in Asia today, and the market is constantly seeing a stream of new entrants, so why do we believe that we will continue to be a winner? If I had to give you a one word answer, I would say, distribution; having quality and scaling distribution is an absolutely necessary condition, not sufficient but certainly necessary, for success in capturing the huge opportunity created by the emergence of this vast middle class.

In our philosophy, when it comes to distribution, it is pretty straightforward and simple, we actually only have one model, it is face to face. We believe in face to face, needs based selling, and this can be done through two different channels, by our agents or by our financial service consultant in partner [inaudible], but fundamentally it is the same commercial transaction taking place.

Agency

So, starting with agency, this channel, as you see here, is going from strength to strength, we now have over 280,000 agents in our sweetspot markets and over a five year period from 08 to 13, we have tripled the number of agents in these markets while improving their productivity as measured by sales by agent by 31%. Triple agent; 31% more productive, this is why we believe that our agency force is a very significant competitive advantage.

This is only the beginning; there is significant potential for long-term sustainable growth of agency distribution in Asia. The education systems of the countries where we operate continue to produce vast numbers of motivated young graduates, significantly in excess of our needs, and over the years to come, the multiplier effect of higher headcounts and constantly rising individual productivity will continue to drive higher levels of profitable growth for us, allowing us to strengthen and deepen our competitive advantage and our well established leader position.

Partnership approach

Moving away from agency, we remain very optimistic about the growth for our network of bank partners, and partnerships with banks are essential actually to our strategy, but because of their long-term nature they are not [inaudible]. So, we take a cautious approach. We are often questioned, 'Why do you not do more with partners?' Well, we take a cautious approach to choosing our partners, because we know what it takes for such partnerships to be actually successful.

We broadly follow three principles; the first one is that our partners must have a long-term commitment to our markets and be willing to invest to grow the franchise through good times and bad times just as we do, as that is the recipe for long-term success in Asia. We have told you a number of times we are meeting with Asian officials and they tell us, 'Well of course you Prudential are different, because in 1997-98 you did not move, you stayed with us'; that means a lot in the countries where we operate. We do not want to go with people who will be pushing emerging markets when you are in [inaudible]; that does not interest us, and that shrinks our universe.

Second, our partners must be focused on building a successful business in the long-term, that is really important. They are banks that understand the good value of a partnership is in building a large growing successful and profitable business in a revenue stream that, over time, this will generate, rather than in trying to extract the largest upfront fee possible. These are really interesting points because we will have later, a discussion on upfront fee. If you look at the economics, it is a small fraction of the economic [inaudible]. There are banks that understand that and those that do not. Business[?] succeeds or not, depending on whether you have been able to build actually a proper business. That is where the income and revenue stream over 15 years comes from, versus an initial payment. So, we are only interested in people who understand that, because that is what we want; we want to build successful and sizeable and material business together.

And, we believe that, if I may dare an analogy, a partnership is a bit like a marriage, and auctions are not a great way to choose a spouse; our partners are banks that share our focus on performance and on the bottom line. That cultural alignment ensures that they will not ask us to do things that do not make sense, such as selling products that are unprofitable for us. Frankly, to be candid, we have had a few of those situations and have tried to get out of them, which does not make sense. You are constantly asked to give money away; that is not what our shareholders pay us for, and we do not like partners who say, 'Oh it would be great if you provided our customer with a product that has a -20% margin.'

Of course, I am sure our customers would love it, you know, but that is not what we do as a core business. That is a very unproductive set up which does not work in the long-term. So those are the three principles we look at, and we apply these consistently, and they guide us in selecting our partners. So, you have seen the UOB in 2010,Thanachart[?] in 2012, these more recent partnerships are performing well. Sales at UOB have quadrupled since the inception in 2010. And, when we used to talk to Ee Cheong[?], the owner and leader of the bank, he would say, 'Well, I am convinced there is a huge potential there, I want Prudential, to come in and transform this business.' Now, that is music to our ears. He never talked about the cheque, he did not care. He is really happy; I saw him in Singapore two months ago and he is really happy because the business has quadrupled. Trust me, he makes much more money from that than from the initial cheque.

SCB partnership

Now, our partnership with SCB, is we believe, the best example of why these principles matter; it has delivered significant growth since inception; over the last decade APE has grown by 19% CAGR and has been multiplied by six times. The most important fact about SCB is that in spite of all this growth, our penetration of the SCB customer base is 3%. So, that is why we are happy to renew our agreement for another 15 years.

New deal

The new deal we are announcing today provides huge headroom for growth in a partnership with a proven track record; this does not need to be proven or started between two new partners, you know, we have been working with them successfully for 15 years, so we know what we are buying. Here again, with 3% penetration, this pie will continue to grow faster than our ability to eat it. So, we have said distribution; the strength of our distribution, the quality of our product design allow us to deliver to our customers, our product at a very affordable cost. In this slide that you also saw in December, we show you the example of Indonesia, to illustrate that we are able to provide health insurance coverage at an affordable cost; 5% of income a year.

Growing strongly

So, we have been able to grow strongly over a long period of time, due to a combination of factors. I have talked about the strong and growing demand from savings and protection plans; I have covered that just now. The unparalleled distribution power that we have, I have just talked about that, the right products, and a fourth factor really, which is our geographic diversification. The resilience of these sales in 2008/09 when many predicted they would collapse, as well as our growth since then, are visible on this slide. Before I leave the slide, just leave you with one statistic; you would have seen in Q4 of 13, we did 602 million of APE, in the whole of 2005 we did 568, and that is not such a long time ago. So, we did in Q4 of 13, more business than in the whole of 2005. That is the kind of performance we have achieved at a regional level.

Indonesia

Let me now use a few country examples, and I will talk about Indonesia, Hong Kong and Thailand, and I think it is a bit unfair to pull out other territories where people are doing great.

Let us start with Indonesia; our Indonesian business is in great shape, we have a leading market position with over 197,000 agents; I always feel a bit dizzy after I say that. 197,000 agents in the country, and access to greater [inaudible] for those of you who have been to Jakarta recently[?], we also have Rinaldi[?] in Indonesia, absolutely an amazing asset in himself. Access to greater than 700 bank branches.

In 2013 we continued to grow our sales further, we have extended our reach across the country and we showed you the maps[?] outside Jakarta. We believe we are offering the right products at the right time through the right channels, and at this stage of the development of that economy and that country, demand for savings and protection products is actually very, very strong. And, that is why we achieve such high rider[?] attachments to our policies, our savings and investment products.

Affordable products

As I showed you earlier, the product is affordable, costing 5% of the customer's income, so not only are our products good value, we also provide high levels of customer service. Our unique Pru Hospital Friend concierge service, much appreciated by customers, is now available at three times more hospitals than in 2012. And, we do all that profitably; in 2013 IFRS profits in Indonesia grew by 23% on a local currency basis demonstrating good strength of the fundamentals that are driving our business; 23% on the local currency basis.

Future

Now, that is all fine but that is the past, and if I know something about you it is that you are mostly interested in the future, so just to say a word about that, by 2030, the middle class in Indonesia which is now 45 million, okay, so we have 1.9-2 million customers out of 45, is expected to grow to 135 million. So, we are not at risk of running out of growth any time soon in this market, and we will continue to focus on delivering quality products and service to a rapidly expanding customer base. Here again, the pie will continue to grow faster than our ability to eat it. But, not only are we growing in markets with low insurance penetration, we are also making strong progress in so-called – and I insist on so-called because that is not how we call them – mature markets as Hong Kong.

Over the last four years in this so-called mature market we have more than doubled IFRS operating profits in our life business, by growing the scale of the business, acquiring new customers and at the same time retaining existing customers. In 2013 our APE grew by 23% again in this so-called mature market, driven by increasing demand for our products, the increasing cases sold by agent, as well as higher case sizes, as well as Asian Standard Chartered Bank, again is so pleasing, it is very strong in Hong Kong, and Hong Kong is a great place to be quite frankly.

Strength of product

The strength of our product and service position in Hong Kong allows us to achieve customer retention rates in the high 90's, directly to profitability, and it is a great place to be where we do very well.

Hong Kong and Thailand

Moving on from Indonesia to Thailand now, which is the second largest economy in Southeast Asia, after Indonesia, by GDP. Indonesia is about 300, Thailand is about 380. I told you in the past that we were frustrated that we did not have a material business in Thailand, and that had been the gap in our original strategy. We are very pleased to say that we are now well on the way to achieving this. Our strategy in this market has been to improve our historically underweight position by strengthening our presence and that was deliberate, in the first growing bancassurance channel, as we knew that the agency channel was challenged, and the statistic we see every month confirmed that.

Scale of business

Our partnership with Standard Chartered which launched in May last year has simply transformed the scale of our business in a very short period; from integration to execution, the local team has delivered the plan flawlessly, and we are very pleased that every single employee of Standard Chartered decided to join us, it was a great compliment, and the detailed preparations conducted prior to the official close enabled us to sell our first policy on the first day of launch. As can be seen here, this has transformed the business.

We visit all those countries and I guess there always has to be a last one, but visits[?] to Thailand was always a bit challenging, because Thailand was simply 11th out of 11 countries. So you go there and try to motivate them, but, they have jumped in one go from 11th to 6th; it is now our 6th largest country by profit in Asia, in one year, and that is with only eight months of contribution from Standard Chartered. So, we like to get the business to compete, one against the other, so the CO Thailand is now of more status in the PCA meetings, and at the rate it is going, we are telling the top four, 'Watch this space.' There is a big economy, great distribution with Standard Chartered, they have the fifth largest branch network in the country, and it is a great position to be. So while we are very optimistic about the longer term prospects in Thailand, and this is all despite the political turbulence that you have all seen in these countries.

Asia

Growing profit momentum

Now, I have talked about the commercial success that we are enjoying in each of our countries, but the significant part of our story in Asia is also about the growing profit momentum in Asia, and that this growth is increasingly profit and cash reach. From this slide, you can see two distinct phases; I am going to talk about the first phase; from 2005/07 we will show you APE in grey and profits in black. APE grew by 86%, while unfortunately IFRS profits over this period grew only by 2%, so it was a lot of growth but without much profit or without much cash. When I come to this point later, I am sure we will talk about the dividend, but it is very relevant. From 2008, 2013, APE sales grew by 81% and IFRS profits quadrupled, now this change in the profit signature is the result of all the work being done by Barry, by his teams in each of our local businesses, and our focus on delivering growth and cash, which did not exist before, and you can see the progress we have made in recent years, very clearly on this slide.

In 2007, most of our business is in the [inaudible] shows you the countries by profit band. Below 50 million, 50-200 million, above 200 million of contribution in the IFRS profit. In 2007, most of our businesses in the region were in the lower divisions; they were not generating material profits, and only one business, Singapore, generated more than 50 million of earnings, that is not a long time ago; that is 2007, that is yesterday. Three of our established businesses at the time, Hong Kong, Singapore and Malaysia, the old established businesses in the region, back then contributed 97% of PCA's earnings, so the rest did not exist in terms of profitability. 97% of the profit came from three countries.

We have made some progress since then; our younger businesses; this is a completely transformed picture. Indonesia, Thailand, Vietnam and The Philippines have together grown their profits six times since 2007. Indonesia, Thailand, Vietnam, Philippines, aggregated have grown their profit six times since 2007.

Growth of portfolio

In the same period, profits from our more established businesses, the historic three I mentioned earlier; Hong Kong, Malaysia, Singapore, have actually trebled, so really we have not done badly at all. They trebled, however thanks to the growth of the rest of our portfolio, they now contribute less than half of our earnings. So, when we talk about the diversification, that is what we mean; three businesses that used to constitute 97% of our profits, now constitute less than 50% of a much higher total, because the total profits have also increased in the period.

So, there is a fundamental answer to those who sometimes are dismissive of the so-called smaller businesses. We have a proven track record of converging these so-called smaller businesses into material contributors over time. Now, interestingly, four of PCA's local business units, take the top four there; Hong Kong, Singapore, Malaysia and Indonesia, if they were listed at UK Life Insurance P/E[?] multiples which may be a bit harsh, would be FTSE 100 contenders. I believe we have better profitable growth prospects than many life companies in the UK, so just hold onto that thought.

Newer markets

We are encouraged by many of our newer markets, it is again easy to be dismissive of a potential in markets like Myanmar or Cambodia, but we believe that in time, they will follow on the same trajectory as the likes of Malaysia and Indonesia. Our tried and tested model is replicable and has been proven to work across Asia and we are able to transfer it again and again and again.

Resilience

Now, in the next two slides that I have used before, but sorry, they make an important point so I just want to reuse them. Please bear with us. They illustrate a fundamental point, the resilience of ourselves and the importance of our regular premium product for our strategy, which is also directly linked to the quality of our distribution. You can only sell regular premium if you have a good sales force.

Single premiums

First single premiums, we know they are volatile across the economic cycle, they dominate western insurance markets making the sales of western life companies volatile, and Asia is no exception, and you can see from this chart, our single premium sales have been volatile. But, the central point we want to make is that the regular premium for that, in red here, have tracked over two decades since 1995, very much the middle class aggregator I was showing you earlier; that straight line. These regular premiums contribute, again, 90% of our sales. Regular premium contracts are an ideal vehicle for long-term savings, and they remain a product of choice for Asian savers; they address perfectly, their growing demand for savings and protection, and help them to make small but regular contributions to protect and save for themselves and their families. Nic will have a few charts showing you the flows in our business and you will see the contribution in the strength of that regular premium business to our numbers. This largely explains why our sales have been resilient across so many economic cycles, but again, in spite of all this growth, the potential for further growth remains very significant, as penetration of this product, for which demand is strong, is still low. So, this pie will continue to grow faster than our ability to eat it.

Financials

We often talk about our financial numbers and performance and emphasise it, but financials are only a convenient representation of reality of what we do, which is to capture historic opportunity for disciplined execution; we believe that the trajectories shown on these charts can continue long into the future; we have the right team to deliver sustainable, long-term profitable growth for our shareholders. Let me illustrate this point by giving you an insight into how we think internally about our newer markets long-term prospects. Now, this slide shows you some of the key outputs of one of our internal business plans for one of our smaller markets. Really small, when I say small, you can see here, 1,100 agents, 6,000 customers, sorry for laughing, more than 15,000 policies; an APE of £1 million. Now, we believe that over the next 15 years in this market, we will multiply our agency sales force by 150 to 200 times, grow our customer base by 300 to 400 times, and issue more than 150 to 200 times the policies today, in the process of course, growing this market APE by 400 to 500 times.

It is still early in the morning, but I know many of you at this point are thinking that this looks crazy, and that you are looking at a slightly deranged management team here. Well, now, here is a fact; I am afraid I misled you slightly and voluntarily; this slide is actually not about the future but about the past, it is not a projection, it is an actual result; we have delivered this performance, and the market where we have done this, as you know is Indonesia. Go back 15 years from today, 1998, you realise the amazing transformation that this business has undergone, and this has been repeated by us in other markets in Asia, time and time again. So, my apologies for the teasing, but really, this is making an important point, because we face that disbelief, that scepticism, time and time again when we talk about those exponential curves and the power of compounding. All the mathematicians in the room know the power of compounding. The human mind cannot convert 40% CAGR in 160 times, it is just an operation we do not do very well.

That is what we want to illustrate here; we believe we have a proven formula for driving profitable growth. We believe we can replicate our historic success in new markets while continuing to drive our existing operations to new heights. So, what we have found here in this slide, it is a picture of Indonesia at two points in time, 14 years apart. Central point 1998 and then 2012; we can see here, life insurance premiums have gone up four times; 2.6 billion to 10.2, but, the life insurance penetration is still quite low. There is nominal[?] growth that I have shown you, 'You are going to run out of growth, slow down etc.'; we have a lot more to go for here, penetration is barely above 1%, so the pie is growing faster than our ability to eat it; I will repeat it 10 times today.

That is all you need to understand about the Asian business; the pie is growing faster than our ability to eat it, so stop worrying about how much we are going to eat, you know, our problem is not to get an indigestion, there is so much pie, really, the issue is not, is there enough pie, it is stay disciplined, do not go too fast, that is my point. We could grow twice as fast. It is really about maintaining the quality of the group, and the quality of the distribution, so that we build, not on sand, but we build on solid foundations and we have a profitable sustainable business going into the future.

So, the big three examples; we can replicate this in Thailand; I have showed you, we were nowhere, we were number nine in this whole market share. In the Philippines, we have roughly 8,000 agents now – 8,460, the number changes every day. In Myanmar, where we do not even have a business; we can replicate this, and just note that these three countries; where is the potential for growth in Asia at the same population as Indonesia, so we believe that the long-term potential in these markets in terms of absolute size is often underestimated. Each of these countries in 10 years from now will be very much a real[?] for us, whoever is standing here and giving this presentation, take the[?] commitment.

2017 objectives

Our 2017 objectives, which we are absolutely focused on delivering, are a milestone on this journey, however, the journey will not end in 2017; we aim to deliver that same profitable growth trajectory for well beyond the period that most observers have mutually forecast.

Summary

So, to summarise and conclude on Asia, there are two messages: one, it is obvious that there are a few short term challenges for a number of those economies, but who would believe that the fundamental drivers we talked about this morning are intact, and that this pie will continue to grow faster than our ability to eat it, and for a long time. Two, we are in the unique position to take advantage of this significant opportunity, thanks to a growing scale and quality of our distribution, our main competitive advantage, and thanks to our focus, more importantly, on execution and delivery, and to the quality of our teams.

Jackson

Let me now move to the US, Jackson continues to be one of the strongest players in the US life insurance industry and has delivered high returns on equity while maintaining a conservative balance sheet. The success that we have enjoyed in the VA industry results from the discipline with which we have implemented our strategy, and from our focus on writing only value creating business at every point in the cycle, and that has led us over time to very interesting discussions and presentations, and that is the central point; writing only value creating business at every point in the cycle.

One way to demonstrate the quality of Jackson's in-force book of policies is to look at the vintages[?] based on the equity market levels, as measured by the S&P 500 at which the business was written. As you can see here, over two thirds of our book was written at levels below 1,400 of the S&P, so 25% lower than current levels. Importantly, our customers are happy, they have seen their account values grow; in 2013 alone, their average account value grew by 23%, and it is a good rule of thumb in insurance that delivering value to customers avoids adverse policy holder behaviour.

Jackson continues to innovate and the growth of elite[?] access to over 4 billion of premiums in 2013 has pushed the contribution of non-living benefit VA's in red here to over 30% of total VA sales. The combination of pricing changes we have done almost every quarter, and also in 2013, the rising long-term interest rates at the end of the year, have pushed our new business margins higher. As shown on the slide, overall margins on VA's are at 76%, however, just keep in mind with these margins, from one year turnover on this chart are not entirely comparable because product [inaudible] has evolved significantly in the period, due to rapid growth of elite access in the last couple of years. Within the 76%, margins are now guaranteed [inaudible] products are at all times high, which is why we are very comfortable writing this business today, in volume.

The long-term consistent approach that Jackson has taken to the IBT industry in the US means that it is now generating sustainable and significant cash remittances for shareholders, which is our ultimate yardstick across the group and across the US[?], so undeniably, a good performance from Jackson, and thank you Mike.

UK

Let us now move to the UK; UK Life and then M&G. As we showed at the investor conference in December, I am sorry, but I am afraid from now I am going to have to use this chart every time I talk about the UK Life sector; the industry has been generating significant net inflows for the last five years, and Nic will come back to that in his chart regarding ourselves. Equivalent almost 14% of industry's assets under management, these assets have largely been flowing to the asset management industry, which has provided simple, transparent savings products that meet customer demands. Our strategy, therefore, in this shrinking market, is to focus on a few products for us, with profits and annuities, where we have the clear competitive advantage and can deliver genuine value to customers and shareholders.

As the left hand side chart on this slide shows, our with-profits product has delivered strong returns over the last 10 years, outperforming its benchmark quite significantly by 49%. This outperformance has translated into good returns for our policy holders with cumulative bonuses paid over the last 10 years of over 22 billion, as you can see here on the right, and the with-profit capital position remains strong at the end of the year 2013, the inherited estate was £8 billion.

Retail annuities

Moving onto retail annuities, of course a lot of attention has been devoted to annuities in the run up to a thematic review published by the FCA[?] last month. We were of course, as you would imagine, closely involved in the review work, and we support fully the FCA's efforts to improve the functioning of the annuities market. This is a key and important and core product for our pension system and for our company, no doubt about it.

Prudential's annuity product position actually we believe is strong. The chart on this slide shows you some data; to speak of our retail annuity APE in 2013, by type of annuity provided to our customers, I am just going to make a few points here. First, 37% of our annuity APE comes from the external market, in other words, from customers who have shopped around and decided to buy an annuity from Prudential, because of the competitiveness of our offering.

Second, our enhanced annuity proposition[?], which I probably have not talked about it enough, is doing well, and has grown by 12% in 2013; a good growth. So again I am not saying that there is no growth in the UK [inaudible] there are sections where one can grow and profitably.

Third, of the remaining 60%, of annuity that comes from our existing pension customers, the majority of this, so about 60% internal, 80% either have valuable guarantees, by our market leading with-profit annuities, which have income choice annuity, which gives them a choice to either take some cash or take an annuity, qualify for enhanced annuities or have pension pots less than £30,000, where our rates are quite competitive. We are quite competitive there because these are people we know well and we feel very comfortable pricing the longevity.

When we get outside business we are always worried about entire selection and we are just more cautious in pricing. It would be great if we could move the public debate away from pricing because there are many, many other criteria in buying an annuity, and I am sure we will talk about it, but I have asked the business to run some numbers, if you look at the value of the embedded guarantee; the guaranteed annuity options in the old [inaudible] from Pru[?] that people [inaudible], it is very significant. In the examples I have seen, that valuing that option, they are getting 18% to 50% more value than the average external market price; that is the untold story. So the 60% of people are investing internally, we can absolutely demonstrate that 80% are getting a better deal internally than they would get form the marketplace; we have all the data, very confident taking that challenge.

So, on average, our internal customers, sorry, are not stupid; they shop around – about 80% of them do; they are very aware of the open market option, they make a rational conscious decision which actually we believe is the right decision because we have the data to support it. They pick the best deal for them. After 20 years with the Pru, stay with the Pru, and we actually give our internal customers annuity rates that are higher than those that are available externally, that is the position of this company. So, we welcome the FCA's thematic review, and we are working closely with the regulator and other stakeholders to deliver the best outcome for customers.

Clearly there are issues there, for instance with below £10,000 pots, probably [inaudible] made a statement one day about that. There are things that need to be improved, we are not standing here saying, 'Oh, everything is perfect', no, we are just saying we need to keep the frame in proportion, and this business has been grown very responsibly.

Cash Generation

Like every part of the group, we remain focused on cash generation, and the UK has done well in that respect, in again, a challenging environment, continuing to deliver tangible value to shareholders, as you can see here. In 2013, the UK remitted 355 million of cash; it is nothing to sneeze at, achieving its objective of delivering 350 million by 2013, as we had announced at the investor conference in December. You will all remember that Jackie shared with you, in December again, her early thoughts on the business. She is reporting to the Board in the second quarter of the conclusions of her review, and we will share any relevant conclusions with you in due course, but to be clear, what you should expect evolution not revolution, as Jackie made clear in December in her presentation.

M&G

Moving on to M&G which is where we have seen more growth in the UK. M&G has grown from its roots as a UK only asset manager, to building a large diversified business over the last decade; you can see the results of this strategy on this slide. M&G has not only continued to grow in its home market, with retail in funds under management in the UK more than trebling in the last five years, but it has also been able to diversify successfully into Europe, where funds under management have grown by almost 8 times, 7.6 here.

This has led to total external retail assets under management growing by 3.5 times with higher margin external assets currently accounting for more than half of the total funds under management; a rare acquisition for an insurance company. This geographic diversification has gone hand in hand with diversification, both by asset class and by type of client, as you can see here on the right, the external funds under management is roughly split equally between retail shown at the top, and institutional shown at the bottom, with good diversification between equities and fixed income and other asset classes. This lends resilience to the business and positions M&G well, we believe, to perform across economic and market cycles.

Strong investment performance

Underpinning this success if of course strong investment performance, at the end of December 13, 69% of retail funds under management were above median over a three year period, which we believe is an appropriate period to judge performance, and 100% of the institutional segregated fixed income funds were above the respective benchmarks. The successful execution of M&G's strategy has resulted in IFRS profits growing by 1.7 times over the last five years. So, here almost doubling over five years, so if I dare say so, Michael and his team have generated Asia-like performance in a European context.

Growing IFRS operating profits

In 2013, M&G's IFRS operating profits grew by 23%, driven primarily by a 22% increase in external retail funds under management. I know I am in the UK section, but I just want to say a few words about Eastspring and asset management in Asia. Eastspring is also making good progress in delivering IFRS profits which are 9% in constant currency terms year over year; we are focused on building organically a world class Pan-Asian asset management, and will remain a leader in our industry in that respect. Our entry for asset management into newer markets where we already have significant life business expertise, such as Indonesia, progress well for future growth in asset management across the region.

Operating Performance

Let me now turn in the final section to the operating performance of our four business units, and how it has translated over time, into returns, into growth and cash for shareholders. Over the last six years – you are familiar with this slide – free surplus generation, our key measure of cash, as you know, has more than doubled, dividend payments have more than trebled, and today's upper dividend rebase is the direct result of a strong operating and financial performance of the group. I do not want you to read too much into the sequential upwards rebases of our dividend over the last two years; this reflects the strong financial performance of the group in that period. Our dividend policy remains unchanged; we aim to pay a progressive dividend, and the Board will consider a periodic rebase if, and only if, and when we can demonstrate a capital and cash headroom following our internal and stringent stress test, and those really cover a range of criteria, so we are actually very stringent, and do not just look at one metric. So, with that, let me now hand over to Nic who will take you through our 2013 results in more detail.

Financial Review

Nic Nicandrou

Chief Financial Officer, Prudential Plc

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 2013, with a particular focus on IFRS profit and free surplus generation, the two majors that underpin our new 2017 financial objectives. I will also give you an update on our balance sheet and take you through the new economic capital information.

2013 continues strong performance

Starting with the financial headlines, we have delivered a strong performance in 2013, building on the positive momentum of 2012, and accelerating through the second half of the year. Our disciplined execution has enabled us to report double digit increases in all of the profitability metrics shown on the slide. As you can see in 2013, new business profit increased by 16%, IFRS operating profit was up by 17% with all geographic regions delivering over 1 billion for the first time, embedded value operating profit rose by 29% and free surplus generation was also higher by 18%. The growth that we have enjoyed over the last few years in Asia and the US, means that the proportion of the 2013 results transacted in sterling, ranges between 10% and 40% of each total depending on the metric. Sterling appreciated markedly in the second half of 2013, but the use of average exchange rates means that the translational effect on our reported results is relatively muted at between 0 and -2%, and I will come back to this shortly.

Broad based improvements

Working in the other direction though, our operating results have benefited from rises in both equity markets and long-term yields; we saw this effect come through the half year numbers and this tailwind persisted through the rest of 2013. I will point out the areas where this is most pronounced as I step through the presentation. Looking at the contribution to each financial metric from our four businesses, you can see that the 2013 improvement has been broad based, in presenting the slide, I remove the currency distortions in order to give you a clean underlying business performance. Asia has delivered strong double digit growth across all measures, highlighting again the benefit of our focus on regular premium business with a strong bias towards health and protection which is less prone to market movements and is underpinned by the favourable long-term structural trends that Tidjane has already outlined.

Our US business has delivered another excellent trading performance, reflecting the more positive investment markets and economic conditions. These improved results were achieved while managing both the size and the mix of VA new business sales, reflecting our approach to balancing value, volume, risk and capital generation at this point in the economic cycle. In a year of considerable market disruption, our focus in the UK on value and cash generation over volume, has seen us sustain our IFRS profits and grow free surplus generation.

M&G

Finally, M&G continues its strong track record of attracting flows and this has driven increases in funds under management, earnings and cash. Our overall performance in 2013 demonstrates the quality of our new business franchise, the resilience of our in-force book and our ability to deliver growth in both earnings and cash.

Currency Translation

I want to deal with the currency translation effect early in my presentation as I know this is front of mind for many of you. I mentioned earlier that we use average exchange rates to translate our local currency results into sterling, and that this contention has only had a muted effect in 2013. The full impact of the currency falls that we experienced in 2013 will progressively come through the report of 2014 sterling results. It is difficult to predict what the actual impact will be, as we will only know this as we move through 2014.

I have illustrated on this slide the effect that using year-end spot rates would have on our 2013, IFRS and free surplus results which would have been 6% and 5% respectively. As the pie charts illustrate, the group's overall reported results are mostly exposed to US dollar currency movements. This is also true of Asia results where the largest contribution comes from countries whose currencies are either directly pegged or managed by reference to US dollars. Please bear in mind that our exposure to foreign currency is purely translation, reporting the fact that we report our results in sterling. We are appropriately focused on earning local currency businesses in each of our markets, and we do not take any transactional cross currency exposure. As Tidjane has already said, we believe that in the long-term, our exposure to currencies in high GDP growth countries will be a source of future value for our business.

Continued strong growth in Asia

With that covered, I will now move to our 2013 results starting with IFRS. Our IFRS operating profit for Asia has exceeded the 1 billion level for the first time, excluding the one-off gain flagged last year from the sale of our stake in China Life of Taiwan; Asia's reported IFRS life profit was up 17% or 20% on constant exchange rates. Life profits have benefited from strong contributions by the faster growing markets in South East Asia; taken together, our four largest businesses in Indonesia, Hong Kong, Malaysia and Singapore delivered double digit growth, producing 748 million of IFRS profit, exceeding the contribution from our UK life business for the first time. Our smaller fast growing businesses in Thailand, the Philippines and Vietnam have also made encouraging progress during 2013. On a combined basis they accounted for over half of the increase in Asia's life profits, contributing 12% of the total, up from 6% the previous year.

We continue to grow the scale of our life book in Asia, which we measure by reference to policy holder liabilities, as shown on the chart in the top right in your books. During 2013, the addition of another sizeable cohort of regular premium policies, combined with a lower exit rate from in-force, has generated net life in-flows of 2.3 billion, equivalent to 12% of opening reserves. This is a new high, and it is the first time since the crisis that we have seen net in-flows above the 2 billion level. This shows that in a year where many commentators have expressed fears about the economic outlook for emerging markets, customer –

[BREAK IN AUDIO]

While in local currency terms the stock of liabilities is not impacted, you can see on the chart, the effect of translating this back into sterling. The dynamic that I have referred to before, of focusing our sales effort on newer regular premium business with a sizeable health and protection content, sold to a very sticky customer base is evident once again.

Life income

Turning to the chart in the bottom right, life income has grown by 14% at constant exchange rates, reflecting both the larger scale and the high return nature of Asia's business. Costs have also grown, but at a slower rate of 11%. If we now look at Asia's life business performance in more detail, the sources of earnings analysis shown here, confirms most of the key messages from our previous slide. Technical and other margins shown in the middle remains a dominant feature of Asia's life income. Within this category, insurance margin grew by 15% to 679 million reflecting strong growth in health and protection business and a contribution of positive claims experience. Margin on revenue is also higher at 1562 million. I would remind you that [inaudible] amortisation of acquisition costs is a very significant feature of our Asia results, which means that our accounting earnings are very close to cash earnings.

US

Turning to the US, IFRS operating profit was strongly up at 1.3 billion, driven by a 29% increase in the life result. The 2013 results include a full year contribution from REALIC of 128 million, which compares to 67 million in the previous year. Excluding REALIC, the improvement in the result is primarily due to higher fee income which has benefited from strong growth in variable annuity account balances.

Jackson

The growth in the scale of Jacksons' business is illustrated again on the chart at the top right in your books. Policy holder's liabilities have increased to 107.4 billion as net life in-flows contributed 9.6 billion. This is the fifth year in a row that life net in-flows, in other words, the component that we control, have added more than 10 percentage points of growth to the stock of opening reserves. The strong S&P 500 rally in 2013 contributed a further 8.2 billion as was the case for Asia, the currency translation effect is only relevant for sterling reporting purposes. As well as being best in class from a service perspective, Jackson's operating platform is both scalable and efficient, the benefit of this is evident on the chart at the bottom right, where the positive draws effect is clear with revenue continuing to grow at a faster rate than expenses.

US detailed source of earnings

Turning to the detailed sources of earnings analysis for the US, I would like to draw your attention to three areas; firstly, fee income which has grown by 34% to 1,172 million, in line with the 35% growth in other separate account balances. Fees are marginally lower due to the increased proportion of Elite Access which has a lower M&E fee. Secondly, insurance margin which has grown to 588 million reflecting the extra contribution from REALIC's term insurance business, which is delivering the objective of both growing and diversifying Jackson's earnings.

Spread income

Thirdly, spread profits which are marginally higher at 730 million as we maintained our overall spread margin through crediting rate actions. We continue to anticipate that spreads will tend towards the 200 basis point level in the near term. We are pleased with the evolution of the shape of Jackson's sources of income, which is delivering improvements in both the quality and the resilience of its earnings.

UK

IFRS profits stable

Moving to the UK, IFRS operating profit as in line with he previous year at 735 million. The chart on the left analyses the results between what I would call the underlying retail life result in red, the contribution from bulks, the general insurance commission and the one-off profit from the longevity swap we executed earlier in the year. The overall result continues to be driven by our focus on with profits and annuities, the main change between the two years is the lower shareholder transfer from with profits, reflecting the reduction in bonuses. In 2013, life in-flows for our shareholder backed business remain negative, and have being mitigated by positive investment market movements. The with profits picture, if I had put that one up, would be similar, and both are consistent with the trends that we have observed for a number of years in the UK life sector, that Tidjane has already illustrated.

UK Life

Despite these trends, as you can see in the bottom right, we have defended our overall life income levels by focusing on those parts of the market where returns are most attractive, and by being disciplined about our new business economics. Expenses, as you can see, were 4% lower. As I have said before, genuinely attractive investment opportunities are more limited in the UK Life sector relative to other parts of the business, and this will continue to place downward pressure on our earnings prospects. Remain comfortable with this as it does not detract from the important role that the UK plays in our group.

M&G

Turning to M&G, IFRS operating profit was 23% higher at 395 million, this strong performance reflects the growth in the scale of the retail business which is our most profitable segment. For M&G, the key driver of earnings is the growth in external funds under management, as you can see in this chart, external funds under management are up 13%, reflecting net in-flows totalling 9.5 billion, and the positive effect of investment market movements which have added a further 4.6 billion. Total external funds under management of 126 billion at the end of 2013, represent a new high and are testament to M&G's track record of positive net in-flows for the eleventh year in a row. The growth in funds under management has been achieved principally in the retail segment, where fee income is highest, as Tidjane has already explained, retail funds under management were 22% higher in 2013, underpinned by a strong sales performance in Europe. The success in retail has driven an 18% increase in underlying fee revenues, which you can see on the chart in the bottom right.

Additional investments

As I indicated this time last year, we are making additional investments in 2013 and 2014, in scaling up the infrastructure of M&G's business. Reflecting this investment M&G's total costs are higher, but the effect has been absolved by the increase in revenue, leaving the total cost income ratio unchanged at 59% year on year.

Net Free Surplus Generation

I will now move to free surplus, the measure that we use to track cash generation in our business. Starting with the table on the left, our life in-flows profit and asset management businesses have generated 3,099 million of free surplus in 2013, representing a 15% increase over 2012. Now, this figure was around 1 billion in 2005, it reached 2 billion in 2009, and has now exceeded 3 billion. In other words, we have added a billion sterling every four years. It is our ability to grow free surplus through writing higher return, fast payback new business that distinguishes Prudential's business model from that of others. We continue to take actions to optimise capital consumption and have invested 637 million in 2013 to write new business; this is 3% higher than 2012 reflecting the combination of pricing actions, changes in business mix, and the favourable impact of the rising yields through the year. On the right, we analyse the contribution of each business, and as you can see, all four businesses are making significant and growing contributions to the total.

Growing stock

My next slide shows how this cash generation has impacted the stock of free surplus and central cash. Starting on the left, the net free surplus generated in 2013 helps absorb the negative 807 million impact of market movements, including a negative 200 million currency effect, and from the cash remittances to group, totally 1,341 million, representing an increase of 12%. This leaves some 4 billion of free surplus stock which we can either deploy to finance future growth, or can act as a buffer against future economic shocks.

As we said in December, over the last few years we have managed our internal remittance ratio within a corridor, but we believe that it is appropriate to retain the flexibility that range affords, leaving scope to manage the group for fluctuations in economic cycle, and to pursue business opportunities. You can see how these remittances have impacted the central cash on the right, which after deducting central costs and external dividends, and adding the net proceeds from hybrid insurances, meant that we close 2013 at 2.2 billion which is a healthy position.

Future free surplus generation

Before leaving this topic, I wanted to re-emphasise the reliability of future free surplus generation by updating you on the undiscounted VIF monetisation profiles of our life operations. By now, you will be familiar with these charts; the dark blue bars in the top chart represent the end 2012 life in-force monetisation profile, as we reported a year ago. The light blue bars represent the updated profile of the end 2012 block of business one year later;

these bars are now higher than before, reflecting the positive impact of rises in yields between the two periods, which have compensated for the negative currency translation effect. Now, when we add the cash flows from the 2013 new business cohort shown in red, we have an overall profile that is higher than the one we started with, evidence of the powerful capital dynamics of our business model.

EEV operating profit

I will now cover briefly the EEV basis results before turning to capital. On this basis, life operating profit was up 27% to 5,639 million, as you can see in the chart on the left, the improvement is broad based, and is equivalent to a return on opening embedded value of 19%. We estimate that the rise in long-term yields experienced in 2013 has contributed some 450 million to this total. The chart on the right summarises the contribution from new and in-force business; new business profit was up 16%, and I will come back to this shortly.

In-force profit

In-force profit was 42% higher at nearly 2.8 billion, as shown in the breakout box, the increase reflects a combination of growth in the book, favourable variances and the beneficial effect of higher long-term interest rates. The latter point is evident in the numbers labelled unwind; approximately 250 million of the increase in 2013, relates to the positive gearing from the rise in long-term yields. In 2011 and 2012 when interest rates were falling, I flagged that the unwind had been negatively impacted by 200 million and 83 million respectively. Therefore, while interest rates are not yet back to 2010 levels, we have recouped most of the drag that we experienced in the unwind on the way down.

Robust in-force performance

The drivers of the positive experience variances and assumption changes are summarised on this slide; in Asia, all factors including persistency, mortality, morbidity, have remained in positive territory, in line with recent trends. This provides yet more evidence that customer behaviour has not been impacted by the microeconomic concerns. In the US, we have seen a continuation of the positive contribution from spread, reflecting the success of the actions taken by management to mitigate the low interest rate risk. Other items include favourable persistency of 134 million which reinforces our prudent approach to assumption setting and to pricing. In the UK, both years benefited from the effect of reductions in UK corporation tax rates. The contribution from other is distorted by one-off items, but the underlying position is positive in both years. Positive experience has been a regular feature of our results since the crisis, a period characterised by significant global microeconomic uncertainty and market volatility. Our strong performance here confirms both the quality and the resilience of our franchise.

New business profit

New business profit, shown on this next slide, grew by 16% to 2,843 million. The table on the right analyses the drivers of this growth, with volume, pricing and mix contributing 9 percentage points of the increase, and higher long-term yields a further 8 points. All three regions continue to write new business at internal rates of return of more than 20% with short payback periods. In Asia, new business profit was 15% higher at 1,460 million at constant exchange rates the increase was 19% with both agency and bank channels growing NBP at similar pace. The improved profitability reflects the growth in our certain sweetspot markets where NBP was 21% higher driven by health and protection. The rise in yields had a small positive overall effect on NBP, benefiting Hong Kong due to its bias towards savings products, and dampening Indonesia due to its focus on protection, which attracts a lower EEV valuation at higher interest rates, even though the profit signature is unaffected.

In the US, NBP increased by 24% to 1,086 million, within this number, the contribution from variable annuities increased from 809 million to 1,023 million, this is despite the 7% decline in sales of VA's with guarantees, the negative effect of which was countered by the positive effect of product and pricing actions, the contribution from Elite Access and the beneficial impact of the 130 basis points increase in treasury yields, which added 150 million to the US NBP.

UK retail NBP was 3% lower, this is despite the 12% reduction in retail sales, the effect of which was mostly compensated by pricing and product actions and improvements in mix. The economics of the business sold in the UK are extremely attractive when you consider that this NBP was delivered by investing 29 million of capital.

Moving now to the rest of the profit and loss account for both IFRS and EEV, in my interim results presentation, I walked you through the mechanics of the IFRS accounted mismatch that is generated from Jackson's hedges when equity markets rise. I will not repeat the explanation beyond reminding you that this arises because hedges are fully marked to market, and liabilities are mostly marked across. Equity markets rallied further since June so the negative effect of the accounting mismatch recurred in the second half of the year, although the impact was more subdued. We remain committed to our approach of hedging on an economic basis and are happy to accept the volatility in the accounting results that ensues. In addition, the further rises in interest rates in the second half, generated some more negative value movements on our holdings of fixed income securities. Under IFRS, these come through investment variances and unrealised losses on IFRS securities, and as you can see, the impact compared to the first half was also much reduced. The more significant effect in the second half was the negative 0.4 billion arising from translating our US and Asia IFRS net assets at the year-end exchange rates.

Overall, the strength of our operating performance in the second half has been sufficient to absorb all these factors, so after deducting the interim dividend, our IFRS shareholders equity is slightly higher at 9.7 million, compared to June 2013.

EEV

On EEV, investment variances are positive in both halves, reflecting our ability to recognise on this basis, the full economic benefit of the improved market returns. Profits for the period therefore accelerated in the second half and were only partially offset by the negative currency translation effect of 1.8 billion. Nonetheless, the strength of our operating performance was such that retained earnings boosted our shareholders funds by £0.93 over the course of 2013, to £9.71 per share.

Defensive positioning maintained

I have provided you on this slide the usual update on the balance sheet, in short the overall picture is unchanged; we remain well capitalised and defensively positioned. All of our key underlying solvency metrics have improved, the with profits estate stood at 8 billion at the end of 2013. At the start of 2014 following the completion of our domestication product, some 1.2 billion of the estate was transferred to the newly created Hong Kong life entity leaving both funds well capitalised.

The US RBC ratio has improved to 450% which attests to Jackson's disciplined approach to managing its capital base. Our stance on hedging, our US variable annuity exposures is unchanged, and the $1.3 billion fees that we will levy for providing guarantees in 2014 provides an ample budget to hedge. We have updated the information relating to Jackson's capital formation, capital sensitivities to shocks and customer behaviour, and have included these in the appendix to your slides.

Economic Capital

In my remaining slides, I set out a summary of the group's economic capital position based on our current solvency to internal model. We are still two years away from having to adopt Solvency II, and notwithstanding the Omnibus II breakthrough, further clarity is needed in a number of areas which will be provided when the level two and level three guidance is finalised. Furthermore the PRA has not reviewed and approved our internal model, and this is a further source of uncertainty. All this to say, that these results should be reviewed as highly indicative and subject to change but provide you with a first view of Prudential solvency position on a risk-sensitive basis.

The keen assumptions underpinning the calculations are shown on this slide and are set out in more detail in a new section that we have created in your packs. The results assume US equivalent incorporating Jackson surplus over the 250% RBC level, consistent with our approach to free surplus reporting. The 250% level is informed by the results of our internal multi-year economic capital model which we believe provides a good proxy for the risk capital that we need to carry in this business. Furthermore, the results do not reflect the matching adjustment concept for UK annuities pending further development of the calibration at European level, and a decision on whether certain types of securities will be excluded. As you can see the economic capital surplus at the end of 2013 is 11.3 billion, equivalent to a cover of 257%. The level of required capital of 7.2 billion shown in blue, represents the risk capital needed to withstand a one in 200 year event over a one year time horizon. Available capital of 18.5 billion shown in red represents a more economic view of our group's resources, removing unnecessary prudence from our Solvency I basis technical provisions, and is applying asset valuation restrictions.

The top chart on this next slide provides you with analysis of the risk profile of our business under this new basis. Around half of the group's undiversified risk capital requirement relates to market risk, shown in the red segments in the pie, and the other half to non-market risks shown in the blue and green segments. The groups most material market risk exposures are to credit risk, principally from the UK in Jackson fixed annuity portfolios, and to equity markets, namely from with profits shareholder transfers in the UK, and the fund related charges in Asia.

The group's most material non-market risk exposure is to lapse, mortality and morbidity risk in Asia and to longevity risk on UK annuities. As you can see, our overall profile is not highly concentrated to any particular risk type; our modelling shows that some 54% of risks diversify away, and in line with the Solvency II guidance on US equivalent, no credit has been taken for the diversification of our benefits between our US business and the rest of the group. The chart at the bottom of the slide shows the sensitivity to the end-2013 economic capital position to a variety of market shocks. The key message here is that the balance of our risks is such that the impact of these shocks is manageable. So, the resilience of the business model, something that we have commented on in the past, by reference to other metrics, is also evident through this risk sensitive measure.

Movement over 2013

My final slide on the topic analyses the movement in the estimated surplus during 2013. I will let you study this analysis at your leisure, but the key takeaways are, one, that the group's operations generated 31 percentage points of solvency cover in 2013, that higher equity markets and rises in long-term yields have contributed a further 12 points of cover, and that all the other effects are broadly netted out. The fact that at an operating level flow is positive should not be a surprise to you. We write low strain, high return, fast payback business, so the capital generation dynamics should be positive irrespective of the accounting of solvency.

Economic Capital

We write low-strain, high-return, fast-payback business, so the capital generation dynamic should be positive, irrespective of the accounting or solvency lens that you may choose to use to assess this. The fact that the stock is high should also not be a surprise as a large component of our book in Asia is health and protection, which is Solvency-II-friendly. In addition, the stock includes the shareholders' interest in future with profit transfers which is sizeable, reflecting the scale of the business

I want to emphasise that financial capital is one of a number of financial metrics that we use to run our business and that it is no more or no less important than other metrics. While this information is new for the market, it is not new for us. We have been using aspects of economic capital alongside other financial measures to inform our day-to-day decisions. Therefore, what you should take from this is the fact that it reaffirms what we have always said about the positive cash and capital dynamics of our business.

Concluding Remarks

By way of concluding remarks, I would like to highlight 1) the strength of our overall performance in 2013, which demonstrates the quality of the new business franchise and the resilience of our in-force[?] book and also our ability to deliver growth both in earnings and growth, and 2) the improvement in our capital buffers reflecting both the strong operational performance in the investment market tailwinds.

Outlook

Tidjane Thiam

Chief Executive Officer, Prudential Plc

Summary

Strong performance

To summarise on 2013, the Group has delivered a strong performance with double digit increases in all our territories, as Nic just showed you, and has been able to achieve all our 2013 growth and cash objectives.

Our performance during the 2008-2013 period, which culminated in the delivery of the 2013 objectives, has allowed us to transform the financial characteristics of the Group, ,which has now a high quality and growing earnings base, with all four business units contributing materially to cash. This newly acquired diversity of cash and earnings is a key source of strength for the Group. This is what has allowed the board, led by the chairman here this morning, to declare a 15% upwards rebase of our 2013 full-year dividend. Our dividend policy remains unchanged and we aim to provide a growing dividend to shareholders in a sustainable and prudent manner.

Asia remains core for the Group's future prospects. The tailwinds of favourable long-term structural trends, a leading business platform and best-in-class execution position us well to deliver enduring value for both customers and shareholders.

Now, this is all good news, but I want to reiterate that we are not complacent. Actually, paranoia and competitiveness are very well-shared features in this Group and I do not think Jackie, who has just joined us, has changed that profile. We have embarked on a new set of objectives after delivering the equally challenging 2013 objectives. The Group has tremendous growth opportunities. We have the platform, the ability and the discipline to deliver on these opportunities and to create value for both our customers and our shareholders. We are in the right markets, so in the right place at the right time.

If you allow me a bad joke here, a lot of people talk about being in the right place at the right time; a lot of people will be in Brazil this summer, so they will be in the right place at the right time. It does not mean they will win the World Cup. You can only do that if you have the right people, which is where I will finish. We are in the right place, at the right time, but we also have the right people. That is the whole difference. I am confident that we will continue to deliver a unique combination of growth and cash over the long term.

I thank you and we are ready to take your questions. For the first time, I can say lady and gentlemen, if you can join us on the podium, we will start the Q&A session.

Q&A

Speaker: For your question, please raise your hand, state your name and firm's name, and then we will take your questions. We will let everyone settle. Why do we not start with Andrew?

Andrew Queen (Autonomous): Good morning. Can I ask three questions? Firstly, on your cash target of 10 billion over the next four years. You are already at run rate in 2013, i.e. you did 2.5 billion. You are projecting that the Asian business will go up by 400 million. I suppose the question is: are other parts likely to go down or is the 10 billion too conservative?

Secondly, thank you for the economic capital coverage. It has gone up considerably. How should we judge when you reach a situation of having excess capital, which may not be able to be reinvested and should be returned?

Then thirdly, now that you have bedded down the REALIC acquisition, do you have a further appetite for acquisitions in the States?

Tidjane Thiam: Thank you, Andrew. On the target, I will let Nic answer. I will come back on the economic capital coverage and Mike will take REALIC. Nic, do you want to say 10 billion was too conservative?

Nic Nicandrou: I do not think the 10 billion is too conservative. There are two things I would say. Of course, that 10 billion is after recycling. It is after the investment that we have to make. You have seen in the presentation today an analysis, indeed quite a lot of detail, on the opportunities that exist. It is after the drag of a full year's worth of growth across all of our markets.

As for the 2013 result, it is flattered to a degree by positive experience variances. We will work hard to deliver them, Andrew. The team is committed to doing that, but we do not take that for granted. We do not necessarily plan for those. There have been, in the course of 2013, a number of items that are one-off in nature and have flattered that particular contribution. If you go back over five years, we have typically been running experience variances of around 200 million. That is a more realistic level as we move forward.

In short, do not extrapolate from 2013, because of these effects. Also please bear in mind that the 10 billion is after deducting consumable investment in the business.

Tidjane Thiam: A really important point, in it changed the way the Group functioned a few years back. There used to be a lot of bias embedded in the plan. We started looking at things closely, so people would assume in the plan that interest rates would go this way or that way. One very big change has been to say, "Look, spot is the best predictor of the future. Good planning, financial planning just means you take the spot but you do not build into your plan any headwind or tailwind, period. That 10 billion is a clean number. It is proper operational performance. When we get a helpful tailwind that we have had this year, that is a plus. That is very nice, but there is nothing in these numbers that assumes any type of help from the markets. These are very clean targets. As Nic said, it is after funding a lot of growth.

Economic coverage, yes, it has gone up. Nic has done all the heavy lifting on this, but I will just give you maybe a high level concept while he is preparing his answer. My experience of the Group is it is actually in a very strong position. I like it when a measure is consistent with my intuition of the business. How do I think about the Group? It is a with-profits fund. It is 8 billion at the end of 2013. You heard us during the crisis say constantly there is no way we can burn through that. You can build any financial scenario. You just cannot. That is where in the UK we take equity risk. We are protected against that.

The other big risk we carry is the annuity book. We built the credit reserve, which we have discussed many times in the past. It is a complete buffer against credit risk, so we were in a pretty strong position. In Asia, we had a bit of equity risk. We sold it in 2009. There is basically no financial risk. The sovereigns is domestic debt, labour in domestic currency. Another bad joke, but as the printing machine works, they will be able to service their domestic debt. This is not foreign debt, so we do not feel that we have missed[?] opportunity there. We move on to the US, M&G, we respect no big issues in terms of capitals, capital efficiency, capital light models, no big issues there. You are left with Jackson. In Jackson, we believe that we are well hedged.

That is the intuitive view of the Group. I am not disturbed at the answer after we run the economic capital model and it comes back we are in a strong position. In itself, it does not feel odd to me.

Nic Nicandrou: In response to your question, Andrew, I would probably reiterate two points that I made in the presentation. Firstly, it is early days. Before we can embed this in a very formal way, we need the dust to settle. There is still some way to go, as I said earlier, a lot of work that needs to be done, a lot more guidance that needs to be provided. Ultimately, while this is our judgment, it ultimately needs to accord with the judgment of our lead regulators. Let us wait until the dust settles, until we are working with firmer numbers. At that point, yes, then we will come up with a range that we want to operate it within.

The second point I would make, again reiterating from my presentation, is the fact that it is no more and no less important than any other metric. We run our business. One of the key aspects of our success is that we have not run our business in one metric. We used a balanced set of metrics. What you find when you are making decisions under different scenarios, something different bites every time. It is like trying to assess. It is like a Rubik's cube; trying to look at different lenses and directions. Whether it is rating capital, whether at the moment we have the IGD framework that is still relevant over the next two years, whether it is free surplus, whether it is pure cash, who knows? It is managing that matrix and different things will bite, depending on the decision. That is what we do day in, day out, as we come to each decision.

I do not think this will be the determinant, if you like, the bright light when it comes to informing decision. It will be 2016 or beyond when it comes in. We will continue to run the business by reference to a balanced set of metrics, so we think that is the sensible and disciplined thing to do.

Tidjane Thiam: The best advice we can give to anybody running an insurance company: do not run it on one metric. It is a fully complex animal that you can always do really stupid things going after the optimisation or maximisation of one of those. You can get yourself in a lot of trouble. It is almost a religious belief that we always look at every possible lens, whether it is EEV, cash, rating agencies, economic capital. I am always very wary of people who say, 'We now have the metric by which you need to run the Group'. That is a recipe for trouble.

REALIC for rapid ITA[?], yes. The full answer is, yes, we like the deal very much. We have talked about both enhancing the earnings and diversifying them. We always have an eye to the balance between feed[?] income which is really driven by the FA group, the spread income from the Fas, which are at a historic low in the cycle, and the technical income from risk business. It is Mike who is at the forefront of that. Do you want to update a little?

Michael McLintock: The market has changed a bit on the buy-side and you see very clever private equity. One transaction in particular plays out a lot of synergies and I think the regulator shut that door for what I would say are non-natural honours in the space. The reasons to sell are very similar to what we have always seen. Sometimes they are technical. The IT does not support the back book or a strong competitor they want to get rid of, that sort of thing.

I would say the biggest challenge now in those discussions is when you look at the available spread and the rates we have to use on the assumptions, what that does to the pricing discussion early is challenging, because we're going to do these the way we have done all of them. We have known each other, I think, and we have done two life companies, two broker dealers and a bank. I think we have done well for shareholders in all of them, but I think we have to do them when they are available at a price we like, not on a schedule. For example, we do not put them in our business plans. We just assume they are opportunistic. That does not mean we do not have a lot of resources pursuing them.

John Hopkin[?]: Thank you. John Hopkin [inaudible]. I have three questions please. First of all, on the US, without seeming churlish on the operating leverage, the expenses grew 18%, but on the Life slide, I think it is 57 where you break down the drivers, the Life expenses are at 5%. I wondered if you could square that circle, please and give us an idea of how quickly you would expect the expense pace[?] to grow relative to revenues going forward. That is the first question.

Second question, SCB in terms of penetration, your 3% sounds quite low. Do you have pockets in that deal where the penetration rate is much higher? So can you give us an idea of where the distribution rates are, either by branch or by territory.

The third question on the economic capital, just a few sort of assumptions questions. You say you are not using diversification for the US position but are you assuming the surplus over 250% RBC can be used as capital elsewhere in the group?

Secondly on that, in November at the investor day, when you gave the basis of the calculation, you said you were going to use Quiz 5 for UK Annuity Fund. It looks like you have used something different. Then finally using 10 basis points for the credit risk adjustment. I think that is still 35 in the draft rules. I wonder if you can just run through those things. Thank you.

Tidjane Thiam: Okay, no thank you, John. Operating leverage in the US between Nic and Mike. Mike, do you want to go?

Michael McLintock: Yes, you have seen some [inaudible] John on some of the guarantees we have pulled down, you will see there, but as far as the actual acquisition costs, costs to administer a policy, normal operations, everything is within pricing. Everything continues to come down. We are by far the lowest in the industry, so there is not a halving[?] from here or something, but we have a number of initiatives that are driving down costs from here that are continuing to work. We have some things that are a little further out that are, I think, a bit more creative as well. As far as the year over year numbers, you are seeing a reduction in expenses per policy on admin. You are seeing a reduction in acquisition costs all within pricing, none of it materially different from our pricing.

[Crosstalk].

Nic Nicandrou: Let me just try to answer that. The 5% that you show, you need to go back in the detail in the packs[?], which then breaks that out between acquisition and administration. We have not done it because there is enough detail on the slide, but the information is in the pack. What you then do once you have the two components separated out, you will see that acquisition costs are flat to negative. Why is that? Two reasons. One is we are seeing more and more distributors opting for trail commission, rather than the up-front commission way of rewarding them. That has been an effect that has been coming through for a number of years, but it is continuing.

The other thing goes down to what Mike was just saying. When you are taking product actions and when you are making decisions about which products to pull, stop, or promote, we tend to go after the ones that are the highest strain, lowest profitability. Inevitably, high acquisition costs also have highest strain.

Those are the dynamics that you see coming through the acquisition cost line. If you take the maintenance or the recurring cost line, that has grown much more in line with the growth of the business, but there are still some drills[?] coming through that as you would expect to see. I hope that answers your question.

Tidjane Thiam: Okay, thank you, Nic. We have a steering committee on which Barry sits and they meet very regularly and go over business and stuff. Do you want to give some colour on the penetration?

Barry Stowe: Sure. The reality is this has been a long relationship: 15 years. The first half of that relationship, even though it technically included other markets, it was in reality a Hong Kong business. Hong Kong has always been the main driver and is where we enjoy the highest level of penetration. Taiwan is very strong as well. Singapore was a late starter. It kicked in with much more efficiency and better results when we renewed it last time back in 2008. Singapore has come on quite strongly as well. Malaysia is doing much better. We have made progress there. Thailand, even though the bank is small, less than 30 branches, we have made a lot of progress there over the last five years. Thailand is pretty good as well. Under the new scenario, the opportunity to do a lot better where we already are, plus tack on some things like India, like China.

Tidjane Thiam: India, China, Philippines, Indonesia.

Barry Stowe: Philippines, the bank is very small, but you have to start somewhere.

Tidjane Thiam: Then we had four questions on economic capital. Diversification, did we take down diversification? 250 RBC, do we take credit for elsewhere for what is above that? Did we use Quiz 5? And 10 basis points, is that enough for credit?

[Crosstalk].

Nic Nicandrou: No, we have not brought in diversification for the US business, although we do believe economically it exists, because the rules just say you cannot do that. If you are going to use deduction and aggregation, in other words bring in the US using a different basis, then you cannot take credit for the diversification of that. It is not included.

Why 250? We used it because that is the output we have on a lot of models. We run the business off we include in those run-off models. Past experience about credit default losses as opposed to based on experience, we factor into those models information around realised equity volatility, and when we run that off, it comes out at 250. To give you some sensitivity, ultimately it came down to a discussion. What should you bring it in at: 250 or should you use 150 or should you use 300? Every 50 points costs around 10 points on the cover. Every 50 RBC points is 10 points on the cover.

On credit allowance, we are basing it on Quiz 5.

We are basing it on Quiz 5, but we have used a variety of parameters to inform our position; Quiz 5 is one. We have used our own assessment in terms of what we are including for Pillar 1 and Pillar 2 in the existing ICA and we have created our own model on our view, as spreads widen, how much of that we should bring in as liquidity as opposed to credit. We have modelled all that and brought that in; the outcome is included in your pack. In the base position we have taken effectively a liquidity premium equivalent to 46% of the spread at the end of 2013 and we have increased that to 51% in a one in 200 scenario, so you can get a sense of how much is brought in.

In relation to the 10 basis points, for the benefit of others who may not be close to the debate, this is effectively an allowance for the credit risk on the risk-free rate. The regulators are saying the risk-free rate is not credit-free and you need to make an allowance. Ten basis points is what was used for Quiz 5. You are absolutely right there is debate on that. We do not believe it is necessary. We just do not believe it is necessary. We think it is inappropriate to calibrate actively, using short-term instruments, what this should be when you have a business where we run off for the next 30, 40 years. We just think philosophically that is flawed in this context and we will continue to make the case as we move on to level two and level three, but it is another source of uncertainty.

Tidjane Thiam: You probably saw [inaudible] letter yesterday, mentioning that we are now PACE[?] and we will continue to lobby. Not everything is resolved, that is why we caveat this communication. It gives you our view. We are not saying this is going to be the outcome. It is one of the areas where there may be a difference.

Greg Pearson (KBWM)[?]: I just want to concentrate on the Standard Chartered deal. I wonder if you could give us the cost. We can obviously work it out mid-year or end of year when we look at the other intangibles. The treatment of the upfront costs on Standard Chartered in terms of IGD and economic capital, do you raise an intangible there, can you take credit for it?

In terms of financing that, I wonder if you could give us an idea are you going to raise some debt or to what extent can the Hong Kong estate finance a portion of the cost?

Tidjane Thiam: On the financing, it is funded with our own resources and, as you know, no really direct contribution from the Hong Kong with profit fund, so it is quite different from the previous deal, but we are in a much different and much stronger position. We have 2.2 billion of cash centrally, so we are very comfortable.

On the cost, to be completely transparent, you know how those situations are: we were all negotiating until very late. You saw the RNS came out after our results, so that should give you an indication of the discussions that have been going on. Of course, in due course you will see in our disclosures some of those numbers come through and you can then make up your mind. The big point I will make about that is the one I made during my main presentation: please, please consider the upfront payment is a fraction of the financial close on a deal like this; really a fraction, not even a material fraction. All the value is in the subsequent payment, which, frankly, you only pay if they sell. These are commissions, so there is quite a bit of de-risking in there and there is a big incentive for them to perform, they certainly get their money there if they sell. It is constructed like that, so that is what [inaudible]. Impact on IGD[?] is going to come through.

Nic Nicandrou: We will follow the same treatment as we have done for UOB, Standard Chartered. The distribution fee will not be capitalised in either IGD or in the economic capital numbers.

Greg Pearson: Just to follow up, in terms of the Philippines, I have been thinking for a while that is a big market but you never really talk about it. One of your competitors makes a lot of money out of there. I was wondering what your plans are to try to turbo charge the Philippines.

Tidjane Thiam: Barry and I will fight to answer that. If you remember, in December I talked about it. I had a slide on it that showed that profit had been multiplied by five. We have been growing the agency very, very strongly. I am saying that because we are both strong believers in the country. It is one of the few countries on the planet that has been upgraded. The sovereign debt of the Philippines has been upgraded, better and better managed, 95 million people and Barry is too modest to say it, but we are number one in new business in the Philippines. Maybe we do not talk about it enough. It is not a market we neglect and we are building there exactly the identical business to Indonesia, which will have the same general agency model.

Barry Stowe: I will only disagree with one thing that Tidjane said, which is that I am too modest to say we are number one.

Tidjane Thiam: I am giving you a chance to display some modesty.

Barry Stowe: They know better than that. I am quite happy to shout from the rooftops that we are number one there. It is the result of a lot of hard work from John Bing[?] and the team there.

Tidjane's point about the country's balance sheet, family balance sheet is really important. This is increasingly looking like Indonesia some years ago and, geographically, when you think about the logistics of trying to build out a business in the Philippines, again it is thousands of islands. It is an archipelago, just like Indonesia is, so there is complexity in that and that is why we have lifted many of the ideas that have proven to be so successful in Indonesia, dropped them into the Philippines – localised, obviously, as you always have to do, but many of the same principles are now being executed against very well by the team in the Philippines. We have never had more than about 1,500 agents historically; we have over 8,000 now and moving fast. Many of the things that you saw in Indonesia several years ago you are starting to see in the Philippines, so I would suggest you should be very optimistic about those points.

Tidjane Thiam: Back to my bad football analogy and we also have a great CO[?].

Barry Stowe: Yes, John Bing's a great guy.

Tidjane Thiam: An absolute star.

Chris Esson (Credit Suisse): Two quick questions, please. Firstly, on Thailand, my impression is that unit linked is a product that does not have a huge amount of support and yet it looks like your IFRS payback is very fast and certainly the result from Thailand was surprisingly strong. I just wondered if you could provide an explanation for that.

Secondly, a market that we have not heard about for some time, India, remains a bit of a sleeping giant and I wonder if you could provide an update on that and what, potentially, could happen that would make it a sweet spot market in the future.

Tidjane Thiam: Thank you, Chris. Danny in London[?] just sent a word about Teletron[?], which are, I think, the number one in auto credit in Thailand?

Barry Stowe: That is it.

Tidjane Thiam: When you see Barry nodding that is what we are selling. We are selling insurance on those credits and it is very profitable.

Barry Stowe: That is exactly it; they are by far the number one auto finance business in the market that operates not just in Bangkok but throughout the country as well. It is a very strong part of their franchise. We have very high penetration rates attaching a product to that, so that is why you are seeing the economics you are seeing.

Tidjane Thiam: And that is the start[?]? [Crosstalk].

Barry Stowe: Absolutely. Tidjane alluded to the fast start we have in auto, but it bears dwelling on a little bit, because when we were getting ready to launch this deal our partners candidly said, 'You changed some products on us and so forth, so you need to expect that the sales levels will come down a little bit, but give it six months and the team will rally round and then it will start moving back up and we will get back to where we were. We will go forward and it will be a really good deal, but you have to be patient, it will take time'. In fact, what happened, as Tidjane said, we started selling the first day. We were almost immediately selling in practically 100% of the branches and the trajectory has not dipped and gone like this; it has just gone like this. Even the partner, candidly, is surprised at how much efficiency we have been able to bring to that deal. It is a very good outcome.

Tidjane Thiam: Another great CEO and a great team.

[Crosstalk].

Tidjane Thiam: The integration, everything. We have been there many times together and it is just a textbook case.

Barry Stowe: Yes, it is a great team.

Tidjane Thiam: Do you want to say a few words on India, Barry, about the prospects?

Barry Stowe: Yes. It is a complicated environment. There is not much we can do about that; we can only respond to the environment. We have seen some political volatility, if you will, and effectively that translates into the difficulty in getting some fundamental changes made. We have seen regulatory volatility. You will recall a few years ago talk about some significant tax changes that would have been really punitive. There is always drama, but again we cannot control the drama, we can only control how we respond to it and I think we have responded to it brilliantly, the team there. We keep talking about the teams, but the two raw materials in this business are capital and people and we have plenty of capital and we have absolutely best in class people. Sandeep Bakshi, who runs that business, came out of ICICI, he was running their retail bank before he came to work with us. He has just been a steady hand, done a great job and, as a result, what you have seen from that business is gains in market share in a very volatile environment. Whilst most of the foreign sector, if you will, has been very disrupted we have continued to inch our way up the league tables and gain share. The profit from this business is now very good. I would remind you that we were the first business to generate a profit. We were the first business to pay a dividend as well. We have been taking dividends out of this business for about 2.5 years now and this year we got a special dividend out because of the strong financial performance of the business, so these guys are doing a great job.

If the environment improves, then you would get more investor confidence in the market. There would obviously be a lot of positive effects from that. I am not in a position to promise that. What I am in position to promise is that whatever the environment is we will run a best in class business.

Tidjane Thiam: This is a very important point about how we run the portfolio. You have the ideal position, the famous sweet spot. For various reasons we are in a really good position to write business and grow Hong Kong, Singapore, Indonesia, Malaysia, Thailand, Philippines, Vietnam. Those are the no-brainers; it just happens. Then you have the more complicated places and when it is a difficult environment what we will not do for our shareholders is allow people to destroy value. Somewhere like India used to be significantly negative, IFRS negative, and we have turned it into a positive – that is the story that Barry is telling – so that they pay a dividend. The same holds true for Korea: a very difficult market, but we have a really strong business and are in a place where it does not destroy value.

Barry Stowe: No, it makes money.

Tidjane Thiam: It makes money. Then you have long term opportunities like China. We have not talked about it, but China is up 41% in 2013 and, again, back to my compounding argument, 41 on top of 30 on top of 40, it is becoming material. It is moving up the ranks every year relative to [inaudible]. It is actually doing very well.

Barry Stowe: If you think about it in the context of the market, if we are honest, none of the foreign companies are competing with the Ping Ans or the China Lifes, but remember the numbers that you see for our business are half the business. So you double those numbers and then look at that against the rest of our businesses in PCA and you realise this is getting to be a pretty big business, so this is another one where you should watch this space.

Tidjane Thiam: It is starting to matter, yes.

Farouk Henry (Citi): I have three questions on the US business. I want to go back to your guidance on remittance. I know you have this range, but it just seems to me when you look at the US business, your statutory profits are up, the book is de-risking, your RBC ratio is upper end. What is stopping you from raising your remittance ratio? That is question one.

Question two, related to that, you have a cash flow operating variance which is positive, which is ALM related, spread related. Can you talk about how the £200-300 million could develop going forward?

The last point is going back to John's question on the jaws[?], is the trend in trail commissions net expense positive, so do we see that contributing to the jaws going forward?

Tidjane Thiam: We are really happy to get three questions on the US that do not mention hedging. Yes, the profit going up, de-risking, RBC ratio good, are all nice problems to have. Mike, do you want to talk about that?

Mike Wells (CEO, Jackson National Life Insurance): In December, we showed you our percentage of remittance versus percentage of book, including comparing that to US companies and share buybacks and we are at the high end of anybody's ratios there. If I put my Prudential Board hat on, the general view is there is no need to put excess capital in the centre beyond the levels we need. There is some friction in moving it there, so the idea is leave it in the business units for resilience, for M&A and things like that. For the last three years we have received approval from the regulator for a special dividend, that being in excess of the policy rules. They are pretty reasonable people when the businesses are doing well and are growing the way we are and have the earnings. They look closely at our hedges and other dynamics. It is a discussion we have every year. I would not want to give you any guidance on that number going up or down, but the capital is more fungible in a pure regulatory measurement, but then there are also tactical issues at the Group level to consider on top of that.

Farouk Henry: Just to be clear about that, you are paying below potential regulatory policy level.

Mike Wells: Above.

Farouk Henry: Above.

Mike Wells: Yes.

Tidjane Thiam: What he said is that for three years we have had permission to go above.

Mike Wells: Yes, and again, that is just strength of the business, growth of capital, growth of cash flow. If you look at last year, funding the sales, funding the dividend, closing REALIC and still growing net capital, that is a strong discussion with the regulator on the health of the business.

Tidjane Thiam: Thanks for allowing us to make that point, because that is the sensitivity Mike is alluding to. In the post-crisis world, we really have quite advanced discussions with regulators around dividends and rightly so, I have no issue with that. However, because we tend to be above that threshold, we are not going to start giving you numbers or targets that implicitly force the hand of the regulator. We have to be very mindful of the relationship there, so think about what we tell you, yes, exactly, as something that takes into account that trend, because lately we have been above that.

Nic Nicandrou: Can I just reiterate something that I said in December? When it comes to Jackson, using the pure operational free surplus is not the right reference point. You need to factor the below the line there. I illustrated back in December that that is a very good proxy of mimicking what is happening in the underlying total adjusted capital development on the local RBC. Generally, we paid around the mid-60s, which is not a bad ratio for a business that is growing so phenomenally and has spent the last few years trying to repair the balance sheet, to a degree, from the 2008 crisis and, of course, absorb the acquisition of REALIC, so all that is working well.

Farouk Henry: The below the line is the hedging question that I did not ask, basically.

Nic Nicandrou: Correct. Certainly on the staff basis the hedges will also come through, but given the clean position of the book, the reserves are flawed, so you are getting a mismatch come through that particular ratio, which will sort itself out because the higher fee base will give you more operating performance going forward.

Mike Wells: Page 102 in the supplement has the normal realignment to economic capital –

Nic Nicandrou: Yes, indeed.

Mike Wells: You asked a question on the impact of the allocation of trail commissions versus the frame[?] commissions. It comes from a couple of different things. It comes from distributors. Different forms have different structures and so as the business is a little less independent channel so you have more firms that prefer and push towards not necessarily level commission, but it looks to be[?] in some of the C share[?] products. That is just the mix of who we are selling through. That is in our pricing, so I would not look for that to be an event either way. The other element you get with that is point in the cycle. With agent advisors and how well the market is doing and how well they are doing, if the business is going well for retail advisors they tend to be thinking about deferring revenue and growing the value of their book. If it is a difficult time, you tend to see more A share[?] and a smaller practice. Those are both factors, but again it is in our pricing.

You had a third question?

[Crosstalk]

Nic Nicandrou: You are right. We have some additional experience contribution to free surplus this year compared to last. In part, that is coming through spread profits, the same effect that you are seeing on our IFRS and on EVs coming through that one. The second one is to do with one-off type tax credits that we have received over and above what we were counting and expecting at this point in the cycle. That is what is driving, if you like, the slight blip and this is why, when I was answering Andrew's question earlier, I said there are some elements in there that are one-off in nature in that result across our businesses, not just the US.

Tidjane Thiam: We will take two more questions, because we are well into the lunch hour now and you know where to find us anyway.

Speaker: Hi guys, three questions if I could. The first one is on the US spread profits, and I think you are still making well over 220 basis points profit on the spread book and it is looking like that is going to come down to 200 in the short term. Where is the crediting rate now and where is the reinvestment rate on the US spread book, just determining how far that is going to come, presumably it does not stabilise at 200 basis points?

The second question was about the movement and tangible nav[?] of the group. Obviously you reported 1.3 billion of net profit, but if you look at page 57 of the DAC[?] in the goodwill segment, that increased by 1 billion, so should we ignore tangible metrics on the balance sheet?

And the third question was about the SCB transaction, obviously, could you give us some sort of cash flow payback period on that, even if you are not prepared to disclose it, or IRR, that would be very helpful, thank you.

Tidjane Thiam: Okay, thank you, three good questions.

Nic Nicandrou: Crediting rates are vying around the 320 basis points level, we are – I do not have the figure in terms of the reinvestment yield that we are getting on maturing bonds.

Tidjane Thiam: Around 1.25.

Nic Nicandrou: So that is part of the pressure that we see bringing the number down.

Speaker: So it should drop to 1% over time, that spread margin?

Nic Nicandrou: Well, it depends on mix. If you make the assumption that we have got our estimate of how long people will keep their money with us wrong, then it should do that. But remember people are saving for a purpose, they are saving because they are in their sixties and there comes a point where they want to de-accumulate. So I do not think the scenario will arise, that is the first point.

The second point is that all the new money that is coming in is coming in at either 1.5% on the fixed annuity, or at 1% if you go fixed annuity option on VAs. We have done that detailed, complex calculation for you and we have translated into the very simple guidance of 200 basis points.

Tidjane Thiam: Mike do you want to come in?

Mike Wells: The key point is that the products being sold at this point of the cycle have a 1% floor, okay, so you have a very different guarantee than you saw pre-crisis, you still have 23-25 basis points between our current crediting rates and the floors on the entire book, so there is still plenty of room to move and as we have told you we are high in quality low in duration of the portfolio. Our ability to reinvest or just hold the duration on those positions I think is about as good as anybody in the industry and in the scenario where spreads never widen, our new sales would affect the equation you are throwing out there as well because you have different math on those.

Tidjane Thiam: Alright and then there was tangible value [inaudible]?

Nic Nicandrou: We have rehearsed these many, many times; the reality is there are aspects of value which generate IFRS profits that are not captured by shareholders' equity. We gave the example earlier on of the with-profit transfers. Accounting convention today prevents us from recognising that aspect in our results. A lot of what we write in Asia is health and protection, that is like writing GI business, you do not need a lot of tangible net assets to deliver a high return on a GI business. So those are some of the dynamics that are coming through, which is why you end up with an IFRS equity basis, which is not representative of the income generation power of this organisation.

Tidjane Thiam: And this is actually an interesting point, because there used to be a strategy discussion in the group. The old view in Asia was that bancassurance was less profitable than agency because the margins were lower, and that actually it was not a very desirable business. Well, in the way we look at finance, it could be said [inaudible] business that is written above its cost of capital. We do not run the group on margin. Actually a lot of companies with high margins cannot grow because they fall into that trap of saying 'Well if I do this it is going to dilute my margin.' And this is something I fight with a passion because it is just wrong thinking.

We are in the business of creating a maximum amount of value for our shareholders and sometimes that involves going into a business with optically lower margins. You see that we actually de-emphasise margins in all our communications to root out that mentality, saying, if we write business above the cost of capital we should absolutely do it – that creates value for the shareholder. So, that is really how we approach it, so what I can I tell you about that contract, that has been the whole negotiations, we are very confident that the return on capital will be comfortable and will give the Board this comfort and it has been seen by everybody, advisors, it will be comfortably above the cost of capital. So it is going to be significantly value-enhancing for our shareholders. But frankly, there is no mileage – again, thinking about shareholder value not management comfort – in opening the hold[?] on that, given what is going on in that region and the commercial dynamics, absolutely no upside. You know, I hope, that we have been very transparent, we want you to understand how the group works and how we make money, but from time to time, some of that disclosure can just become completely counterproductive.

So in the current environment you will be able to track our progress, you will see some of that flowing from [inaudible] disclosures that are coming later in the year, but we think we really have a competitive advantage there in our understanding of those transactions, in structuring repayments and, as I said, we would like to answer all your questions, but we do not want to make that available to the competition. I spend enough time myself reading all representations, all appeals, so that they do the same thing and you can easily slip a lot of very valuable commercial information doing that, so that is the limit to the transparency. We are not being difficult it is just that we do not want to disclose those things that are going to be played back against us later.

One last question?

Gordon Aitken (RBC): First question is on the holding company cash, it has gone up to 2.2billion, it is a big jump from 1.4 and I see you raised the 700 million of hybrid debt in December. You have shown today that you do not need the cash to grow, the balance sheet is strong, I am just wondering what that cash will be used for?

And the second question on the UK – this week you have announced the 100 million buy-in with the Church of England scheme, the bulk market has very good demand, there is a real lack of supply, you presumably expect margins to remain very positive in that market, just what sort of appetite do you have in the bulk market going forward?

Tidjane Thiam: Alright, well thank you Gordon. Do you want to say a word about the cash balance at the centre?

Nic Nicandrou: Yeah, I mean we touched on that in December. Candidly, the one good thing about a low interest rate environment is that you can raise very high quality debt – and it is a very long debt – at very attractive prices. So we took that opportunity, that opportunity is not going to be available forever, we have locked that in and that gives us all sorts of flexibility as we move forward to either repay some of the debt that we carry or to deploy it in other areas.

Tidjane Thiam: Yeah, and transactions at SCB, there is a lot of interest in the cash payment, but we want to have that flexibility and it is comfortable to be able to go into those types of conversations with no real cash constraint, that is very comfortable. Jackie, do you want to talk about bulks and the recent buy-in?

Jackie Hunt (Executive Director, Prudential)[?]: So Gordon you are absolutely right, I think a recent deal has been publicly announced by our counter-party. In terms of the market itself I would see it very similarly to how you set it out. I think there is a great deal of demand, of opportunity, I think supply has become relatively constrained so we do see some interesting deals coming to the market at the back of last year and certainly in the first quarter of this year. I talked in December about the opportunity we had to participate more fully, we have got some key competencies, we have got a great brand that is really important to our counter-parties, that they deal with a business that has a good reputation. We tend to deal at the top end, so above 100 million, that sort of range in large part are more complex deals and we have the capabilities to participate in deals that some others may not. So we see it as an attractive opportunity, we are very disciplined about how we actually use our capacity, obviously these do bring with them longevity risk and other types of risk that we do want to make sure we get a proper return against. So you should expect to see us participating more aggressively but within the constraints of very strict capital return hurdles, we certainly will not let go of that particular discipline.

Tidjane Thiam: Jackie has a very balanced portfolio because she is also in charge of Africa. She has got two very different jobs. Thank you very much for your patience. This team, many of us have seen £2.00, I remember seeing £1.95, so to close above £14 is a good day but please keep in mind, as we hope we have showed you, there is plenty of potential and upside here.

Thank you very much.

[END OF TRANSCRIPT]